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OPINION

INCENTIVES: THINK BEFORE YOU REWARD

Staff incentive schemes are an effective way to attract and retain staff. Michael Derin says first you should consider the tax implications

With unemployment at its lowest in 33 years, it has become a challenge for businesses, particularly SMEs, to attract and retain effective and productive employees. One way of doing this is by offering employees attractive incentives to encourage loyalty, increase productivity and promote a positive workplace culture.

There are a number of important issues to consider before setting up an incentive scheme, such as tax implications for the business, what kind of scheme will work best for the organisation and how to structure and implement the scheme.

Before you make any promises to your staff about an incentive scheme it is essential to consider the tax and compliance issues and that's where your accountant and other business advisors can help.

Here are some of the possible incentive schemes you could offer your staff:

- **Lump sum bonuses:** These types of rewards are popular as most people appreciate extra cash. Although the criteria for these incentives are not always linked to the business performance and often not implemented in a way that will drive team productivity.
- **Salary sacrifice:** The biggest advantage of this type of system is the employee's net 'after tax' position is improved. Salary sacrificing can work really well and even help to improve workplace culture. The downside, however, is that it is often in lieu of salary or sometimes may be part of the job requirement, for example, a company car. So this form of incentive is not always valued by an employee. Fringe benefits tax is a key element of salary sacrifice and represents a cost to the employer. If an employer pays an employee's private health insurance, the employer would be liable for fringe benefits tax, almost doubling the cost to the employer.
- **Equity-based schemes:** These types of schemes can form the foundation of success for a business, especially in its infancy and are becoming more common. They are driven by key employees aligning their financial interests with the company and engaging them in the longterm commitment and success of the business. The downside to these types of agreements is they can be complicated and require shareholder agreements. They can also be the most costly to structure and legalise because of their broad nature.

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- **Extra leave time:** Providing an opportunity for employees to 'buy' extra leave can work well as most employees value extra leave time to balance their work and home lives. It is also very tax advantageous for the employer but can be difficult to administer and manage.

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