

Tax on employer provided assets and computers

Contractors using assets provided by their **limited company** employer wholly or partially for private and personal use must take into account HMRC rules on using company assets and make a benefit in kind (BIK) tax payment.

James Abbott, owner and head of tax at contractor accountant **Abbott Moore**, says: "The Treasury and HMRC's argument is that if a company has bought an asset and enjoyed tax relief and capital allowances on the purchase, then if an employee uses it for personal use there should be a tax mechanism for dealing that."

That mechanism is to apply a benefit in kind (BIK) tax charge, which is usually dependent on the value of the asset. A contractor will then account for the asset on their **P11D** and pay the tax after submitting their **self assessment tax return**.

When an asset is considered to be provided for personal use

"An asset can be acknowledged as being specifically provided to a contractor for personal use and the contractor can pay the benefit in kind charge according to the rules," continues Abbott.

However, a company asset may also be provided for household use and therefore qualify for treatment under the personal use rules. If, for example, a contractor's child was using a company computer for school work during the day, it is difficult to argue to HMRC that the computer is not part of the household.

"HMRC's rules sometimes also allow for 'insignificant private use' where any benefit in kind charge is like to be too small to worry about," says Abbott. "If an IT contractor has bought their laptop to use on site at their clients all day and maintain their company's records and correspondence, it is clearly a work tool, and then does some shopping and personal banking on the train home or in the evening, this would most likely be categorised as insignificant private use."

Tax treatment of assets provided purely for personal use

"There are specific rules relating to employee use of certain assets, such as vehicles like cars, vans and motorbikes, as well as accommodation. For everything else there is the '20% rule' " notes Abbott.

In his experience, the most common company assets used by contractors for personal use and which attract benefit in kind charges are computers.

He gives an example: "Say a contractor's limited company buys them a computer for personal use that costs £1,000. In the first year that the asset is provided, from the point when it was bought, the benefit in kind charge is equal to 20% of the cost of the asset.

"So, on a £1,000 computer, the charge is £200. The way the rules work, it is as if that £200 was paid to the contractor as cash earnings, so they are taxed on the benefit in kind at their highest marginal rate. For a contractor earning over the higher rate threshold, that's 40%, so the benefit in kind tax charge is £80."

The contractor's limited company would also be required to pay a class 1A National Insurance Contribution (NIC) charge of 13.8%. Applying the NIC charge to £200 gives £27.60, so it would cost a contractor £107.60 in extra tax for the company to provide them with a £1,000 computer, but they would save corporation tax on the NIC charge.

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James Abbott, Abbott Moore

Secondhand assets and assets with running costs

If a contractor buys a secondhand asset, the benefit in kind is calculated based on 20% of the market price when first provided to the contractor, rather than the cost. So, if it was a secondhand computer worth £1,000, then the contractor would pay 20% benefit in kind each year, both in the year of purchase and in subsequent years.

Assets that require running costs, such as vans and motorbikes, attract a benefit in kind charge equal to the running costs. And smartphones also have special rules that apply, and some mobile phone expenses rules are counter-intuitive.

"Company cars provided for personal use are subject to a whole set of special and complex rules, and contractors should consider asking their accountant to do the sums before **buying a company car**," adds Abbott.

Acquiring assets from the company

The value of many assets, particularly computers, depreciates very quickly. So a £1,000 computer may after a couple of years show in a contractor's limited

company accounts as having a low or zero value. But, as Abbott explains, HMRC has wised up to those trying to exploit this; so, for example:

The contractor's company buys the asset, say a £1,000 computer, for the contractor's personal use, and the contractor pays the 20% benefit in kind charge in years 1 and 2

At the end of year 2, the market value of computer is only £100, and the contractor buys the computer from their limited company for £100

However, HMRC makes sure the contractor is also taxed on the £500 'shortfall'.

"The £500 shortfall arises when you consider what has happened over the life of the computer, from when it was valued at £1,000 to when it became worth only £100" explains Abbott. "Whatever happens, HMRC's rules say that the contractor needs to be taxed on the £900, which is the amount that the company has paid for the asset less the contribution the contractor has made.



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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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"In year 1, the contractor paid £200, and in year 2, they paid the same amount, which totals £400. When the contractor acquires the asset, HMRC requires that the contractor also pays 20% benefit in kind on the remaining £500, to make £900."

Abbott concludes: "Before acquiring company assets for personal use, it is always worth doing the sums to calculate whether a contractor will actually be financially better off as a result of the transaction."

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