



Point of View: Pre Budget Report & Benefits Market update

The Pre Budget Report (PBR) was relatively quiet on non-pension benefits, but has significant implications for pensions and some non-pensions benefits alike.

Employers and employees National Insurance Contributions (NICs), will increase by 1% from 6 April 2011. This is a further 0.5% to that announced in the last Budget. This is coupled with an increase to the primary NIC threshold (and lower profits limit) of £570 to compensate the lowest earners from the increase. This increase of 1% in the paybill is significant and makes salary sacrifice benefits all the more attractive.

Pensions tax relief

The Budget announced restriction of tax relief on pension contributions for the £150,000 earners from 6 April 2011 and the PBR extends the focus of these provisions to the £130,000+ earners.

The definition of "income" now includes employer's pension contributions. Prior to the PBR, a £130k earner with £25,000 pension contributions would not be subject to the Special Annual Allowance Charge. However, following this PBR, employees will now have the tax relief on those contributions restricted in respect of £5,000. These rules are subject to the transition arrangements announced in the Budget.

Company car tax charges and fuel scale charge

The current company car tax bands will be extended down to a new 10% rate on vehicles with emissions up to 99CO₂g/KM from 6 April 2012, giving greater encouragement to very low CO₂ emissions vehicles.

The Fuel Scale charge has been £16,900 for cars (£500 for vans) for a few years and will now be £18,000 for cars (£550 for vans) from 6 April 2010. This charge applies to employees who receive private fuel. However, the prevalence of this benefit has reduced greatly over the last five years on cost grounds. We are aware of only a couple of our clients who provide private fuel cards to employees. With the potential for fuel cards now to be taxed at 50%, multiplied by the relevant car Benefit in Kind (BIK) percentage and the escalating costs of petrol and diesel, we believe this benefit might disappear altogether.

Company provided electric vehicles

Car and van benefit charges for company provided electronically powered vehicles will be reduced to nil and companies will receive a 100% first year allowance for corporation tax purposes from 6 April 2010.

There are still very few electric vehicles on the road, however these incentives might encourage employers to review their policy. We understand that the major car manufacturers are developing products in this market and the tax breaks provide potential inducements for employers to buy. However we still believe this will have a very small impact for the next two tax years.

Workplace canteens

We have been predicting the closure of the workplace canteens tax exemption (under S317 ITEPA 2003) for some time, so this measure comes as no surprise. The exemption ceases on 6 April 2011 for plans which are incorporated in flex and salary sacrifice plans, but the provision of free or subsidised workplace meals outside of salary sacrifice and flex continues.

We have a couple of clients with such plans but have been advising clients since the guidance rules were published in 2007 that this exemption was problematic. The 15 month run-off period is helpful for those employers needing to re-structure the way that the workplace canteen is run.

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Tax rates

From the Budget, the new 50% tax rate starts in April 2010 and the PBR freezes the point at which 40% tax becomes payable at £37,400 for the tax year 2010/11. This measure is consistent with targeting the higher paid, but with a moderate pay rise in the forthcoming year, a new group of employees may start paying 40% tax for the first time.

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Commentary

This PBR further underlines the power of salary sacrifice as a tax and NIC efficient mechanism. The anti-forestalling measures restrict the ability of the higher paid to use their pension as a way to avoid 50% tax through contributions in excess of £20,000 per annum.

Another group, those earning between £103,000 and £113,000, gradually lose their personal allowances, although this group can, it appears, use pension contributions to minimise the tax impact of this loss, which is, in effect, a 62% tax rate for some income.

Salary sacrifice benefits provide enhanced NIC efficiency for all employees and for many, enhanced tax efficiency. For some groups, in particular those who just exceed the various tax thresholds, salary sacrifice could be used to great effect to minimise the exposure to the increasing tax rates.

See example below;

We believe that HMRC will continue to question any salary sacrifice or Flexible Benefits plan where there is opportunity to challenge the efficacy of the salary sacrifice or the associated tax treatment. In addition, after the reduction in the tax relief available on childcare vouchers the Government are showing increasing concern about salary sacrifice, so we might expect further changes.

However, there is one piece of very good news in the Pre Budget Report; for the first time there appears to be a formal acknowledgement about the legitimacy of salary sacrifice in respect of pensions. This is good news since many commentators had feared that the Government might attack pensions - the single most significant salary sacrifice benefit.

Example

An employee earns £160,000 and receives an £20,000 bonus resulting in taxable earnings of £180,000, £30,000 of which is taxed at 50%. If they make salary sacrifices as follows, significant amounts of tax and NIC may be saved:

- Pension contributions - employer under salary sacrifice **£19,900**
- Health screen **£750**
- Holiday buy - 10 days at £615 per day **£6,150**
- Car salary sacrifice at £1,000 per month **£12,000**

Total salary sacrifice	£38,800
Tax saved - at 52% (tax plus NIC)	£15,600
- at 42% (tax plus NIC)	£3,696

Subtotal **£19,296**

Tax on benefits i.e. car	
PIID value - £40k at 22% £8,800	£3,520

Total tax/NIC saved **£15,776**

Benefits Market Update

No doubt you are aware of the recent HMRC challenges in respect of bicycles and buses. HMRC have now published guidance on their website to clarify these issues;

Bicycles

The issue under recent dispute has been the value of the bicycle at the end of the lease period when the ownership of the bicycle may be transferred to the employee. Several of our clients have had bicycle schemes challenged and some of the bike providers have been less than helpful in resolving these. The HMRC have now determined a scale of values to apply to bikes and while this does not appear to be based on the market place for second hand bicycles, if an employer cannot demonstrate a different value, this value will apply. The HMRC values will be either the (net pay) price of the bicycle as it is transferred or the basis of taxation if the bicycle is transferred to the employee free of charge. This erodes the value of the tax exemption although it can still be argued to represent good value to employees who wish to utilise bicycles this way. The best way to counter this is to work with the bicycle provider to set up a scheme that either sells the bicycle to the employee via the provider or a scheme that does not transfer the title to the bicycle at all.

Bus tickets

A few of our clients operate the bus tickets scheme under salary sacrifice. This option remains viable but the ticket purchased has to relate to a specific bus route to work and the employer's subsidy of the bus route must be similarly specific for the tax exemption to apply. It is not clear exactly how this will be applied but what is clear is that the general subsidy some employers have been paying will not satisfy HMRC and an area season ticket may not suffice unless its use is restricted to specific routes. These guidelines build complexity and administration costs in for the employer and the bus company and may discourage future implementations.



Childcare vouchers

The Pre Budget report was silent on the subject of childcare vouchers but Gordon Brown announced his 'U turn' on 2 December 09. Guidance is expected from HMRC shortly, but we understand that tax relief on childcare vouchers up to £243 per month will continue but will be restricted to basic rate from 6 April 2011. This is a welcome change for working parents and the childcare vouchers industry.

All reward and benefit plans are different. Please contact us or your usual tax advisers for specific guidance. The above is provided as commentary only and should not be construed as advice from either Hewitt Associates or Benefex.

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“ non-pensions salary sacrifice benefits are becoming even more significant and good value ”

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