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Business Matters

Tax-efficient pension savings: carrying forward the annual allowance

Contributing to a registered pension scheme can be a tax-efficient way of saving for your retirement, as contributions attract tax relief at an individual's marginal rate of tax, subject to certain limits.

One of those limits is the annual allowance, which places a cap on the amount of tax-relieved contributions made in any tax year. The annual allowance was reduced from £255,000 to £50,000 from 2011/12. However, provisions apply which allow unused allowances to be carried forward for up to three years.

What counts towards the annual allowance?

The annual allowance is the amount by which pension savings can grow each year. Members of defined contributions schemes will need to look at total contributions (whether personal, employer or third party). Members of defined benefits schemes will have to work out how much their accrued pension has increased during the year.

It is important to note that contributions in excess of the annual allowance can be made to registered pension schemes. However, contributions which exceed the allowance do not qualify for tax relief. Where tax relieved contributions have been made in excess of the annual allowance, the relief is clawed back by means of an income tax charge.

The three year carry-forward rule

Unused allowances can be carried forward for up to three years. It is possible to make pension savings of more than £50,000 in a tax year if unused allowances are available from one or more of the previous three years.

The carry-forward rule was introduced from 2011/12. For 2008/09,

2009/10 and 2010/11 allowances can be carried forward where actual pension savings are less than an assumed allowance of £50,000. The amount carried forward is the difference between £50,000 and the amount of tax relieved pension savings for the year.

Carrying forward your unused allowances

There are strict rules as to the order in which available allowances must be used. The annual allowance for the current year is used first. Carried forward allowances are then used, with the earliest year's unused allowances utilised first.

Example: Polly makes total pension savings to registered pension schemes as follows:

Year	Pension savings	Unused allowance
2012/13	£75,000	Nil
2011/12	£20,000	£30,000
2010/11	£60,000	Nil
2009/10	£30,000	£20,000

The £50,000 annual allowance for 2012/13 is used to shelter the first £50,000 of 2012/13 contributions.

The remaining contributions of £25,000 are sheltered by £20,000 of unused allowances carried forward from 2009/10 and £5,000 of the £30,000 of allowances carried forward from 2011/12.

Due to the availability of the allowances carried forward, Polly can make tax-relieved contributions of £75,000 in 2012/13, despite the fact that this is more than the £50,000 annual allowance for the year.

The remaining unused allowances from 2011/12 (£25,000) can be carried forward to 2013/14 and 2014/15.

We can advise on a wide range of tax and financial planning issues. Please contact us for assistance.



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Employee share schemes: a slice of the company pie

Companies are being advised to offer shares to their workers as part of Government plans to boost employee share ownership. Ministers hope the proposals will help to create a new era of 'responsible capitalism'.

If you are contemplating an employee share scheme, there are many points to consider. The most appropriate scheme will, of course, depend on your individual circumstances, so you should always seek expert advice before making a decision.

Setting up a scheme

The positive effects of share schemes are well documented, with some employers reporting an increase in employee motivation and staff retention. The potential tax saving for both employers and employees is also viewed as a significant benefit.

However, before deciding to set up a scheme, employers should also consider the potential disadvantages, such as the negative effect on morale and employee retention if the share price falls, as well as the cost of setting up and running a share scheme.

What types of schemes are there?

There are various employee share schemes to choose from, including tax-advantaged and taxed (approved and unapproved) options. Schemes can involve giving free shares to employees, granting them options to buy shares at a specified price after a specified period of time, or allowing employees to buy shares, and sometimes matching these with free ones. Some of the most popular schemes are explored opposite.

Enterprise Management Incentives (EMI)

Under EMI, certain small higher-risk trading companies (quoted or unquoted, with gross assets of no more than £30 million and fewer than 250 employees) can grant options over a maximum of £3 million worth of shares at any one time. The options are normally free of income tax and national insurance charges upon grant and on exercise. Certain trades are excluded from EMI options. Employees cannot hold qualifying EMI options, taking into account Company Share Option Plan (CSOP) options also granted to them, with a total market value of more than £120,000 at the date of the grant. This is to be increased to £250,000 once state aid approval has been obtained.

SAYE linked Share Option Schemes ('Sharesave')

Under Save As You Earn (SAYE), employees are granted options at a discount of up to 20% at the start of the savings contract. Monthly amounts of between £5 and £250 for up to five years are deducted from pay, under a certified SAYE contract with a bank or building society.

At the end of the savings contract a tax-free bonus is payable. Employees use the proceeds of the savings contract, including the bonus, if they want to exercise the option, normally after three, five or seven years. If they do not, the proceeds are repaid in cash, tax free. There is no tax or national insurance charged on the discount or on the gain made when the option is exercised.

Company Share Option Plan (CSOP schemes)

Employees are granted options to acquire shares at the market price at the date of grant. Employees may be granted options over shares worth up to £30,000 at any one time. There is no tax or national insurance charged on the gain made when the option is exercised, provided that the options are held for at least three years unless participation ends through disability, redundancy or retirement.

Share incentive plans (SIPs)

SIPs provide employees with the opportunity to acquire shares (as opposed to share options). They have four core elements: free shares (up to £3,000 in any tax year); partnership shares (up to £1,500 in any tax year); matching shares; and dividend shares. Various rules and restrictions apply, so please ask us for further information.

Employees who keep their shares in a SIP for five years will pay no income tax or national insurance in respect of those shares, while those who keep their shares in the plan for three years will pay income tax and national insurance on the initial value of the shares, but any increase in value of the shares will be tax free.

These are just some of the schemes available. We can advise on the most appropriate course of action for your business – please contact us for details.



There are various employee share schemes to choose from, including tax-advantaged and taxed (approved and unapproved) options.



The 2012 Budget: Some key measures

In addition to the so-called 'pasty tax', 'granny tax' and other contentious measures, the 2012 Budget contained some significant announcements on business and personal taxation. Here we outline some of the key measures which recently came into effect and which are in the pipeline.



Business measures

Corporation tax

The Chancellor doubled the reduction in corporation tax, bringing the main rate down to 24% in April. The rate will be further reduced to 23% for the financial year commencing 1 April 2013 and to 22% for the financial year commencing 1 April 2014.

Research and development (R&D)

The additional corporation tax deduction given to SMEs for qualifying R&D expenditure has risen from 100% to 125% in respect of expenditure incurred on or after 1 April 2012. The Government will introduce an 'above the line' R&D tax credit from April 2013 with a minimum rate of 9.1% before tax. Loss making companies will be able to claim a payable credit.

National Loan Guarantee Scheme

The National Loan Guarantee Scheme was launched ahead of the Budget, with the aim of giving small businesses greater access to finance. Further details can be found on page four.

Tax calculations for smaller businesses

From April 2013 a new cash basis for calculating tax for small unincorporated businesses will be introduced. The Government will consult on the details of the scheme, including extending eligibility to businesses with turnover up to the VAT registration threshold of £77,000.

Personal measures

Income tax and personal allowances

The 50p additional rate of income tax will be reduced to 45p with effect from April 2013.

Further to the recent increase in the income tax personal allowance, the allowance will rise again in 2013, to £9,205. The Chancellor also announced that the age-related personal allowances will be frozen from 2013/14, and will not be available for anyone turning 65 after 5 April 2013.

Stamp Duty Land Tax

A new 7% Stamp Duty Land Tax rate now applies to properties worth more than

£2 million. A 15% duty applies to residential properties worth over £2 million that are purchased by certain 'non-natural persons'.

Unlimited tax reliefs

A new cap will also be applied, from April 2013, on previously uncapped income tax reliefs to prevent individuals from claiming relief in excess of £50,000 (or 25% of their income if greater).

Changes to Child Benefit

From 7 January 2013 a new income tax charge will apply to individuals who receive Child Benefit, or whose partners receive Child Benefit, where income is more than £50,000 for the tax year. If both partners exceed this threshold, the charge will apply to the partner with the highest income. For those with income between £50,000 and £60,000, the benefit will be clawed back by 1% for every £100 of earnings in excess of £50,000.

For more advice on how the Budget measures affect you and your business, please contact us.

Remote control: the implications of remote working

With requests for flexible working continuing to rise, and technology having an ever-increasing influence on the way we work, conducting business away from the office is becoming more commonplace. Here we consider some of the advantages – and potential pitfalls – of remote working.

Business benefits

Cutting costs

The growth of affordable internet access and technology means that more businesses are now able to set up remote working bases away from the office. This can allow them to make significant savings on the cost of running an office, including rental costs, furnishings, utility bills, maintenance and cleaning bills.

Impact on staff

As well as cutting down on an expensive and time-consuming commute, working from home or an alternative base can allow staff a better work-life balance and can lead to an increase in morale and productivity, as long as it is carefully managed.

Virtual and serviced offices

Using virtual or serviced offices could allow you to substitute the cost of running a traditional office for a relatively small monthly outlay. Some of the flexible packages on offer range from use of address and mail forwarding services, to a full-time workstation with receptionists, telephone answering service, IT services, security and access to meeting rooms.

Avoiding the pitfalls

Making the right choices

Requests from staff to work away from the office should be considered carefully. Employees must be reliable and self-motivated. Wherever they are based, staff should have a dedicated working area, which is free from non work-related distractions, and you should consider asking an employee to come in to the office for key meetings or team events.

Considering IT and security

Access to the necessary technology and resources is essential to enable your staff to work efficiently away from the office. Make sure they can stay in touch with other members of the team, for example via video conferencing facilities. Security is also a vital consideration, so make sure you have sufficient measures in place to cover such areas as securing sensitive data, and the loss or theft of equipment.

Keep it personal

While working away from the office can have a number of benefits, it is important to maintain a good relationship with your clients and avoid losing the personal touch. If you are planning to meet clients, you should make sure that your chosen venue will give the right impression.

Being open to flexible working arrangements can also have a number of benefits for your business, but it is important to consider the implications carefully before granting requests from your staff.

Business Round-Up

New mentoring scheme is launched

The Government has launched a new online training tool to encourage experienced business owners to mentor fledgling SMEs.

The free online tool, which can be found at www.getmentoring.org, is designed to make it easier for individuals to join the growing online network of business mentors.

Provided by the Small Firms Enterprise Development Initiative, the facility is part of the Get Mentoring scheme which was launched in November.

Some 15,000 new mentors are being recruited in a bid to help entrepreneurs fulfil their potential. Entrepreneurs searching for support will be able to access mentors through www.mentorsme.co.uk.

National Minimum Wage to rise in October

The Government has announced that the national minimum wage (NMW) for individuals aged 21 and over will rise to £6.19 per hour from 1 October 2012. The change equates to a 1.8% increase in the existing rate, which is currently set at £6.08.

Eligible apprentices are also set to benefit from a 5p increase, taking the minimum hourly rate from £2.60 to £2.65.

However, the rate for those aged 18 to 20 will remain unchanged at £4.98, while the rate for 16 and 17-year-olds will also remain at its current level of £3.68.

The Government's decision, which is based on the recommendations of the Low Pay Commission, has attracted a mixed response.

Some organisations have warned that the increase in the main rate will cost businesses at a time of rising inflation, while union leaders have criticised the decision not to help those aged under 21.

National Loan Guarantee Scheme gets underway

In March the Chancellor launched a new National Loan Guarantee Scheme (NLGS), designed to give smaller businesses greater access to cheaper finance by guaranteeing banks' own borrowing.

Up to £20 billion of Government guarantees will be provided on unsecured borrowing by participating banks, enabling them to borrow at a cheaper rate. They will then pass on the entire benefit to businesses which, when taking out an NLGS loan, will receive a discount of one percentage point compared to the interest rate that they would otherwise have received from that bank outside the scheme.

As an example, a business receiving a loan of £1 million could receive a discount of up to £10,000 a year – money that can be reinvested in the future of that business.

The loans are available to all UK businesses with a company group annual turnover of less than £50 million. Banks currently participating in the scheme are Barclays, Santander, Lloyds and RBS, with Aldermore having also agreed to join in principle. Around £5 billion in guarantees will be made available in the first tranche.



Web Watch

Essential sites for business owners

www.businessinyou.bis.gov.uk

Offers support for entrepreneurs and start-ups

www.ifb.org.uk

Home of the Institute for Family Business

www.getmentoring.org

Online network of business mentors from the small and medium-sized business community

www.ukti.gov.uk

Website of UK Trade & Investment, offering support to UK-based businesses to help ensure their success in international markets



Reminders for your Summer Diary

June 2012

30 End of CT61 quarterly period.

Annual adjustment for VAT partial exemption calculations (March VAT year end).

July 2012

6 Deadline for submission of Form 42 (transactions in shares and securities).

Deadline for submission of EMI40 (EMI Annual Return).

File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.

14 Due date for income tax for the CT61 period to 30 June 2012.

19/20 Quarter 1 2012/13 PAYE remittance due.

Final date for payment of 2011/12 Class 1A NICs.

Second payment due date for 2011/12 Class 2 NICs.

31 Second Self Assessment payment on account for 2011/12.

Annual adjustment for VAT partial exemption calculations (April VAT year end).

Liability to 5% penalty on any tax unpaid for 2010/11.

Deadline for tax credit Annual Declaration (if estimated, final figures required by 31/01/13).

August 2012

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

31 Annual adjustment for VAT partial exemption calculations (May VAT year end).