

Your tax saving genie says



TIP OF THE MONTH - DO YOU NEED TO KNOW ANYTHING SPECIFIC ABOUT EMPLOYEE BENEFITS AS A SMALL EMPLOYER?

The employer must pay for certain 'benefits' like Employers National Insurance and of course you need to comply with all the health and safety stuff, and have employers liability insurance, but there are a few other things to perhaps consider.

Health insurance, disability insurance, life insurance, a retirement plan, flexible compensation, and leave are often included as potential benefits, but let's look at two very specific benefits:

- 1) We have recently done some work on Child Care Tax Vouchers, where if either or both parents are paying for childcare through a registered provider it is possible to save each individual nearly £1,000 per year using tax-free vouchers and 'salary sacrifice'. What we really like about this sort of solution is that it also saves the employer money. It's a benefit Jim, but not as we know it (because it effectively doesn't cost anything).
- 2) Sometime in the next 2 or 3 years even the smallest employer will need an auto-enrolment pension scheme for the business. There is not enough capacity in the economy for every business to set one up in time, given that there are only so many insurance companies to go round and the later employers leave it the more 'stuck' they are likely to get. But a pension is a very tax efficient investment, anyway. At last year's Autumn Conference we gave the example below of how you can fund your retirement at very little cost, so unless you or that other employee want to be poor in your old age, it may be worth offering a salary sacrifice-funded scheme before you have to....

Pre sacrifice position: Paying £100 a month into your pension plan.

Salary	Gross value of individual relief at source ie. Pension contributions		Employer contribution
£25,000		£1,200	£0

Change

Salary reduction	Gross value of individual relief at source ie. Pension contributions	Reduced by	Employer contribution increase
£1,200		£1,200	£1,200

Post sacrifice position

Salary	Gross value of individual relief at source ie. Pension contributions		Employer contribution
£23,800		£0	£1,200



New lamps for old

	Pre Sacrifice	Post Sacrifice	Change
Employee			
Salary	£25,000	£23,800	-£1,200
Less Income tax	£3,112	£2,872	-£240
Less National Insurance (class 1)	£2,069	£1,925	-£144
	<u>£19,819</u>	<u>£19,003</u>	
Less Contributions paid net	£960	£0	
Take home pay	<u>£18,859</u>	<u>£19,003</u>	£144
Pension pot	£1,200	£1,200	£0
Employer			
Employer pension contribution	£0	£1,200	£1,200
Plus salary paid	£25,000	£23,800	-£1,200
Plus employers National Insurance (class 1)	£2,388	£2,222	-£166
Cost to employer	<u>£27,388</u>	<u>£27,222</u>	-£166

- 3) Maybe you need a 'cafeteria plan?' With a 'cafeteria plan', money which would normally be used as taxable salary is used, often under 'salary sacrifice', for services that are necessary like health or childcare. This saves the employee and employer National Insurance. In big schemes each employee has the choice from several levels of supplemental coverage or different benefits package. There are dental and optical plans that work well, and each employee may select what he/she wants based on their own personal goals or to satisfy differing needs. That may sound a bit too elaborate, but 1 & 2 above work for most people.

We have some additional flyers on these topics if you would like us to send any, and we certainly won't charge to explain these ideas further, in person or over the phone!