

## Article topic: Tax Planning

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### Employee remuneration – how to pay negative tax!

With Income tax and NIC rates on the rise, employers are looking at increasingly innovative ways to remunerate their staff. However, with the recession putting pressure on business cashflow, big pay rises are unlikely to be the answer.

With this in mind, many employers are waking up to the benefits of using a tax efficient employee share scheme to bridge the gap. A carefully structured scheme can alleviate cashflow pressures on the business, giving the employees a stake in its success when the upside comes and saving tax to boot.

A popular choice for the private company is an HMRC approved Enterprise Management Incentive, or EMI scheme. Under an EMI scheme, benefits can be passed to the employee at rates as low as 10%, which compares favourably with the effective 41% tax on salary (rising to 51% for high earners from next April). The company also benefits too, as the National Insurance charge of 12.8% is avoided, and the gain made by the employee is fully deductible for Corporation Tax – saving tax at 28%. So, for each £100 of value extracted from the business, the company saves £28 of tax and the employee pays tax of £10 – that's negative taxation!

Employees can cash out on a sale of the business. Alternatively, the company can facilitate an internal market for shares when an exit event is not on the cards. This could be through the medium of an Employee Benefit Trust (EBT).

If you've already got options in place then now is the time to dust them off. With business valuations having fallen back, it may be possible to rebase them at a lower valuation with HMRC, giving employees an even bigger benefit further down the line.

In summary, the message is clear. Employers need to take an innovative approach to remuneration planning to retain and incentivise good staff. As demonstrated above, it is possible to pay negative taxation using an HMRC approved scheme.

**For more information on corporate tax planning issues, please speak to our Tax Planning team.**

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