BIRCHWOOD INVESTMENT MANAGEMENT LTD

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Brussels plans an overhaul of EU redundancy law

The European Commission is considering responses to a call for comments from social partners on how they think three directives, concerning collective rights, transfer of undertakings and informing and consulting workers, should develop.

In a statement it said a "fitness check" it undertook on the three directives found they are "generally relevant, coherent and efficient. But the check did find some gaps and shortcomings related to the practical operation of the directives as regards wording and definitions."

This may result in the three directives being rolled into one or at least being simplified.

The TUC, through the European TUC, has made its views known to the European Commission. It would particularly like, says policy officer Hannah Reed, the definition of what constitutes an establishment for the purpose of collective consultations strengthened. "The TUC supports the European Trade Union Confederation's (ETUC) view that each separate unit should be considered as an establishment. Ideally we would prefer no thresholds whatsoever and we are concerned employers can avoid thresholds by breaking their organisations up into smaller units."

Reed says the ETUC does not want the three directives rolled into one as that "could lead to a watering down of rights".

The European Commission's consultation raises the prospect of adopting the more demanding definitions of information and consultation from the 2009 European Works Council Directive. According to the European Commission, harmonising standards 'upwards' in this way would contribute to 'a more effective exercise of the rights and obligations of all' concerned.

However, there are some who feel this could detrimentally affect employers because stricter obligations to inform and consult could result in delays to business restructuring, mergers, sales and other business change, as well as the potential for more litigation alleging breaches of the new and more extensive consultation rights, as well as an increased risk of leaks regarding market-sensitive, confidential information.

As part of our comprehensive outplacement services, Birchwood can provide bespoke advice to employers. For more information, please contact us.

Government to raise auto-enrolment upper limit

From April 2016, the Department for Work and Pensions (DWP) is raising the qualifying earnings upper limit for auto-enrolment from its 2015/16 value of £42,385 to £43,000 in 2016/17. The lower limit qualifying earnings band will remain at £5,824 and the earnings trigger will be frozen at £10,000 for 2016/17.

The qualifying earnings band sets the minimum contribution levels for money purchase schemes. The minimum of the band is also relevant to defining who can opt in if they earn under the earnings trigger. The upper limit caps mandatory employer contributions.

In an analysis paper, the DWP commented on keeping the auto-enrolment earnings trigger at £10,000 and said: "It was felt that this struck the right balance between administrative simplicity and ensuring that the people brought into pensions saving are likely to benefit."

However, it added that small and micro employers should talk to their auto-enrolment provider about pension tax relief systems as 'net pay' arrangements do not have a mechanism for those earning below the income tax threshold of £10,600 to claim tax relief on contributions.

Under the proposed arrangements, the Government estimates that the overall level of pension saving will be £2,380 million in 2016/17, which is £23 million higher than it would be if the thresholds remained at 2015/16 levels. Around £12 million of this increase would be from higher employer contributions, whilst approximately £9 million would be from higher individual contributions and £3 million would be from increased tax relief on individual contributions.

Birchwood Investment Management's fully qualified team offers extensive experience in auto-enrolment and other occupational pension issues. Our experts can provide advice on a one-to-one basis, or through seminars, or we can provide more specialist assistance with reviewing and upgrading pension schemes or implementing new schemes. For more information, please contact us.

Savers could lose a third of their pension in tax changes

Higher rate taxpayers could lose up to a third of their pension pots if proposed changes to tax relief go ahead. The Daily Mail reports that the Chancellor is trying to save billions by cutting the amount of tax relief the Government offers.

But analysts have warned potential changes would hit middle income workers hardest, and could see them miss out on tens of thousands of pounds. Critics say the Chancellor's plan could have a 'disastrous effect' on encouraging people to save for retirement and have labelled the plans a 'stealth tax'.

A 40-year-old earning around £50,000 a year stands to miss out on up to £175,000 by the age of 65 if tax relief is scrapped altogether. Other options being considered would see the same worker losing out on between £44,000 and £110,000 by the time they retire, according to pension provider Fidelity. Currently, workers earning £42,385 or more – higher rate income taxpayers – receive a tax-free boost of £2 from the Government for every £3 they save into a pension.

It means they typically get around 42 per cent more back than they invested when they retire, once income tax paid on withdrawing pensions is taken into account. But proposed changes could see tax relief cut dramatically or scrapped altogether. In the worst cases, savers could lose money.

It is expected the Chancellor will choose to make the system fairer by changing the tax relief rates of 20 per cent for basic rate taxpayers and 40 per cent for higher-rate taxpayers to a flat level of either 33, 25 or 20 per cent. Currently higher rate taxpayers only have to invest £60 to get £100 in their pension pot. But if tax relief is dropped to 33 per cent, they will receive just £90 for the same investment. This falls to £80 if it is cut to 25 per cent, and £75 if slashed to 20 per cent.

The Chancellor may even approve another proposal under consideration – to drop tax relief altogether and treat pensions like ISAs by allowing them to be withdrawn tax-free. But this would mean most people would not make any money from saving into a pension – so fewer workers would be encouraged to put money away for retirement.

Richard Parkin of Fidelity said: "It's tempting to think of higher-rate taxpayers as super wealthy but higher rate tax starts for those earning around £43,000. Changes to higher rate tax-relief will ...have a big impact on many people who've worked hard to get on.

"It's likely to mean that there'll be less money going into pensions for these people which means they'll have to save more or look forward to a less comfortable retirement."

A Treasury spokesman commented: "The Government launched a wide-ranging consultation on the system of pensions tax relief last summer. We have not decided on whether or how to reform the system and are considering all options, including retaining the current system...We are considering the responses and will respond at the Budget."

As a pensions' specialist, Birchwood can provide expert advice to help retirees make informed decisions to bolster financial security in later life. For more information on any aspect of pensions or retirement planning, please contact us.

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