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Sport has the ability to bring people together – it is a universal language that lets people forget about their everyday worries.

- Jaco van Noordwyk



Popular sports and destinations

Skiing is another major drawcard for employees, as not only is it an unusual and unique offering but it is also extremely active. "The combination of activity and outdoor living with the great party element appeals particularly to the sporting and fun-loving South African audience," says Martin.

World sporting events rotate on a destination bid process, so the most popular destination, says Sand, is wherever the event is being held. "London is not very high on the agenda as an incentive destination but come the Olympics 2012, there will be great demand."

Formula One racing, soccer and golf also attract crowds. Very few travel programmes can match the excitement and exclusivity of attending the Soccer World Cup Final in Rio, Brazil in 2014, says Martin, "nor the feeling of sitting in a hospitality suite and taking part in a Formula 1 race that sees you visiting the pit lane".

The experts agree that destination, resort and sport choice, however, remain dependent on budget. "Incentives have traditionally been five-star," says Sand, "but given the economic situation, a greater level of modesty is required".

Incentives that inspire greater business results are what it's about, says Sand. "Make sure you are dealing with a company that understands the needs of your business and one that will offer the best solution to help inspire performance."

According to Martin, spend on any incentive programme is an investment. "Therefore if the investment is wrongly made, the company won't see a return and the motivational exercise aimed at the most important people in your business can lead to demotivation."

The thorny issue of tax on incentives

The tax implications of incentive programmes for employees are a thorny issue. How can the employer ensure that the programme is tax effective and not a burden on the employee? What are the implications of the employee's partner joining the programme or other staff members travelling as organisers? By Themba Mthombeni, Duma ICE executive chairman.

UNDER the SA Income Tax Act, employers are liable for deducting and paying PAYE to SARS in respect of remuneration paid to an employee. Remuneration should, according to paragraph two of the 7th Schedule of the Act, include the value of "fringe benefits" if they were received as a reward for services rendered or performance by the employee or a relative of the employee and if the benefit has been utilised by the employee for his/her private or domestic purposes.

Business travel, on the other hand, is not subjected to tax as long as it enables or contributes to the business's ability to earn a taxable income and there is no personal benefit to directors, shareholders or employees.

For incentive programmes to be excluded from PAYE, the following guidelines need to be considered. In each case, the company has to be able to substantiate the claim that the primary and overriding purpose of the trip was for business purposes and that the expenses incurred from the trip were for the production of business income.

- Steer away from labelling trips as incentive programmes. Rather link the trip to activities, i.e. training sessions that can clearly be shown to benefit the business by developing more highly skilled or trained staff. Team-building sessions can be included as long as they are to the benefit of the employer and not the employee.
- Avoid any casual link between performance or services rendered and attendance of the programme or trip.
- The trip must be seen as non-optional and should be included in staff development and training plans.
- The more relevant the business sessions to the company, and the longer the proportion of time allocated to attending these business sessions, the stronger the

argument that the expenses are incurred in the production of business income.

- Team-building sessions can be included in the programme as long as the purpose of the sessions is to benefit the business and not the employee.
- Business sessions must be held on the majority of the days with limited relaxation or free time included. The choice of speaker is not relevant as long as the session is beneficial to the company. Business sessions do not have to be arranged on the days that the person travels or over weekends as long as weekends do not form a substantial portion of the trip. If they do, the monetary value of the personal benefit will have to be included for PAYE purposes.
- The trip should be exclusively for the employee. If the employee's partner joins the trip, all the benefits provided to the partner will have to be included in the partner's taxable income. Even if the partner joins business sessions it would be difficult to argue that the company benefited. Reduction in costs, i.e. downgrading air tickets or accommodation to benefit the partner, is not a means to reduce the partner's taxable income, as the amounts paid are not for trade purposes.
- Trips funded by associated institutions are still seen as a benefit to the employee and taxable.
- Staff members travelling as part of the organisers will not have to pay tax as long as the purpose of the trip benefitted the business and not the individual.

If trips are to be excluded from PAYE the company must be able to clearly show that the trip has been undertaken for the benefit of the business. If there is a benefit to the employee, the extent that it is coincidental rather than intentional will increase the likelihood of such a benefit being accepted by the courts as not being a fringe benefit for PAYE purposes. ■