

NEWSLETTER - Dec'20

WELCOME

"With each unique client we challenge ourselves to ensure you achieve strategic growth within your organisation"

We achieve this with emphasis on
clear and concise reporting

HELPING YOU MAKE THE CONNECTION BETWEEN
SALES, FINANCE & PROFITS

F D OUTSOURCE

more than accountants

WHEN ARE GOLDEN HANDSHAKES TAXABLE?

A founding director of your company is retiring and the board want to reward him for his service. You thought you could pay him up to £30,000 Tax and NI free, but your accountant has told you that the whole amount is taxable. Is this right?

Rewarding departing workers

In recent years the Tax and NI rules for payments to employees on the termination of their employment (or directorship) have been made tougher. For example, all payments in lieu of notice are taxable and liable to NI. Even before the changes the rules were less generous than was commonly understood. For example, the £30,000 exemption for termination payments didn't apply to golden handshakes.

Trap: All payments made to an employee or director which reward them for past service are taxable as earnings and are fully liable to PAYE tax and employees' and employers' NI. This means you must treat them in the same way as salary.

How Much is Taxable?

Where the amount of a non-contractual termination payment is specified, the whole amount, less the £30,000 exemption if applicable, is taxable and liable to NI. However, if the payment covers a number of elements you must use a special formula to work out how much of the payment is taxable as earnings and how much can qualify for the £30,000 exemption. In the right circumstances both rules can be side-stepped and a tax and NI-free payment, even a golden handshake, can be made.

Pension Contribution

A golden handshake can be Tax and NI free if, instead of being a cash payment, it's in the form of an employer's contribution to a registered pension scheme. HMRC has no objection to this under the current rules. The trouble is that the employee or director isn't able to access the cash until they are 55 (57 from April 2028).

Tip: To pay a golden handshake to an individual who is 55, or soon will be, a pension contribution is an uncontroversial way to provide some tax and NI-free cash.

If it is paid into a new pension plan for an employee they can take 25% of the amount contributed (after pension company admin charges) tax and NI free. The balance can be taken as taxable income straightaway or left to grow (tax free) until they take it.

Make It Tax Free

If an employee or director still has some years before they reach 55 (or 57, see above) a golden handshake in the form of a pension contribution might be less attractive to them. In that case a Tax and NI-free cash payment of up to £30,000 is possible if you can make it so that the termination payment rules apply. However, there's a risk HMRC will argue that the whole sum is taxable earnings.

Tip: To persuade HMRC that the termination payment rules apply, make sure that in letters and other documents approving the payment, you don't refer to it as a golden handshake or reward for past work.

Say that the payment is not made under any obligation on the part of the company, but is wholly a goodwill gesture. You could also make the payment partly as a pension contribution and partly as a cash sum. This should reduce the risk of attack from HMRC. The smaller the cash sum the less argumentative HMRC is likely to be.

A golden handshake is a payment rewarding an employee for past service and therefore is usually taxable as earnings meaning that the £30,000 exemption doesn't apply. Conversely, a golden handshake in the form of a pension contribution isn't earnings and if the employee is 55 they can get 25% of the money tax free almost immediately.

To Our Stakeholders

FD Outsource is committed to working directly with Sales Driven MD's within their specialised sector to ensure they achieve continual strategic growth.

The Strategic Growth can be measured against the business plan using quantifiable financial measures.

These financial measures can be within Sales/Revenue, Gross Margins, Cashflow, Profitability and Net Worth.

The milestones set in the business plan will be monitored and reviewed at regular intervals through the business life cycle with continual focus on succession planning with the management team.

Our internal core values can be seen within our 5c Guarantee provided to all clients. These are:

- C Communication
- C Creativity
- C Coherence
- C Commitment
- C Conclusion

Analyse , Identify and Plan

Our priority is that cash flow doesn't become a Barrier to Growth and business profits be converted in to personal wealth.

Sincerely

A handwritten signature in white ink that reads 'Mark Terrington'.

Mark Terrington
Founder & CEO

WE WORK WITH SALES DRIVEN
BUSINESS OWNERS

HELPING YOU MAKE THE CONNECTION
BETWEEN
SALES, FINANCE AND PROFITS



OUTSOURCE
more than accountants

For a Free discussion on how you can
make the connection and convert
business profit in to personal wealth.
Contact us today

enquiries@fdoutsource.co.uk