

zeta



A Study on Employee Tax Benefits

Findings from a survey
commissioned to Nielsen India



Introduction

This report is a broad study on employee tax benefits in India. The first of its kind, it asks questions about the types of reimbursements that are commonly available, why companies choose to offer them, why they don't, how claims are handled and what challenges take a grip of corporations when it comes to managing their reimbursements.

In addition, the survey collects information about what employees understand about tax-saving benefits, their experiences and their challenges. It also seeks to understand the impact benefits has on the taxable income of salaried employees or the lack thereof.

These questions are usually in the purview of the human resources manager of a company. Traditionally, the HR manager was interested in leading an organisation's HR policies that apply to employee relations, hiring, compensation, benefits and performance among some others. In addition to these roles, the HR person today is seen as a strategic partner who is expected to contribute to the company's end goal as well as its profitability.

They care about creating a work environment in which employees choose to stay motivated. A large part of this is to ensure employees get additional benefits at

the workplace. They employ a variety of these benefits, aimed at adding more value to the employee's overall experience in the company.

This report is concerned with employee tax benefits. It is meant to be an objective, unbiased study on the efficacy of benefits in companies in India. Through the findings of this survey, an HR professional can evaluate their employee tax benefits programme and use the inferences as an aid to make strategic changes or decisions, if required.



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

Sample Coverage

Employer

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



Employees

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

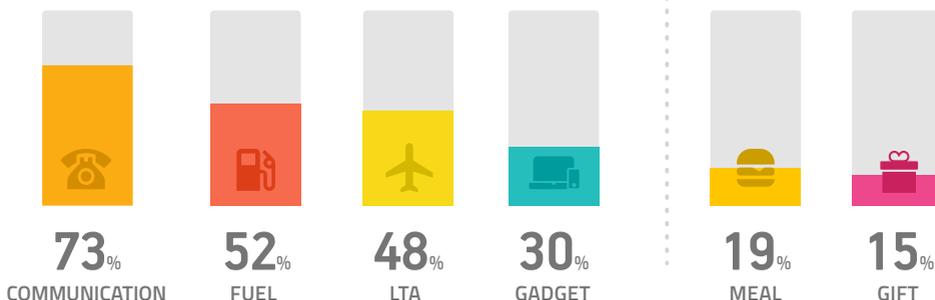
— KEY FINDINGS ABOUT INDIA INC. —

**WHY OFFER
TAX BENEFITS?**

92% of the companies say
EMPLOYEE MOTIVATION

Most popular tax benefits
offered by companies

**Least
popular**



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

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



PAPER-PUSH PROBLEM

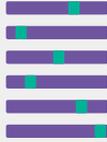
Companies face major challenges when it comes to managing paper bills

Invalid or illegible bills	47%
Bill storage	19%
Bill verification	15%

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

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

71%
companies take
8 DAYS or more
to process a reimbursement



Processing time is the **least concerning factor** for companies but is the **#1** reason for employees to opt out of reimbursements



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

Service companies have double the team size compared to manufacturing. Average team size across industries is around 6 people.



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



High running costs



High employee opt-out



Managing logistics

56%

of employees who opt out of reimbursements do so for a **HIGHER IN-HAND SALARY**



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

62%

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

00:23
HOUR MINS

average time taken by an employee to submit a single claim



1 out of 2 employees believes the process is

TOO COMPLEX

41%

EMPLOYEES NEED TO SUBMIT one form for every claim

TIME FOR APPROVAL

24% claim time for approval is the biggest challenge in the process

82% need 2 or more approvals to complete the process

Key challenges employees face in the process



Tracking status on claims



Time taken for approval and submission



Storing bills for submission



Gift vouchers

Employees cite challenges in using them:



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

After careful analysis of the evidences found in the survey, the following inferences can be reached that are certain to interest decision makers, including human resource managers, finance professionals and anyone in charge of long-term policy-making in a company.

In an ideal work environment, employees are fully aware and enthusiastic about the company's goals and proactively safeguard its interests. Here, HR managers spend a lot of their time tuning their engagement strategy and ensuring they deploy a combination of tools to enhance their position. One of the tools they often use is employee benefits, which directly impacts the take-home salary of an employee. Companies offer employee benefits because of the direct link it has with employee motivation. An overwhelming majority of HR managers and employers have admitted this.

Standard Deduction and Changes

Most popularly, medical reimbursements, telephone/ internet and fuel reimbursements have been offered in companies as tax-saving benefits for employees. Leave travel allowance (LTA) and a gadget or asset allowance are also offered frequently in many companies, albeit that these are sometimes reserved for higher-salaried or senior employees. Medical reimbursements has traditionally been the most sought-after benefit, but that will now undergo a big change. Finance Minister Arun Jaitley, during the Annual Budget 2018 presentation,

proposed to introduce Standard Deduction of Rs 40,000 from this financial year (2018) onwards. This will make medical reimbursements redundant. Standard Deduction is to become a built-in benefit in every employee's salary. Although this will mean little to employees who will be affected by the increase in education cess this year, it's advantage: employers. Companies will be spared the administrative effort of having to process medical bills. Standard Deduction will be a tax-saving tool that's potentially available to all employers. Capping tax benefits at that will achieve nothing remarkable for the company or its employees. Since employees won't notice much of a difference in their take-home, and since the built-in Standard Deduction is a govt-initiated benefit, it will be up to the companies to dig deeper and pull out more value for their employees. It will be up to companies to provide more avenues for tax-saving beyond just the standard that's available to all. Maintaining the fine balance of employee-motivation sometimes needs a company to tip the scales a bit more. Working on a full fledged employee benefits programme may be the road to those avenues.

The Pitfalls

There are plenty of challenges and pitfalls in the way of this happening. The first of which is that many companies find that the cost of administering a benefits programme outweighs the actual benefit experienced by the employees. After all, several companies still use processes that require a lot of manual work and extensive logistical management. A lot time bleeds through these

processes, both for HR/payroll that needs to have teams in place to manage the paperwork and for employees, who lose productive time in submitting reimbursements claims.

Managing physical/paper bills, especially illegible and invalid ones can cause major delays in the process. Stalled verification can cause undue anxiety to employees, who have no efficient way of tracking their claims. Many companies take more 8 days to process each claim, with some taking upwards of 2 weeks. This, even as they hire dedicated teams just to handle reimbursements. Once they get through this, they have the added burden of needing to store these bills for future checks and audits. Consider that the modern workplace is touted as a flexible one. Employees have the option of working from home or remotely, and sometimes from far-off locations and offices. Senior employees, skilled consultants, working moms; it's all about making the workplace inclusive. Digital technology has enabled these flexible offices, but physical and manual processes just don't suffice anymore. We must evaluate how digital technology can remove these pitfalls in the modern workplace, on the road to employee motivation.

Digital Catalysts

Many companies surveyed stated that faster verification of claims would be a major benefit of digitalisation. That coupled with not needing to store bills and forms physically are seen as the top advantages of switching to a digital process. The obvious solution that a digital reimbursement platform would bring is to completely eliminate paper or physical bills, form-filling and paper-pushing that employers have to deal with today. Outsourcing verification to highly compliant and efficient experts who can take on the job of making sure all legitimate claims are handled on time will be beneficial for the company and its employees.

Processing time would reduce by a lot, and employees would have to wait a lot less for their claims to be reimbursed. It would also allow for quicker error-resolution because digital travels infinitely faster than physical. With a solution that works efficiently, scaling up would be easier too. Given the automation in processes, companies won't need dedicated teams to manage this kind of a reimbursement operation, and neither would there be a reason to allocate additional manpower even as the company's size increases.

With digital comes automated record-keeping and access to past transactions. Having access to the right information whenever needed leads to total transparency. This works for employees, but importantly, it serves a crucial need that companies have. Audit-ready at all times, it would help them to maintain the highest level of compliance. Digital

submission of bills creates and leaves a trail of record that's perpetually available. Storing bills and presenting them would become a thing of the past.

Finally, the cost of running a tax benefit programme such as this is fully under control, and justified by the fact that the company, no matter the size, can have a full fledged reimbursements programme housed under one single platform bringing efficiency, saving time and manpower.

The In-Hand Paradox

Over at the employee camp, there's a feeling that signing up for employee benefits reduces salary in-hand. Because reimbursements are first deducted from salary (before being credited upon bill-verification) there's a sense of loss employees perceive. Those who have opted out of employee benefits thinking they'll get a higher in-hand salary are therefore forgoing an actual profit in the future for a notional benefit in the present. But the notional benefit is in fact a real loss. We can put this down to a very human tendency of valuing instant gratification over having to wait out an uncertain future. This is the paradox of preferring to opt out of receiving benefits for more in-hand salary. This perception can be changed through education and instilling the need for tax-planning in every individual who earns a taxable income. Misinformation and the complexity of tax laws are the two main barriers here. Employees need to be enlightened about tax-saving and how much of a difference it can make to their annual incomes.

Supporting Opt-Ins

After education comes putting in place a proper process that continues to encourage people to opt-in for reimbursements. We know from the survey that employees find the current process too time-consuming. The complexity involved in making and receiving claims is too baffling for them. The time taken for getting their approvals is too long.

These challenges can be minimised and even fully overcome by using a digital platform that's user-centric; fast, convenient and efficient. Through such a platform, it would take mere seconds for a user to claim a bill for reimbursement. They won't need to store paper bills like they do now. There wouldn't be a need to fill up forms for each bill or claim type. Even approval of claims is quick because there is now an efficient verification process, which can also handle errors and resolve them much quicker. This system can be set to throw up status messages to employees notifying them at each stage of the claims process, letting them know when to expect their reimbursements. If companies can achieve this much, the rate at which employees will opt in and stay in the programme will rise. The proof lies in the employees' response in the survey.

The Big Gap

90% employees said they prefer a fully digital reimbursements process. This is a stark contrast to the fact that only 6% of all companies surveyed provide it. The precedent is already there. We have the fastest growing smartphone market in the world. Every single respondent in this survey has a smartphone and day-long access to the internet. This is a call to action for companies that haven't switched to digital tax benefits yet. When the majority of the workforce in India prefers a digital process, there's no good reason to not follow through, considering such services and platforms do exist in the market.

Perceived Value

An employee needs to see value in the benefit that's offered. Sometimes, companies put in a lot of effort in a benefit that doesn't quite pan out in the employee's experience. This happens when the effort going in doesn't match up to the value they derive. Discerning employees see this and they make up their minds based on past experiences about the value they can get from it. Make the process transparent, make it easy, make it relevant. That's when employees are encouraged to opt in for something, and value it. Once that happens, that's another tick in the box for your employee engagement strategy.

A Note on the Least Popular Benefits

Contrary to belief, not many companies prefer to provide meal vouchers. Meal can be a great benefit to include in the programme because of how useful it is to employees. For companies with cafeterias and in-house food outlets, it can even solve the problem of long lunch lines through contactless payment integration. Only digital versions of meal vouchers now get the stamp of approval from the Reserve Bank of India.

Gift vouchers are the least popular employee tax benefit of all in the survey. A majority of the employees that do receive gift vouchers state limited validity as one of their main concerns. Perhaps this explains the lack of popularity with HR managers as well. But considering that gifting is usually used for employee engagement and celebrating milestones, there is potential here to better the experience for employees by selecting a service that largely improves on the validity and usability of gift vouchers.

In Conclusion

Every minute that an employee spends in the office is a potential gain for the company, with a direct link to its 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.

Every HR manager and decision-maker knows that good talent is hard to find and harder to retain. 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 that usually comes with it. If up to this point, the cost of running benefits was too high, it's time to reconsider now. It could be a tipping point for some.

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.



zeta