

Contractor guide to company healthcare and gym membership benefits

Contractors can pay for healthcare insurance, medical expenses and gym memberships directly via their [contractor limited company](#). However, they will pay tax in exchange for most of these benefits, says [James Abbott](#), head of tax at contractor accountant [Abbott Moore LLP](#).

The only exceptions are for medical check-ups, health screening and overseas medical costs, which are usually legitimate business expenses that can be claimed by contractors, without them having to pay a benefit in kind tax charge.

Company medical costs attract benefit in kind charges

"If an employer, such as a contractor's limited company, pays for medical insurance or care, then there is normally a benefit in kind charge," says Abbott. "That's because, in the eyes of HMRC, all of us require medical care, and so it fails the 'wholly, exclusively and necessarily for business' expenses test."

This means that a benefit in kind charge arises, requiring the contractor to pay income tax and the contractor's limited company to pay employer's class 1A National Insurance Contributions (NICs) on the benefit.

"If a contractor's monthly private health insurance costs £200 and their limited company pays for this, at the end of the year the contractor's P11D will show a benefit in kind of £2,400," says Abbott. "The contractor must pay income tax at their marginal rate, which could be 20%, 40% or 50% of the £2,400."

"The contractor's limited company will pay employer's class 1A NICs, which will be 13.8% of £2,400. For most contractors, the difference between paying for healthcare costs personally versus via their company is around 8% in favour of paying it personally. However, the contractor's limited company may often get a better deal than the contractor would personally, which can make it financially advantageous to go down the company route."

Useful exemptions: medical checkups and overseas medical care

As Abbott explains, there are exemptions from benefit in kind charges: "A contractor can qualify for one health screening and one medical check-up per year paid for tax-free by their limited company. The invoices must be raised in the name of, and paid directly by, the contractor's company."

A health screening assessment is defined by HMRC as "an assessment to identify employees who might be at particular risk of ill-health", whereas a medical check-up is defined as "a physical examination of the employee by a health professional for, and only for, determining the employee's state of health". Family members don't qualify unless they are employed by the contractor's company in their own right.

"Contractors can charge the costs of overseas medical care directly to their limited company with no tax charge. This can be useful for the increasing number of contractors choosing to work abroad," says Abbott. "Both the need for and treatment of the condition must arise when the contractor is working overseas. And again, overseas medical costs for family members are excluded."

If medical costs include an element of UK-based and overseas medical care, contractors can claim the overseas costs on a pro rata basis.

Gym and health club membership expenses

Sports facilities provided by employers can be tax free, but only if the facilities:

are provided for use by all the employer's employees

are not open to the general public, and

are used 'wholly or mainly by persons whose right or opportunity to use them is employment-related'.

Abbott confirms that as a result of the above, a contractor's local gym or health club is unlikely to qualify. A gym at the contractor's home won't qualify because facilities provided on domestic premises, ie premises 'used wholly or mainly as a private dwelling', are specifically excluded.

"When gym membership is charged back by the contractor as an expense, it is treated as salary and the contractor must pay income tax at their marginal rate, as well as both employee's and employer's NICs on the full amount.

"If the contractor's limited company is invoiced directly by the gym or health club, then the contractor incurs a tax charge as a benefit in kind. They pay income tax on the full cost of membership charged to the company at their marginal rate, and the company pays class 1A NICs," he adds.

Free use of client sports facilities or onsite gyms come with an IR35 health warning

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"If a contractor has free use of a client's gym, then there is no cost to the contractor's limited company and therefore no benefit to assess," says Abbott.

"It is possible for contractors to be assessed on benefits provided by third parties, but a client's gym is only likely to be available to their employees. It's therefore likely that, although open to employees of other companies, the gym still meets the 'not open to public condition'."



James Abbott

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James Abbott is the owner of Abbott Moore LLP and often speaks on freelancer / contractor tax matters. He has his own growing portfolio of contractor clients.

Abbott Moore LLP are PCG Accredited Accountants and specialise in providing tax advice to freelancers as well as dealing with their year end accounts and tax returns. [Read Full Profile...](#)

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But Abbott warns that contractors should be careful to distinguish themselves from a client's directly employed workers: "Whilst not a deciding factor on its own, it would be helpful when defending an [IR35](#) investigation from HMRC if you weren't seen to be receiving employee like benefits from your end client such as free gym use."

Published: Friday, October 14, 2011

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