Employee Benefits

Autumn Statement 2016

This newsletter provides a summary of the announcements made in the 2016 autumn statement that have an impact on UK employee benefits. Included below is information on changes to salary sacrifice, tax treatment on foreign pensions insurance premium tax and the money purchase annual allowance.

Salary Sacrifice

A salary sacrifice is an agreement between an employer and an employee to change the terms of the employment contract to reduce the employee's entitlement to cash pay. In return they will receive a non-cash benefit, such as increased pension contributions or child care vouchers. This reduction in salary leads to national insurance tax savings to both the employer and the employee.

From April 2017, the tax benefits of salary sacrifice will be removed for some arrangements. You should therefore review any salary sacrifice arrangements you currently offer your employees and consider if they will still be beneficial to the company. However, it is important to note that these changes will not affect arrangements in respect of pensions, childcare, cycle to work and ultra-low emission cars. Therefore, if you are using salary exchange in conjunction with these specific benefits, no changes will be necessary.

Tax treatment on foreign pensions

The Government has announced changes to the taxation of foreign pension schemes being paid into the UK. The changes will mean that income from registered overseas pension schemes, being paid into the UK, will be taxed in the same way as income from UK based pension schemes. Currently only 90% of income from an overseas pension scheme is taxable, compared to 100% from UK based pension schemes. There is currently no fixed date from when the increase to 100% for overseas schemes will take effect. Anyone saving into a pension scheme overseas and considering moving back to the UK should consider these changes before drawing their pension.

Insurance Premium Tax

The standard rate of insurance premium tax (IPT) is to increase from the current 10%, to 12% from June 2017. This is a rise for the third consecutive budget, meaning the rate of IPT has now doubled in the last 18 months.

This will directly affect benefits such as private medical insurance and dental insurance provided by employers. The average rate of IPT in Europe is between 15% and 20%, and therefore the rate may continue to creep towards these levels.

The money purchase annual allowance

There is a restriction on how much money a UK worker can save into a pension scheme each year and still benefit from generous tax reliefs. This limit is known as their Annual Allowance. Currently this allowance is capped at £40,000 per annum. However, this allowance can reduce to £10,000 per annum for anyone who has begun receiving their personal or workplace pension.

For example, if an individual has multiple pensions from their previous employers and they take cash from one of these pension schemes, the amount they can continue to save into their other pension schemes and still receive tax relief will reduce to £10,000 per annum. This is known as the money purchase annual allowance (MPAA). From April 2017, the MPAA will reduce to £4,000 per annum, greatly reducing the flexibility for those approaching retirement.

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