

## **Managing employment costs through ‘smarter’ benefits**

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In the current economic environment businesses are focused on managing employment costs. Employers can avail of specific tax exemptions and reliefs in order to deliver employment cost savings through the provision of ‘smarter benefits’ to their employees.

These are benefits which reduce employment costs through payroll and employer PRSI savings. They can also enhance the net take home pay position for employees. We have provided an overview of some of these smarter benefits in this article.

### **Additional time off / flexible work arrangements**

Employers may reduce their payroll costs by offering staff the option of taking additional time off or other flexible work arrangements. A tax efficient method that can be used is to allow employees to ‘purchase’ additional holidays by surrendering part of their salary.

Tax will be a factor for many employees in deciding whether to avail of such a facility. For tax purposes, the cost of any additional time off is deducted from an employee’s gross salary, not the net salary. This gives the employee a tax, levies and PRSI saving at their marginal rate. The employer makes a saving in salary costs and a related saving in employer PRSI.

Since PAYE operates on a cumulative basis, unused tax credits and the standard rate cut-off point, are available to offset against tax paid earlier in the year. Therefore, a period of unpaid leave can result in a tax rebate for the employee through payroll during the year. The impact of this tax rebate is more pronounced if the reduced pay arising from unpaid leave shifts the employee from the higher rate of tax of 41% to the standard rate of 20%.

### **Additional time off examples – impact of cumulative tax credits and standard rate cut-off point**

A single employee on an annual salary of €48,000 with basic personal tax credits and standard rate cut-off point, who takes one month’s unpaid leave in August 2009, would receive a tax rebate through payroll in September of €942. This rebate of €942 is a combination of the unused monthly tax credit (€305) and unused standard rate cut-off point ( $€3,033 \times (41\% - 20\%)$ ) brought forward from August to the September payroll. Taking additional time off can be even more favourable when the reduction in gross pay causes the employee to be moved from the top rate of tax to the standard rate of tax, as this will further reduce the net cost to the employee of taking the additional leave.

### **Travel pass / Cycle to work scheme**

The travel pass and cycle to work schemes are Government approved schemes which may be operated on a ‘salary sacrifice’ basis. This means that employees can pay for the benefit out of their pre-tax income over a maximum of 12 months and the employer purchases the travel pass or bicycle on behalf of the employee. There is no additional cost to the employer since the employee funds the purchase of the travel pass ticket or bicycle/bicycle safety equipment from gross salary.

The employer saves on employer PRSI and receives a deduction for the expense of the purchase of the travel pass or bicycle for corporation tax purposes, and the employee’s overall net position is higher than if they had to fund the purchase of the travel pass or bicycle from after tax income. The aggregate savings in a year and cumulative savings from year to year for the employer is significant if these benefits are used across the work force. The table below shows the potential saving for a travel pass or bicycle costing €500 and €1,000 respectively for an employee who pays tax at the higher rate of 41%.

<b>Travel pass or bike cost</b>	<b>€500</b>	<b>€1,000</b>
Income tax @ 41%	205	410
Employee PRSI/Levies @ 10%	50	100
<b>Total saving</b>	<b>255</b>	<b>510</b>
Net cost of purchase	245	490
Employer's PRSI saving	54	108

### **Small benefits exemption**

The small benefits exemption is a Revenue concession whereby an employer may provide one non-cash benefit to a maximum value of €250 once in any tax year to each employee. Small benefits such as gift vouchers are also useful for reward and recognition schemes. For a 41% taxpayer who is paying PRSI and the health and income levies, a gift voucher worth €250 is the equivalent to gross pay of €510. The cost to the employer providing the voucher is €250 as opposed to the equivalent gross cash salary plus employer PRSI of €565. Therefore, the same purchasing power is achieved with a saving for the employer of €315. So, the aggregate saving for the employer is significant if the small benefits exemption is used across the work force. The employer also receives a deduction for the small benefit expense e.g. the cost of gift voucher, for corporation tax purposes

### **New travel and subsistence expenses**

The Department of Finance recently announced a 25% reduction in the civil service travel and subsistence rates with effect from the 5 March 2009. This has a knock-on effect on private sector employers since the civil service rates are widely used in practice to determine the flat rate allowances that can be paid tax free without deduction of PAYE/PRSI. The reduction arises primarily from the Government's public sector cost cutting exercise, rather than a 25% reduction in actual travel and subsistence costs.

Travel and subsistence rates are intended to do no more than reimburse employees for the costs likely to have been incurred. It is perhaps arguable that having regard to recent reductions in costs of fuel in particular, some level of reduction in mileage is warranted. On that basis, some reduction on expense rates may be seen as appropriate in the context of an overall cost reduction exercise and may provide an opportunity for employers to achieve cost savings by reducing travel costs. Where there is a reduction in rates it is important to be aware of associated human resources issues where employees will receive a lower allowance than previously received.

As a result of the lower civil service mileage rates, employers should review their car schemes to determine whether any existing arrangements, where mileage allowances are paid in lieu of the provision of company cars, will continue to cover standing and operating costs and whether it may now be more tax efficient to provide a company car in such instances.

In light of the new civil service subsistence rates, employers may also need to review their per diem/subsistence expense policy to cover the cost of meals and accommodation for employees who perform employment duties away from their normal place of work on a business trip or short or long-term assignment.

### **Conclusion**

By availing of specific tax exemptions and reliefs, employers can deliver employment cost savings through the provision of smarter benefits to their employees. These savings lead to reduced payroll costs and can also enhance the overall net take home pay for employees.