



# Private Healthcare Insurance – What are the tax and payroll implications?

**Many businesses are offering private medical insurance as a benefit, as they try to attract the best and brightest talent to their teams.**

Private healthcare can be a valued addition to an employee's remuneration package, offering them and their family access to faster treatment and care.

However, like many benefits offered as part of a worker's employment, there are tax implications for you and your employees that must be considered.

## Employee tax payments on private healthcare insurance

Providing many forms of healthcare coverage to employees is treated as a benefit in kind (BiK). BiKs are any 'goods and services provided to an employee for free or at greatly reduced costs' and, as a result, employees are required to pay tax on them.

To determine the value of the BiK, you need to know the employee's private medical insurance premium to determine the tax liability.

If, for example, the employee is a higher-rate taxpayer (40 per cent) and has an insurance premium of £1,200 per annum, then the tax liability would be:

$$40 \text{ per cent of } \pounds 1,200 = \pounds 480$$

As an employer, you must declare the full BiK amount using a P11D form so that this tax liability can be calculated and the correct amount of tax collected.

The tax an employee has to pay is then recovered directly from their earnings through the payroll process.

To do this, HM Revenue & Customs (HMRC) is likely to adjust their tax code to record that they receive this BiK.

The only exception to this rule is when a business owner provides a private healthcare plan to themselves outside of PAYE, as this would be classed as personal expenditure. Unfortunately, this means you won't be able to claim it as a business expense.

## Calculating private medical insurance premiums

The various private healthcare schemes offered on the market differ from one another and so it can be challenging at times to break down the premiums to obtain the BiK value.

When you sign up with an insurance provider, they should send you an annual summary containing the detailed cost of private medical insurance for each employee.

Some policies will depend on whether it just covers the employee, their partner, family or another single dependent, such as in a single-parent family.

To calculate the value, you need to be aware of how premiums are multiplied for P11D value. A typical example is below:

- Single Cover – 1 time the amount
- Partner Cover – 2 times the amount
- Family Cover – 2.5 times the amount
- Single-Parent Family Cover – 1.6 times the amount

Please be aware that these are approximate values, and you should confirm the exact break-down with your insurance provider. In many cases, providers can provide an exact formula that you can use.

If an employee leaves, you may need to work out the pro rata value of the BiK, which is equal to the cost for the time that they were an employee.

In some instances, employees may wish or be asked to contribute to the cost of private medical insurance.

If this is the case, then you must deduct the amount of their contribution from the total premium to calculate the BiK value.

## Who reports private healthcare benefits?

If you arrange and pay the provider directly for the treatment or pay for the insurance, you are required to report it to HMRC via a P11D form and pay Class 1A National Insurance on the value of the benefit.

If your employee arranges the treatment and/or the insurance policy, but you are responsible for paying the provider then you, as their employer, are also required to report it using form P11D and you must add the value of the benefit to the employee's earnings when deducting and paying Class 1 National Insurance (but not PAYE tax) through payroll.

Finally, if you decide to reimburse an employee's costs after they pay for treatment or insurance themselves this is still considered as their earnings, and you should add the payments to your employee's other earnings. You must also deduct and pay Class 1 National Insurance and PAYE tax through your payroll.

## Employer tax payments on private healthcare insurance

As private healthcare insurance is classed as business expenditure, limited companies are eligible for tax relief.

That is why many companies choose to pay for this benefit via their regular business bank account so that they can offset the expense against their profits to reduce their tax liabilities.

Similarly, private health insurance is classed as a business expense for unincorporated businesses and can be used to offset and reduce the income of a business.

## Need assistance implementing healthcare benefits into your payroll?

Whether you already operate existing healthcare benefits or are looking to add private medical insurance to your remuneration package, we can help you stay on top of your payroll compliance.

We work with a wide range of businesses, both large and small, who provide this benefit already and can help you to understand the tax implications for your business and calculate and report BiKs to HMRC.

To find out more about our wide range of payroll services, **please get in touch.**