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Business Matters

Pension auto-enrolment: where are we now?

Since the framework for pension auto-enrolment – whereby employers must automatically enrol staff into a pension scheme – was first set out in 2008, the legislation has been subject to numerous changes. With the first enrolments commencing this Autumn, here is an update on the current situation.

A brief recap

Despite the recent changes to the Pensions Act, the central principle of the regulations remains unchanged. Under the scheme, employers will be required to enrol automatically all eligible employees into a qualifying pension scheme and pay a minimum contribution into the fund. Auto-enrolment is being phased in over a number of years, starting from 2012 (larger employers first, smaller employers last).

To help employers adjust, compulsory contributions will also be phased in, starting at 1% before eventually rising to 3%. Employees will also contribute to their pension scheme – this will start at 1% of their salary, before eventually rising to 4%. An additional 1% in the form of tax relief will mean that there is a minimum 8% contribution rate.

So what's changed?

A revised timetable

In response to a consultation on the reforms, the Government made changes to the original timetable, confirming that smaller employers will not have to auto-enrol their employees before June 2015. Businesses with fewer than 50 workers were originally scheduled to begin pensions auto-enrolment in April 2014.

As part of the changes, the Government re-profiled the 'staging' dates in the period April 2014 to April 2015, while the overall staging profile was extended to February 2018.

Note that the staging dates for firms with 250 or more employees remain unchanged. Those with 120,000 or more personnel in their PAYE scheme must enrol staff from 1 October 2012, with smaller firms being brought on board month by month until February 2014. Employers can check their staging dates at **www.thepensionsregulator.gov.uk.**

Flexible staging dates

In an effort to afford firms greater flexibility, the Pensions Regulator has announced that employers will be able to bring forward their staging date. Firms that choose to do so must notify the Pensions Regulator in writing at least one calendar month before the new earlier staging date.

New eligibility thresholds

When the legislation was originally published, it was proposed that workers must be earning at least £7,475 to qualify for auto-enrolment. However, the Government has now confirmed that the earnings limits for contributions will rise in line with the thresholds for tax and national insurance.

This means that eligible workers must now be earning at least £8,105 a year to qualify for auto-enrolment, although this figure is expected to be reviewed annually. Workers must also be aged between 22 years and the State Pension Age, working or ordinarily working in the UK, and not already in a qualifying pension scheme.

Meanwhile, minimum employer and employee contributions will now be based on 'qualifying earnings' – in 2012/13 terms, between £5,564 and £42,475. The threshold rates will be reviewed by the Government each tax year.

Please contact us for advice.

Please note this article is for general guidance only and the legislation may be subject to further amendments.

Inside this Issue...

Will power: the importance of your Will

A Will should form a key part of your tax and financial planning strategy. At the simplest level, having a Will in place helps to ensure that your estate will pass to your chosen beneficiaries as smoothly as possible, in accordance with your wishes.

A properly drafted Will also allows you to plan ahead to minimise the tax bill and help ensure financial security for your loved ones, as well as making special provisions for any dependents or charitable beneficiaries.

Some Will essentials

When drafting a Will, you should take into account the current and likely future value of your assets, your own financial security, and the needs of your family now and in the future. Here are some of the key areas to consider.

Inheritance tax (IHT) – Inheritance tax is payable at 40% on the proportion of an individual's taxable estate valued in excess of £325,000 (maximum £650,000 for spouses or civil partners).

So if you own a property and have other assets such as a car, personal belongings, business interests or investments, your estate could be liable to inheritance tax.

Gifts – A strategy of making gifts during your lifetime could substantially reduce your taxable estate on death. Lifetime gifts made between three and seven years before death qualify for a discount of up to 80%, to the extent that they exceed the threshold.

Other exemptions may apply, for example the annual exemption allows gifts of up to £3,000 in total in each tax year. Other 'exempt gifts' and small gifts worth up to £250 may also escape an IHT charge subject to certain conditions – please contact us for details.

'Generation skipping' – Your Will should take into account the needs of your spouse, children and any grandchildren in the event of your death. However, if your children are already financially secure, providing for your grandchildren instead will effectively skip a charge to inheritance tax.

Trusts – Trusts can allow you to make gifts without giving the recipient complete control over the assets and/or the income they generate. You should also give consideration to any disabled or other dependent members of the family, and their likely future needs.

Gifts into trust may result in an IHT liability. Other charges, such as ten yearly and exit charges may also arise. You can also create a discretionary trust, which grants trustees the power to decide how your assets should be distributed.

Your business assets – Your business will generally attract Business Property Relief (BPR) of 100%, and can be passed on with no IHT payable. Assets owned by you but used by a partnership or company attract relief of only 50%. You should give careful consideration to how you want the business to be passed on in the event of your death.

Charities – Gifts to charity are generally exempt from IHT. It is more efficient to make a tax-free gift from your estate than for a gift to come from a beneficiary's share of the after-tax estate. A reduced IHT rate of 36% may apply where 10% or more of the net estate is left to charity.

Lasting power of attorney – A lasting power of attorney is a legal document which gives a nominated person the future power to make decisions on your behalf, in the event that you are no longer able to do so.

Making your Will work for you – Your Will should be reviewed regularly, to reflect any change in your family and financial circumstances, such as a birth, marriage or death in the family, the formation or sale of a business, or changes to tax legislation.

We can help to reduce your IHT liability and secure your family's long-term financial future, through a tax-efficient Will. Please contact us for further assistance.

70%
The approximate percentage of UK adults who have not made a Will

Don't catch a cold: managing employee absence

Employee absence can have a significant impact on your business's productivity and profits, while prolonged periods of absenteeism can also erode staff motivation and morale.

While it may be difficult to plan for unexpected absences, as an employer there are steps you can take to help you deal with the problem and minimise the potential disruption.

Set out clear policies and procedures

As a starting point, you should ensure that staff members understand the business's sickness policy and procedures, and that these are followed consistently throughout the firm. An effective policy/procedure should cover the following:

- Details of how an employee should notify you if they are ill, late for work, or absent for any other reasons
- When they should submit a self-certification form or a medical certificate
- Sick pay arrangements – statutory and any contractual. This should also be covered in the written statement of terms and conditions of employment
- When time off might be permitted, e.g. jury service leave and time off for emergencies involving dependents
- The consequences of not complying with company policy.

You might want to consider making it company policy to carry out a return to work interview. This may just let the employee know that their contribution was missed, or it could help to identify underlying problems that will affect your management strategy. It may also deter staff from feigning illness.

"Cases of genuine long-term sickness, or regular occurrences of short-term sickness, should be handled sensitively."

Measure and monitor absence

By implementing a common practice for recording sick days, you can glean key data such as the number of working days lost, the frequency of an employee's sickness and whether absenteeism is more commonplace within a particular department. You might also see particular trends emerging – e.g. absence may peak at a certain time of the year or on a particular day of the week.

Not only can this prevent problems from developing into something more troublesome, it might also help you to detect and tackle any underlying issues such as workplace bullying, a lack of training or poor working conditions. Once you have identified any problems, you can then take appropriate action to rectify them.

Focus on morale

Unhappy staff are more likely to take time off. Creating a friendly environment, where staff feel valued as part of a team and where flexible, family friendly policies are in place is likely to prove more effective at keeping absenteeism to a minimum.

Building a positive team morale and maintaining a high level of staff motivation can also discourage non-attendance. Further still, an inspired and focused workforce can achieve greater productivity, which may lead to an increase in profits!

Support sick employees

Cases of genuine long-term sickness, or regular occurrences of short-term sickness, should be handled sensitively. Maintaining regular contact with an absent employee will help to prevent them from feeling isolated, whilst providing you with a clearer idea of their current situation.

You might want to consider referring them to an occupational health specialist, who may be able to give a better indication of how prolonged the illness is likely to be. However, you must obtain an employee's permission before applying for a medical report.

You should also establish whether their illness amounts to a disability. If so, reasonable adjustments must be made to help the employee return to work and carry out their role more easily.

Sowing the seeds of investment

6 April 2012 saw the launch of the Seed Enterprise Investment Scheme (SEIS), a new tax advantaged venture capital scheme.

An overview of the scheme

The new scheme focuses on smaller, early stage companies which are carrying on, or preparing to carry on, a new business in a qualifying trade. The scheme offers tax relief to investors who subscribe for shares and have a stake of less than 30% in the company. The relief applies to shares issued on or after 6 April 2012.

The SEIS applies to smaller companies with 25 or fewer employees and assets of up to £200,000, which are carrying on or preparing to carry on a new business.

The scheme gives income tax relief worth 50% of the amount invested to individual investors with a stake of less than 30% in such companies, including directors who invest in their companies. It applies to subscriptions for shares, using the same definition of eligible shares as the Enterprise Investment Scheme (EIS).

The SEIS applies to an annual amount of investment of £100,000 per investor, with unused annual amounts able to be carried back to the previous year. Please note that there is no SEIS rate for a year earlier than 2012/13, so there is no scope for carrying relief back before that year.

The scheme provides for relief within an overall tax favoured investment limit of £150,000 for the company. To give the greatest degree of flexibility, this is a cumulative limit, not an annual limit.

Capital gains tax 'holiday'

The scheme provides for an exemption from capital gains tax (CGT) on gains on shares within the scope of the SEIS.

In addition, for the first year of the new scheme, the Government is offering a CGT holiday, meaning that gains realised on the disposal of assets in 2012/13 that are invested through SEIS in the same year will be exempt from CGT.

Please contact us for further information and assistance.

Business Round-Up

Government announces Budget U-turns

In the March Budget, the Chancellor unveiled a number of tax measures which proved to be controversial. These included the introduction from April 2013 of a new maximum limit of £50,000 or 25% of income (whichever was higher), on the amount that a person could give to charity instead of paying it in tax.

However, following widespread criticism from charities and donors, the Government confirmed that it will not be proceeding with the cap for charitable donations, although the cap for other reliefs is likely to go ahead.

The Treasury also revealed that plans to charge VAT on all hot takeaway food, dubbed the 'pasty tax', would be revised following 'extensive consultation'. The measure came under fire from critics who argued that plans to levy VAT at 20% on all hot food would impact on lunchtime snacks such as pasties, pies and sausage rolls.

Under the revised plans, food that is provided hot or cooked to order will be liable to the tax, as will food that is advertised as hot, and food that is kept warm or served in heat-retaining packaging.

However, food that is cooked but allowed to return to 'ambient temperatures' on shelves, rather than being kept hot, will not be liable for VAT.

In addition, the proposed 20% VAT charge on static caravans has been reduced to 5% and delayed from October 2012 to April 2013.

Fuel duty rise is delayed

Further to its recent U-turns, the Government has also postponed its planned 3p-a-litre increase in fuel duty.

Fuel duty was scheduled to rise by 3.02 pence per litre from 1 August 2012; however, this rise will now be delayed until 1 January 2013.

The Treasury has confirmed that the freeze, which is expected to cost the Government around £550 million, will be covered by greater than expected departmental savings across Whitehall.

New start-up loan scheme for young people

The Government has announced a new loan scheme aimed at encouraging young people to start a new business.

The £82m StartUp Loan scheme will offer people aged between 18 and 24 the opportunity to apply for loans of around £2,500, with Prime Minister David Cameron hoping that the scheme will lead to a 'new wave' of enterprise and result in as many as 30,000 additional start-ups.

Under the scheme, the loans must be repaid within a maximum period of five years, with interest charged at a rate of RPI plus 3%.

Starting a new venture can be a rewarding experience, but sadly many businesses fail in the initial stages. Proper forward planning is vital in order to maximise the chances of success, so please contact us for advice.

Web Watch

Essential sites for business owners

www.startupbritain.org

National campaign seeking to promote and encourage UK enterprise

www.ico.gov.uk

Advice on data protection and freedom of information

www.therenewableenergycentre.co.uk

Information on renewable technologies, including funding options

www.apprenticeships.org.uk

Information and advice from the National Apprenticeship Service

Reminders for your Autumn Diary

September

30 End of CT61 quarterly period.

Last day for UK businesses to reclaim EC VAT chargeable in 2011.

October

1 Due date for payment of Corporation Tax for period ended 31 December 2011.

5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2011/12 if a Tax Return has not been received.

14 Due date for income tax for the CT61 quarter to 30 September 2012.

19/22 Quarter 2 2012/13 PAYE remittance due.

31 Deadline for paper submission of 2012 Tax Return without incurring penalties.

November

1 £100 penalty if 2012 paper Tax Return not yet filed. Additional penalties may apply for further delay.

2 Submission date of P46 (Car) for quarter to 5 October.