

## EMPLOYEE REMUNERATION

# Cash is not the only way to reward staff

You can carry on paying an annual pay award to staff and get locked in to a rising cost spiral. Or, in these tough times, you may want to box clever and think of other solutions. **Ian Tongue** sets out the options for stretching the pounds further



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MEDICS HAVE not escaped the credit crunch and are feeling the pinch along with everyone else. Meanwhile, those that employ staff will face the difficult decision of determining any annual pay award for them that is fair but does not break the bank.

It is vital that employees are kept motivated, as reduced morale almost certainly leads to lower productivity and ultimately may result in losing a member of staff who is an important part of your private practice.

An annual rise is usually expected but is expensive, as the increased earnings are given each year and next year's rise is applied to this year's and so on, so you are forever compounding the increase.

But there are some cheaper alternatives which can be used either in isolation or in conjunction with an annual rise.

## Bonuses

A bonus is a one-off payment and therefore limits the cost to the employer. It should not be used every year, as they become expected. But they can be a useful tool.

Any amounts paid must be paid through the payroll and are subject to income tax and National Insurance under the Pay and You Earn Scheme (PAYE). The cost to the employer is the bonus plus 12.8% employers' National Insurance.

## Childcare vouchers

This scheme works on a salary sacrifice basis and usually does not involve physically issuing a voucher as such.

An employee can sacrifice up to £243 per month of their earnings which is paid directly to an approved body/member, thus saving income tax and National

Insurance on the payment. There is very little administration involved in this scheme, but the benefits can be significant.

The scheme is available per employee, not child, and therefore it is possible for both a husband and wife to adopt the scheme.

Contact your accountant for further information in this area.

## Additional holidays

Allowing additional holidays will not cost much but it is always gratefully received.

Clearly, there will be additional days when the employee is not available, but, with effective management, this should not have any real harmful effect on the practice.

Once granted, these additional days will be given every year and so they are more than a one-off measure.

## Interest-free loans

An employer is allowed to provide an employee with an interest-free loan of up to £5,000 without any 'benefit in kind' arising.

Given the current high cost of borrowing for small unsecured loans, this may be a particularly attractive offering for an employee.

However, loans should only be given to employees who you feel will stay for the duration of the loan. Problems inevitably will arise if an employee leaves owing more than any pay due to them.

## Pension schemes

While many employees may have their own pension arrangements, those approaching retirement or with limited pension provision may be interested in sacrificing salary for pension contributions.

Any amount paid into a scheme by the employer is not subject to employers' National Insurance

and therefore represents a saving when compared to paying the same amount as a salary.

## Employee functions

The staff 'away day' is usually well received and is a good way of boosting morale and building relationships.

You can spend up to £150 per head a year but it should be noted that any Christmas party would be included in the annual figure.

## Self-employed individual

Frequently, confusion arises regarding the status of an individual performing work for you – for example, a secretary.

If you are engaging the services of self-employed individuals, care must be taken to ensure that this status is maintained.

Using the incentives described above for self-employed individuals is likely to weaken their self-employed status and therefore

should not generally be used. It is an onerous position for you both should a self-employed individual be successfully proved to be an employee.

Self-employed individuals negotiate a rate for their services and therefore any increase to their rate should be agreed separately.

In today's difficult financial climate, obtaining a fair balance on staff pay is challenging. Staff need to be motivated, but many will realise the difficulties facing their employer and will forgo or accept a lower rise for job security.

Changing the mix of remuneration paid to staff can have a positive impact without costing too much.

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*Ian Tongue is a partner at Sandison Easson & Co, specialist medical chartered accountants*

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