HOW TO SUPPORT YOUR RELOCATING JUNIOR HIRES WITH THEIR BIGGEST EXPENSE: ACCOMMODATION

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Junior employees spend a lot on accommodation when they relocate - deposit and first month's rent are due well before their first paycheck arrives. This can be a stressful experience.

Many employers step in to ease the financial pressure. They realise that ignoring it might put them at a disadvantage in the competition for talent.

We compiled the most common ways companies support their new joiners, and we rate them along the lines of affordability, tax benefits, employee friendliness and employer friendliness.

What does **your** company do to support new hires financially? Does one of the outlined methods sound familiar? If not, can you push for a change?

It's like student loan all over again

Anita, a graduate of a German business school, relocated to Vienna to start her first job at a top tier consulting firm. She found a flat she liked and decided to rent it.

SHE HAD TO PAY:

- **Three months' rent as a fee to the real estate agent** for finding her a flat (an everyday reality in Austria that is baffling to British ears),
- **Two months' rent as deposit,** and
- **The first month's rent.**

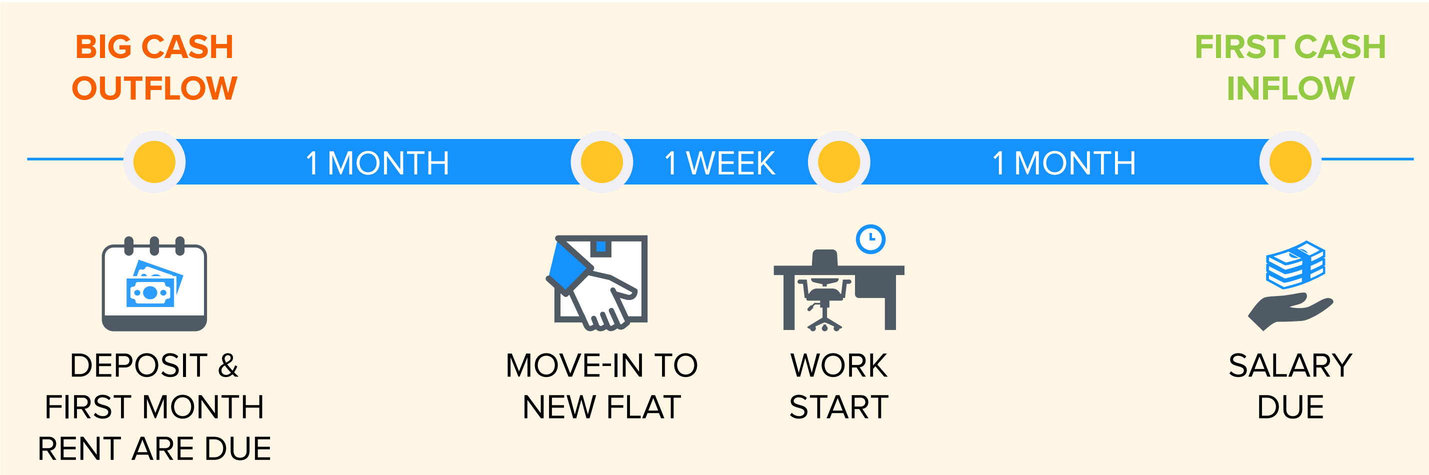
All that on the day she moved in. At a monthly rent of **€950,** this was a total cash outflow of **€5,700** on 12 September 2016, a full week before starting her work.

Her first day on the job, 19 September, was four days after the company ran their payroll. This meant that the first salary didn't come until 28 October, almost **six weeks into her job**. By then, she had paid another monthly rent and had incurred settling-in and life expenses of more than €2.5k, which got her to a **total cash outflow of €9,150.**

Anita was lucky as her parents were able to help her out and cover the cost in the meantime.

Her example may be extreme, but most junior employees face a cash crunch of some sort when they relocate to start a new job. It's like they have to add another chunk of debt on top of their student loan.

On average, an employee relocating to the UK has the big cash outflow one month before moving into their new accommodation, which, in turn, is around a week before they start work. And this point is one month before their first salary arrives in their bank account. So this is a **total of 10 weeks** the employee needs to bridge with a big cash minus:



Many leading companies recognise this problem and see it as an opportunity to help their new starters overcome it by providing some form of bridging finance.

A little excursion into UK tax law

(DISCLAIMER: please seek advice from a qualified tax professional before taking action).

Before we get into the different methods that companies use, it's worth reminding ourselves of a few basic tax topics in the UK.

Any payments you make for relocation-related expenses are tax deductible - the employee does not have to pay income tax and national insurance on them and the company does not have to pay employer's NI. This contrasts with bonus payments where full tax and NI **is** due.

The tax-relevant difference in these payment types is whether the employee has a **choice** in how the money is spent. If they do, there is no tax relief.

This applies both to payments made after the fact (i.e. you reimburse the employee on their expenditure) and to payments made directly to the respective supplier on behalf of the employee.

For more details on saving tax on relocation related expenditures, see our **article on Relocation Allowance.**

How we rank the types of support provided

We decided to rate the types of support along the lines of

- A **Affordability -** how expensive is it to implement and run?
- T **Tax Friendliness -** are the payments tax deductible?
- E **Employee Friendliness -** how agreeable is this solution to employees?
- R **Employer Friendliness -** does this solution present a financial or legal risk to the employer?

We rate each method on a scale of 0-5, - the higher the score, the better the method.

The scoring is relative: Low scores are low **in comparison to the other methods**, not compared to some hypothetical ideal.

And when it comes to estimating the score, we assume, as a starting point, a large company without anything in place to support new starters financially in their relocation.

The different methods

We start with the methods that require the highest level of involvement and effort for the employer and work our way down from there.

1. Own a block of flats

This method is, of course, restricted to companies with an existing real estate portfolio or enough money to set up such a scheme. It is practical for companies who have job rotation programmes in place, or have frequent needs for ad-hoc accommodation for travelling employees (e.g. large consulting firms). Surplus space can then be used for relocating junior employees.

By its nature, this method is **very costly** as it requires ownership of a large piece of real estate. Also, undesired vacancies can lead to higher cost, as well as operating a booking system, maintenance, cleaning etc. Of all the options listed here, this is by far the costliest. However, in cases where companies can afford to buy an entire building, this can be a smart investment decision that will more than repay the operating cost in the long run.

Tax benefits are only possible if the employee living in the building in question is there only temporarily. In this case, the hypothetical rent the employee would owe (but doesn't pay because the employer waives it) can be eligible for tax deduction. (For more details, read our **article** on Relocation Allowance.)

In **Employee Friendliness**, this can be immensely useful to new starters, as these flats often are on the higher end of the spectrum of what the employees could normally afford, and most companies charge them rent on the lower end of the market (Deloitte even offers two **rent-free weeks**). A further benefit is the option to eliminate the security deposit, easing the employee's cash pressure.

There is a **considerable downside** when it comes to **employer risk**. What happens when an employee damages something that impacts other residents of the building? If the employee, through negligence, injures someone by dropping a glass from a balcony, and it emerges that during this time he was on a work conference call, there would be a whole new set of legal complications coming at the employer.

Moreover, this solution is not scalable - as the company grows, it will not maintain dozens or even hundreds of flats for the benefit of junior employees.

A 0/5 T 3/5 E 5/5 R 0/5 **SCORE: 2 / 5**

2. Rent and sublease to the employee

Similar to the ownership model, only less costly to the employer.

A 1/5 T 3/5 E 5/5 R 0/5 **SCORE: 2.25 / 5**

3. Guarantee to the landlord

In this variant, the employer provides a **rent payment guarantee** to the employee's landlord.

This has three benefits:
1) Employees will be able to **get into rental contracts more easily**, even though they do not have a rental history.
2) It **reduces the amount of upfront deposit** that would otherwise be requested, typically from 3 months to 4-6 weeks.
3) Some landlords also waive the requirement of upfront rent payment. The rent payment then coincides with the employee getting paid.

The **Affordability** score for the employer is poor because of the need to review individual landlords' contracts before signing. Because such contracts are not very common, there is no standard template. This might lead to time-consuming negotiation. Further cost can arise if the employee damages the property or falls behind on his or her rent payments and the employer's guarantee requirement kicks in.

No tax benefits accrue because this is not temporary accommodation.

The **Employer Friendliness** score is also not very favourable because of the custom-negotiated contract and the potential to be involved in a legal dispute if the landlord proves to be unreasonable.

A 2/5 T 0/5 E 5/5 R 3/5 **SCORE: 2.5 / 5**

4. Prepaid payment card to the employee

We include this method for completeness' sake. It is mainly used for **travel expenses** but cannot be used for the biggest ticket item, accommodation (landlords don't usually accept payment via cards). It finds its main use with employees who will travel a lot and therefore incur expenses in different currencies.

One advantage of a prepaid card as opposed to a salary advance is that the card can be cancelled when the employee is in breach of their work agreement. A cash advance would be considered lost in this case (until a potential lawsuit).
Tax benefits accrue on those expenses that are relocation related.

A 5/5 T 5/5 E 3/5 R 5/5 **SCORE: 3.75 / 5**

5. Zero Interest Loan

This is a very straightforward way of providing bridging finance, although not widely practiced because few companies have paperwork ready. Setting it up would mean some extra effort, which worsens the **Affordability** score.

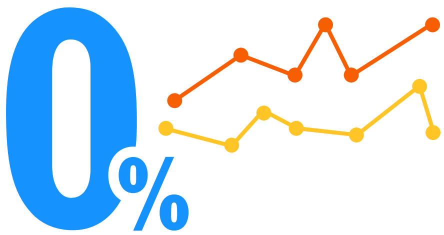
There is **no tax benefit** (because the money isn't spent directly on the relocation-related items such as rent for temporary accommodation).

Employee Friendliness is a mixed bag: On the positive side, the employee can spend the money as they wish; and the loan is often bigger than a month's salary - i.e. it's better than a salary advance. If it is set up well, the employee's bank balance should not dip into the red after work has started.

The drawback lies in the fact that employers can only issue loans to existing employees and not to those who haven't started work yet. This lowers the effectiveness (see below "Crunch softened, not eliminated")

As a loan can be quite substantial, the risk of being stung by a dishonest employee can be considerable, which impacts the **Employer Friendliness** score.

Zero interest loans are probably best suited for smaller and nimbler companies without much red tape. From an admin standpoint, you may not have to report anything to HMRC if the loan is less than £10k (so called **beneficial loans**). As always, we recommend getting professional legal advice on this matter.



For your discussions inside the company, you'll need to answer the following questions when submitting a proposal for implementing Zero Interest Loans:

Who from among our new starters shall receive the loan? Only those who relocate or everyone who credibly demonstrates a need? What will be the decision criteria?

How much will each qualifying new starter receive? What will be the decision criteria for that? E.g. an employee relocating to Bratislava will require a much smaller amount than someone moving to London.

What and how will we communicate to the new starter? As a £10k loan for someone making £25k can be an intimidating amount, what will your communication to the employee consist of?

Besides exactly spelling out the repayment terms (in plain English, not legalese) in
a) a normal scenario
and in scenarios of
b) them quitting and
c) you firing them in a given time frame,
you will need to balance the following two messages:
“We trust you and don’t want you to worry about financial issues, hence the loan”
and
“but at the same time, it’s a serious commitment on your part.”

Who in the organisation will have the authority to decide on edge cases?

When putting together answers to these questions, try to anticipate what other stakeholders will argue for and where their arguments will be coming from. Or simply speak to them 1-1 and hear out their objections and qualifications.

For example: A very flexible arrangement where you offer loans to everyone who can demonstrate a credible need (as opposed to e.g. a fixed Euro amount) will find its detractors in your payroll team who would then have to handle considerable complexity in tracking repayment amounts.

Clearly, this is a measure that has a high score on **Employee Friendliness**. The more custom-tailored you can make it for individual employees, the higher this score will get, but the more it will impact your cost.

A 4/5 T 0/5 E 4/5 R 2/5 **SCORE: 2.5 / 5**

6. Salary Advance

This method can be tiresome to set up because it is a salary payment, which requires bypassing or tweaking the company’s payroll process. Therefore, no best marks on **Affordability**.

There is **no tax benefit** or drawback because there is no extra money leaving the company. Therefore, we ignore this category here.

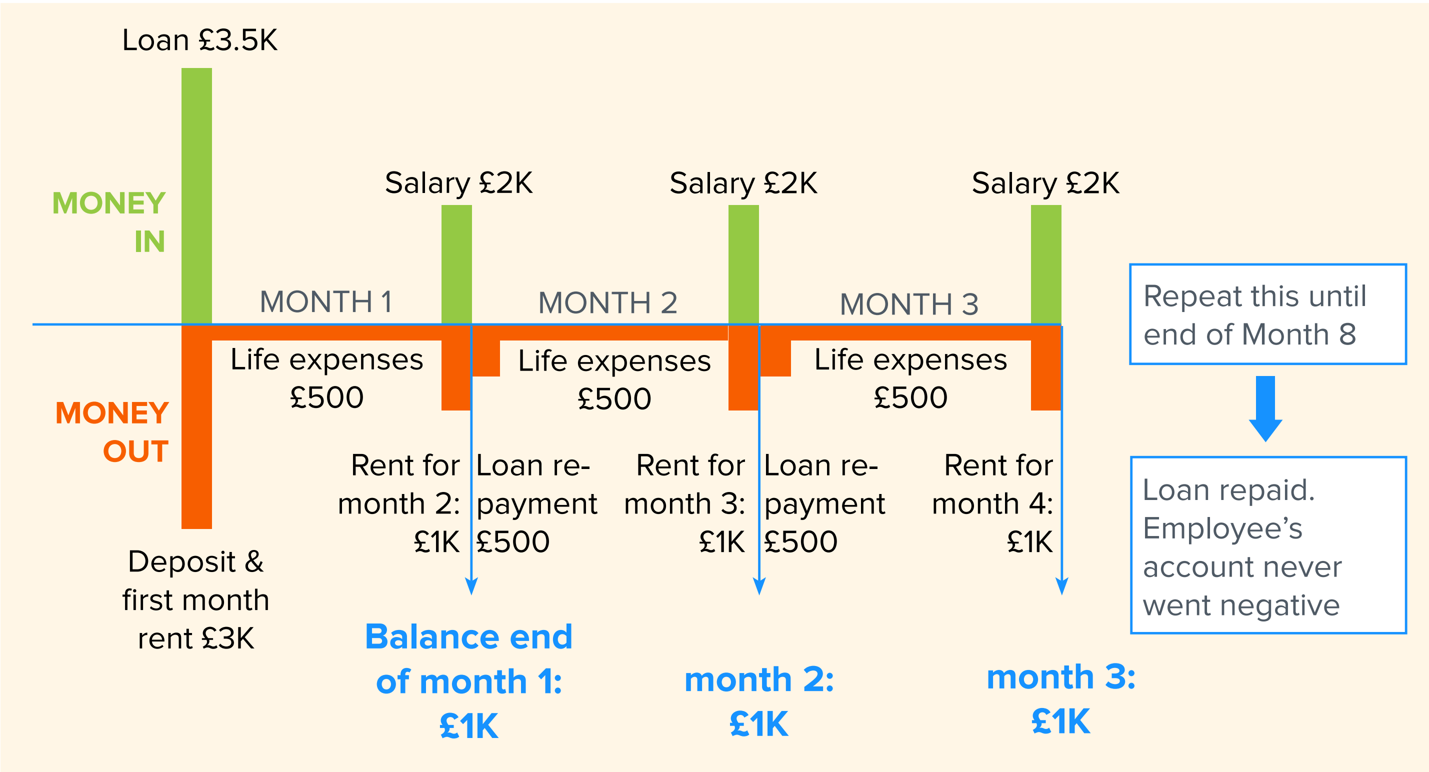
Employer Friendliness is moderate as employees might pocket the advance and leave. One company we know abandoned this practice because of frequent cases of fraud - but it seems to be an outlier.

Lower marks in **Employee Friendliness** because this method means that no money will come for a period of two months - the first month’s salary is simply being shifted to the beginning of month 1, while the second salary arrives at the end of month 2, two full months later.

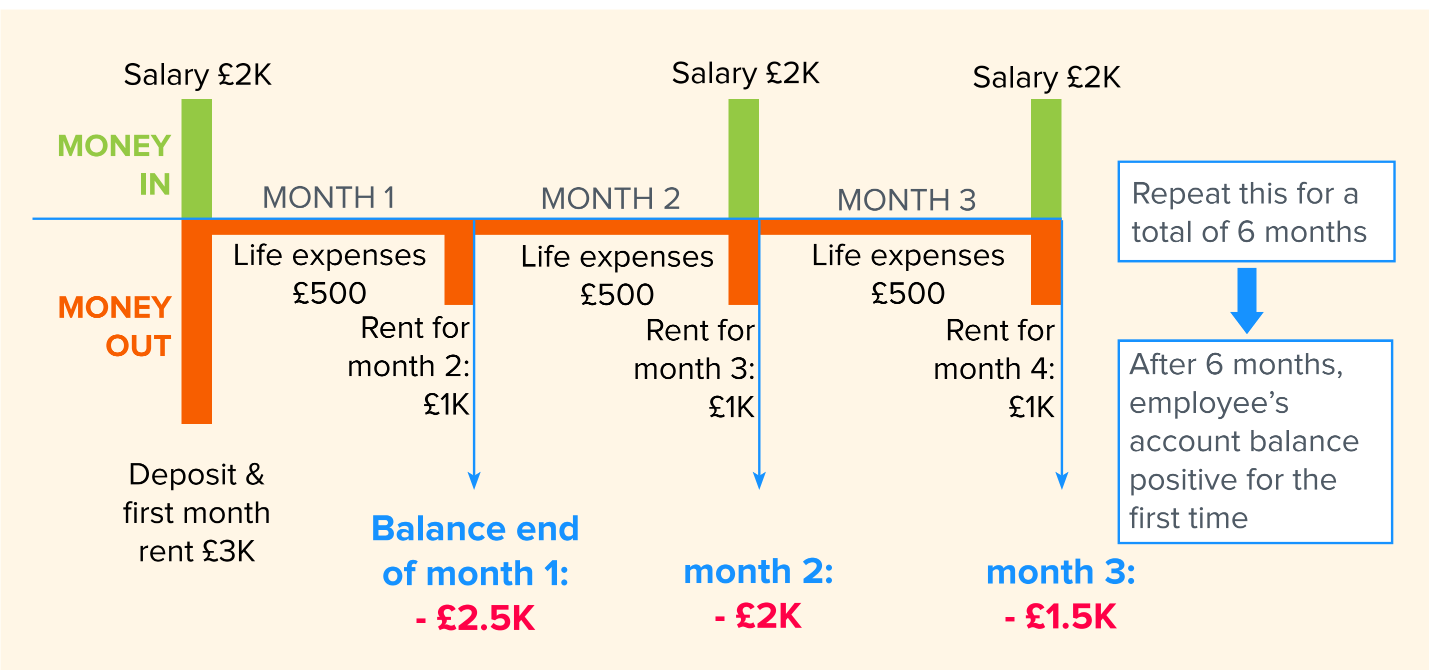
Meanwhile, a loan **would** do the trick because repayment can be more gradual while normal salary payments come through, e.g. if it’s spread out over a year.

Let’s visualise this in an example:
Up-front cost (deposit & rent) £3k, net salary £2k, monthly rent £1k, other life expenses £500.

LOAN SCENARIO: An interest-free loan of £3.5k, repayable in seven monthly installments.



1 MONTH SALARY ADVANCE SCENARIO:

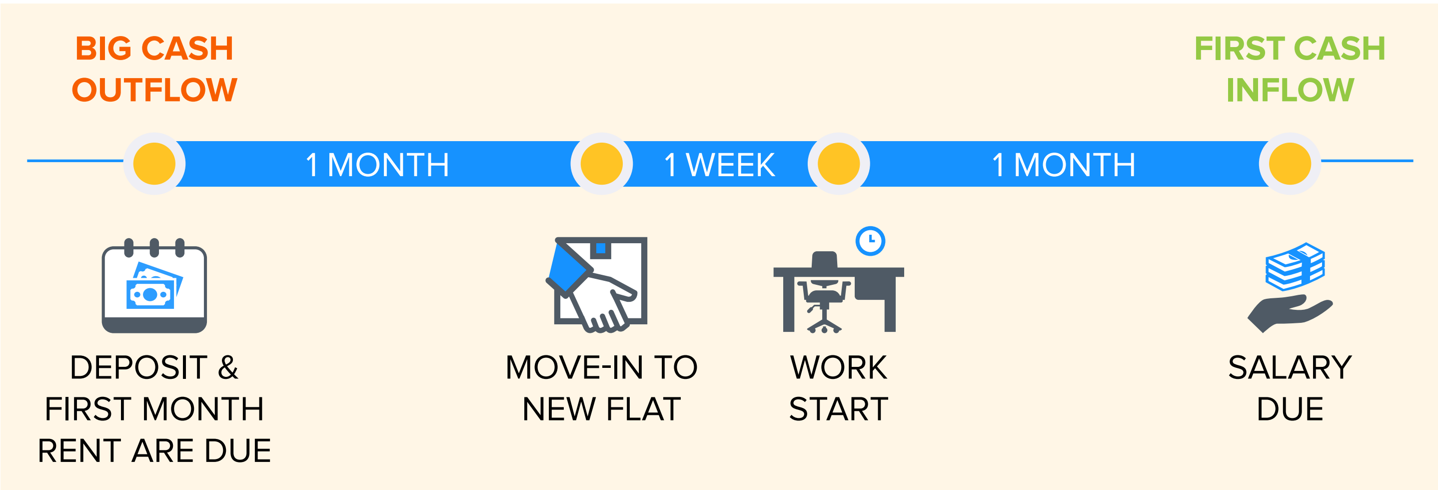


A 4/5 T N/A E 1/5 R 3/5 **SCORE: 2.67 / 5**

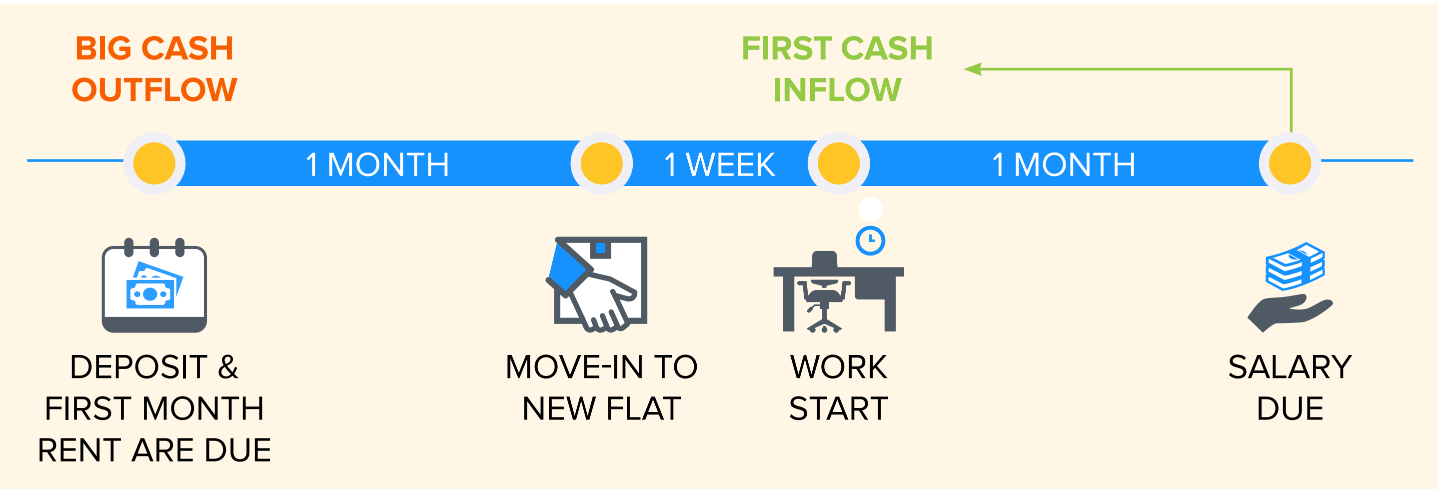
CRUNCH SOFTENED, NOT ELIMINATED

Both loan and salary advance suffer from the same problem: They only slightly lessen the employee's cash crunch, but don't eliminate it:
Remember the timing chart we showed at the beginning:

STARTING POINT:



With a loan or advance salary, the picture changes:



The cash crunch is thus shortened from 10 weeks to 5-6 weeks. A benefit not worth ignoring, but it's no game-changer either and, as a result, we don't give top marks in employee friendliness.

7. Paying specifically for deposit and first month's rent

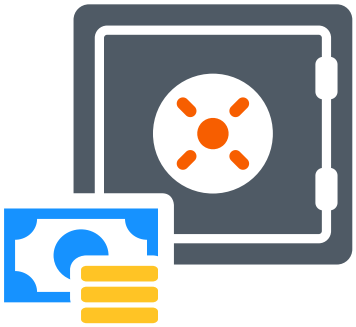
As outlined in our **article** discussing the Relocation Allowance, you can offset various expenditures from an employee's income tax (and your own NI contribution burden) if you pay for relocation related expenses yourself.

LET'S LOOK AT A SIMPLE EXAMPLE:

- Frank's salary is £18k and his first three months' rent are £2k.
- If you paid for these £2k as "relocation support" and paid them up-front to the landlord, Frank would avoid getting into a cash crunch and both employer and employee save on tax and NI.
- You could offset this by making his first year's salary £16k. Even in that case, there'd be a net positive for both parties because of the tax savings.

Admittedly, this method has a narrow range of applicability, but it's still worth mentioning: Tax law requires that the accommodation be **temporary**, i.e. it can't be the flat the employee will inhabit in the long run.

The scenario here is that the employee arrives and you pay for, say, three months of temporary accommodation. During that time, the employee can save up their first month's salary which they can later use to pay down the deposit and first month's rent of a flat they will move into from month 4 onward.



So as there is some cost in terms of administrative effort to implement such a change, and because it would entail a change in how you treat relocating new joiners, the **Affordability** score isn't high.

Employee Friendliness is lower than in the loan scenario because of the **temporary** accommodation requirement: The employee would have to move after the first few months.

Employer Friendliness is better than in the loan scenario. Should the employee disappear, there is a theoretical possibility that you could utilise the temporary accommodation for other purposes.

A 3/5 T 4/5 E 3/5 R 4/5 **SCORE: 3.5 / 5**

Worth a mention: Using Benivo

Although this is not the place to advertise our services, using Benivo is one of the options companies can use to support their employees financially. Our **PayLater Rent** and **PayLater Deposit features** allow employees to get up to 90% of their deposit and first month's rent paid through Benivo. They pay us back in installments once their first salary arrives.

The big advantage from the employer's point of view is that there is no administrative effort required. No going around the company's payroll process or coming up with a loan scheme. We take care of it. Hence the best **Affordability** score.

Tax savings can be achieved if you decide to provide financial support to your employee - Benivo is fully tax compliant and can help you realise these savings. (read section "Working with Benivo" in our **blog post on taxes**).

When it comes to **Employee Friendliness**, the score is similar to the salary advance - it eases the burden in the first month, but most likely, negative cash flow will be the order of the day in the employee's first few weeks.

However, this is only true if you just look at the financial aspect. **Benivo comes with so much additional benefit for the employee** (secure rent payment to trusted suppliers, local guides, how-to guides on administrative errands, and much more) that we believe this is by far the best option of them all. We may be biased but we are confident that most employees would prefer this method over the others.

Employer Friendliness is also the highest it can be - similar to the salary advance. Part of the agreement with Benivo is that you accept liability for the advance rent paid by us (which is lower than your risk in the salary advance scenario). For an additional fee, this liability can be waived.

PURELY FINANCIALLY: A 5/5 T 5/5 E 1/5 R 5/5 **SCORE: 4/ 5**

OVERALL: A 5/5 T 5/5 E 5/5 R 5/5 **SCORE: 5/ 5**

You can learn more about the Pay Later feature by discussing it with one of our team:

Get in touch at **sales@benivo.com**

Summary of the methods and their scores:

	OWNING REAL ESTATE	RENT AND SUB LEASE	GUARAN-TEE TO LANDLORD	PREPAID CARD**	ZERO INTEREST LOAN	SALARY ADVANCE	PAYING FOR ACCOM.	BENIVO - ONLY FINANCE	BENIVO ALTO-GETHER
Affordability*	0	1	2	5	4	4	3	5	5
Tax friendliness	3	3	0	5	0	n/a	4	5	5
Employee Friendliness	5	5	5	3	4	1	3	1	5
Employer Friendliness	0	0	3	5	2	3	4	5	5
Total Score	**2.00**	**2.25**	**2.50**	**4.50**	**2.50**	**2.67**	**3.50**	**4.00**	**5.00**

* a high score means a positive outcome (i.e. low cost/risk)
** usually does not offer options to pay for accommodation and thus is of limited use in this context

And this is it - did we cover everything? Are there ways of financially supporting a junior new starter that we may have missed?

Please let us know at feedback@benivo.com or @mebenivo