

Flexible benefits

Nearly two-thirds of organisations are now offering their employees flexible benefits as a way of attracting – and retaining – talented staff, according to recent research.

Companies should choose the benefits they offer employees carefully in order to maximise tax and National Insurance breaks – and provide options that their staff actually want.

Salary sacrifice schemes, where employers offer a small number of tax-efficient benefits, such as pensions, private health care and life insurance, account for almost half of the new flexible reward schemes.

"Flexible benefits provide employees with the freedom to choose how they receive their pay – enabling them to tailor a package to suit their own needs," explains Mark Laughton, partner at Burgess Hodgson.

The Chartered Institute of Personnel Development's most recent reward survey found that, although one in ten employers used flexible benefits, those that did tended to be in the private sector – and have more than 1,000 employees.

But, says Mark, small companies can use flexible remuneration to recruit higher calibre employees that they perhaps couldn't compete for on pay – particularly in Kent where the attraction of London sees many new graduates tempted by the promise of big salaries.

"Many employers who wish to be seen as forward thinking businesses are looking after their staff in other ways than just pay," says Mark. "For the employer, it's about paying staff in an efficient manner that provides 'glue' and a reward to that individual."

"There are however ways that you can structure a flexible benefits scheme that are very tax efficient – and where realistic savings can be made, both for the employer and the employee," he adds.

There's no doubt that the business case for flexible benefits is a strong one. Get it right and employees' perceived value of the rewards package increases as a result. In addition, benefits are flexible not only for employees but employers: if demand for a specific benefit is low or declining, the employer can pull it.

The CIPD believes employers should undertake a feasibility study before implementing a flexible benefit scheme. They need, for example, to consider when the scheme will be introduced, how it will be administered, what benefits will be provided and how it will

be communicated. Having an expert like Burgess Hodgson to handhold you through the process can help iron out many of the problems you might incur.

Some flexible remuneration schemes, for example, are very selective: they might identify key individuals or pools of people, or alternatively they might be offered to the whole workforce.

There are more common place benefits that are taxable, but equally there are others that escape tax and National Insurance, and which are normally funded out of an individuals taxable income, such as payments into private pension plans rather than company pension schemes, personal life assurance, mobile phone usage and parking at, or near work.

"For all of these, you can't just say 'we're going to do it'," explains Mark. "It does take careful planning and the implementation of the scheme needs to be carefully monitored so that it doesn't become an administrative burden to the employer, both in terms of running the scheme and also reporting elements of it to the Inland Revenue, because not all benefits are tax-free."

Many big name companies like business software producer SAP, banking giant ABN Amro and Avon Cosmetics are already running successful flexible benefits schemes – and reaping the rewards in terms of staff motivation and retention, as well as the tax and National Insurance breaks.

If further evidence were needed, a survey by employee research consultancy ISR, found that businesses with dedicated employees are outperforming those with unmotivated staff by more than 50%.

It is critically important for businesses to attract and retain the right staff, but employers also need to keep employment costs as low as possible: finding the right balance, while mitigating the burdens of tax and NI contributions, is not easy.

But, as Mark says: "There can be significant cost savings for the employer although the scheme has to be structured correctly: there's no point having 50 benefits and asking employees to pick and choose.

"For most businesses the selection of benefits is quite narrow, make it something that employees are probably going to take up, otherwise you are creating a scheme just for the sake of it. But, for the employer, it is all about retention and staff value – and minimising tax!"

Burgess Hodgson: forward thinking business advice

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- Flexible benefits*
- 1) life assurance ✓
 - 2) private medical insurance ✓
 - 3) subsidized parking ✓
 - 4) company pension scheme ✓
 - 5) child care vouchers ✓
 - 6) season ticket for travel ✓
 - 7) mobile phone policy ✓
- PTO →

Partner profile



Mark Laughton

A rugby fanatic, full-time trainer and part-time player, Mark is at home with specialist audits of pension schemes, charities and European grant funding as he is with an oval ball in his hand.

When he's not rucking or mauling, Mark helps clients in the small to medium sector tackle tax problems and maximise the potential of their business. In addition to suggesting commercial and tax planning opportunities, he provides help and advice on reporting systems and the provision of information for clients to grow their businesses. It's a mutual relationship. I'm looking forward to helping my clients grow their businesses both for me and themselves," he says. Mark is married to Michelle, and has three sons, Russell, Oliver and Jamie.

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feature article

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Finding the right
balance



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