



BUSINESS FOCUS

Pension reform – are you ready?

Between 2012 and 2016 employers will be required to automatically enrol eligible workers into a qualifying pension scheme. The key aim of the policy is to help ensure that UK workers are saving enough for their retirement.

The scheme could be an existing company scheme (if it meets, or can be changed to meet, the necessary criteria) or it could be a NEST (National Employment Savings Trust): a simple low-cost pension scheme being introduced by the Government.

Who is an 'eligible worker'?

An eligible worker is an employee aged between 22 and the State Pension Age and earning above the income tax personal allowance (£7,475 in 2011/12). Workers aged between 16 and 22, or between State Pension Age and 75, who are earning more than £7,475 will not be enrolled automatically but can ask to be enrolled. Workers earning below £7,475 a year may opt in to their employer's workplace pension.

Automatic enrolment and phased implementation

Auto-enrolment should take place within three months of a new worker commencing employment. Eligible workers have the right to opt out, but not until they have been auto-enrolled. Auto-enrolment is being phased in between 2012 and 2016 (larger employers first, smaller employers last). Employers with less than 50 workers will have their staging date set over 18 dates between 1 August 2014 and 1 February 2016. Further details on the likely timescales can be found on the Pensions Regulator website (www.thepensionsregulator.gov.uk).

Compulsory contributions

All businesses will need to contribute at least 3% on a band of qualifying pensionable earnings for eligible jobholders. However, to help employers adjust, compulsory contributions will be phased in, starting at 1% and rising to 3% by 2017. Employees will also contribute to their pension scheme – this will start at 1% of their salary, before rising to 4% by 2017. An additional 1% in the form of tax relief will mean that there is a minimum 8% contribution rate.

Employers: preparing for the changes

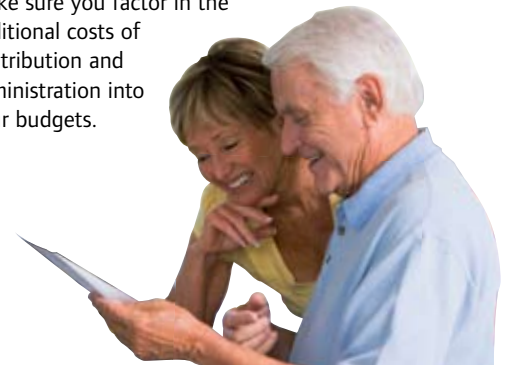
Although smaller employers will not be affected for a few years, it is essential to plan for the changes in good time. Consider the following:

Decide which scheme will suit your business and workforce – Decide on the type of pension scheme you will offer. Do you have an existing scheme that meets (or can be changed to meet) the Government's requirements? Consider whether an employer pension scheme or NEST is most appropriate for your organisation.

Discuss the changes with employees – How do you intend to communicate the changes to members of staff? Make sure you have a strategy in place for briefing employees and plan how you will manage any queries that arise.

Review your systems – How will you adapt your existing administration and payroll systems to accommodate the changes? What are the time and cost implications?

Budget for the cost increase – The changes will undoubtedly have financial implications for employers. Make sure you factor in the additional costs of contribution and administration into your budgets.



Please note, this is intended as a summary of the main changes. Please seek advice if you have any questions.

Autumn
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Inside this Issue...

A risky business? VCTs versus the EIS

Tax breaks for charitable giving

Changes to the fuel advisory rates and bands

Business Round-Up

Web Watch

Reminders for your Autumn Diary

A risky business? VCTs versus the EIS

Investments under the Enterprise Investment Scheme (EIS) and investments in Venture Capital Trusts (VCTs) are generally considered relatively high risk. However, tax breaks aimed at encouraging new risk capital mean that EIS and VCT investments may have a place in your investment strategy. Here we examine the key features of each scheme and look ahead to the reforms scheduled to take effect in April 2012.

The Enterprise Investment Scheme (EIS)

The EIS is designed to encourage wealthy individuals to invest in smaller higher-risk trading companies whose shares are not listed on a recognised stock exchange. It provides certain tax reliefs for investors who subscribe for qualifying shares in qualifying industries.

Key features:

- Tax relief is available to investors who purchase new shares in EIS companies
- An EIS company must satisfy HMRC that it meets certain conditions
- Shares must be paid up in full when issued and must be full-risk ordinary shares
- Investment can be made directly to the company or via an EIS fund
- Income tax relief and capital gains tax deferrals are available to the investor
- Whilst any capital gain on the investment may be exempt, relief against other gains or income is available (meaning you could get up to 50% income tax relief in the event of a loss).

Venture Capital Trusts (VCTs)

Launched shortly after the introduction of the EIS, VCTs allow individuals to invest in a range of small unquoted companies and spread their risk. VCTs are companies listed on the London Stock Exchange, and are similar to investment trusts.

Key features:

- VCTs invest in trading companies by providing them with funds to help them grow
- VCTs must be approved for the purposes of the scheme
- Investors subscribe for, or buy shares in, a VCT
- In return investors may benefit from income tax and capital gains tax reliefs
- VCTs are exempt from corporation tax on gains arising on the disposal of their shares.

At a glance: VCTs vs. the EIS

The reliefs for VCTs and the EIS are similar in many respects, but there are some significant differences. The table below highlights the main reliefs.

	VCT	EIS
Maximum investment	£200,000	£500,000
Minimum holding period	5 years	3 years
Income tax relief on investment	30%	30% (20% for shares issued before 6 April 2011). Carry back to previous tax year permitted
CGT relief	Gains exempt	Gains exempt if held for more than three years. Deferral relief available
Loss relief	No	Yes – against income tax and capital gains tax
Dividends	Tax-free	Taxable

Recent and future changes

Various changes were announced in the 2011 Budget to help smaller companies compete for finance.

These included raising the rate of income tax relief on EIS investments from 20% to 30% (for shares issued from 6 April 2011).

Further changes also apply for shares issued from 6 April 2012 (subject to State Aid approval). From that date:

- the employee limit for both EIS and VCT purposes will be increased to fewer than 250 employees (currently 50)
- the gross asset limit will be increased to £15 million before the investment (currently £7 million before and £8 million after)
- the maximum annual amount that can be invested in a company will be increased to £10 million (currently £2 million)
- the annual amount that an individual can invest under the EIS will be increased to £1 million (currently £500,000).

Before investing under the EIS or in a VCT, we recommend that you seek professional advice.

This article is intended to provide an overview of each scheme and it is not comprehensive. Please contact us if you wish to explore these options further.



Tax breaks for charitable giving

There is a wide range of tax reliefs available for gifts to registered charities. This article considers some of the most popular reliefs available and includes details of the forthcoming changes proposed by HMRC.

Gift Aid

The Gift Aid scheme is well-known and provides relief for gifts to charity. Community Amateur Sports Clubs are also able to benefit from the scheme. The scheme applies where gifts are made by UK taxpayers. The donor must complete a Gift Aid declaration confirming that the gift is to be treated as a Gift Aid donation. The gift is treated as being made net of the basic rate of income tax and the charity then reclaims the basic income tax from HMRC. If the individual is a higher or additional rate taxpayer, tax relief on the difference between the basic rate and the higher or additional rate, as appropriate, is reclaimed via the Self Assessment tax return.

Example

Lucy is a higher rate taxpayer. She makes a donation of £80 to a charity under the Gift Aid scheme.

The donation is treated as being made net of the basic rate of tax. The gross donation is £100 (£80 x 100/80). The charity reclaims the tax of £20 from HMRC.

As Lucy is a higher rate taxpayer she is entitled to relief at 40% (i.e. £40). Basic rate relief (£20) is given at the time the deduction is made (as Lucy pays the net amount to the charity). The balance of the relief is given via Self Assessment by extending the basic rate band.

There is no limit on the donations that can be made under Gift Aid as long as the individual has paid enough tax.

However, there is a cap on the benefits that may be given to a donor in exchange for a donation. The benefit allowed in relation to gifts of £10,000 is capped at £2,500 (£500 before April 2011) or 5% of the donation if lower.

During 2012/13 HMRC is planning to introduce a new online system for registering Gift Aid details and making Gift Aid claims. In addition, from April 2013 charities will be able to claim Gift Aid on

small donations of £10 or less (up to a maximum of £5,000 a year) without the need for a Gift Aid declaration.

Payroll giving

Under payroll giving employees can make gifts to charity through the payroll. The donations are deducted from gross pay and as a result tax relief is given at source.

Shares and securities

Income tax relief is available for certain gifts of shares and securities to charities. This relief extends to gifts of shares and securities listed on a recognised stock exchange or on the Alternative Investment Market (AIM), shares in an authorised unit trust, open-ended investment company and in certain collective investment schemes. Relief is given on the market value of the shares at the time they are given or sold to the charity, plus costs of disposal, less any consideration received. Relief is claimed via the Self Assessment tax return.

Gifts of property

Income tax relief is also available for certain gifts of land and buildings to charity. As with shares, the relief is given on the market value of the property plus incidental costs of disposal, less any consideration. Again, it can be claimed via the Self Assessment tax return.

Works of art

The Government is to consult on introducing a tax reduction for taxpayers who give a work of art or historical object of national importance to the State.

Reduced rate of inheritance tax

In relation to deaths occurring on or after 6 April 2012 a reduced rate of inheritance tax will apply where 10% or more of the deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. This rate of inheritance tax on the remainder of the estate is reduced from 40% to 36%. The proposals are subject to consultation.

Please contact us to discover how you can make the most of the tax reliefs available. We would be delighted to assist you.



Changes to the fuel advisory rates and bands

HMRC has published new advisory fuel rates, which apply to all relevant journeys made on or after 1 June 2011 (please see the table on the right).

The advisory fuel rates relate to company cars and are accepted by HMRC either for employers reimbursing employees for the cost of fuel for business mileage, or for employees reimbursing employers for the cost of fuel for private mileage.

Employers are not obliged to reimburse their employees at the advisory rates, as long as any alternative rates can be justified, for example using a higher rate per mile where an employee is required to use a four-wheel drive vehicle in the performances of his or her duties.

The rates are usually revised biannually, although HMRC recently confirmed that it will review the rates at the beginning of each calendar quarter – on 1 March, 1 June, 1 September and 1 December. In view of this, it will no longer consider making changes if fuel prices fluctuate by 5% from the published rates.



There is also a new band for diesel cars which caters for vehicles with engines up to and including 1600cc.

Car – fuel only advisory rates			
Engine capacity	Petrol	Gas	Diesel
1400cc or less	15p	11p	12p
1401cc - 1600cc	18p	13p	
1601cc to 2000cc			15p
Over 2000cc	26p	18p	18p

Rates from 1 June 2011 and are subject to change.

We can advise on tax-efficient motoring options for your business – please call us for assistance.



Business Round-Up

The Bribery Act comes into effect

The Bribery Act 2010 came into force on 1 July 2011. It covers bribery which takes place in the UK and overseas, by employees and third parties employed by the organisation.

The Act outlines four offences of bribery and introduces a new corporate offence of bribery. In summary, it provides:

- a general offence of active bribery, which prohibits giving someone a financial or other advantage to induce them to perform their duty improperly
- a general offence of passive bribery, which prohibits requesting, receiving or accepting a bribe
- an offence of bribing a foreign public official in order to win business, keep business or gain a business advantage for the organisation
- an offence relating to failure by a business to prevent a person associated with it from committing the above offences on its behalf in order to win business, keep business or gain a business advantage for the organisation.

The maximum penalty for bribery has risen from seven to 10 years imprisonment and/or an unlimited fine. Disqualification from acting as a director for a substantial period of time may also arise in some cases.

An organisation will have a full defence against the corporate offence if it can show that it had 'adequate procedures' in place to prevent an act of bribery. According to the official Ministry of Justice (MoJ) guidance, procedures should be proportionate to the organisation's bribery risks. What counts as 'adequate' will therefore depend on the

bribery risks faced by a business and its nature, size and complexity.

For further information please consult the MoJ guidance (available at: www.justice.gov.uk).

Revenue goes on the offensive

HMRC is carrying out a series of campaigns throughout 2011/12 in an attempt to tackle what it sees as tax avoidance.

During the summer, it launched a new campaign to target VAT rule-breakers trading above the £73,000 turnover threshold who have not registered for VAT. Those that notify HMRC of their intention to take part before the deadline, and then make a full disclosure, may face a reduced penalty rate.

HMRC has also published details of a separate campaign that will target those who use e-marketplace sites such as e-Bay and Amazon to buy and sell goods as a trade or business. While occasional sellers are unlikely to be liable to tax, people earning a living as self-employed traders may need to pay income tax, national insurance and VAT.

In addition, HMRC is also scrutinising the tax affairs of private tutors and coaches who are able to earn either a main or secondary income from their expertise. The campaign covers people providing private lessons, regardless of whether they have a teaching qualification, and could include, for example, fitness/dance/lifestyle coaches through to national curriculum subject tutors and others.

If you have any questions or concerns about the issues raised here, please contact us.

Web Watch

Essential sites for business owners

www.brand-i.org

A new free directory which enables shoppers to search for authorised stockists of a particular brand.

www.businessgrowthfund.co.uk

Details of the new Government-backed Business Growth Fund.

www.thebusinessnetworkonline.com

Connects firms with valuable leads, contacts and opportunities across the UK.

www.mentorsme.co.uk

New scheme that connects companies with mentoring organisations.



Reminders for your Autumn Diary

September 2011

30 End of CT61 quarterly period.

Last day for UK businesses to reclaim EC VAT chargeable in 2010.

October 2011

1 Due date for payment of Corporation Tax for period ended 31 December 2010.

5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2010/11 if a Tax Return has not been received.

14 Due date for income tax for the CT61 quarter to 30 September 2011.

19/21 Quarter 2 2011/12 PAYE remittance due.

31 Last day to file 2011 paper Tax Return without incurring penalties

November 2011

1 £100 penalty if 2011 paper Tax Return not yet filed. Additional penalties may apply for further delay. Please ensure you are retaining your documents for the 2012 Tax Return.

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