

Salary sacrifice and IT skills: an IoD survey

1 Summary

- An IoD survey shows that employers recognise the importance of offering flexible remuneration packages. 85% of respondents said they offer more than a traditional salary in order to attract the right staff.
- However, support for flexible remuneration packages is significantly weaker among small businesses. Cost and concern about extra administration are key factors for these companies.
- Only one third of employers make use of 'salary sacrifice' schemes - a voluntary arrangement that allows employees to give up a slice of their monthly pay in return for a non-cash benefit.
- In those companies that do offer salary sacrifice schemes, the most popular options involve higher employer pension contributions, flexible working, private healthcare and assistance with the costs of extra-office education or training.
- There is clearly great potential to extend the salary sacrifice approach more widely across the business community. Greater efforts could be made to apply it to IT skills - an area in which British businesses are still struggling to find sufficient well-qualified recruits.
- For example, although 73% of respondents said their businesses would benefit from a salary sacrifice scheme to promote the loan of computing equipment for the employee's use at home, only 14% were aware that the Government already offers a tax incentive for precisely this purpose.
- The IoD's survey suggests that, with the right publicity drive, the Government's scheme - known as the 'Home Computing Initiative' - could provide an effective boost to home PC ownership.
- Potential benefits from such a scheme would include improved arrangements for flexible working, less working time lost due to family commitments and stronger IT skills.

2 Introduction

IT skills have taken their place alongside basic literacy and numeracy as key building blocks for a successful modern economy.

Employers, business organisations and the Government all recognise the importance of our IT skills base. All sides agree that it makes sense to provide more IT training, to broaden awareness of the opportunities offered by the Internet and to encourage more British households to own their own PCs.

Given this all-round commitment to IT, it is surprising that so little use has been made of a device that has proved successful in encouraging employees to acquire new skills through home study or evening classes - salary sacrifice.

Many employers offer salary sacrifice arrangements (where the employee accepts a modest reduction in salary in return for practical help with course fees, higher pension contributions or other such benefits) to encourage their staff to pursue extra-office study, MBAs and part-time degrees.

In theory, there should be significant potential for applying the salary sacrifice approach to the IT skills issue.

IoD survey

The IoD ran an on-line survey on salary sacrifice and IT-related issues throughout December 2003. The survey was available via our electronic newsletter, eNews, which is e-mailed direct to IoD members. The survey could also be accessed from the IoD's website, making it available to non-members.

365 responses were received. The largest single sector represented was 'business and professional services', which accounted for 44% of submissions, followed by manufacturing with 14%. 55% of responses were from individuals involved in companies with 49 or fewer employees. Only 19% were from people involved in large companies with over 250 workers.

3 More to life than money

Before looking at salary sacrifice schemes in detail, our survey asked IoD members and other contributors for their views on the effectiveness of offering additional benefits to attract the right employees.

E-COMMERCE COMMENT

Q. Do you feel that your business needs to offer more innovative packages of remuneration and benefits in order to attract and retain employees?

ANSWER	% OF RESPONDENTS
Yes	83
No	17

Sample size: 365

Clearly, an overwhelming majority of employers recognise that they need to keep the packages they offer to potential employees under constant review. Competition for staff puts the best candidates in a strong position to negotiate deals that deliver far more than the traditional salary alone.

Indeed, answers to the next question demonstrate that most employers already offer combined packages of remuneration and benefits.

Q. Does your business offer its employees other benefits in addition to salary and pension? (These might include private healthcare, help with travel costs, grants towards further education courses etc.)

ANSWER	% OF RESPONDENTS
Yes	85
No	15

Sample size: 365

Some may find it surprising that as many as 15% of respondents choose not to offer non-salary benefits. However, we should note that a good number of this group were small businesses, many of which find it more difficult to offer extra benefits in addition to salary. Compared with the 85%-15% split in the table above, the figure for companies with nine employees or fewer was more evenly balanced at 65%-35%.

We next asked the 'no' respondents why they have decided against offering non-salary benefits.

Q. Why doesn't your business offer any other benefits?

ANSWER	% OF RESPONDENTS
It would be too costly	45
We can attract and retain the right staff without offering further benefits	25
It would involve too much costly adminstraion	21
New company	13
No reason	11
Other	4

Sample size: 53 ('No' respondents to previous question)

For nearly half of this group the key factor was cost. For small businesses keeping a very close eye on their balance sheets, it is difficult to find the extra resources required to fund private healthcare or other 'perks of the job'.

Further concerns were the extra paperwork involved in offering non-salary benefits. In some cases, employers said that they are able to attract the right staff through salary alone.

4 Potential for greater use of 'salary sacrifice'

One of the most innovative ways of offering non-salary benefits to staff is through the device known as 'salary sacrifice'.

A useful definition of 'salary sacrifice' is given on the Inland Revenue's website:

'A salary sacrifice happens when an employee gives up the right to receive part of the cash pay due under his or her contract of employment. Usually the sacrifice is made in return for the employer's agreement to provide the employee with some form of non-cash benefit. The sacrifice is achieved by varying the employee's terms and conditions of employment relating to pay.'¹

Salary sacrifice schemes can offer benefits for both employees and employers.

- Employees may gain access to benefits that assist their finances (e.g. extra employer pension contributions) or their personal and professional development (e.g. help with the costs of a course of evening study). In some cases, (such as the Home Computing Initiative discussed in this paper) the Government offers a tax break.
- For employers there is an immediate financial benefit: lower headline salaries mean lower employers' National Insurance Contributions. Employers may also benefit because their staff will be more contented, better-skilled or more likely to remain with the company over the long term.

We asked respondents to our survey how many of them offer 'salary sacrifice' schemes to their employees.

Q. Does your company make any kind of salary sacrifice scheme available to the employees?

ANSWER	% OF RESPONDENTS
Yes	32
No	68

Sample size: 365

Only one third of our sample run salary sacrifice schemes. Given the potential attractions to both employees and employers, this seems a surprisingly low figure.

There is clearly great potential for expanding the use of the salary sacrifice approach. In order to assess the most likely applications, we asked those who currently offer such schemes what benefits they offer to employees who volunteer for a salary reduction.

Q. Which, if any, of the following benefits do you offer in return for salary sacrifice?

ANSWER	% OF RESPONDENTS
Higher employer pension contributions	58
Flexible working (e.g. shorter hours for less pay)	48
Private healthcare	42
Financial assistance with costs of MBA / degree or other training	32
Loan of computer equipment for home use	17
Season ticket loans for rail travel	14
Gym membership	8
Share options	7
Car / car allowance	7
Additional holiday	7
Child care	3
Other	7

Sample size: 118 ('yes' respondents to previous question)

The most popular salary sacrifice options are reasonably predictable - extra pension contributions, flexible working arrangements and healthcare. It is encouraging to see a relatively high number of employers offering support for extra-office education and training. A relatively modest 17% of employers make computer equipment available for home use.

We should remember that, as the previous question showed, these employers are firmly in the minority; most offer no salary sacrifice scheme at all.

5 More IT skills, please

A strong IT skills base is essential for a successful modern economy. We asked respondents whether they think Britain is doing enough to supply the skills that employers need.

Q. To what extent is the progress of your business hindered by a lack of potential recruits with the appropriate IT skills?

ANSWER	% OF RESPONDENTS
Not at all	33
A little	52
A great deal	14
No answer	1

Sample size: 365

The conclusion from these answers is fairly straightforward: there is a problem, but not a large one. A combined total of 66% of respondents said that their business is hindered 'a little' or 'a great deal' by a lack of recruits with the right IT skills, but it is only a major problem for the 14% who ticked 'a great deal'.

The data shows that Britain is making good progress on IT, but there is no room for complacency.

6 Internet Awareness

Familiarity with the Internet is crucial if we are to build a genuine 'e-economy', and Ministers should be encouraged by the response to our question about awareness of the Government's attempts to boost internet usage. No fewer than 84% of respondents answered 'yes'.

Q. Are you aware of the Government's attempts to get more people to use the Internet?

ANSWER	% OF RESPONDENTS
Yes	84
No	16

Sample size: 365

The Government can draw further reassurance from the results received when we asked where our members and other contributors go for their information on Government activities.

Q. Where do you go online to access Government services and information?

ANSWER	% OF RESPONDENTS
Government department websites	81
Business representative organisations' websites (e.g. IoD, Chambers of Commerce etc.)	58
Trade association website	30
Don't use any	7
Search engines – e.g. Google (spontaneous)	2
Business Link (spontaneous)	1
Other	1

Sample size: 365

All the efforts that Government departments put into maintaining their websites appear to be bearing fruit; consumers of business information rely heavily on these portals for information on regulation, procurement and all aspects of public policy.

It is encouraging for organisations such as the IoD to see a decent number of respondents – 58% - acknowledging business organisations as a further useful source of information on Government policies and procedures.

It is worth noting that business organisations are more heavily relied upon by small and medium-sized businesses than by large companies that are more likely to employ in-house compliance managers or regulatory risk officers. While only 44% of companies with 250 or more staff use business organisations' websites, the figure for businesses with 1-9 employees is 60%.

7 Awareness of Home Computing Initiative

The Government is currently relaunching the Home Computing Initiative (HCI) that was first introduced in the Finance Act 1999.

The HCI provides a £500 annual exemption from the taxable benefit of computer equipment loaned by an employer to an employee for use at home. When combined with a voluntary salary sacrifice arrangement between employee and employer, there are benefits for both parties.

- The employee gets access to home computing equipment at below market price, giving them the convenience of home PC use and opportunities to boost their IT skills.
- The employer reduces his bill for employers' National Insurance and benefits from employing staff whose newly enhanced skills can be applied in the workplace.

The British HCI scheme is modelled on a similar arrangement in Sweden, where the HCI approach has been credited with achieving a major increase in home PC ownership.

As part of the IoD's survey, we decided to test the Government's belief that the HCI needs a publicity boost. As the figures below show, the HCI is failing to hit the mark in its present form

Q. Prior to reading this survey, were you aware of the Government's tax-advantaged 'Home Computing Initiative'?

ANSWER	% OF RESPONDENTS
Yes	14
No	86

Sample size: 365

This overwhelming response tells its own story. If the HCI is to be retained, it needs a major injection of publicity among business decision-makers.

The IoD's view is that this effort would be well worthwhile, since our survey indicates a real appetite among employers for an incentive of this sort.

Q. Do you think the Home Computing Initiative is / would be a good idea for your business?

ANSWER	% OF RESPONDENTS
Yes	73
No	27

Sample size: 365

Nearly three-quarters of our respondents say the HCI would be good for their business.

A breakdown of responses to one of our earlier questions highlights the importance of boosting HCI awareness across the business community. Our survey showed that whereas 17% of 'salary sacrifice' employers (20 respondents in total) loan computer equipment for home use, only 9 of this group are actually aware of the HCI's existence. So that leaves 11 employers whose staff are missing out on an opportunity to reduce their tax bills.

There could be no clearer proof of the need to raise the HCI's profile than the fact that fewer than half of the employers who loan PCs to their staff have actually heard of a tax break that is specifically designed for their circumstances.

Next, we asked what benefits our respondents would expect from running a HCI scheme in their own company.

Q. As an employer, which if any of the following would you consider to be benefits of implementing the 'Home Computing Initiative' in your company?

ANSWER	% OF RESPONDENTS
Staff would be able to work from home when it is necessary for them to do so.	77
Less time or effort would be lost due to disruptive events such as family illness, domestic crises and travel problems	58
IT skills would improve	53
Employees would be more productive due to working in a quieter environment at home (away from calls, disruptive meetings etc.).	43
Staff would spend less time on personal use of the Internet and e-mail at work because they would have access at home.	39
Staff would be more familiar with the Internet.	36
The company could reduce spending on IT costs such as training, help desks etc.	16
Non-IT skills that would be beneficial in the workplace would be improved.	10

Sample size: 365 (Respondents could tick more than one answer.)

The most striking aspect of these responses is the wide range of potential benefits recognised by employers. Directors recognise that home PC usage allows more flexible patterns of working and also enables staff to boost their skills.

8 Conclusion

It is no longer sufficient for employers to remunerate staff by salary alone. Many businesses are encountering increased pressure to offer flexible packages of benefits in order to attract the right employees.

There is potential to extend the use of the salary sacrifice approach. For example, this IoD survey found strong support for applying salary sacrifice to the area of IT skills, which is so crucial for Britain's future competitiveness.

The Government should urgently raise the profile of the Home Computing Initiative, which remains surprisingly little known. In addition to the potential tax saving for both employees and employers, all parties stand to benefit from a workforce with more highly developed IT skills.

The IoD urges the Government to press ahead with a campaign to raise the HCI's profile in the business community.

Alongside any publicity campaign, the Government must also ensure that the Home Computing Initiative is user-friendly for small businesses. Extra cost and administration are major disincentives that stop many small firms from offering non-salary forms of remuneration.

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Reference

1. <http://www.inlandrevenue.gov.uk/manuals/senew/SE42774.htm>