Payroll accountant’s homework to handle changes in 2018 (3 of 3) (3/49/17)

This article completes what we wrote last week.

Management pay

Employment income is one of the most “expensive” types of income because it attracts both personal income tax (PIT) and national social insurance (NSI) contributions. This is particularly true for a company’s senior management, whose remuneration levels are high. Since other countries in Europe and around the world are facing a similar situation, it is standard practice to remunerate senior management via shares or stock options.

For example, the PIT Act provides for a stock option plan intended to motivate a company’s senior management in the long term, allowing them to earn income as part of the plan that is exempt from payroll taxes. The Commercial Code also specifies a number of methods for awarding shares to company employees, with the resulting income subject to capital taxes and exempt from NSI. This approach helps companies keep their management remuneration competitive and the tax burden reasonable.

Staff motivation events

All company employees can be awarded some fringe benefits which the lawmaker has intended for staff motivation and which are exempt from payroll taxes under the PIT Act.

Contributions to a private pension fund, life/endowment insurance, and health insurance

If the employer pays one or more of these contributions or premiums for his employees, this income is exempt from payroll taxes under section 8(5) of the PIT Act:

1. the non-taxable limit on contributions to private pension funds and endowment insurance premiums is 10% of the employee’s gross pay for the tax year;
2. the non-taxable limit on health insurance and life insurance premiums is 10% of the employee’s gross pay for the tax year, capped at €426.86 a year.

From 1 January 2018 the endowment insurance contract must be concluded for a minimum of ten years if premiums are to qualify as non-taxable income.

At the same time, under the Corporate Income Tax (CIT) Act coming into force on 1 January 2018, premiums paid by the employer are exempt from CIT regardless of whether the limits set by the PIT Act are exceeded. So from 1 January 2018 it will be clear in which cases premiums paid by the employer are exempt from payroll taxes and CIT.

Catering expenses

We have written earlier about an exemption on staff catering expenses but the CIT treatment of such expenses was unclear last year. The new CIT Act exempts any staff income that is exempt from PIT under the PIT Act. We find that catering expenses should not be included in staff sustainability event expenses that are deductible for CIT purposes up to a statutory limit.

So if the employer meets the criteria laid down by the PIT Act, then it is possible to offer employees a variety of catering-related benefits that will be exempt from payroll taxes and CIT.

Grant for company trainees

Under amendments to the PIT Act effective from 1 January 2017, company trainees are eligible for a non-taxable grant of up to €280 from entities that pay it as part of their on-the-job training. To claim this relief, the company should enter into an agreement with the education establishment where the trainee is acquiring education.

Since the employer incurs additional expenses while the trainee is being trained, for example, on training courses organised by the employer, paying remuneration in the form of a grant helps reduce the tax burden on the employer while the trainee is being trained and integrated in the company.

Staff motivation events that cannot be personalised

Expenses on collective recreation events where it is not possible to identify each employee’s benefit have so far been treated as non-business expenses and added back to taxable income after applying a coefficient of 1.5.

The tax treatment of such expenses will become more favourable from next year because the new CIT Act exempts annual representation expenses and staff sustainability event expenses up to 5% of the total gross pay that was subject to NSI in the past year. So 2018 is bringing a clearer CIT treatment of staff expenses that cannot be personalised, such as collective sports and recreation events.