

CLIENT BULLETIN

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A G Kelly Ltd – Accountants

PAY DAY MISERY

The first pay day of the new tax year is likely to produce a nasty shock for most employees: they will find that their net pay has fallen, in some cases substantially. There are two reasons for this: National Insurance contributions and the new Tax Credits régime.

As announced in last year's Budget, National Insurance contributions rise by one percentage point from 6 April 2003. One per cent does not sound much, but an individual earning £15,000 a year will find that his National Insurance deduction rises by £8.65 a month. The income tax personal allowance has been frozen for 2003/04, so there will be no reduction in PAYE deductions to compensate.

Indeed, a man with children is likely to find that his PAYE deductions will increase, by £10 a week or £44 a month. This is because the Children's Tax Credit, which was a tax allowance, has been superseded by the Child Tax Credit, which is in all but name a Social Security benefit paid direct to the child's 'main carer', who is usually taken to be the mother.

In some circumstances, the transfer from father's wage packet to mother's bank account may be substantially more than £10 a week or £44 a month. This is because, although the Child Tax Credit and the Working Tax Credit have, taken together, replaced Children's Tax Credit and the Working Families' Tax Credit (WFTC), it is not simply the case that the Child Tax Credit has replaced the Children's Tax Credit and the Working Tax Credit has replaced WFTC. In many cases, the money that was previously paid with father's wages as WFTC will now be paid direct to mother as part of her Child Tax Credit.

An employee who finds that his net pay has fallen substantially is likely, as a first step, to query the position with his employer, so employers need to be able to explain what has happened, at least in broad terms. They may also need to warn employees that the new Tax Credits have to be claimed: by the middle of March less than half the number of people thought to be entitled had submitted a claim form to the Inland Revenue. Claims cannot be backdated for more than three months, so anyone who does not claim by the beginning of July will lose money. A claim form can be obtained by telephoning the Tax Credit Office on 0800 500 222.

A final point for employers is that, because more families will be entitled to the new Tax Credits than were entitled to WFTC, they are likely to receive more requests for documentary 'proof of earnings'. The Inland Revenue recently repealed its traditional prohibition on the issue of duplicate Forms P60: a duplicate Form P60 may now be given to an employee who has lost the original, providing it is clearly marked 'Duplicate'.

A STING IN THE TAIL FOR THE SELF-EMPLOYED

The changeover from the Children's Tax Credit (the old tax allowance) to Child Tax Credit will create a fool's paradise for self-employed people. They will begin to receive the new Child Tax Credit from April 2003, but their income tax payments for July 2003, January 2004 and July 2004 will continue to be based on the tax rules for 2001/02 and 2002/03, when the Children's Tax Credit was due. This relief will then be clawed back in January 2005, making the January 2005 tax payment £793.50 higher than in January 2004, assuming income and other circumstances are unchanged. The 'worst case scenario' would be if the 'new baby' rate of Children's Tax Credit was claimed for 2002/03, as that would produce a clawback, in January 2005, of £1,573.50.

The one per cent increase in Class 4 National Insurance contributions will also first be paid with the January 2005 instalment – for example, if an individual earns £15,000 a year, this will increase the payment due by £155.77.

MINIMUM WAGE TO RISE

The Department of Trade and Industry has confirmed that the National Minimum Wage will rise from £4.20 to £4.50 an hour from October 2003, with a further rise to £4.85 an hour pencilled in for October 2004. These rises represent increases of 7.1% and 7.8% respectively: by comparison, inflation is running at 2.7% and earnings growth in the economy as a whole at 3.7%.

The Youth and Development Rate will rise from £3.60 to £3.80 an hour in October 2003, and to £4.10 in October 2004 (rises of 5.6% and 7.9% respectively). However, the Government has rejected a Low Pay Commission recommendation that 21-year-olds should be entitled to the full, rather than the youth, rate. But it is considering setting a special rate for 16- and 17-year-olds, who are at present outside the National Minimum Wage scheme altogether.

WORKING TIME RESTRICTIONS FOR YOUNG PEOPLE

New Working Time Regulations, effective from 6 April 2003, further limit the hours which may be worked by young people (those over compulsory school age but not yet 18).

First, total working time is limited to 8 hours a day and 40 hours a week (counting from Sunday to Saturday). This means, for example, that the scope for asking a young person to work overtime will be very limited. If the young person has more than one job, even with separate employers, the working hours have to be amalgamated.

Second, night working between 10pm and 6am is prohibited (or, if the employee's contract requires him to work after 10pm, between 11pm and 7am).

The Regulations do allow for exceptions, where working longer or later hours is necessary 'to maintain continuity of service or production or to respond to a surge in demand' but it is not at all clear from the Eurospeak in which the Regulations are written whether this allows longer or later working as a matter of course, or only to cover for situations which could not reasonably have been foreseen. We would advise employers who want to take advantage of any of the exceptions to take specialist legal advice.

TELEVISION LICENCES

We hear that television detector vans have recently been targeting business premises. A surprisingly wide range of businesses have television sets, but unfortunately not all have thought to buy television licences. In some cases, this may be because they have genuinely misunderstood the sometimes complex rules but anyone without a licence risks a fine of up to £1,000.

Television sets are often provided to entertain customers – not only in places, such as public houses, where people go to enjoy themselves, but also anywhere customers may have to wait, such as a taxi office, a take-away or even a dental surgery. They are also frequently found in staff mess rooms and canteens.

Another point to watch is that any equipment used to receive television programmes requires a licence – and that includes a computer with a PCTV card. For that reason, television licensing officers have been paying particular attention to banks and financial service companies.

Except for hotels and other businesses offering short-term overnight accommodation (which should apply for a special hotel licence), the general rule is that a standard television licence covers any number of television sets used by a trader on the same premises. However, the 'business' licence will not cover any sets in, for example, a manager's or caretaker's flat, which will need to be separately licensed by the occupier.

MONEY LAUNDERING

The Money Laundering Regulations are to be extended, with effect from 1 June 2003, in two significant ways:

- All solicitors, accountants, licensed conveyancers, estate agents and business transfer agents will become subject to the requirement, previously imposed on banks and financial service businesses, to ‘know their customer’ and to report suspicious transactions to the authorities.
- It will be illegal for any business to sell goods, of any kind, for a cash payment equivalent to 15,000 euros or more (approximately £10,000) unless it is registered with HM Customs & Excise as a ‘high value dealer’.

Registration as a ‘high value dealer’ will cost about £100 and the business will also have to send its nominated Money Laundering Reporting Officer on a training course, which is likely to cost a further £250. High value cash transactions will have to be recorded, with evidence of the customer’s identity, and any suspicious transactions reported to the authorities.

Auctioneers will be treated as vendors, and so may be required to register as high value dealers, even though they sell goods on behalf of their clients. Auctioneers, in particular, will have to watch the rules ‘linking’ a series of sales which together are worth £10,000 or more.

Final details of the scheme are still awaited, but should soon be available from HM Customs & Excise.

PENSION CONTRIBUTIONS

The Government published its long-awaited Green Paper on Saving for Retirement at the end of last year. The main changes proposed are that:

- The percentage-of-income limits on pension contributions will be abolished. Instead, an individual will be able to contribute any amount to a pension plan, up to a sum equal to his total earnings for the (tax) year. Individuals with no or very low earnings will still be able to contribute up to £3,600 a year to a stakeholder pension plan.
- Total contributions to pension arrangements for an individual will be capped at £200,000 a year. Although this seems a very high figure, it may be relevant

where a family company wishes to buy a pension for a long-serving director or employee on the point of retirement.

- Tax relief will be clawed back where an individual's pension fund exceeds £1.4 million – obviously, this will affect relatively few people.

The new rules, when introduced, will simplify pension planning. The bad news is that the Government appears determined not to abolish the rule that the bulk of a pension fund must be used to buy an annuity, no later than age 75.

Pension contributions and Tax Credits

A point not mentioned in the Green Paper is that, for many lower and middle-income families, the effective Government subsidy on pension contributions is now 59%: 22% tax relief plus 37% Tax Credit taper. Shortly put, from April 2003 a family's Tax Credit entitlement (except their entitlement to the basic £545 a year Child Tax Credit or £1,090 New Baby Credit) reduces by 37p for every £1 of income, and in calculating 'income', pension contributions may be deducted.

Pension projections and benefit statements

The official estimate is that half of all self-employed people are not currently contributing to any personal pension or stakeholder pension plan. To make sure they realise how little they can expect from the State scheme, the Government will, starting next month (May 2003), send every self-employed person a forecast of his or her National Insurance Retirement Pension.

The rules for the annual statements issued by personal pension and stakeholder plans have also been changed, with effect from 6 April 2003, to require the projected pension to be calculated net of an allowance for inflation between today and the anticipated date of retirement – in other words, to show the value of the pension in today's money. This lower projection is supposed to goad people to save more, but it may just depress them.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

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