OpRA made easy

What is OpRA?

OpRA (Optional Remuneration Arrangements) are applicable to Benefits in Kind (BiK) and are a replacement for the taxing of the majority of Salary Sacrifice benefits.

A Salary Sacrifice arrangement involves an employee contractually giving up (sacrificing) a portion of their salary in return for a non-cash benefit, for example, Childcare Vouchers or higher pension contributions. The deduction in salary will lower an employee's gross pay, and therefore the amount of tax and National Insurance (NI) liabilities they must pay. Salary Sacrifice arrangements offer tax and NI savings as employees pay less liabilities than they would have paid had they been paid higher pay.

What changed?

From April 2017, because the widespread use of Salary Sacrifice arrangements was having a detrimental impact on the funds received by the Exchequer, the tax and NI advantages of many arrangements were largely withdrawn. OpRA includes salary sacrifice, cash allowance and flexible benefit packages with a cash allowance.

There are two type of arrangements under OpRA:

- **Type A** – Where an employee forfeits the right, or future right, to receive an amount of earnings, e.g. salary, in return for a benefit
- **Type B** – Where an employee chooses to be provided with a benefit as opposed to an amount of earnings, e.g. car allowance

Where an employee chooses to receive a benefit as opposed to an amount of cash pay, the taxable value of the benefit is taxed at whichever is the higher of:

- amount of cash pay foregone (given up)
- the taxable value of the benefit under normal BIK rules

If the two are equal, then normal benefit calculation rules must be applied.

What is 'grandfathering?'

For a select few benefits, transitional rules continue and will apply for a longer period meaning the new valuation rules will not be applied until 6 April 2021 (it will be here before you know it, so prepare now).

The benefits are:

- Cars with emissions of more than 75g CO_2/km
- School fees
- Living accommodation

Therefore, the pre-2017 valuation rules can be applied until that date – unless the arrangement is modified, varied or renewed prior to 6 April 2021. Variations won't equate to loss of grandfathering status in situations where there has been:

- Accidental damage
- Reasons beyond the control of the parties to the OpRA
- Reasons connected with sick pay, statutory maternity/paternity/adoption/shared parental pay

Continued overleaf

Benefits now subject to OpRA rules

- Car parking
- Private medical / dental insurance
- Technology / mobile phones
- Cars (over 75g / km) / vans
- Car fuel
- Accommodation
- Use of assets – assets made available by employers for use by employees – e.g. computers, televisions, bicycles
- Transfer of assets – assets bought, sold or given by employers to employees – e.g. computers, televisions, cars, bicycles
- Authorised mileage allowance payments
- Own goods / products
- Health assessments
- Pension loans

Benefits that retain salary sacrifice advantages

- Pension saving under registered and qualifying overseas plans (including related pension advice)
- Tax exempt childcare (including qualifying nursery provision and childcare vouchers)
- Cycle-to-Work schemes
- Counselling and other outplacement services
- Retraining costs
- Purchase of annual leave
- Ultra-low emission company cars (with CO_2 emissions less than or equal to 75 g/kms)

Examples

OpRA isn't the easiest of principles to get your head around. Please find some examples below*.

TYPE A

Stacey's employer allows her to forego £50 of salary per month in exchange for £50 in non-cash vouchers

- The employer purchases these vouchers at a discounted rate of £45 per month. Under new OpRA rules, the table value of the benefit is £600, as it is the higher of the salary foregone and the taxable value of the benefit
- The value of the benefit = £45 *12 = £540 but the salary given up is £50 * 12 = £600 - the salary given up is higher, so this will be reportable for P11D purposes

TYPE B

- Bill works hard and is rewarded with a promotion and to reflect this, his employer offers him a choice between a car or a car allowance of £400 per month. The employee opts for the car. The car's list price is £22,000 and subject to a percentage of 19%. For the purposes of simplicity, the new benefit was made available from the start of the tax year.
- OpRA rules apply because the employee forgoes earnings of £400 per month and has chosen the company car. The value of the company car benefit is the higher of earnings foregone of £4,800 (monthly cash allowance £400 *12 months) and the normal benefit of £4,180 (22,000 * 19%)
- The benefit in kind to report on the P11D and subject to tax and employer's Class 1A NICs would be £4,800 and not the £4,180 calculated using company car benefit rules

In some scenarios, employees may opt to keep the cash benefit. If this is the case, they will pay income tax and NICs on the gross amount in the usual manner. Further technical guidance from HMRC can be found here **https://www.gov.uk/government/publications/optional-remuneration-arrangements/optional-remuneration-arrangements**

**Please note the examples below refer to P11D completion and not payrolling. (For further information, please see the payrolling of benefits factsheet available here).*

Need extra help?

The CIPP offers an excellent course on P11Ds, expenses and benefits, which contains a section which addresses OpRA, along with a wealth of useful information relating to the process of providing and reporting on benefits and expenses. Visit **https://www.cipp.org.uk/course/p11d-expenses-and-benefits.html** for details and to book your place.