Farm Labour - covering the financial angles

Teagasc Employing People Conference
Thursday 15th June, 2017

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Farm Labour – Angles to be discussed..
Farm Labour - The Costs
Typical employment costs

- The obvious
  - Employees Pay as Wages OR Salary
    » Including benefits, bonuses etc.
  - Employers employment taxes - PRSI

- The less obvious
  - Recruitment Costs
  - Employers Liability Insurance costs
  - Supply of necessary workwear/ equipment
  - Holiday / Sick pay
  - Training Costs

- The often hidden
  Hiring the wrong person can result in additional costs around
  - Managing poor performance
  - Direct effects on farm production – quality, yields, future performance
Labour always brings a cost

- You need to quantify the **total** cost
- Look at affordability in the normal and worst case farm income scenarios
  - A financial projection will be needed
- Identify the benefits that you are expecting
  - Quantify in euro if possible
  - Assess how likely to occur
What can I afford to pay?

Will wages need to be reviewed regularly?

What is the going rate for this type of work?
Sometimes it’s not just about the money..!
Pay Definitions

- **Gross Pay for Tax** is the employee's pay of any kind **before** any deductions are made by the employer.

- **Net pay for tax purposes** is the amount of an employee's gross pay **less** any ordinary contributions made by the employee to a pension.

- **Net Pay AFTER tax** – is the “**take home**” pay of the employee.
Avoid the Net Pay Trap...

...always quote Gross Pay to a new employee.
For tax purposes
Pay =

- Wages/ salary
- Bonuses (regular or otherwise)
- Overtime
- Sick pay
- Holiday pay
  Plus any…
- Benefits-in-kind
Benefits-in-Kind
- a non-cash benefit given to employees

- the private use of a car
- free or subsidised accommodation
- the payment of bills
- medical insurance premiums on an employee’s behalf.
- preferential loans
- club subscriptions
- vouchers in various forms

Any amount not made good to the employer is taxed as a work reward to the employee

Small Benefits (Non-Cash) max €500 may be given tax free
Taxes on Employment

<table>
<thead>
<tr>
<th>Tax</th>
<th>Employee Liable</th>
<th>Employer Liable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax – Pay As You Earn (PAYE)</td>
<td>✓</td>
<td></td>
</tr>
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<tr>
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</table>

As an employer you have an obligation to administer the **collection and transfer** of the above taxes to Revenue.
## Pay Related Social Insurance (PRSI)

<table>
<thead>
<tr>
<th>Weekly Wage</th>
<th>Employee</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>€38 - €352</td>
<td>NIL</td>
<td>8.5%</td>
</tr>
<tr>
<td>€352.01 - €376</td>
<td>4%</td>
<td>8.5%</td>
</tr>
<tr>
<td>More than €376</td>
<td>4%</td>
<td>10.75%</td>
</tr>
</tbody>
</table>

A PRSI credit (Max of €12/ week) is available for employees earning between €353 and €424 per week. No credit for employers.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Hours per day</td>
<td>8.5 hours</td>
</tr>
<tr>
<td>Wage rate per hour</td>
<td>€11.75</td>
</tr>
<tr>
<td>Max Total Weekly Hours</td>
<td>46.5</td>
</tr>
<tr>
<td>5 Day Week</td>
<td></td>
</tr>
<tr>
<td>Plus additional ½ day Saturday for 30 weeks</td>
<td></td>
</tr>
<tr>
<td>Wage per 8½ hour day</td>
<td>€100</td>
</tr>
<tr>
<td>Weekly Wage (incl. Sat Work)</td>
<td>€546</td>
</tr>
<tr>
<td>232 Full Working days per year</td>
<td>€23,200</td>
</tr>
<tr>
<td>30 ½ day Saturday</td>
<td>€1,410</td>
</tr>
<tr>
<td>9 Public Holidays</td>
<td>€900</td>
</tr>
<tr>
<td>20 Days Annual Leave</td>
<td>€2,000</td>
</tr>
<tr>
<td>Employers PRSI @ 10.75%</td>
<td>€2,957</td>
</tr>
<tr>
<td>Total Annual Wage Cost</td>
<td>€30,467</td>
</tr>
<tr>
<td>Wage Cost per working week (46 Weeks)</td>
<td>€662</td>
</tr>
<tr>
<td>Wage Cost per working day</td>
<td>€123</td>
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<tr>
<td>Average wage cost per hour worked</td>
<td>€14.60</td>
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Add: €5,857 (+25%) to annual wage bill
Benefits

Farm Labour - The Benefits
Freeing up time for the owner/manager can potentially deliver.....

- Better land & crop management
- Better stock management
- Increased time to research and source new technologies and farm inputs
- Increased planning / thinking time
  - Better work organisation & completion of tasks
  - Identify opportunities for the business
- More leisure/ family time
Health & Safety (H&S) Benefits

- Taking on an employee can prompt a close look at H&S
- Increased but necessary costs to ensure a safe working environment
  - Safety guards, equipment/ clothing
- Other costs
  - Employers liability insurance
  - H&S training – manual handling/ chain saw training etc.
- A safe workplace is VITAL for Employee retention
- Additional help conveys health and safety benefits
  - A spotter or backup for dangerous tasks
  - Another pair of hands
  - Reduces time pressure for task completion
Farm Labour - The Risks

Risks
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Payroll Administration

Options

- **Do-it-yourself**
  - Revenue worksheets available for by hand admin – complex calculations – care needed
  - Computer Software options available

- **Outsource the task**
  - Most accountants provide a fee based service
  - Farm Relief Service provide a full employee service covering sourcing and payment

- **PAYE RTR (Real Time Reporting) is to be a Revenue requirement from 1\textsuperscript{st} January 2019**
Staff turnover
- a significant cost

- Loss in knowledge and skills
- Loss in productivity (production losses) during transition
- Cost of managers time tied up in training new staff
- Recruitment costs
- Redundancy costs
Solutions for high staff turnover

- Change the manager!!
  - Or look at how employees are managed.

- Be more rigorous in your recruitment policy
  - Are you selecting people that are the best fit?

- If a staff member is leaving have a chat with them to understand why
Satisfied employees who stay working with you are likely to:

- receive a **fair wage** plus appropriate non-financial benefits
- **know what is expected** from them each day
- feel they are a **valued cog** in the business (involvement in decision making)
- be able to **speak their mind** freely without repercussions
- use their existing skill set regularly and feel supported in **developing** new skills
- regard their workplace as **safe and fair**.
Wage Incentive Plans/
Performance Linked Bonuses

- Hard to design but they have been used to tackle problem areas
  - Milk quality, reproductive performance
- Cannot be a substitute for a fair wage
- Must be fair…
  - To employee and employer
- More applicable where the farm owner is not hands on day-to-day
Designing an incentive plan

- Establish **baseline performance** first
- Should be **attractive enough** to make it **worthwhile** for the employee to participate
- Plans must be **in writing** and set **realistic and attainable goals** within the employees control
- The means for determining the incentive should be **simple to understand** and be **clearly communicated**
- Plans should allow for **annual review and revision**
- Incentives should not foster unprofitable practices
Alternative options to taking on labour

- Look at task simplification and better time management at busy times
- Are contractors an option for some tasks?
- Have collaborative arrangements with other farmers, with their associated advantages, been examined?
In Summary…

- Taking on staff for the first time is a significant step for any business.
- An awareness of the total costs, risks & benefits is important.
- Different skills and new responsibilities are involved.
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