



CAMPBELL & McCONNACHIE

chartered financial planners

Rewarding your staff

A guide to showing your appreciation without having to give too much to the taxman.



What makes an employee go above and beyond the call of duty, to put in extra effort beyond turning up on time, doing what's required and taking home their salary?

It might be related to the goals of the business, a personal desire to work hard so that everyone in the company benefits or an internal drive to achieve great results.

Whatever it is, it should always be recognised, acknowledged and rewarded.

Rewarding staff who do a good job or get great results has a number of benefits. First, it creates an atmosphere where hard work is incentivised.

Second, it shows that managers are aware of what is happening on a day-to-day basis.

Third, it makes everyone feel like a team that is working towards a common goal.

So what are the best ways to reward your staff tax-efficiently?

The difference between rewards and benefits

While they may at first seem the same, and there is some cross over between the 2, rewards differ from benefits in kind (BiKs) in a number of ways.

BiKs are things that employees or directors receive as part of their employment. They are non-wage compensation in addition to the individual's salary.

Popular BiKs are company cars, childcare schemes and medical insurance. An employee receives BiKs simply by being employed by the business in question. While they are not considered part of salary, they are taxed as if the cash value of the benefit was income.

Rewards are much more specific in nature. Even staff rewards that seem broad such as a Christmas party or an annual bonus are focused around a specific time of year. Incentive based rewards are presented to employees who have acted in a certain way or achieved a particular milestone.

While BiKs make your business an attractive place to work and make the lives of your employees better, rewards are dependent on the results of the employee, whether that be in terms of performance or behaviour.

For advice on rewards and BiKs, get in touch with our team.

Informal strategies

It is possible to reward your staff in a formal or informal way, with the former possibly leading to tax and reporting liabilities.

Informal strategies could amount to anything from acknowledging an employee's efforts in a company meeting to more elaborate gestures that match the unique culture at your business.

Ultimately, the most successful and effective system of staff rewards will include both informal and formal strategies.

Formal

If you decide to put a formal reward strategy in place, you will have to consider whether your chosen strategy brings any additional tax liability or reporting requirements.

Employee incentive awards

If you decide to reward employees by adding to their pay package, the additional money will be considered as part of their earnings and income tax and national insurance contributions (NICs) will be due.



Rewarding your staff

The rules regarding tax and reporting differ depending on what the award is and whether it is administered by you or a third party.

Cash or cash exchangeable vouchers

Cash awards are included in the employee's gross pay and are subject to income tax and NICs.

However, if another business awards a member of your staff a cash reward, the third party must deduct tax through PAYE from the award and you must pay NICs on it.

The value of the reward must be reported to HMRC on a full payment submission and included on the employee's payroll record.

Vouchers that can be exchanged for cash are also regarded as part of an individual's earnings and should be reported as such after NICs and income tax have been deducted.

Non-cash vouchers

The cost of the voucher should be added to the employee's earnings, unless they are for lunch or childcare, in which case the face value should be used.

Some non-cash vouchers are exempt from NICs:

- travel between work and home on a work bus
- those relating to social functions up to the value of £150
- childcare vouchers (up to a certain limit).

If a third party provides non-cash vouchers to your staff through an arrangement you set up, or you provide any other kind of non-exempt, non-cash voucher, you will need to report and pay NICs.

If, however, the third party makes all the arrangements and presents the voucher to a member of your staff, it is the responsibility of that employee to report it to HMRC.

Share schemes

Employee share schemes offer your staff the chance to own shares in your company, which could rise in value as the business grows.

Share incentive plans

Employees that receive shares through a share incentive plan and keep hold of them for 5 years won't have to pay income tax or NICs. There will also be no capital gains tax liability if the shares are kept in the scheme until they are sold.

Employers can give individuals up to £3,600 in free shares each tax year.

Employees can also buy extra shares out of their pre-tax salary with the limit being either £1,800 or 10% of their income for that tax year (whichever is lower).

Staff suggestion schemes

A business can always improve and your staff should be at the heart of any changes made. Staff suggestion schemes offer a tax-efficient way to let staff share in the fruits of improved work practices and efficiency gains.

The scheme has 2 facets:

- employees who make good suggestions on how to improve the business can be awarded up to £25 with no tax or NIC liability
- if the suggestion is a success and leads to financial benefit to the company, the employee can be awarded up to £5,000.

The financial award is exempt from tax and NICs if it is either 50% of the money you expect the suggestion to make for your company or 10% of the money you expect to save in the first 5 years.

The scheme must be open to all employees and the suggestion cannot be something that the individual would likely have made during their normal duties.

Parties

Gathering your workforce together and providing them with food, drink and a venue to have a good time is a great way to reward them for their hard work.

As an employer providing a social function, whether or not you need to report and pay NI on your staff parties depends on whether:

- it's an annual event (such as summer and Christmas parties)
- it's open to all employees
- the cost is less than £150 per head.

If the party meets these conditions, no tax or reporting is required. If the events are not exempt, class 1A NICs are liable on the full cost and must be reported on form P11D.

Rewarding your staff in a way that helps your business is a multi-layered process that stretches all the way from a pat on the shoulder to more elaborate and formal methods.

However, the result is always the same: a motivated and happy workforce that is pushing your business forward.

We can provide technical advice and guidance on staff reward structures.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation.

Whilst considerable care has been taken to ensure that the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.