

EXCLUSIVELY FOR CONTRACTORS

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Is This The End For Final Salary Schemes?

Final salary pension schemes have been with us for about 100 years. Initially set up (surprise, surprise) for Civil Servants they provided pensions linked to earnings and of course have been very popular with employees because they provide certainty as to the pension which will be received in retirement and therefore allow the pensioner to plan for his or her retirement safe from the vagaries of fluctuating annuity rates.

The alternative is a money purchase scheme. Under these schemes you get precisely what you pay for without any guarantee from the employer as to the level of pension.

After so many years of popularity the reasons for what now looks to be the imminent demise of final salary schemes are:-

- Compared with 50 years ago life expectancy in retirement has doubled (yes, that's not a misprint!) that means that the promise by the employer which has to be matched by available funding is becoming much more expensive.
- Over the years early retirement options have been built into final salary schemes and people have been retiring earlier. Technology has cut a broad swathe into clerical jobs which have accounted for a huge proportion of early retirements.
- You may remember five years ago Gordon Brown changed the way that tax credits on dividends were treated. This was pretty well the first thing that he did do! It was an easy 'hit' for him to make but its effect was to reduce incomes derived from pensions by 20%.
- Because of the above factors there has been a concern about the ability of companies to fund the liabilities that their schemes have to pensioners. There have also been a number of scandals about the use of pension fund monies (Maxwell and

others) and this has led to a new accounting standard which means that the assets of pension funds have to be valued much more regularly and to disclose whether or not the funds are sufficient to pay the liabilities. British Telecom have a deficit of about £3bn which shows you how bad the situation is.

Many companies are now switching out of final salary schemes into money purchase schemes for new employees and there is one message that is pretty clear and that is that anybody who has a pension arrangement based on final salary should think very carefully indeed before they leave the employer that is providing it to them.

It will probably not have escaped your notice that Members of Parliament have just voted themselves an increase in their pension entitlements which will boost the pensions they draw by a little over 20%. They know what's good for them, don't they?

IR35 – IT'S COSTING EVERYBODY MONEY!

A survey carried out by our professional institute in conjunction with the Chartered Institute of Taxation has revealed that not only is the Government collecting more in taxes for its own coffers but it's costing contractors and their advisors in both time and money to comply with the legislation.

Tax advisers (us Accountants!) have incurred and are continuing to incur significant costs which are not passed on to clients in full and contractors themselves have been spending many hours in trying to come to grips with the new rules.

Worryingly, approximately half of those surveyed and who were caught by IR35 have not acted in time to make increased salary payments and there still seems to be a 'knowledge gap' as far as professional advisers are concerned.

There certainly isn't at Wheawill & Sudworth and if you have any contractor friends who are struggling (or whose advisors are struggling) with IR35 then please send them along to us!

LITIGATION IN AMERICA

Every now and again we bring you the latest example of the lengths that people will go to in an attempt to transfer money from somebody who has more of it to themselves. However ridiculous these examples may be it's worthwhile reading them because if it happens in America then you can bet your bottom dollar (sorry euro!) that in a short few years it will happen here as well.

A construction worker used a circular saw to deliberately amputate one of his hands while on the worksite. He claimed that the hand was 'possessed'. His work colleagues who were rather more sensible rushed him to hospital complete with the severed hand. At the hospital the man demanded that the doctors do not reattach his hand because of its evil properties. So, they did not and guess what, - he is now suing the doctors and hospital for damages because he claims they should have known that he was psychotic and reattached the hand anyway.

Yes, it's true!

W&S WEBSITE

For the latest news please look at our website www.wheawill.co.uk. It is updated daily with business news and by the minute with the UK news. The "business info" section contains the latest information that you are likely to need to help you run your business.

If you have any comments or suggestions on the website please contact Evan Jones on evanj@wheawill.co.uk.

QUOTE

One recent item that we found particularly interesting was that the Inland Revenue spent £16m in advertising last year. This was an increase of 68% over the previous year! "If the Lord had meant us to pay taxes, he'd have made us smart enough to prepare the tax return"
Kirk Kirkpatrick

Looking at the Inland Revenue advertising statistics to justify this huge increase in expenditure either we are getting dumber or the Tax Returns are getting more complicated!

E-FILING TO BECOME MANDATORY

What this Government specialise in is making announcements which give only a broad outline of what is intended. The poor old tax payer and his advisers are left to rummage through the detail to find out just how these statements will be translated into law. You will remember this only too well with IR35 which was relegated to what was hoped would be a minor press release.

The new finance bill will mean that all payroll information will by 2010 have to be submitted online. Anyone failing to comply by this time could be fined up to £3,000. This move has been attacked by the professional Accounting and Taxation Associations as being both 'punitive' and 'underhand'. The problem they fear is not that it is undesirable to take advantage of new technologies but that a lot of elderly or disabled people who employ carers or people who use nannies will be caught up in this legislation.

There surely has to be some kind of distinction drawn here but it isn't looking that way at the moment.

Incidentally, any employer wishing to register their payroll information on the Inland Revenue website should delay for a month or two because it is not functioning properly!

NEXT NEWSLETTER

We have the month off from publishing our newsletter in August. We hope you all have a wonderful Summer (!) and we look forward to seeing you again in September. If you have any questions on any of our newsletters or any suggestions then please email them to evanj@wheawill.co.uk. You have been particularly helpful with regard to suggesting improvements to our website and we are grateful to you.

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