



Short Guide 2024

Channel marketing incentive scheme tax obligations

Introduction

Companies often want to incentivise performance and reward excellence for sales performance. Many companies use incentive systems, other than cash (e.g. holidays, goods, vouchers), to:

- motivate employees of another company
- encourage retailers, distributors, business partners to:
 - purchase the company's products, or
 - sell more of them

However, are you aware of the obligations of both employers and third-parties to tax declaration of employees who receive these recognition rewards?

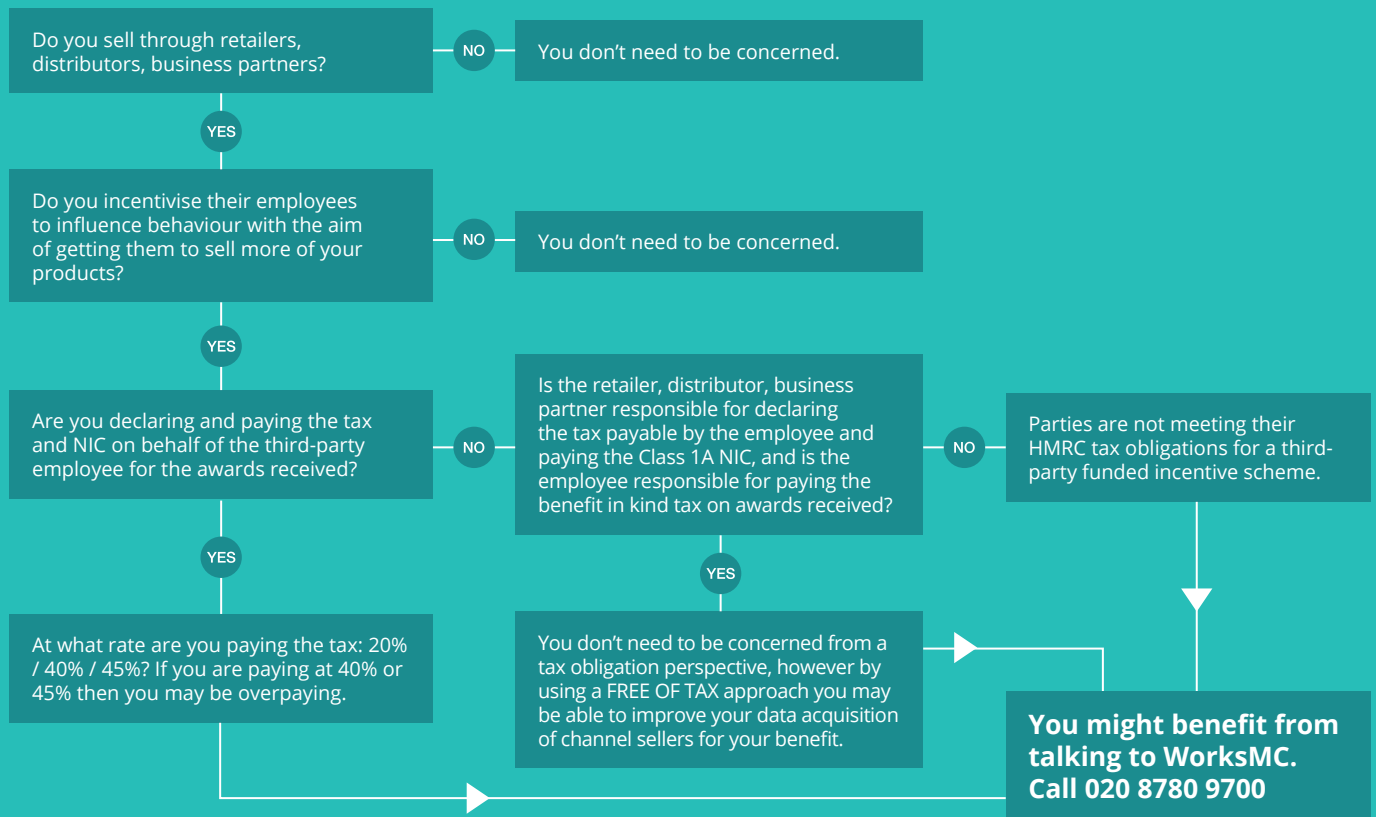
This short guide will help to ensure that you stay on the right side of your HM Revenue and Customs (HMRC) tax obligations and give you an idea of how to offer third-party employees HMRC approved 'FREE OF TAX' awards whilst also giving you reassurance and peace of mind. Enabling you to get on with driving sales growth and creating a real point of differentiation. You will also benefit by only paying tax at the appropriate rate and not at the maximum rate.



HM Revenue
& Customs

So, how do you know if you have a tax obligation on a third-party funded incentive scheme?

To help we have created the following questions and answers:



The important take out from the questions above is that all third-party funded incentive schemes are liable for tax and Class 1A NICs, and the parties involved have an obligation to report the tax liability to HMRC depending on the set-up and status of the scheme.

The tax responsibility and obligations of a third-party funded incentive scheme

Employers, of a company whose employees benefit from a third-party scheme, are responsible for reporting the details and for paying NICs that are due where:

- they arrange or facilitate the provision of awards for their employees from a third-party which is liable for Class 1A NICs
- a third-party provides an award to their employees which is liable for Class 1 NICs

The third-party offering the scheme is responsible for reporting the details of the award and for paying NICs that are due where:

- they have provided the award
- an award is liable to Class 1A NICs
- the employer has not arranged or facilitated the provision of the award for their employees

If an employer plays some active part in providing the award this will normally constitute the employer having arranged or facilitated the award. This may involve asking the third-party to make the award, sharing or underwriting the cost of the award or otherwise helping to provide the award.

An employer won't be regarded as arranging or facilitating the award where an employer is asked by a third-party to give them a list of employees for the third-party to provide awards. Where a third-party provides an employee with a benefit or a non-cash voucher, and the employer has not arranged or facilitated the provision of the award for the employees, that award will also be liable for Class 1A NICs. Where Class 1A NICs are due, the third-party is responsible for declaring the employee's tax on that award and the NICs that are due.

These types of incentive schemes place an obligation of reporting and tax planning on both employers of employees who receive third-party awards as well as third-party companies who offer these awards.

So, how much tax is payable on awards received from a third-party incentive scheme

You don't have to pay tax on a benefit if **all** of the following apply:

- it cost £50 or less to provide
- it isn't cash or a cash voucher
- it isn't a reward for their work or performance
- it isn't in the terms of their contract

This is known as a 'trivial benefit'. If all of these conditions are met then you don't need to pay tax or National Insurance or let HMRC know.

HOWEVER

You **DO** have to pay tax on any benefits that DON'T meet all these criteria.

Where benefits in kind are provided to employees of a company by someone other than their employer these are normally referred to as third-party awards. If employees receive third-party awards then SOMEONE IS LIABLE FOR THE TAX – IT'S JUST A QUESTION OF WHO.

Third-party award schemes

Third-party awards are normally incentives provided by someone other than the employer. As we have seen earlier in this guide, what each party (employer and third-party) have to report and pay depends on what kind of third-party award the employee receives, and who arranged for the award.

If the employer arranges the award. In this case:

- the tax due on the award must still be paid by the third-party or employee
- the employer must pay any Class 1A National Insurance that's due

If the third-party arranges the award. They must:

- account for the tax due on the award
- pay any Class 1A National Insurance due on the value of the award and on the tax paid on it

Do any of the scenarios apply to you and your company? If so, rest assured that there is a solution that simplifies the whole process

WorksMC, a leading specialist in channel marketing, has created OpenChannel - an online platform - to implement and administer FREE OF TAX tailored incentive schemes in accordance with HMRC guidelines. OpenChannel enables the effective administration, reporting, collection, payment and distribution of third-party awards (non-cash), to ensure that all required tax and NICs are paid at the appropriate levels.

This allows for effective tax planning, whilst also ensuring that employers, their employees and third-parties are not responsible for the reporting of, or paying of, ANY taxes. WorksMC, using OpenChannel, account directly to HMRC for tax on the awards on behalf of the third-party scheme.

The scheme can be legitimately positioned as FREE OF TAX for both the employer and employees receiving the awards with all tax being paid by the third-party at the appropriate rate for each award recipient and not at the maximum 45% tax bracket.

In summary

If you are an employer with employees benefiting from a third-party incentive scheme where your employees receive awards, or you are a third-party who offer awards to the employees of other companies, then you have an obligation to report the benefit in kind tax and pay for the NICs associated with such awards.

If you are either of these and you are not reporting, and the appropriate tax and NICs are not being paid, **THEN YOU MAY BE OPEN TO PROSECUTION AND SUBJECT TO A TAX AUDIT.**

However, you could use the payment of tax on behalf of the seller as a business benefit and differentiator to generate valuable channel seller data and remove a potential barrier to entry for incentive participation.



www.openchannelrewards.com

Get in touch

For more information and advice on how to ensure that you are tax compliant and to use OpenChannel as a competitive advantage over your competition, by promoting a FREE OF TAX incentive scheme:

Call: 0208 780 9700

Email: hello@openchannelrewards.com

The best way to understand the many benefits of OpenChannel is to see it in action - and we'll be happy to explain everything in more detail and answer any questions you may have.

BOOK YOUR DEMO

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WorksMC is a leading marketing agency who specialise in marketing for sales. We have developed OpenChannel as an effective way of implementing third-party awards as part of our channel marketing services.