ATT Welcome, October 2015

Welcomes

01 October 2015

Auto-enrolment: its impact on ATT members

At a recent ATT/CIOT members' tax conference, the professional standards team from Artillery House, which was running a session on professional standards, was asked about auto-enrolment. The questioners wanted to know what ATT members should and shouldn't be doing for their clients and what advice they could give.

Heather Brehcist from the standards team asked whether I would write an article to give some direction.

Auto-enrolment is going to have an impact on most clients.

Those who have a payroll system such as Sage, Pegasus or IRIS should have the capability to meet the record-keeping and production of standard letters required to meet the compliance requirements and avoid being fined. Others may have to upgrade their package.

The auto-enrolment timescale

The staging date for employers with fewer than 50 employees started on 1 June 2015 and runs until 1 April 2017. The number of small businesses affected is estimated to exceed 1.2 million, so we all have clients that need to do something.

A colleague of mine mentioned that his client had received a letter from the Pensions Regulator suggesting that the Pension a Scheme needs to be in place five months before staging date. The letter was suggesting best practice to get the pension in place in advance of the staging date?

The requirement is that you must have the scheme in place by the date your first employees are eligible to join the scheme, so for most employers that will be your staging date.

How you can check your client's staging date?

This is the easiest part of auto-enrolment. In the section 'know your staging date' on The Pensions Regulator website, insert the client's PAYE number. Add a security code to confirm you are a human and then your client's staging date will appear.

What advice you can give

ATT members can be proactive in providing advice to employers. The recommendation of a suitable auto-enrolment pension scheme to the employer does not fall under the Financial Conduct Authority's definition of investment advice. You cannot give advice to individual members, so there is a clear distinction.

You will be able to charge fees (check your engagement letter – a new version including auto-enrolment will be available for members shortly) and help your employer clients through the whole process, but you must not advise the individual members. You can be involved in the group presentation to staff because you are simply providing information on the employer's scheme.

How to avoid the 55% tax trap

One of the biggest mistakes you can make when advising clients on auto-enrolment is failing to check whether any of the members have pension protections already in place.

If a member with one of the pension protections listed below joins you have one month to get them back out, otherwise they will make a pension contribution and suffer a tax charge of 55% on lump sum payments over the pension's lifetime allowance of £1.25 million (2015/2016) and £1 million (2016/2017). A firm of accountants working with my practice asked what could be done for one of its clients who had enhanced protection, sold their business, started some part-time work and joined their new employer's auto-enrolment scheme. The answer was that they could do nothing and the tax bill would be more than £500,000 because they lost their pension protection.

The pension protections you need to check for are:

- enhanced protection;
- fixed protection 2012;
- fixed protection 2014; and
- fixed protection 2016.

HMRC have published guidance on this, ‘Protection of your lifetime allowance – fixed protection 2014’ (APSS228 HMRC 08/13).
Employers that have identified members with pension protection can exempt them from joining auto-enrolment schemes and this avoids the same problem arising in three years when businesses have to re-enrol those who originally opted out.

Auto-enrolment is a huge topic and I have simply scratched the surface here but, if any ATT members want to know more, email me so that I can better understand of the type of questions you would like answered.