

## **Tax Free awards for Staff Suggestions**

1. Encouragement Award - £25 maximum no reporting
2. Financial Benefit Award - £5,000 maximum (must expect to see financial benefit to the business)

### **Conditions for exemption up to certain limits**

If your award to an employee meets the conditions listed below, then - up to a certain limit - you'll be able to provide it without having to report it or pay any tax or NICs on it.

For an award to qualify for this exemption:

1. The suggestion scheme must be open to all your employees – or to an entire group of employees, such as everyone based in a particular office.
2. The suggestion leading to the award must relate to your business.
3. The employee receiving the award couldn't reasonably be expected to have made the suggestion in the course of their normal duties of employment.
4. The suggestion can't have been made at a meeting held for the purposes of proposing suggestions.
5. The award must be either an 'encouragement award' or a 'financial benefit' award – these are explained further below.

### **Encouragement award**

An encouragement award is an award made to an employee for a suggestion that has merit or that shows special effort on the employee's part.

Encouragement awards are exempt from tax and NICs up to a limit of £25.

#### **What to report, what to pay**

If you make an encouragement award of up to £25, then you have:

- no reporting requirements
- no tax or NICs to pay

If you make an award of more than £25 then the amount above £25 counts as earnings, so:

- add this excess to your employee's other earnings
- deduct and pay PAYE tax and Class 1 NICs using your usual payroll procedures

## **Financial Benefit Award**

A financial benefit award is an award made to an employee for a suggestion that meets the following three conditions:

1. it relates to an improvement in efficiency or effectiveness
2. you must have decided to adopt the suggestion
3. you must reasonably expect the suggestion's implementation to lead to a financial benefit

Financial benefit awards are exempt from tax and NICs up to the **greater** of the following, subject to an overall limit of £5,000:

- 50 per cent of the financial benefit you reasonably expect the suggestion to lead to in the first year following its adoption
- 10 per cent of the financial benefit you reasonably expect in the first five years following adoption

### **What to report, what to pay**

If you make a financial benefit award up to the maximum exemption explained above, then you have:

- no reporting requirements
- no tax or NICs to pay

If you make an award that exceeds the maximum exemption, then the excess amount counts as earnings, so:

- add it to your employee's other earnings
- deduct and pay PAYE tax and Class 1 NICs using your usual payroll procedures

**Please note that this information sheet is a guide only, specific professional advice should always be taken.**

*Last updated 8 July 2013.*

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