

Employment Taxes

Payroll costs are one of the largest overheads and reducing these costs can generate substantial savings. Most of these ideas involve using "salary sacrifice" so that employees receive additional benefits and/or increased net pay at a lower cost to the employer and are most appropriate if, for example, a full inflationary pay increase cannot be awarded, or you are conducting a review of employee benefits or pension arrangements.

Tax and NIC - free pay

A number of benefits can be provided free of tax and/or NIC and examples are given below. All these involve "salary sacrifice" and therefore employment law input and employee communication are crucial to successful implementation.

Smart Pensions

One of the simplest methods of saving both employee's and employer's NIC is to convert employee pension contributions into employer pension contributions. An organisation with an annual total employee's pension contribution of £1 million could generate annual savings in excess of £138,000. Additionally, this option can also be useful to mitigate the 50% tax rate for higher earners.

Green Company Cars

HMRC attacks on employee car ownership schemes, recent changes to corporation tax relief on leased cars and the ever widening range of environmentally friendly cars is resulting in the rebirth of the company car. A number of employers have identified that it can now be more cost effective to provide company cars to business users rather than paying car allowances and mileage. Larger employers are going one step further and offering company cars to all employees. This can save tax and NIC when offered in conjunction with salary sacrifices.

Parking at or Near Work

Car parking near the normal workplace can be a significant cost to employees. However, this can be provided tax efficiently if, instead of the cost being borne out of net pay, the employer provides either a car park space, a parking permit or reimburses costs. Significant savings can be generated. For example savings taking 50 employees and assuming a charge of £5 per day, could save approximately £25,000 per year.

Environmental Gains

There are a number of other employment tax measures which are both tax efficient and have a positive impact on the environment. Generally, if an employer helps employees to get to and from work, the benefits are taxable. However there is no tax or NIC payable on:

- cycles and safety equipment made available for employees including via loans
- workplace parking for cycles and motorcycles
- free or subsidized minibuses or buses

**Subsidies to use public bus services
Childcare Vouchers**

With the forthcoming restrictions on tax relief, it is important for higher rate taxpayers to take advantage of this valuable benefit now. When introduced in conjunction with salary sacrifice, the total tax and NIC savings currently available are up to:

- £1,568 for 40% taxpayers
- £1,860 for 50% taxpayers and
- £2,150 for employees with earnings between £100,000 and £112,950.

Even allowing for the joint 2% increase in NIC rates, this saving will reduce to £1,043 for higher rate taxpayers joining these arrangements from 6 April 2011.

Flexible Benefits

Historically, the main hurdle to offering employees flexibility and choice in respect of their total reward has been the administration involved. This is no longer a problem as there are numerous internet/intranet based platforms that can be bolted onto existing HR and payroll packages. Offering flexible benefits can not only help to attract and retain key employees, it can also result in savings in payroll costs. In addition to empowering employees, these arrangements:

- allow employees to take advantage of their employer's buying power,
- avoid exclusions on pre-existing conditions for insurance policies and
- minimise their own tax and NIC.

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