

FINANCIAL SERVICES NEWSLETTER

OCTOBER 2016

CLOSING TAX LOOPHOLES

HM Revenue & Customs is concerned about the extent to which employers are assisting their employees to reduce their liability to income tax and National Insurance contributions by offering benefits in kind in lieu of salary.

It is proposing that with effect from April 2017 certain such 'salary sacrifices' would be brought into charge to tax. Three schemes would be excluded and permitted to continue, namely:

- employer-sponsored childcare
- the provision of bicycles and biking safety equipment and
- both employer pension contributions and the £500 allowance for advice on financial planning for retirement which it is proposed that employers should make available to their employees.

These schemes are explained in the three following items.

Schemes which would fall foul of the new restrictions relate to private medical insurance, company cars, workplace



parking, health screening and the provision of mobile phones, computers and TVs. Employers will be required to report such schemes to HMRC.

Aside from the loss of tax revenue caused by such schemes, the government is aware that they perpetuate an inequality in that the benefits are largely confined to higher-paid employees.

TAX-ASSISTED CHILDCARE

The tax-advantaged arrangements for childcare are about to change. Currently, parents who are employed are able to claim a childcare tax credit or to buy childcare vouchers, with the cost being deducted from their salary before tax is charged. However, no such scheme is available to the self-employed.

This deficiency is being addressed in a new scheme which is to be introduced next year which will offer savings per child, rather than per parent.

Basic rate taxpaying parents who use the voucher scheme can spend £243 per month on childcare regardless of the number of their children, representing a saving of £930 per year.

Under the new scheme, the government will pay 20% of the childcare costs up to a maximum of £2,000 p.a.. But if either parent earns more than £100,000, both parents will be disqualified. Tax-free childcare is also not available to parents receiving tax credits or universal credit.

The voucher scheme will close to new entrants in April 2018 but may be

maintained by some employers, and some employees may be better off under this scheme. In particular, it is a condition of eligibility for the tax-free childcare scheme (but not the voucher scheme) that both parents must be working at least 16 hours per week and paid at least the national living wage.

Basic rate taxpayers who spend less than £9,336 per year on childcare will be better off with vouchers, as will higher-rate taxpayers who spend less than £6,252 per year. However, those with large families who spend more on childcare will benefit from the fact that the maximum benefit of the tax-free childcare scheme is £2,000 per year, compared with £930 for the voucher scheme.

Parents currently using the voucher scheme will be able to switch to the new scheme next year if they wish to do so.

TAX-ASSISTED CYCLING

Employers with an interest in their employees' health can also provide a useful tax incentive by participating in the government's Cycle to Work scheme.

The scheme involves employers buying a bike on an employee's behalf and charging the employee for its use. The monthly payments are deducted from the employee's gross salary so that no tax or National Insurance is paid on the value of the benefit. No interest is payable, and



payments are usually spread over 12 to 18 months.

The higher the tax bracket of the employee, the greater the value of the perk. Someone earning £100,000 p.a. whose employer buys a bike for £1,000 would save £418, while the benefit to someone earning £30,000 would be £319. Group schemes, benefiting from bulk purchasing terms, are available to employers with a number of participating employees.

It is a condition of the scheme that the bike should be used for at least part of the journey to work.

The bike belongs to the employer at the end of the payment period but some schemes allow the employee to continue using the bike for a token deposit and others allow the employee to buy the bike for its market value.

PENSIONS ADVICE ALLOWANCE

Under proposals published by HM Treasury, pension savers would be permitted to draw £500 tax-free from their personal pensions to pay for advice on retirement planning. No decision has

yet been taken as to the minimum age at which the withdrawal could be made, but this is likely to be less than the age of 55 at which other withdrawals are permitted.

Employees will have access to a total allowance of £1,000, because in addition to the standard allowance, a further £500 allowance is to be made available as a tax-free perk to employees seeking advice in relation to their employers' occupational schemes.

To qualify, the advice would have to be provided by a regulated firm.

NO COMMENT NEEDED!

The Financial Ombudsman Service has issued a table showing the number of complaints lodged against financial advisers. The three worst offenders were Sesame, the adviser network, which accounted for 160 complaints, and restricted advisers Openwork and St James's Place, which accounted for 80 and 58 complaints respectively.

A testimony to the importance of seeking independent and conflict-free financial advice!

