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Dialing the right number

The provision of a phone for business use is an essential modern tool but it is important and increasingly more difficult to avoid the taxman's traps.

Consider Dave, who for a number of years had been provided with a mobile phone by his employer for personal and business use which he understood was a tax free benefit. When he set up his own company he entered into a new one year mobile phone contract early in April 2009. The contract was taken out personally but as 85% of his usage would involve business calls, he simply put the monthly bills through the company. Over the tax year 2009/10 the total payments made by the company amounted to £1,200.

He was surprised to learn that there is a **taxable benefit** which should be included on his form P11d. As a higher rate tax payer this would result in an initial income tax charge of £480, before a claim is made to offset the business expense element. In addition both he and his company as his employer will also have to pay Class 1 National Insurance, as it is the settlement of a personal bill.

What mistake did Dave make?

When directors and employees take out contracts with suppliers in their own name and then the employer

settles the liabilities arising-this is treated as taxable irrespective of the nature of the expense. The taxable amount should then be recorded on form P11d. However, for NIC purposes, it is treated as cash earnings and not as a benefit. This means that Class 1 NIC is due by the employee and employer rather than Class 1A NIC by the employer only.

Putting it right

Dave should arrange his next contract so that it is between his company and the supplier to ensure that for 2010/11 there are no tax or NIC charges. This is because the provision of a mobile phone by an employer in this way is a tax free (and NIC) benefit. Only one such contract is tax free for each employee.

But Beware of the iphone trap

One issue to be aware of however, is that HMRC are taking the view that an iphone is a not a telephone but a computer! This stance means that instead of the 'phone' being tax free, a benefit calculation based on 20% of the asset value (understood to be around £300) is performed and tax and NIC falls due.

P11d 'season' is now upon us and the **penalties** of getting these forms wrong can outweigh the actual tax and NIC liability falling due with some fairly draconian legislation having been introduced. As you can see this is an area where problems can unintentionally arise so feel free to contact me to review your position on 01902 773993.



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