

Controlling Employment Costs



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Brought to you by the tax team at Friend LLP

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Are you aware that it costs you, as an employer, £1.63 to put £1.00 into the average employee's bank account? This increases to £1.91 if the employee is a higher-rate taxpayer. And these costs will increase further as income tax and National Insurance rates rise in the near future.

Reduce employment costs and you can increase profitability or make pay-rises self-financing. Alternatively, the benefits could be shared between the employer and the employees.

Under the salary sacrifice concept, employees agree to give up some of their gross salary in return for benefits provided by their employer. There are a number of benefits which can be provided free of income tax and/or National Insurance, which means that the employee can receive the same net benefit - but at a lower cost to the employer.

We outline below three popular salary sacrifice opportunities that can deliver significant reductions in employment costs.

Subsistence payments

If your site-based employees currently pay their general subsistence expenses out of their net salary, you can save up to 43.8% of the employee's gross pay (53.8% for higher rate employees) if you provide the employee with a subsistence allowance instead.

Child-care vouchers

You can pay employees (male or female) with children in registered childcare up to £55 a week, free of tax and National Insurance.

Employer Pension Contributions

Employees get tax relief on pension contributions, but both employee and employer remain liable to National Insurance. By restructuring how contributions are made, employers can save up to

23.8% on their contributions, without reducing the benefit to the employee and without requiring the company to operate its own pension scheme.

Case Study

ABC Ltd has 50 employees, 30 of whom pay £100 a month into personal pensions, 10 have young children and 30 are site-based. By implementing the salary sacrifice opportunities outlined above, ABC Ltd could save £66,700 per annum:

| <i>Benefit</i> | <i>Annual saving</i> |
|---------------------------------------|-----------------------|
| Subsistence allowance of £40 per week | £39,600 |
| Child-care vouchers of £55 per week | £18,200 |
| Pension contributions | <u>£8,900</u> |
| Total saving: | <u>£66,700</u> |

How Friend LLP can help

The salary sacrifice concept is relatively simple, and is not "aggressive" tax avoidance. It does, however, require proper implementation to ensure the projected savings can be achieved. Friend LLP can:

- Advise on a wide range of salary sacrifice options
- Assist with quantifying the costs and benefits
- Ensure HMRC requirements are met and the tax savings are achieved
- Help you communicate with staff – some of whom may be sceptical about an employer's motives in encouraging them to forego salary
- Implement it through your payroll systems

For more information on how Friend LLP can help reduce your employment costs, please contact:

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