EMPLOYMENT TAX UPDATE

New Tax Year – Changes from April 2016

Further to The Budget and the start of the New Tax Year, below is a summary of some of the key changes taking place relating to employment.

Auto enrolment - larger employers have already staged and smaller employers will be staging over the next 12 months. Employers need to be aware that the employer contribution will be increasing to 3% by April 2019 so they need to budget accordingly. They should also consider allowing employees to salary sacrifice to convert the employee contribution to an employer contribution because this is more effective from an NIC perspective.

Abolition of dispensations - replaced by an automatic exemption for expenses and benefits that would qualify for relief if claimed by the employee. This may mean that some payments that were previously covered by a dispensation can no longer be excluded from P11D entry. The risks for getting this wrong are now very much on the employer. Robust expenses policies are essential.

Bespoke allowances - employers can agree higher flat rate expenses reimbursements where a sampling exercise can show that on average the rate does not produce a "profit" for the employee.

The "lower paid" classification of employee ceases to exist. All employees fall within the P11D regime and this means that some previously exempt benefits and expenses payments for lower paid workers will now be taxable.

Travel expenses - changes to rules on claiming travel expenses for those engaged through agencies, umbrella companies and potentially personal service companies. Workers in these categories will find the ability to claim relief for expenses more difficult. Workers providing services through an intermediary should consider the effect on net income as a consequence and may wish to consider alternative arrangements for the future.

Salary sacrifice - in exchange for travel costs will not be effective from 6 April 2016. There may be pressure on employers to pay more to compensate employees for the higher tax and NIC costs. A consultation process is under way to consider salary sacrifice generally with the intention of narrowing the scope. Salary sacrifice for pension contributions, cycle to work and childcare vouchers will remain, but other uses of salary sacrifice may cease to be affective in the future.

Trivial benefits exemption - employers now able to provide gifts (up to a value of £50 per gift per employee) to employees free of tax and NIC, providing the gift is not a reward for work done. For example, taking employees out for a birthday would qualify, but taking employees out because of beating the sales target will not. There is an annual cap of £300 for directors and members of the directors household.

Employment allowance - is increasing from £2,000 to £3,000, but the availability has been restricted so it will not be available to one person companies. We await further details, but it is rumoured that a one-person director company will not be able to qualify by simply employing a member of their household to change the classification of the company from a one-person company.

New student loan complications - the new style student loans start to become repayable. There are different rules for new and old style student loans so care is required to operate the correct set of rules.

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RTI - ending of the temporary RTI relaxation for small employer. The relaxation allowing employers with 9 or fewer employees to report once a month is being removed. All employers must operate full RTI with reporting to HMRC on or before every pay date.

Payrolling of benefits - certain benefits can be taxed through the payroll instead of forms P11D from 6 April 2016, providing agreement with HMRC is in place before the start of the tax year. A P11D(b) is still required at the end of the year to account for the class 1A NIC so this looks like more work for the employer, not less! HMRC are using a system that is different to anything that has been trialled so waiting until the teething problems are ironed out and not payrolling benefits until at least the 2017-18 tax year appears a sensible approach.

If you require further information on employment tax issues, please email Andrew Brookes at abrookes@menzies.co.uk. Alternatively, if you would like further information on changing employee contracts, please contact Ed Hussey at ehussey@menzies.co.uk

Construction Industry Scheme - monthly returns must be submitted electronically from April 2016. Paper returns will no longer be accepted so contractors will need to either: use the third party software, a bureau (such as Menzies LLP) or the Government Gateway.

Pension Schemes - there is no longer any requirement to enrol or re-enrol directors into a pensions scheme under a company's automatic enrolment obligations regardless of whether a contract of employment is in place or not. The employer will have the discretion to decide whether or not directors should be auto-enrolled.

The above may impact your business in a number of ways other than changing the tax position. For example, you may need to review the contracts for your workers.