

PAYE/PRSI on Employee Benefits

Guidelines for companies who pay private medical insurance premiums for their employees

Background

The Finance Bill of February 2003 gave effect to the introduction of PAYE/PRSI on a wide range of employee benefits from January 2004.

How this affects Employers?

All Employers have an obligation to calculate 'notional pay' for most employee benefits (BIK), report these in their payroll, collect PAYE/PRSI and make these returns to *Revenue*. Examples of the employee benefits included are:-

- Private Medical Insurance
- Company Cars
- Preferential Loans
- Vouchers

Some exemptions and concessions have been allowed e.g. Car Parking, Travel Passes, Crèches, small and non-attributable benefits.

What is the PAYE/PRSI liability?

Employers are liable to pay PRSI on the value of employee benefits at a rate of 10.75%.

Employees are liable to pay PRSI on the value of their benefits at a rate of 6% for those earning up to €48,800 and 2% for those earning over this amount, in addition to their current PAYE liability calculated at marginal rates.

Employees continue to enjoy tax relief at the standard rate of 20% on their private medical insurance premiums.

PAYE/PRSI Impact – An Illustration

Employee Benefit (Private Medical Insurance gross premium)	€1,000
Cost to Employer	
Employer PRSI @ 10.75% payable to <i>Revenue</i>	€107.50
Cost to Employee (earning less than €48,800 per annum)	
Employee PAYE at 41% payable to <i>Revenue</i>	€410
Employee PRSI at 6% payable to <i>Revenue</i>	€60
Less, Employee tax relief at standard rate	(€200)
Total cost of BIK	€270
Cost to Employee (earning more than €48,800 per annum)	
Employee PAYE at 41% payable to <i>Revenue</i>	€410
Employee PRSI at 2% payable to <i>Revenue</i>	€20
Less, Employee tax relief at standard rate*	(€200)
Total cost of BIK	€230

Notes:

- Above calculations assume employee taxed at higher rate of 41%. The standard rate is 20%
- * Employees should check their tax credits with *Revenue* to ensure this relief is included in their tax free allowances.

For More Information

Contact *Revenue* directly on **1890 60 50 90** or log onto www.revenue.ie

Questions & Answers

If the premiums are paid fully by employees, is there a change to their tax liability?

The PAYE/PRSI changes only apply to employee benefits provided by the employer. Therefore, employees paying their own premiums will have no tax liability.

Will employees still get tax relief on the premiums and if so, how will this be provided?

Yes, employees will still get tax relief at the standard rate of 20%. Employees should check with *Revenue* to ensure this relief is included in their tax credits.