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Money Matters

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SUMMER 2019

How flexible is your business?

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> *Employers should make sure their workforce understand the new deductions and the importance of saving for their retirement.*

Credit: iStock/marchmeena29

Contributions increase for auto-enrolment pensions

Employers and employees have both been hit since 6 April with a large rise in contribution rates for automatic enrolment pension schemes.

The employer's minimum contribution has gone up from 2% to 3% of band earnings (between £6,136 and £50,000). The total payment into the scheme is now 8%, up from 5%. So if the employer pays no more than the minimum, the employee will have to put in 5% – previously 3%.

The large rise in the upper earnings limit this year (from £46,350 in 2018/19 to £50,000) has added to the burden for higher earners and their employers. For an employee earning £50,000 or more, the employer's minimum payment has risen from £806 in 2018/19 to £1,316, and the employee's contribution from £1,210 to £2,193.

The increase will have a noticeable effect on employees' take-home pay. Employers should make sure their workforce understand the deduction and the importance of saving for their retirement, especially as the age at which they will receive the state pension is rising.

Employers who wish to avoid the disincentive effect of reduced take-home pay could contribute more than the minimum. For example, if an employer pays 5% rather than 3%, employees could continue to pay the 3% deducted in 2018/19, as long as the total contribution still comes to 8%.

The auto-enrolment contribution percentages are the same regardless of age. However, the amounts people need to contribute to achieve the level of income they want in retirement will vary. For example, a 25-year-old need only save about half as much as a 35-year-old to end up with the same retirement fund at 65.

Employees who only make the minimum auto-enrolment pension contributions may find that their retirement fund does not meet their needs – and the older they are, the larger the shortfall is likely to be.

Safeguarding against fraud

While the value of reported fraud in the UK more than halved in 2018 compared with 2017, the number of reported cases has barely changed.

The reported figure for fraud in 2018 is nearly £750 million, but the true figure could be much higher – over £37 billion by some estimates. Many businesses prefer to deal with fraud internally to avoid reputational damage, with possibly only one in 50 cases being reported. How well is your business protected?

The most common type of fraud is 'third party fraud' committed against an individual or group of individuals by an unrelated or unknown third party. Research indicates that straightforward greed is the main motive, followed by gambling, depression, addiction or other health problems.

Third party fraud may come from suppliers, customers or potential customers, employees, or people pretending to be any of these. Online fraudsters can tap the wealth of information available on social media to create fake emails and business profiles that appear genuine. 'Phishing' emails that pretend to be from some reputable organisation, like a bank or HMRC, can lead to the loss of confidential data and passwords to criminals.

Protection measures for business

- Ensure everyone in the business uses strong passwords and updates them often.
- Only authorised people should be able to place orders and make payments.
- Make sure that more than one person is involved in making payments above a set amount.
- Consider installing electronic monitoring systems to detect unusual financial activity or movements of data.

Look out for employees making sales to non-existent customers. Keep your business assets register up-to-date and make regular physical checks of assets, ensuring valuable assets are held securely. Test financial statements for unexpected changes in margins, turnover and costs. Only give trusted and senior employees access to critical information within a business.

Fraud is more difficult to perpetrate where there is a formal policy of separating out duties. It is essential to set a clear division between the person requesting a transaction and the person authorising payment.

Credit: iStock/xijian

Flexing your business

Flexible working has become widespread in many businesses, reflecting changes in technology as well as employees' expectations about their work–life balance. As the idea spreads to pay and benefits, how could it work for you?

The concept can include everything from flexible access to salary, flexible work options, financial wellbeing benefits and flexible pension options.

Ideally a benefits package could be tailored to suit each individual employee's needs – and these can vary. Many employees simply prefer to have fewer benefits in favour of a higher salary, and some are even prepared to sacrifice holiday entitlement in exchange for a pay rise. Others would happily cut back on benefits if it meant more holiday. So flexibility could help retain current employees, and also help recruit the best talent.

Smaller employers

Smaller employers may not be in a position to offer a full range of flexible pay and benefits. However, some options should be possible.

- **Flexible pension options:** Employees can choose to save more for their retirement, which is particularly important given that many employees feel unprepared financially for giving up work. Financial advice and retirement seminars are obvious add-ons and can help minimise stress.

- **Flexible training:** Employers can provide a fixed amount that employees can spend on training courses unrelated to work, improving productivity and creativity in the day job.

- **Workplace loans:** Employees can access a proportion of their salary, interest-free, before the normal payday. Such flexibility will help employees avoid debt and cope with unexpected expenses. Moving away from a fixed payday to flexible pay cycles could achieve the same thing.

Flexible working

Flexible working has traditionally been seen as flexitime, but there are other approaches, such as job sharing, working from home, moving from full-time to part-time work, working the same number of hours but over fewer days, annualised hours (working a fixed number of hours annually, with flexibility outside of core hours), and staggered hours (having different start, finish and break times from other workers).

Such flexibility allows an employee to take more control over their work-life balance, often without seeing their pay suffer. Parents appreciate the flexibility, and working from home removes the time, cost and stress of commuting.

A multi-generational workforce

One of the greatest challenges to offering flexible working is that the workforce might consist of several age groups. Flexibility therefore needs to span every stage of an employee's life, from coping with student debt to moving towards retirement.

The key to getting this right is listening to what employees actually want, rather than making assumptions based on their age.

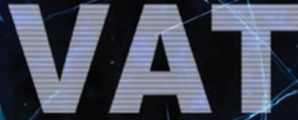
For example, help with childcare cannot be aimed at a specific age group because an older employee might adopt or a grandparent might want to take grandparental leave. Although younger and older employees may be presumed as having the most needs, it is just as important not to forget those in the middle – they might have children away at university, but now support older parents needing care.

One straightforward option is to allocate an allowance for an employee to spend on whatever suits them, especially as a complex list of potential options can be difficult for an employer to manage. Group risk products can be useful because they can cater for multi-generational needs. However, care must be taken in how such products are structured, particularly around potential tax liabilities.

Flexible thinking around what a business can offer is the first step.

> *Individuals' needs vary. Flexibility could help retain current employees, and also help recruit the best talent.*

Credit: iStock/Kerrick



It’s alive! MTD for VAT

It’s finally here. Making Tax Digital (MTD) for VAT went live at the start of April. Over four out of five businesses were aware of MTD according to research by HMRC in February, but more than half of them were not planning to sign up by 1 April.

Credit: iStock/Ievgeniiya Ocheretna

Most VAT registered businesses with taxable turnover above the VAT registration threshold of £85,000 must now keep their records digitally because of MTD. They are also required to file their VAT returns using software that can communicate with HMRC through its Application Programming Interface (API).

Digital reporting is only required for complete VAT quarters starting on or after 1 April 2019. The first quarterly VAT returns will become due for businesses that file a return for the quarter ending 30 June 2019, with a deadline of 7 August for businesses to file and pay their VAT.

Fortunately, HMRC has promised a ‘light touch’ approach towards businesses in the initial one-year ‘soft landing’ period. So, for example:

- Businesses will not need to set up digital links between software programs – HMRC will temporarily accept ‘cut and paste’ instead.
- Penalties will not be issued for late filing but they will be charged for late payment.
- A business that has made a genuine mistake in reporting will not be charged a penalty.

The `soft landing’ period will last until at least April 2020, giving businesses time to adopt the right software and set up the digital links. If you have a business that you have not yet registered for MTD, bear in mind that registration takes seven working days to complete. And those who pay VAT by direct debit will need to register at least seven days before submitting a VAT return.

If a business cannot meet the MTD obligations, it may be possible to claim an exemption, for example, if its premises are too remote to obtain internet access, or the owner has a disability that prevents the keeping of digital records.

Please get in touch with us if you have any questions on MTD.

Caught in the high income **child benefit tax trap?**

Parents and carers with income of more than £50,000 may face large backdated tax bills plus penalties if they have not been paying the High Income Child Benefit Charge (HICBC).

Anyone who is responsible for a child can claim child benefit of £20.70 a week for the first child and £13.70 for each further child. However, if your adjusted income is more than £50,000, and you or your partner has claimed child benefit, you will have to pay back 1% of the benefit for every £100 by which you have exceeded that limit. You will have to repay all of the child benefit if the adjusted net income is over £60,000.

To pay the HICBC you need to complete a self-assessment tax return. Anyone who has not already done so must register for self-assessment by 5 October following the tax year in which the charge first arises. There is a particular problem for some people whose income has increased above £50,000 but have not realised that the onus is on them to complete the tax return and pay the tax.

Credit: iStock/SolStock

When they eventually register, or HMRC catches up with them, these people are faced with a back payment from the date their income first exceeded £50,000 plus penalties for the late declaration. The penalty may be withdrawn if the taxpayer has a 'reasonable excuse' for the failure, but there will still be a tax charge which could amount to several thousand pounds.

One way to avoid liability to HICBC is for neither parent to claim the child benefit, but doing that may result in a loss of state pension rights. If a parent is off work and not paying national insurance contributions (NICs), they receive credits towards the state pension by claiming child benefit for a child under 12.

If the working parent earns more than £60,000, so that the whole of the child benefit would have to be repaid, a non-working parent could make a claim to obtain the NIC credits, but opt not to receive the benefit payments.

If you think you could be affected, please get in touch.

> *Some people whose income has increased above £50,000 have not realised that the onus is on them to pay the HICBC.*

Swings and roundabouts of **income tax changes**

The personal allowance for 2019/20 is now £12,500 and the higher rate income tax threshold has increased to £50,000 for those outside Scotland – a year earlier than promised.

These increases are well ahead of inflation – 5.5% for the personal allowance and 7.9% for the higher rate threshold. But are these increases as beneficial as they appear?

Employees

For an employee with earnings of £50,000, the income tax saving compared with 2018/19 is a quite respectable £860. However, main rate employee class 1 NICs are now payable up to the new £50,000 threshold. So for 2019/20, NICs have increased by £340.04 – reducing the net benefit of the personal allowance for such employees.

Then, once the higher workplace pension contributions for 2019/20 are taken into account, the final outcome could be negative: a monthly shortfall of just over £42. Most better-off pensioners, however, benefit from the income tax saving without suffering the drawbacks.

Company owner/managers

Company owner/managers can avoid the NIC increase if they withdraw at least some of their profits as dividends. Although the increased contributions to workplace pensions may not be directly relevant to them, they must still have a plan for retirement.

Couples

The higher personal allowance and tax threshold provide more scope for married couples and civil partners to reduce their overall tax liabilities. The increases represent at least another £1,000 of potential further tax savings where one partner is an additional rate taxpayer and the other partner has little or no income, depending on circumstances.

Please get in touch if you would like to start planning early in the 2019/20 tax year.

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