

## **Revenue & Customs Brief 36/11**

### ***VAT: further guidance on the treatment of supplies made by employers under salary sacrifice arrangements on or after 1 January***

1. This brief provides further guidance to assist businesses with the implementation of changes to VAT accounting in relation to salary sacrifice arrangements announced in Revenue and Customs Brief 28/11 on 28 July 2011.

#### **2. Salary sacrifice agreements in place before 28 July 2011 which extend beyond 31 December 2011**

For salary sacrifice agreements that were signed or otherwise agreed by the parties on or before 27 July 2011 and which extend beyond 31 December 2011, HM Revenue & Customs (HMRC) will allow amounts of salary foregone in return for taxable benefits to continue to be free of VAT until:

- The date that a fixed term agreement expires or the fixed number of salary sacrifice payments specified within the agreement are completed (if the agreement expires before 1 January 2012 any agreement subsequently entered into should follow the VAT treatment described in section 3 below).
- The date of an employee's annual salary/benefits review. HMRC will regard any salary sacrifice arrangements put in place after that date as a new agreement for VAT purposes which should follow the treatment described in section 3 below. This will be the case even if the employee continues to receive the same taxable benefits as before the review.
- The date of any other review or renegotiation that leads to a change in the provision of benefits under a salary sacrifice agreement or to a change in an employment contract.

Following one of the above events VAT will be due on any taxable benefits provided on or after 1 January 2012 by way of salary sacrifice.

#### **3. Salary sacrifice agreements entered into on or after 28 July 2011**

For agreements entered into on or after 28 July 2011 VAT must be accounted for in accordance with the guidance in Revenue and Customs Brief 28/11. With effect from 1 January 2012 VAT will be due on amounts of salary foregone in return for taxable benefits.

For further information and advice contact the VAT Helpline on Tel 0845 010 9000.

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