

zeta



A Study on Employee Tax Benefits

A complete financial
perspective for the CFO

Why a CFO Should Listen

A survey was undertaken to understand the perceptions and realities that employers and employees encounter in administering and utilizing tax benefits. This report collects insights from the survey and investigates the financial overtones of running an employee benefits programme in a company.

Tax benefits like Fuel and Telephone Reimbursements, LTA (Leave travel allowance) and others, which are part of an employee's CTC (Cost to company) can be an effective route to tax-savings on salary incomes. Restructuring salaries to include these tax benefits can boost an employee's take-home pay without costing the company. But there were many questions about their implementation in Indian companies that needed to be answered.

How do companies view employee tax benefits? How do they administer? What does it cost them? How can they be better? Are employees aware of these benefits? Do they opt-in? Are both sides fully aware of the financial



implications? Over the course of a few months, a lot of answers were received, a lot of insight gathered.

Decision makers in 194 companies were surveyed for these insights. Findings were unearthed that related to the type of benefits provided, the means of disbursement, the employee-experience, problems with claims and verifications and so on.

This report proves how employee tax benefits have financial implications on the bottomline of a company. By addressing issues such as employee productivity, cost of human resources, logistics costs, time-consuming paperwork, record-keeping and storage, it lays out the financial costs of running tax benefit programmes and the potential savings of getting it right.



Research Methodology

Nielsen India was commissioned to carry out this research.

An important note: The study was conducted blind. This means, none of the respondents were informed about the sponsor of the survey.

The questions were posed to respondents through(CAPI) Computer Aided Personal Interview. Fieldwork was carried out from **August 2017 to February 2018**.

Employer Survey

Target Group:

HR/Finance/Admin personnel who are key decision makers in deciding reimbursement policies or are responsible for processing employee reimbursements.

o Defining size:



<500
employees
—
Small-sized
company



500-5000
employees
—
Mid-sized
company



**5000 or
more**
employees
—
Large company

Employee Survey

Target Group:

Full time employees of companies who have worked in the company for at least 2 years and are eligible to receive tax saving reimbursements.

Sampling for both target groups

Selective recruitment from:

- Mumbai
- Kolkata
- Pune
- Delhi
- Chennai
- Bangalore
- Hyderabad

Sample Coverage

Employer

A total of 194 companies were covered in this survey. Out of this, 102 companies are from the service sector and 92 are from the manufacturing sector.



Employees

A total of 1233 employees were interviewed in this survey. 665 of them are from the service sector and 568 of them are from the manufacturing sector.



Tax Benefits Covered In the Study

Communication: Refers to a telephone/mobile/broadband/data reimbursement that is tax-exempt

Fuel: Refers to a petrol/diesel bill reimbursement available to employees that is tax-exempt. This can include a driver's salary reimbursement as well

LTA (Leave Travel Allowance): Refers to road, air and rail travel expenses that are tax-exempt and can be claimed twice in a 4-year block

Gadget: Refers to a partly or wholly tax-exempt reimbursement for the purchase of gadgets like laptops, tablets or mobile phones

Meal: Refers to a meal benefit (meal vouchers) that employees use to buy food and non-alcoholic beverages

Gift: Refers to gift vouchers from an employer to an employee, which are tax-exempt up to Rs 5,000 a year



EMPLOYEE TAX BENEFITS

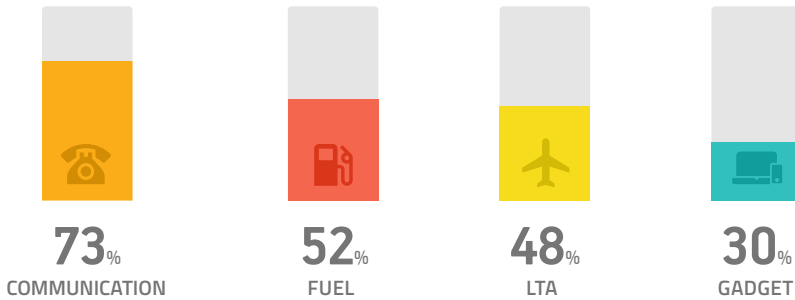
— KEY FINDINGS ABOUT INDIA INC. —

WHY OFFER
TAX BENEFITS?

92% of the companies say
EMPLOYEE MOTIVATION

Most popular tax benefits

offered by companies



Medical reimbursement is not included here since it is now part of Standard Deduction, which was introduced in the Annual Budget, 2018

COST OUTWEIGHS BENEFIT

2 OUT OF THREE companies feel **time and cost spent** on administering tax benefits **exceed** actual benefit to employees

The sentiment is shared across companies of all sizes and industries

35%



companies have **discontinued** one or more reimbursement(s)

Top 3 reasons for discontinuing reimbursement programmes

reimbursement programmes



High running costs



High employee opt-out



Managing logistics

THE DIGITAL CRUNCH

India is yet to go digital with managing reimbursements



94%

companies use a paper-based process



6%

use a fully digital process



While in the manufacturing industry, digitisation increases with increasing company size, the opposite is true for the service industry

PAPER-PUSH PROBLEM

Companies face major challenges when it comes to managing paper bills

Invalid or illegible bills 47%

Bill storage 19%

Bill verification 15%

Illegible bills submitted by employees is twice as big a problem for large companies as compared to that of mid or small-sized companies

81% companies manage reimbursements through a **DEDICATED IN-HOUSE TEAM**

71%

companies take **8 DAYS** or more to process a reimbursement

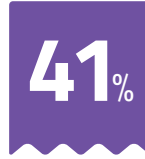


1 in every 4 employees **does not understand** tax-saving possibilities through benefits offered



1 out of 2 employees believes the process is

TOO COMPLEX



**EMPLOYEES
NEED TO SUBMIT**

one form for every claim

62% employees claim the process to be **TIME CONSUMING**

00:23
HOUR MINS

average time taken by an employee to submit a single claim

THE DEMAND FOR 100% DIGITAL PROCESS

90% employees prefer digital reimbursements

Top reasons why digital is preferred over paper-based claims



FOR
EMPLOYEES



Less time consuming



No paperwork



Easy to track status



FOR
COMPANIES



Faster verification process



No storage issues



Quicker error intimations

Inference

The survey gathered that 94% companies surveyed use manual, paper-based processes to run their reimbursements programme. There are limits to how efficient a process can be when it's riddled with delays and wants for resources and manpower. Typically, companies manage these processes through exclusive teams. These teams are responsible for verifying, approving and ensuring all legitimate claims are paid out to employees. Seems simple enough, but in truth these processes are encumbered by many obstacles for HR and Payroll. They face challenges when it comes to dealing with verification; managing paper bills, especially invalid and illegible bills cause delays that hinder productivity. Stalled verification causes undue anxiety to employees. Many companies need 8 or more days to process each claim, with some taking upwards of even 2 weeks. This, even as the teams employed to manage these reimbursements are resources dedicated exclusively to the job. Once they get through this, they need to store these bills for audits and checks in the future.

A lot of time bleeds through these processes. There's also the need for adequate logistics management, more so for larger companies that have workforces spread across the country.

The result is that the costs of running a programme such as this becomes much larger than the perceived or real benefit of it.

Take for instance that 70% decision makers feel that the cost of administering employee benefits exceeds the utility that's derived from it. 81% companies have teams to manage reimbursements exclusively, so it does indeed boil down to resources and costs allocated. 92% companies offer tax benefits to enable employee motivation. The question worth asking is: Is there an alternative way that can help to balance this cost and benefit curve?

All these symptoms of paper-based processes lead to very real financial implications for the company; huge resources are used up every year. This is why Finance should care about better management of employee benefits.

Cost Benefit Ratio

If the cost that's spent on administering a benefit programme is more than the value of the actual benefit that employees derive, and if it's more than the utility that it offers, then that's not a cause worth continuing unchanged. 35% companies surveyed have discontinued one or more tax benefits, with high running cost as one of the main reasons.

So how can this be changed? How can companies move forward towards having a better system in place, in which, the costs are low, justified and the advantages are more not only for companies, but also for employees.

By switching from a paper-based to a digital reimbursements process, companies:

- can eliminate the need for dealing with physical bills. No logistical costs or storage
- can outsource verification to highly specialised experts. No need for large teams
- will see an increase in productive time available to employees
- will spend less money and resources on administering reimbursements

Compliance and Reporting

Compliance is a major need for Finance. When it comes to employee benefits, it's typically HR or Payroll that are in charge of following best practices to allow for a transparent, compliant system where reimbursements are handled as prescribed by an outside authority (like the Income Tax Department). Record-keeping for the sake of income tax compliance, and for internal financial reporting is a non-compromisable service. The problems faced by companies with bills management is a pertinent one in this context.

Forty seven percent companies surveyed struggle with invalid or illegible bills. Bill storage and verification are further stated as issues. By implementing a digital tax benefits programme, companies are assured of having all the financial information they need to undergo audits at any time. It automates record-keeping, allowing digital access to past transactions and ensuring accurate and timely financial information: current and historical.

There will also never be a situation in which data and proof are found lacking.

Because the digital claims process is convenient for employees, it quashes the need for them to have to dash towards a deadline for submitting bills, which may sometimes give rise to common negligences like bill forgery and duplication. Compliance will always be a priority in a system such as this.

Productivity and Profitability

Manual processes give way to redundancies. Redundancies lead to depressions in productivity. Something similar happens when employees lack motivation too. But no matter the reason that productivity gets hit, there's an impact on the company's profitability. It costs the company money.

A finding from the study reveals that on average, an employee spends 23 minutes to file a single claim, the manual way. The cumulative effect of that can be interpreted as a significant barrier to productivity. Imagine for a moment a company with a workforce of 1000 employees or 5000 or more; how much would the opportunity cost of a few hundred hours spent on filing claims be? What about a few thousand hours a year? In an ideal workplace, an employee's priorities should always be clear and unchallenged. Removing barriers should be an employer's priority.

Just like how it's been found that high-pressure and cut-throat office environments harm productivity, it's not a

stretch to imagine that time-consuming processes like filling out forms and manual claims are likely to have a similar effect.

The Future is Digital

In the longer run, it would be a wise option to have low and mid level tasks running on virtually an auto-pilot mode. Many companies surveyed state that digitisation of their employee benefits programme would benefit them.

But, it's not a phenomenon that's restricted to the topic in discussion. It's an over-arching philosophy that India is subscribing to; the belief that using digital technology to solve human problems, wherever feasible and within good reason, would be good for the society, and that includes businesses and the people working for them.

The Government of India recently rolled out their Income Tax E-Assessment plan that widens the scope for greater transparency. We have the fastest growing smartphone market in the world with an increasingly successful e-wallet adoption rate. Every single respondent in this survey has a smartphone and day-long access to the internet. The push for digital has been here for some time now, and it is here to stay.

In Conclusion

Every minute that an employee spends in the office is a potential gain for the company, with a direct link to the company's bottomline. The more barriers to productivity you can remove, the better the outcome. If an employee is expected to spend a few minutes in the claiming of a single bill, and that multiplies with each bill added, that's costing the company time and money. Those are resources better spent elsewhere on something directly productive to the organisation's goal.

Cost of salaries is increasing as the millennials want more too. Tax benefits, properly done, can provide employers with a good margin to operate with. It can be used as a negotiating tool during hiring as well. It can mean an additional profit for the employee and none of the additional cost to company. If up to this point, the cost of running benefits was too high, it's time to reconsider now.

Zeta claim based on research conducted by Nielsen

Period: Aug 2017 - Feb 2018

Sample size: Employers – 194, Employees – 1233

Population Covered:

Segment 1: HR/Finance/Admin personnel who are key decision makers in deciding reimbursement policies or are responsible for processing employee reimbursements.

Segment 2: Full-time employees of companies who have worked in the company for at least 2 years and are eligible to receive tax-saving reimbursements.

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Optimise your benefit programme costs

Call us today to find out more

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