How to

INCENTIVISE YOUNG TALENT

Illustration by **Adrian Johnson**

There are many ways to financially incentivise a firm's young talent. The most sensible starting point is to talk to the individual concerned and find out what appeals to them – there is little point in wasting resources on schemes that don't work as intended. One firm, for example, brought in an arrangement a few years ago to set aside profits to be divided between departments in proportion to their turnover – and in the long run this actually created a disincentive to cross-refer work.

The traditional career progression for talented staff who work for a partnership in the UK – whether a traditional partnership or limited liability partnership – is for them to become a partner. Partners fall into two categories:

- Equity partners share in the profits (and losses) of the business. They are taxed like the self-employed, paying tax and National Insurance Contributions (NIC) in two annual payments rather than through the PAYE system.
- Salaried partners are employees for tax purposes, and have tax and NIC deducted through the PAYE system.

The differences between the two can present an interesting financial incentive. Employed salaried partners are subject to NIC at 11% on annual earnings up to £43,875, and 1% on any excess. Their earnings are also subject to employers' NIC, payable at 12.8%. 'Self-employed' equity partners, on the other hand, pay Class 4 NIC (8%) on their share of the profits up to £43,875, and 1% on any excess, and have no employers' NIC. So if a surveyor becomes an equity partner, there is a significant saving – about £13,000 for a £100k earner. This can be shared between the firm and equity partner if required, and gives scope for more take-home pay without ongoing increased costs for the firm.

THE DIFFERENCES BETWEEN EQUITY AND SALARIED PARTNERS CAN PRESENT AN INTERESTING FINANCIAL INCENTIVE

Of course, the tax treatment of the salary or profit share is not the only factor to be considered when it comes to incentivising employees. There's also the difference in the treatment of wider benefits in kind to factor in. These will invariably include pensions, company cars, life cover or death in service benefits. The pensions rules are constantly changing, too, with amendments subject to revision between announcement and implementation.

When it comes to company cars, salaried partners will generally be taxed on a percentage of the car's list price, determined by its CO_2 emissions. This can result in an onerous personal tax liability on top of the costs incurred by the employer in providing the car. The tax treatment of equity partners' cars can often be more advantageous when compared to those of salaried partners.

Surveying businesses that operate as limited companies can also consider a share option arrangement to incentivise staff. Share options can seem complicated, partly because HM Revenue & Customs has granted 'approval' to a range of different schemes, each of which enjoys a favourable tax treatment and has its own set of rules. 'Unapproved' schemes are still legitimate; it is just that they don't enjoy the special tax advantages of approved schemes.

Approved Company Share Option Plans and Enterprise Management Incentives are most likely to help incentivise selected senior people as, in contrast to some other schemes, they do not have to be made available to all staff who have been with the company for a certain period. Here, employees are given options to acquire shares in the company at some point in the future, at a price set now. So an option granted to acquire 10,000 shares at £1 each at any time in the next five years would mean that, if the shares increase in value to £3 each, the employee can buy shares worth £30,000 for £10,000. If the share price falls and the employee does not exercise the option, they won't lose out.

The success of these schemes is in part dependent upon the marketability of the shares and the employee's perception of the link between their performance and share price – but they can be very effective in securing employee loyalty. They also avoid the cash cost of an immediate bonus.

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