

GROWERTALKS

Features

12/1/2018

Luring Them In

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Whether as a result of a booming economy, tighter immigration laws or an educational system gone astray, finding qualified job applicants has become increasingly more difficult. Even more troubling for many smaller businesses is the question of how they can compete for those badly needed, qualified workers.

Fortunately, thanks to our unique tax laws, you can afford to offer fringe benefits to your workers—and may even be able to benefit yourself. That's right, our tax laws merely prevent employers from discriminating in favor of owners, key employees or other highly compensated individuals when setting up any benefits plan that's to be tax deductible by the business and tax-free to the recipient.

Fringe benefits

Fringe benefits are often defined as property and/or services whose benefit to employees frequently outweighs the cost to the employer. With a number of notable exceptions, fringe benefits are generally included in an employee's gross, taxable income where they're subject to income tax withholding and employment taxes.

However, while some fringe benefits are included in an employees' taxable wages, other fringe benefits aren't taxable wages, and yet, remain deductible by the employer. Among these non-taxable exceptions are so-called "qualified" fringe benefits, such as health insurance, medical expense reimbursements, dental insurance, education assistance and daycare assistance. Yes, tax-qualified benefits are deductible by employers and totally free of federal and state income taxes, as well as the employee's Social Security and Medicare taxes.

These tax savings obviously make fringe benefits an attraction. However, because of last December's Tax Cuts & Jobs Act (TCJA), the array of tax-free fringe benefits that employers can provide employees isn't quite as generous as it used to be.

Benefits to attract & retain workers

Surprisingly, survey after survey shows that it's not money alone that attracts new workers and keeps current employees on the job; it's the benefits. In fact, currently treasured by job seekers—and employees—are flexibility and the opportunity to balance work with other life responsibilities, interests and issues. But obviously, no

grower can be an employer of choice without a good benefits package. Job training, educational assistance and employer-provided vehicles used for business are among the common working-condition fringe benefits for many small businesses.

Job training & educational assistance

On-the-job training provided by an employer is a tax-free hiring incentive, as well as an invaluable “perk” for current employees. Educational assistance and tuition reimbursement are also welcome fringe benefits.

A formal, written educational assistance plan doesn't require immediate funding by an employer who must only provide reimbursement for an employee's educational expenses—up to \$5,250 per employee, per year and exempt from tax. Educational assistance doesn't include only tuition assistance, but also payments for books, equipment and other expenses related to continuing education.

Paying better than the competition

While pay isn't always the primary goal of job seekers, every business owner and manager should keep in mind that, in today's job market, compensation remains an important factor. By surveying the local job market and the compensation offered by others in the industry, you can offer better-than-average pay to attract the best candidates.

Benefits offered by you should also be above industry standards and new fringe benefits added—when they're affordable. Existing employees should be educated about the cost of their benefits so they appreciate that their needs are being addressed.

Job seekers and employees are increasingly looking for cafeteria-style benefit plans in which they can balance their choices with those of a working spouse or partner. Profit-sharing plans and bonuses that pay employees for measurable achievements and contributions are invaluable.

- **Bonuses:** Bonuses and awards must, as mentioned, be included in an employee's taxable income. Should the bonus or award be in the form of goods or services, employees must include the fair market value of those goods or services in their income. The same applies to holiday gifts. However, employees receiving turkeys, hams or similar items of nominal value from their employers at Christmas or other holidays may exclude the value of the gift from their income.

- **Profit-sharing plans:** A profit-sharing plan, often called a “deferred profit-sharing plan” (DPSP), is a plan that gives employees a share in the profits of the business. Under this type of plan, an employee receives a percentage of the operation's profits based on its quarterly or annual earnings. This is a great incentive to attract new workers and a way to give employees a sense of ownership in the business. Not too surprisingly, however, there are restrictions as to when and how a person can withdraw these funds without a penalty.

The contribution limit for a growing business sharing its profits with an employee is the lesser of 25% of the employee's compensation, or \$55,000. In order to implement a profit-sharing plan, the business must file a Form 5500-series return/report and disclose all participants in the plan. Early withdrawals, just as with other retirement plans, are subject to penalties.

- **ESOP:** An Employee Stock Ownership Plan, or ESOP, is an employee-owner program that provides workers with an ownership interest in the growing business, tax-free. An ESOP is a qualified defined contribution employee benefit plan designed to invest primarily in the stock of the employer.

In general, employees are provided with ownership with no upfront cost. The recently passed Main Street Employee Ownership Act increases the role of the Small Business Administration (SBA) by allowing the agency to make loans to businesses that they can then re-loan to ESOPs.

What they want

Among the more common, tax-free employee fringe benefits are the following:

- **Health benefits:** Health benefits are by far the single most important fringe benefit. Health benefits include providing employees with health, dental and vision insurance, as well as paying health-related expenses.
- **Long-term care insurance:** This insurance covers expenses such as the cost of nursing home care. While premiums are not taxable benefits, benefits received under the insurance may be partly taxable if they exceed certain limits.
- **Group term-life insurance:** A business can provide up to \$50,000 in group term life insurance to each employee tax-free.
- **Dependent care:** Up to \$5,000 in dependent care assistance can be provided to an employee tax-free. Of course, many working parents may qualify for a tax credit for child and dependent care.
- **Working condition fringe benefits:** Working condition fringe benefits are benefits provided or paid for by an employer to help someone do their job. Local and long distance travel for business, business-related meals and entertainment, professional publications, and company cars used for business purposes are good examples of tax-free working condition fringe benefits.

The cheapest may be the most valuable

So-called "de minimis" benefits may be worth little or nothing in the eyes of our lawmakers, but can go a long way toward making employees—and prospective employees—happy without an accompanying tax bill. De minimis fringe benefits refer to any property or service that's so small in value that accounting for it would be unreasonable or administratively impractical.

Party time

A business with a happy workplace is often attractive to job seekers. Whether it's a nightclub affair or a buffet in the business's break room, parties are a tried-and-true benefit. And, in addition to making employees feel valued and helping keep them motivated, parties have tangible tax benefits.

The tax rules allow a business to throw a holiday party—even a relatively fancy one—with no tax consequences to the employees. Of course, in order to be deductible, the IRS requires the party cost to be "reasonable." A grower cannot deduct expenses for entertainment that's "lavish or extravagant." What's reasonable or lavish to one business may not be for another.

The bottom line

Last December's TCJA changed the tax treatment of employer-sponsored benefit programs. The new law restricts an employer's ability to deduct many common business expenses, such as meals, entertainment and employee moving expense reimbursements. On the upside, the law also included new tax credits for employers providing paid family and medical leave for their employees.

In order to attract talented individuals to work for your business, as well as retain current employees, today's employer must offer fringe benefits and other perks. Once it's been determined what benefits will best attract badly needed workers in today's job market, which benefits employees would prefer, and which you can really afford, then and only then will it be possible to make an informed choice of which benefits will attract job applicants, benefit the business and its employees the most.

Knowledge is essential when deciding which benefits work in today's job market, as are the services of a qualified professional. But wouldn't it be ironic if those benefits turned out to be the ones that cost your operation the least?

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