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TAX EFFICIENT EMPLOYEE BENEFITS AND REWARDS

Marsland Nash can advise on a range of methods for rewarding employees and directors that can be more tax efficient than simply paying them some extra salary and in some cases more tax efficient than paying dividends as well. In addition to saving tax, a carefully structured package can:

- Reward staff leading to better staff retention
- Help staff make wise decisions in planning their own personal and family protection, and to save for their future tax efficiently (e.g. pensions)
- Promote environmentally positive vehicle choices
- Tie in key staff to a long term commitment to the business

Bonuses hit the news recently when a £300 bonus paid by Greggs to each employee left them with as little as £75 in hand after tax, NI and benefit deductions!

Below are some of the main items to consider, speak to us for further information.

Electric cars
From April 2020 there is a 0% benefit in kind rate on electric cars, this means that an electric company car can be an attractive tax saving option.

Example:

A typical diesel 1.6 Golf currently attracts a P11d value of £7,176 per year, and a £7,230 fuel benefit charge, this means a £2,881 tax charge at basic rate or a £5,762 tax charge per year for a higher rate employee.

An electric car would have zero benefit in kind in 20/21.

If the company buys the electric car the cost can be claimed against corporation tax in the first year. If the company leases the car half the VAT can be claimed and the rentals deducted against corporation tax.

There would be further savings on the cost per mile of electric versus fuel and no benefit arises on the provision of electric by the employer. Electric car costs may be in excess of comparable petrol/diesel vehicles.

Salary sacrifice
An employee may choose to salary sacrifice in order to get an electric vehicle. So instead of receiving pay subject to tax and employer/employee NI (32% basic rate/42% higher rate on the employee), the employee foregoes that pay and instead the employer provides them with an electric car.

With the 0% BIK rate this gives a massive saving on the cost of an electric car to an employee, versus the employee paying for the car from net salary.

Vouchers
Trivial benefits exemption means employees can be rewarded with non-cash vouchers or goods worth under £50, further rules apply.

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Individual Life insurance
Relevant life cover means life insurance premiums for one individual rather than a companywide Death In Service policy, can be paid by the company, and this can be structured so no benefit arises on the employee but the cost can be deducted for tax by the employer.

Mobiles
Mobile phones are exempt from benefit in kind even with private use, while the company can reclaim VAT and deduct tax.

Pensions
As well as standard auto enrolment minimum contributions an employee could choose to receive an additional employer pension contribution instead of part of their pay (e.g. a bonus), saving employee and employer NI on that pay.

Low salary/high dividend for director shareholders
Directors need to carefully set their salary limit, to either the secondary NI threshold or the personal allowance, depending on their other income and availability of employer's allowance, we advise clients on this.

Share schemes
Enterprise Management Incentives (EMI), Share Incentive Plans (SIP), Save As You Earn (SAYE) and Company Share Options Plans (CSOP) can be used by companies to reward employees with shares and they may receive advantageous tax treatment on those shares. This is useful for tying in key personal, and offering tax efficient reward for company performance.

Childcare
The childcare scheme can be used to get tax free approved childcare for eligible workers.

Cycle to work
A bike can be provided to employees and NI can be saved, the £1,000 cap on equipment no longer needs to apply.

Loans
Small loans (up to £10,000 can be provided to employees and these are exempt from benefit in kind taxes. Beware regular loans (subs) may be caught by RTI rules as mistimed payments of wages.

Company pension contributions
An employer can make a direct contribution into a pension scheme for an employee. Such contributions are not restricted to the amount of earned income, but the employee's annual allowance restriction (or tapered a.a.) would apply. A business owner may choose to extract funds into a SIPP (Self Invested Pension Plan), which could then be used to buy for instance commercial property.