

Chapter 5 - The small benefit exemption

Part 05-01-01e

This manual should be read in conjunction with section 112B of the Taxes Consolidation Act 1997

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A more recent version of this manual is available.

1 Introduction

This manual outlines the tax treatment applicable, under section 112B Taxes Consolidation Act 1997 (TCA 1997), where an employer provides a qualifying incentive (as defined in [section 2](#) below) to an employee.

Generally, where an employer provides a voucher or other incentive to an employee it is chargeable to Pay As You Earn (PAYE), Pay Related Social Insurance (PRSI) and Universal Social Charge (USC). However, s112B TCA 1997 provides that a voucher or incentive may be given to an employee without giving rise to a charge to tax where certain conditions are met. This is commonly referred to as the “small benefit exemption”.

A more recent version of this manual is available.

2 Qualifying Incentive

A 'qualifying incentive' is defined as a voucher or other tangible non-cash benefit that is given by an employer to an employee in a year of assessment.

The voucher or tangible non-cash benefit must also meet all of the following conditions in order to be a qualifying incentive:

- the voucher or benefit cannot be part of any salary sacrifice arrangement between the employee and employer,
- the voucher or benefit can only be used to purchase goods or services and cannot be exchanged in part or in full for cash,
- the voucher or benefit cannot exceed €500 in value, and
- only one voucher or benefit may be given in any one tax year.

Where **all** of the above conditions are met the voucher or benefit will be a qualifying incentive and will be eligible for the small benefit exemption, meaning no tax is payable on the receipt of the voucher or benefit by the employee.

If all of the above conditions are not satisfied, the voucher or benefit will not meet the criteria for the small benefit exemption, and PAYE, USC and PRSI will be chargeable on same. See [Tax and Duty Manual Part 05-01-01a](#) for details on how to determine the value of the benefit received where the small benefit exemption does not apply.

Example 1

Philip is a high performing employee. His employer heard of this small benefit exemption and wants to issue him with a voucher worth €600 during the year to show appreciation for his efforts.

As the value of the voucher would exceed €500, it would not meet the requirements under s112B TCA 1997 to avail of the small benefit exemption. Philip's employer would have to operate PAYE, PRSI and USC on the face value of this voucher.

Example 2

Marina works in an engineering company and earns €91,000 per annum. The company is undergoing a reorganisation and, as part of the reorganisation, Marina has agreed to the following changes in her terms of employment:

1. Marina's salary will be reduced to €90,000,
2. Marina will forego €1,000 of her salary in favour of an annual travel pass issued by an approved transport provider (under the terms set out in s118(5A) TCA 1997) valued at €1,000 per annum, and
3. Marina will also receive a single shopping voucher of €500 per annum.

Marina has received the shopping voucher as part of arrangement she made in exchange for a reduction in her salary. The voucher will therefore not qualify for the small benefit exemption and Marina's employer will have to operate PAYE, PRSI and USC on the face value of the voucher.

Additionally, as the voucher acted as an incentive payment for Marina to take up the salary sacrifice arrangement, the full value of the salary sacrificed will remain taxable under s118B(4)(b) TCA 1997. See [Tax and Duty Manual Part 05-01-01k](#) for further information in respect of salary sacrifice arrangements.

Example 3

Brenda was recently dismissed from her employment. She brought a case to the Workplace Relations Commission after her dismissal as her employer had not paid her final month's salary of €2,000.

Following discussions in advance of the hearing, her employer offered to pay her €1,500 salary and provide a €500 voucher in order to settle the case. Brenda accepted this offer.

As Brenda's dispute related to unpaid salary, the €500 voucher would be considered part of a salary sacrifice arrangement because Brenda agreed to accept this amount in lieu of €500 salary owed to her. As such, Brenda's former employer is required to operate PAYE, PRSI and USC on the face value of the voucher.

Example 4

Noel's employer provided him with a gift card valued at €400 when the company reached its financial targets for the year. The gift card can either be used in store or online by Noel to purchase goods and services. It can also be inserted into a cash machine and used to withdraw cash.

As the gift card is redeemable, in full or in part, for cash it will not be a qualifying incentive for the purposes of the small benefit exemption, and Noel's employer must operate PAYE, PRSI and USC on the gift card. This is the case irrespective of the fact that Noel might not actually use the card to withdraw cash.

3 Concessional Treatment – COVID 19 circumstances

Due to the unprecedented nature of the COVID-19 pandemic, employers may have wanted to recognise efforts of frontline or other key staff working during the crisis, either by accelerating part of a reward usually made later in the year or making an additional award.

Following the start of the COVID-19 pandemic, Revenue has in certain circumstances concessionally waived the requirement that only one voucher issues per year for the 2020 and 2021 tax years. This concessionary treatment will continue to apply for 2022. It applies where the additional award is related to an employee's exceptional efforts during the COVID-19 pandemic and where the employee continued to work during the restricted period.

All other conditions of s112B TCA 1997 must be met, for example the maximum cumulative value of incentives must not exceed €500 and the voucher or incentive must not be redeemable, in full or in part, for cash.

Appropriate documentation must be retained by an employer where this concession is availed of.