

Compensation forum

Reward hot topics

9 June 2020



Context

Unsurprisingly the vast majority of developments in the regulatory, governance and tax space relate to COVID-19 and addressing the effects that the measures taken to slow the spread of the virus are having on the global economy. This includes reaction to heightened scrutiny of pay decisions. Firms need to consider a number of factors and stakeholders as part of their decision making:

Company specific factors impacting level of scrutiny such as ownership structure and client base

Approach to pay and conditions for the wider workforce

Disclosure requirements and communications strategy

Extent of direct and indirect Government support

Shareholder experience

Regulator and / or Government mandated action

Public and political environment including Proxy guidance

Reward considerations - short to medium term

With the banking crisis and associated government bailout still in recent memories, financial services pay is inevitably going to come under the public and political spotlight. In the short to medium term firms need to think about 3 key areas:

1. Cost Management

As margins are squeezed, firms have had to look at managing their greatest cost: people.

This includes consideration of:

- Redeployment of staff;
- Workforce decisions on salaries and bonuses; and
- Utilisation of government schemes.



2. Front Office retention and incentivisation

With unique challenges facing firms as they adapt to the economic impacts and fundamental changes to how people work, it will be important to keep front office staff motivated and incentivised. This may include:

- Reviewing HR policies;
- Addressing challenges for key workers;
- Understanding the impact of market volatility and reduced financial performance on certain elements of pay and funding;
- Approach to existing targets;
- Ensuring fair recognition where budgets are squeezed; and
- Ensuring reward structures and design reflect changing business needs.



3. Operational considerations

The current restrictions and implications for both firms and wider society result in a number of wider considerations that may need to be thought through.

- Tax traps on donating pay / share awards to charity and hardship funds;
- Cash preservation & shares;
- Coronavirus Job Retention Scheme;
- Mobile employees - tax, legal and immigration complexities (more later)
- Claiming expenses related to home working.....

Claiming expenses related to home working

A question from the audience.....

Can we give an allowance for desk and chair upgrades and – if this is taxable – can we give an uplift to compensate for this.

The only home working allowance that can be paid tax free is the £6 / week sum (to cover certain additional working at home costs. If the employees' costs are higher than £6 the employer may reimburse a higher amount tax/NIC free if evidenced by receipts or negotiate a custom rate with HMRC (although this should be supported by an appropriate sample of actual expenditure).

Employers can provide office equipment for business use if personal use is not significant. From 16 March 2020 until 5 April 2021, this exemption is extended to cases where the employer reimburses the employee rather than contracting with the vendor for the provision of equipment to employees.

Any employer who wishes to avail themselves of this exemption should ensure that their policies clearly document the "sole (business) purpose" behind the provision of the equipment and the restrictions on its use so as to meet the conditions of the tax exemption.

Any approach paying unreceipted allowances or expenses for the items quoted is very likely to be taxable. This can be "grossed up" through payroll (should the employer wish to pay the tax on behalf of employees), although for 47% tax payer this almost doubles the company cost.

Claiming expenses related to home working

A question from the audience (cont.)

Also, can we reimburse home furniture and PC hardware for those suddenly forced to work from home. And what about stationery items such as printer cartridges etc.

Yes for reimbursement of furniture and hardware as explained above, when evidenced through invoices and with appropriate controls.

Stationery and printer ink etc can also be reimbursed tax free against evidence of expenditure (e.g. invoices), as well as any additional expenses incurred and evidenced that they do not fall within the £6 / week allowance.

In all cases, the personal use must be not significant.

Claiming expenses related to home working

A question from the audience (cont.)

If my employer does not reimburse such expenses, can I claim the expenses I incur against tax on my annual tax return?

Generally it is harder for employees to get tax relief where the employer does not meet the costs. This is because the relevant tax deduction that would be applicable requires the expenditure being "wholly, exclusively and necessarily" incurred for the purposes of performing the duties of the employment. This is a notoriously difficult test to pass.

HMRC do accept, however, that in certain circumstances, employees working from home may obtain a deduction for home working expenses (including the £6/week allowance outlined above) via their tax return, but the circumstances are quite specific and may not apply to all employees.

We consider that Covid-19 is likely to mean that in a lot of cases this test will be met. However, it is sensible to consider the specific circumstances of the impacted workforce, and potentially corresponding with HMRC, before advertising this relief to the employee population.

Claiming expenses related to home working

A question from the audience (cont.)

Paul, do you know all this detail off the top of your head??

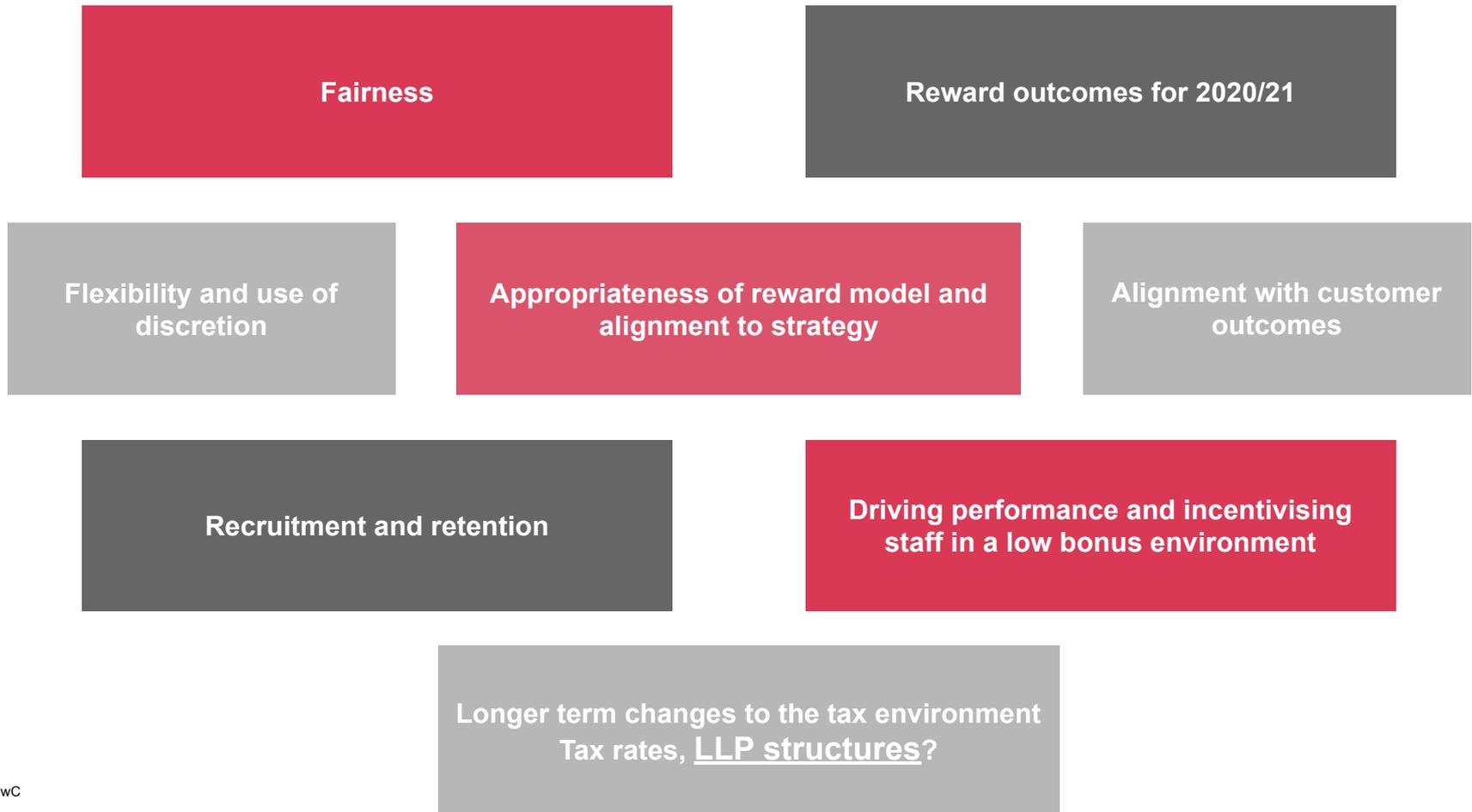
Of course.....not

So I phoned a friend who does.....Sam.j.Moore@PwC.com



Reward considerations - longer term

As the UK starts to move out of the immediate mobilisation phase of crisis plans and towards longer term stability and forward planning, firms may be forced to think differently about reward, ensuring this supports the business in a time of change.



Working from home

With social distancing measures set to continue for the longer term, firms are likely to continue to see the majority of their employees working from home for several months. This provides a number of short term challenges for firms to consider, particularly where employees are not used to working from home for sustained periods of time. In the longer term, this crisis may provide firms with an opportunity to transform their business and ways of working, enabling employees to continue to benefit from some of the upsides of the crisis (e.g. time saved by not having to commute).

Physical support

Equipment

Employees may incur additional costs (equipment, bills) as a result of homeworking. Firms may wish to support employees through expenses, allowances or borrowing of equipment. Consider the new tax rules!!

Immigration / location

Where individuals are spread across multiple locations, understanding where they are, any restrictions, and what the business and tax implications are of having workers / executives in different or the “wrong” locations.

Technology

Does the current technology enable individuals to carry out their role with ease from home, while maintaining data security and regulatory requirements? How can functions (such as call centres), that typically require individuals to be in the office, be altered to ensure employees can work remotely

Financial support

For key workers who are required to attend the workplace, is additional support needed for example through travel allowances (to help avoid public transport) or certain vouchers.

Wellbeing support

Holiday

Employees may be reluctant to take time off but encouraging time off will support their wellbeing and avoid a buildup of holiday later in the year

Flexible working

Being understanding of the additional stresses the crisis places employees under, and having a flexible working policy that supports, and trusts, employees, who may be more likely to request either formal or informal flexibility

Enabling virtual working

Remote working may require enhanced leadership intervention, employee support and culture change programmes to help employees adapt

Crisis Communications

Disparate teams working remotely need clear, and effective communications

Family responsibilities

Employees with children or elderly relatives may have increased pressure on supporting families and greater demands on their time. Firms may consider what additional support or dispensation is required



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