

Tax Efficient Reward

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Webinar

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Risk areas for enquiries taxation 31 August 2013

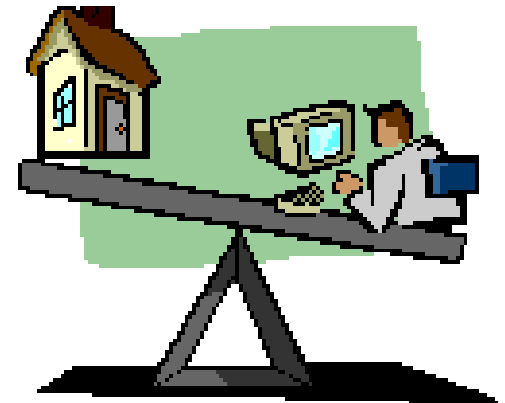
- Business profits/losses (27.3%),
- VAT (20.5%),
- Capital gains (CGT) (18.2%)
- **Employee expenses/benefits (18.2%).**
- Other risk areas include:
 - Status
 - Non compliance and penalty incidence

= Tax is changing?

- **2.207 Personal service companies and IR35**
- The Government will introduce a package of measures to tackle avoidance through the use of personal service companies and to make the IR35 legislation easier to understand for those who are genuinely in business. This will include:
 - strengthening up specialist compliance teams to tackle avoidance of employment income;
 - simplifying the way IR35 is administered
 - subject to consultation, requiring office holders/controlling persons who are integral to the running of an organisation to have PAYE and NICs deducted at source by the organisation by which they are engaged. (Finance Bill 2013)

= Outline

- Structuring the remuneration package
- Fixed/flexible packages
- Salary sacrifice arrangements
- Benefits
- Tax efficient benefits
- Shares and share options
- Policy on tackling avoidance



= Structuring the remuneration package

Ensure the remuneration package offered:

- Helps to retain your key employees;
- Meets their needs in a tax efficient way; and
- Makes them feel appreciated and appropriately rewarded



= Fixed/flexible packages

FIXED

- Comprises a standard package of remuneration and benefits

FLEXIBLE

- Fixed allowance where employees can choose the proportion of salary and benefits and which benefits to take

= Salary Sacrifice Arrangements

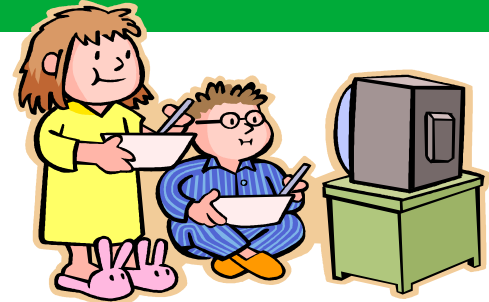
- Certain amount of salary given up in exchange for a benefit
- Savings in tax and NIC but watch VAT after July 2011
- Ensure scheme is set up correctly
- Terms and conditions of employment should be varied
- Legal advice sought
- *Heaton v Bell* – need to ensure employee has given up his contractual right to part of gross pay
- Watch canteens, childcare vouchers and VAT

= Benefits

- Anything provided to an employee in the course of their employment
- Value of benefit either:
 - Money's worth
 - Cost to the employer
- Certain specific benefits have beneficial tax treatment

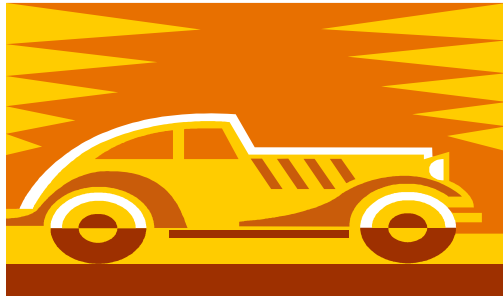
= DVD provided to an employee

- Value of the benefit:
- $MV \times 20\% = £15 \times 20\% = £3$
- Apportionment to reflect actual usage:
- $£3/365 = £0.01$ (approx.)
- Associated tax and Class 1A charge is therefore negligible.



= Company cars comparison

- Cost to 40% Taxpayer:
- Ford Mondeo £3,805

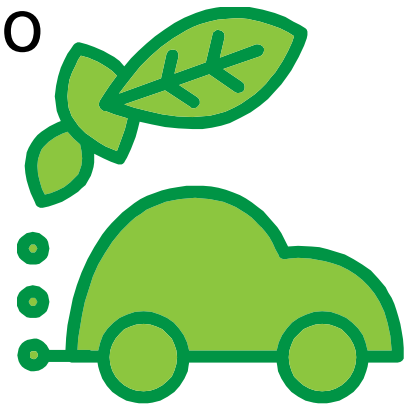


- Toyota Aygo £1315



= Company car comparison

- Capital allowance deduction to employer:
- Ford Mondeo £3,571 (20%)
- £1448 (8%) but
- 114g/km CO2 £18,100
- 1.6 Duratorq TDCi (115 PS) Mondeo
- £3258
- Toyota Aygo £7,200



= Company car comparison

Table 1 Ford Focus specifications

*After April 2012 , the lower rate of capital allowance falls from 10% to 8%

** After April 2012, the rate of allowance will fall from 20% to 18%

Engine	Maximum Power PS (kW)	CO2 Emissions (g/km)	Fuel Consumption in mpg (L/100 km)	Max Speed (mph)*	0-62 mph 2012/13 (Secs)*	2013/14 WDA**	WDA*
1.6 Duractec Ti-VCT (105 PS)	105 (77)	136	47.9 (5.9)	116	12.3	20%	8%
1.6 Duractec Ti-VCT (125 PS)	125 (92)	149	44.1 (6.4)	120	11.7	20%	8%
1.6 Duractec TDCi (95 PS) (Start-Stop)	95 (70)	109	67.3 (4.2)	120	10.9	100%	18%
2.0 Duractec TDCi (163 PS)	163 (120)	134	54.3 (5.2)	134	8.9	20%	8%

Table 2: Comparison of real depreciation against tax allowances

Type of car	New	Year 1	Year 2	Year 3	Year 4
Small Family (Ford Focus 1.6) RV	£12500 100%	£7500 60%	£6400 51%	£5250 42%	£4150 33%
Capital Allowances 2012/13 WDV	£12500 100%	£10,00 80%	£8,000 64%	£6,400 51.2%	£5120 41%
Capital Allowances 2013/14 WDV	£12500 100%	£11500 92%	£10580 84.6%	£9734 77.9%	£8955 71.6%

Table 3 : Comparison of taxable benefit for employees with company cars suggest <http://www.green-car-guide.com/>

Type of car	New	2011/12	2012/13	2013/14	
Small Family (Ford Focus 1.6) cost List price	£12500 £16,100	£2093 (13%)	£2254(15%)	£2404 (16%)	
Tax cost basic rate 109 gm/km CO₂		£418.6	£450.8	£480.8	
Tax Cost Higher rate 109 gm/km CO₂		£837.2	£901.6	£961.6	
1.6 Duractec Ti-VCT (125 PS) 149 g/km	£12500 £16,100	£3059 (19%)	£3220(20%)	£3381(21%)	
Tax Cost basic rate 149 gm/km CO₂		£611.8	£644	£676.2	
Tax Cost basic rate 149 gm/km CO₂		£1223.6	£1288	£1352.4	

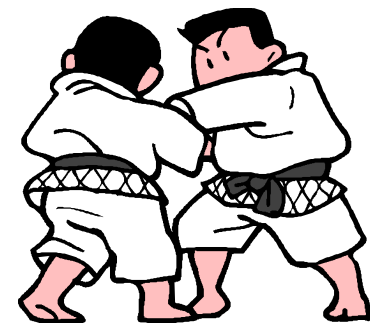
= Renault Megane Expression+ dCi 110

- Fuel economy extra urban: 88.3 mpg
- Fuel economy urban: 72.4 mpg
- CO2 emissions: 90 g/km
- Green rating: VED band A – £0 a year
- Weight: 1215 Kg
- Company car tax liability (2013/14): 13%
- Cost £19,145
- Capital Allowance (100%) £19,145
- BIK £2488 so tax at 40%
£995.2



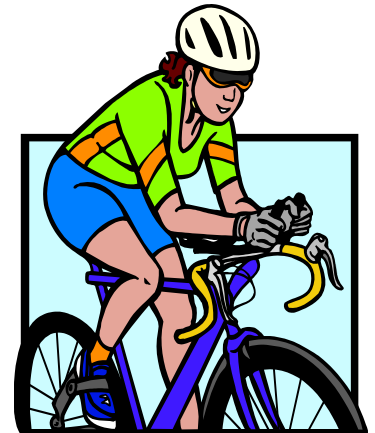
= Training

- Perrin v HMRC 2008 SpC 671
- S250 ITEPA 2003
- *Exempts the provision of work related training or any benefit incidental to such training*
- Dr Banerjee decision
- Can be used for:
 - Driving Test
 - Martial Arts classes!
 - Language courses
- Iceland health warning = Customer Service Training!!



= Tax efficient benefits

- Environmentally friendly transport:
- Pool cars – s167
- Work buses – s242
- General subsidies to public transport – s243
- Bicycles and cycling safety equipment – s244
- Free meals and refreshments on cycle to work days



Watch VAT if salary sacrifice

= Tax Efficient Benefits

- Sundry tax efficient rewards:
- Events
- Subscriptions
- Financial advice
- Eye tests and corrective glasses
- Relocation costs – remember Dr Wald's case
- Canteen
- Free parking

Watch VAT if salary sacrifice

= Tax efficient benefits

- Beneficial loans
- Loan offered to employee
- Commonly used to provide season tickets
- Interest free or reduced rate of interest
- £5,000 limit

= Tax Efficient Benefits

- Mobile phones (includes smart phones)
- Watch VAT on private calls (analysis bill)
- From 2006/07 onwards limited to one phone per employee
- Exemption covers line rental and calls
- Pre 2006/07 rules continue to have effect for second phones provided prior to 6 April 2006

= Long Service Awards

- Section 323 ITEPA 2003:
- Made to mark a period of ≥ 20 years
- In a form other than money; and
- Not more than £50 for each year of service
- Example: widescreen TV



= Company Vans

- From 2007/08 benefit of £3,000 applies. (s155)
- Additional charge of £550 (£564) for fuel. (s161)
- Applies where unrestricted private use.
- Insignificant private use:
 - Taking a mattress to the skip,
 - A slight detour to buy a newspaper.
 - Calling at the dentist on the way home.

= Dispensations

- Section 65 ITEPA 2003
- Obtaining a dispensation gives certainty and reduces cost
- Scale rate expenses payments
EIM05290



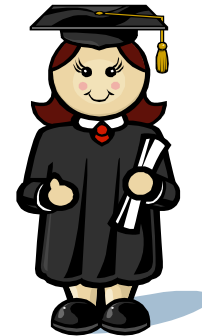
= Example – Mr Dumpling

- 2012/13
- Gross earnings £50,000
- Expenses £3,960
- Net earnings £31,824



= Example – Miss Veri Smart

- 2012/13
- Gross earnings £50,000
- Benefits £3,960
- Net earnings £35,514
- Difference £3,690



= Shares and Share Options

- Shares
- Enterprise Management Incentive Scheme (EMI)
- Sharesave or SAYE
- Share incentive plan (SIP)
- Discretionary schemes



= Shares

- Provision of free shares –
- Taxable benefit on the market value of the shares at date of transfer.
- HMRC schemes offer preferential tax treatment in return for restrictive conditions.

= EMI

- Designed to help recruit and retain key staff in small, higher risk companies.
- Share options with a MV of up to £250,000 can be granted.
- Total share value of £3 million under EMI options to all employees.
 - 2006/07 figures
- 2,790 companies 27,000 employees average value per participant £11,000.

= EMI – tax advantages

- Grant of the option is tax free.
- Normally no NIC when option is exercised.
- Subject to option being exercised within ten years and no disqualifying event has occurred, and
- Exercise price at least equal to MV at date of grant.
- Entrepreneur's relief?

= Golden Hellos

- Taxable as earnings within s62 if the payment is connected to the employment.
- *Glantre Engineering v Goodhand*
- *Silva v Charnock*

= Termination payments

- HMRC expect reasonable care
- COP 10 available for redundancy but?
- Minimise risk clause in compromise agreement
- Clinton decision
- N J Wood decision
- Getting £30,000 exempt needs care

= Tax planning thoughts

- Risk
- Service companies – profit extraction
- Service companies – provision of benefits
- Reasonable care – HMRC attitude definitely harder
 - Goldberg
 - Singh
- Panorama 16 September 2013



Thank you for listening

Any questions?

