

## Staff Suggestions Scheme

# Do your staff come up with good ideas?



### Make your business better and save your staff tax!

If you run a staff suggestions scheme you can potentially: 1 discover ways to make your business better 2 actively engage your staff in improving operations 3 make cash awards of up to £5,000 free of tax.

### How should the Suggestion Scheme run?

To comply with tax legislation, the following conditions apply:

- The employer must establish the scheme and it must be open to all employees on the same terms.
- The suggestion for which any award is made must relate to the activities carried on by the employer.
- The suggestion made by the employee must be outside the scope of their normal duties.
- The suggestion must not be made at a meeting held for the purpose of proposing suggestions.
- Awards other than encouragement awards (see right) can only be made if the employer actually implements the suggestions. The award must be made directly to the employee(s) concerned.
- The decision to make an award must be based on the degree of improvement in efficiency or cost effectiveness that is likely to be achieved. This is measured by reference to the prospective financial benefits and the period over which they would accrue.
- The amount of an award cannot exceed:
  - 50% of the expected net financial benefit during the first year of its implementation
  - 10% of its expected net financial benefit over a period of up to five years.
- There is a maximum of £5,000 that can be paid without tax or NIC. Any excess is not covered by the exemption.
- Where an award is made jointly to several employees the amount exempted from taxes is divided between them in proportion to the amount paid to each.

### Encouragement Awards

An encouragement award is a tax-free cash award up to £25. It can be made to an employee in respect of a suggestion made that has some intrinsic merit or reflects an effort on the part of the employee in making the suggestion. These awards can be made regardless of whether or not the employer acts upon the suggestion made.

### Barnes Roffe Topical Tips

- Neither of these award schemes needs to be registered with the Inland Revenue but it is advisable for the scheme rules to be clearly set out in writing, thus ensuring that every employee is aware of them. It is also advisable to keep documentary evidence relating to every award made.
- In the case of a cash award under a staff suggestion scheme it is wise to keep records of any calculation relating to the potential improvement in efficiency or cost effectiveness on which the award was based.

Consult your Barnes Roffe LLP contact partner for further guidance on these generous incentive schemes.