

Dear Chancellor,

Tax incentives for occupational health consultation

The Institute of Directors (IoD) is an independent, non-party political organisation representing approximately 20,000 company directors, senior business leaders, and entrepreneurs, typically running small to medium sized businesses in all parts of the UK. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.

We welcome the opportunity to respond to the [Tax incentives for occupational health](#) consultation, given that labour market participation and productivity are key components of sustained economic growth. As a business representative organisation, we are responding with our best understanding of how the issues laid out in the consultation would be viewed by our members.

Summary of the IoD's view

Occupational health services are a key means for employers to safeguard and improve employee health, as well as a helpful tool for retaining talent in a competitive labour market. Despite these advantages, our research has found that SMEs are significantly less likely than larger employers to offer occupational health provision to employees.

Utilising the tax system to incentivise occupational health provision is by far the preferred approach to intervention among business leaders; our research found that the most effective mechanism to incentivise increased occupational health provision is to widen the scope of Benefit in Kind (BiK) tax reliefs.

Answers to individual questions

Question 1: Why do employers provide OH services to their employees? For example, it could be to increase workplace participation, increase workplace performance, or for the health and wellbeing of the employee.

Qualitative evidence gathered from IoD members suggests that occupational health provision by employers is driven by two main factors: first, as a means of supporting the health and wellbeing of employees, and second, as a key driver of retention of staff:

“We provide private health insurance to all of our employees for themselves and their immediate families. The NHS does not provide a timely and reliable service which we as a private company can rely upon to keep our employees healthy and working” – IoD member, Professional, scientific and technical activities sector, South East England, 50-99 employees

“Basic health essentials e.g. dental care and GP access, are a huge challenge, so we provide a health cash plan to help employees access and afford the help they need to stay healthy” – IoD member, East of England, Professional, scientific and technical activities, 0-1 employees/sole trader

“We see this as a real benefit to our employees and their wellbeing hence it is important the team members see the benefit” – IoD member, manufacturing sector, East Midlands, 100-249 employees

Question 6: Small and Medium Enterprises are significantly less likely to offer OH services. Why is this? Are there other characteristics of employers that tend them towards offering less or more OH services?

In August 2023, we surveyed 688 business leaders on the topic of occupational health provision. When asked whether their organisation provides employees with access to any occupational health services, just under two-thirds (63%) of respondents stated that their organisation did so (see Annexe: Figure 1). However, a breakdown of responses by company size uncovered significant differences; the figure for microbusinesses was 42%, compared with 95% for large organisations.

For those who indicated that their organisations do not offer occupational health services to employees, we asked why that was the case (see Annexe: Figure 2). Given that respondents from large companies constituted only 3 of the 166 responses to this question, the results can be taken as insight into the views of SMEs.

The most commonly cited reason (selected by 49% of respondents) was ‘occupational health has not been an issue for us’, suggesting that many employers are reactive in their decision about whether or not to offer occupational health services, that is, they are likely to consider investing in provision when a lack thereof actively harms the organisation.

The other significant factor which emerged was the cost of procuring the services (selected by 43% of respondents):

“We used to provide full private health insurance for employees and dependents but increased costs meant we had to remove this benefit” – IoD member, London, Professional, scientific and technical activities, 0-1 employees/sole trader

“Providing occupational health would need to be cost neutral for company and employees for us to consider this” – IoD member, South East England, Other services, 2-9 employees

“As a charity our funders do not provide money for this” – IoD member, London, Other services, 10-49 employees

Bandwidth, access to information, and struggling to source the right provider were all much less significant factors in explaining lack of provision.

Qualitative responses provided further insight into additional reasons why some SMEs do not offer occupational health services to employees. For example, some business leaders described a preference for funding provision on a case-by-case basis:

“We are a very small organisation and if any employee required any kind of specialist therapy, the company would just pay for it” -- IoD member, East of England, Other services, 2-9 employees

“We don’t have a formal procedure but support staff on a need-by-need basis” – IoD member, West Midlands, Construction, 2-9 employees

Others expressed a preference for offering employees higher salaries instead of occupational health provision:

“Prefer to pay an excellent salary and leave employees to spend it how they wish - additional benefits do not seem to have any impact on loyalty or engagement levels” – IoD member, South West England, Administrative and support services, 2-9 employees

“We wrap benefits up in a bigger salary and encourage employees arrange this for themselves” – IoD member, South East England, Financial services , 2-9 employees

Issues within NHS provision were also highlighted as a barrier to SME occupational health provision:

“Small businesses, having GP assessments for fitness for work is important. At the moment, we simply cannot obtain these reports to help us make work adjustments because GPs say they are too busy. So we are stuck” – IoD member, South West England, Professional, scientific and technical activities, 50-99 employees

Another strong theme which emerged from our research was a belief that further employer occupational health provision should not be necessary in a system with socialised healthcare, a view which may explain lower rates of occupational health provision in the UK than in comparable high-income countries:

“The cost of healthcare should remain funded directly from mainstream taxation. There should not be an expectation on employers to provide additional healthcare, although they should be free to do so” – IoD member, South East England, Wholesale and retail trade (including motor repair), 250+ employees

Question 11: Do you see a case for any of the above costs being in scope of additional tax relief under the BiK exemption? If so, please discuss why, and how this would help achieve the government’s objective of increasing employer provision of OH services and labour market participation.

Yes. Our research suggests that bringing additional occupational health costs into scope of additional tax relief under the BiK exemption would incentivise businesses to increase their overall investment into occupational health. In an IoD survey conducted in August 2023, we asked business leaders to rank five potential policy interventions in terms of which would be the most likely to increase their investment in occupational health provision (see Annexe: Figure 3).

Expanding the range of occupational health services that are exempt from being taxed as a BiK was the most popular of the potential interventions, being selected as the top choice by 41% of respondents.

The next most popular were a super-deduction against corporation tax for the cost of procuring occupational health services (26%), and direct subsidies (15%).

A strong theme in the qualitative responses was a preference for tax incentives, particularly BiK reliefs, when compared to alternative approaches of standards or legal requirements due to the flexibility that tax reliefs provide employers:

“Minimum government intervention required please. Tax incentives seem simplest; setting national standards sounds like new government bureaucracy” – IoD member, South West England, Professional, scientific and technical activities, 250+ employees

“Expanding the benefit in kind exemptions are the only thing that needs to happen. More government policies are not going to make the topic more workable” – IoD member, South East England, Information and communication, 2-9 employees

“Recommended standards by government so often become a bureaucratic nightmare that wastes money. Keep out of this stuff and be more direct” – IoD member, London, Professional, scientific and technical activities, 50-99 employees

Question 12: Are there alternative tax incentives that you think would be more effective in incentivising employers to invest in OH services for employees? If so, please explain why.

By asking business leaders to rank the efficacy of various potential policy interventions, we were able to compare the likely impact of BiK reliefs compared with other interventions, including ‘a super-deduction against corporation tax for businesses for the cost of procuring occupational health services’ (see Annexe: Figure 3). Although this option was the second most popular option, with a quarter (26%) of business leaders ranking it top, it was, as described above, considerably less popular than BiK reliefs, which were ranked as the top option by 41% of business leaders.

The reasons for this are likely to be multifaceted but may be related to employers being familiar with the BiK system and consequently preferring an expansion of an existing mechanism over the introduction of new, alternative tax incentives. The fact that many employers are not liable for corporation tax also reduces the efficacy of any tax interventions based on corporation tax:

“We are a Limited Liability partnership and do not pay corporation tax - hence any deduction solely against CT would not be helpful for us” -- North West England, Professional, scientific and technical activities, 100-249 employees

It was also suggested that the impact of alternative tax measures may be more likely to be undermined by deadweight loss:

“A super-deduction would be mostly deadweight cost as it would mostly benefit very large and/or wealthy SMEs who already provide these benefits. Support needs to be targeted at SMEs” – IoD member, London, Professional, scientific and technical activities, 2-9 employees

Question 14: To what extent would tax incentives be more effective in increasing employer investment in OH, compared to legal measures to provide OH, which could vary by the size of the business?

Ultimately, any legal measures to mandate occupational health provision would inevitably lead to higher rates of provision than mechanisms to incentivise provision. The risk, however, lies in adding

regulatory and financial burdens on business – even where such measures are tailored to size – in an already difficult trading environment. Legal measures would also increase the risk of OH provision becoming a tick-box exercise for employers as opposed to being tailored to the needs of each business and its employees:

“We need to be able to tailor the occupational health offering to our specific employee needs if it is not to be just a box ticking exercise” – IoD member, South East England, Financial services, 10-49 employees

The qualitative data we collected in our research returned a recurring theme of a preference for incentives over legal measures:

“Any further government interference will increase the already excessive burden on business, particularly SMEs, to comply with an already massively overcomplex regulatory regime” – IoD member, Wales, Manufacturing, 50-99 employees

“Keep red tape low - govt needs to lead by example and companies performing well get access to govt contracts” – IoD member, East of England, Transportation and storage, 250+ employees

Question 18: Do you agree that tax incentives for providing access to occupation health services will promote a stronger culture in the UK of employers taking good care of employee health?

Tax incentives are generally an effective way of incentivising change in business behaviour, particularly among SMEs whose main exposure to policy changes comes through accountancy services. Our survey data also indicates that tax incentives are by far the preferred mechanism for raising occupational health provision as compared to other mechanisms such as standards, direct subsidies, and access to low-cost collective schemes.

However, several business leaders highlighted the challenge of encouraging uptake of provision among staff:

“We have private healthcare but only about 50% of staff take this up” – IoD member, East of England, Professional, scientific and technical activities, 100-249 employees

Therefore, while our research suggests that changes to the tax system would help provide a stronger culture of employers offering occupational health provision, the experience of private medical insurance take up suggests that employee take up could still be patchy, depending on the financial constraints and priorities of individual employees.

Question 20: Do you have suggestions on how the effectiveness of these changes could be monitored?

The IoD’s research on occupational health focussed on the proportion of employers which offer any occupational health provision; tracking how this figure changes over time would be a good starting point for monitoring impact. The average spend on occupational health per employee, adjusted for inflation, would also be helpful in understanding whether the changes incentivise employers who currently offer some occupational health services to increase that provision. If these changes are shown to have increased provision, government should consider further expanding BiK reliefs to include a greater range of occupational health services.

We hope you have found these comments useful. If you require further information about our views, please do not hesitate to contact us.

With kind regards,

A handwritten signature in black ink that reads 'A. Hall-Chen'. The signature is written in a cursive style with a horizontal line underneath the name.

Alex Hall-Chen

Principal Policy Advisor for Employment

Alexandra.Hall-Chen@iod.com

Annexe

Policy Voice survey, August 2023

Figure 1

**Does your organisation provide employees with access to any occupational health services?
Examples might include flu vaccinations, welfare counselling, private medical insurance or health screenings.
688 responses**

	Grand Total	0-1 employees/ sole trader	2-9 employees	10-49 employees	50-99 employees	100-249 employees	250+ employees
Yes	63.1%	22.1%	41.5%	68.3%	76.6%	91.3%	95.4%
No	27.9%	39.0%	48.0%	29.7%	15.6%	8.8%	3.7%
N/A	7.8%	39.0%	8.5%	1.4%	3.9%	0.0%	0.9%
Don't know	1.2%	0.0%	2.0%	0.7%	3.9%	0.0%	0.0%

Figure 2

You said your organisation does not provide employees with access to any occupational health services. Why is this? Please select all that apply.
166 responses

	Grand Total	0-1 employees/ sole trader	2-9 employees	10-49 employees	50-99 employees	100-249 employees	250+ employees
Occupational health has not been an issue for us	49.4%	50%	54.5%	34.2%	58.3%	42.9%	66.6%
The costs of providing occupational health services are prohibitive	43.4%	33.3%	39%	52.6%	50%	71.4%	33.3%
We have not had the bandwidth to think about this	16.9%	33.3%	12.2%	21%	8.3%	14.3%	0.0%
We lack access to information about occupational health services	6%	0.0%	4.8%	7.9%	8.3%	14.3%	0.0%
We want to provide occupational health services but have struggled to source the right provider	3%	0.0%	2.4%	7.9%	0.0%	0.0%	0.0%

Figure 3

The government is consulting on ways to increase occupational health services provided by UK employers. Please rank the following potential changes to government policy in terms of how likely they would be to increase your own organisation's occupational health provision for employees. 688 responses

	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
A national 'health at work' recommended standard for employers, supported by a government-endorsed accreditation scheme on workplace health and disability which employers could use to demonstrate they had met the standard	9.31%	7.73%	15.14%	24.76%	43.06%
A super-deduction against corporation tax for businesses for the cost of procuring occupational health services	26.18%	26.81%	20.98%	13.88%	12.15%
Direct subsidies to help with the cost of purchasing occupational health services	15.46%	20.50%	29.18%	24.45%	10.41%
Expanding the range of occupational health services that are exempt from being taxed as a 'benefit in kind' when calculating employee income tax and employer NICs	40.85%	31.86%	16.72%	7.10%	3.47%
Greater access to low-cost collective occupational health schemes by third-party providers	8.20%	13.09%	17.98%	29.81%	30.91%