

CHANCERY MANAGEMENT NEWS UPDATE

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On This Day In Previous Years

1923 An earthquake at a strength of 7.9 strikes Tokyo and Yokohama, kills 142,000 people.

1926 Turkey allows civil marriage.

1939 Hitler orders extermination of all mentally ill people

1939 Switzerland proclaims neutrality.

1946 Greece votes for monarchy.

1972 Egypt and Libya form federation.

Salary Sacrifice Addition

In August we highlighted items that can be deducted from gross pay as a salary sacrifice. One item we omitted was professional fee deductions. If any employer pays a contribution to a recognized professional institution in respect of membership for their profession such as the Institute of Directors (IoD) it may be repaid to the company by way of a salary sacrifice

Pensions

The value of pension funds have dramatically reduced over the last 15 years and are at an all time low and they continue to drop in value. According to very recent statistics in the media the value of pensions has dropped by 15% in value and now for every £10,000 invested in a pension fund the value at retirement is estimated to produce £600.00.

According to very recent statistics it is still worth investing in property as an alternative to investing in a pension fund in the current economic climate after taking into account the recent drop in property prices.

The Government has recently announced its intention to change the way in which the measure of inflation is calculated for increases to the state pension. The Government was using the Retail Price Index (RPI) but now intend using the Consumer Price Index (CPI) which is considerably lower.

The combination of the use of the CPI being introduced will be quite punitive for pensioners as

the interest rate remains artificially low. In many cases the interest rate is so low, by the time tax is taken off for pensioners that remain liable for it, the net gain becomes insignificant.

National Insurance And Employment Outside The UK

The rules regarding National Insurance contributions when people are working outside the UK are varied and can be complex.

For ease of reference there are three main categories:

1. The European Economic Area (EEA) countries and Switzerland.
2. Non EEA countries with which the UK has a relevant agreement (reciprocal agreement)
3. The other countries

There are different rules for each group.

EEA COUNTRY

Effective 1 May 2010 a common system of social security applies to countries within the EEA. The rules are contained in EC regulation 883/2004. The rules apply to EEA nationals working in the EEA or Switzerland for an EEA or Swiss employer. These rules apply throughout the EEA including the UK.

Where a non EEA national who is legally resident in the EEA is sent to work in another EEA country, the rules in Regulation 1408/71 continue to apply.

Under the Regulations, the basic rule is that the employee pays National Insurance contributions in the country in which they work. Therefore, if a UK employee is working in France the rule known as the *lex laboris* rule states that the employee should pay the French equivalent of National Insurance and be insured under the French social security system rather than paying National Insurance in the UK. This rule is however subject to an important exception in relation to posted workers. Special rules also apply to workers who normally work in more than one EEA member state.

EEA COUNTRY FOR LESS THAN TWENTY FOUR MONTHS

A posted worker is one who is sent temporarily to work in another country.

When the posting is to another EEA country or Switzerland and it is expected to last less than twenty four months, the worker can remain in their home country social security system. To take advantage of the rules:

The employer responsible for the posting must be directly responsible for the recruitment, contract of employment and termination of the employment.

The employer responsible for the posting must have the authority to determine the nature of the work.

The employer responsible for the posting should habitually carry out significant activities in the territory of the home member state, including recruiting staff for immediate posting to another member state.

The rules do not apply if the employer posting the worker is only engaged in internal management issues in the home country or if the worker is recruited in one EEA state in order to be posted to a third EEA country. Successive postings are only treated as a new posting if there is a gap of at least two months between the postings.

Remaining in the home country scheme is not automatic. The employer must apply for certificate A1 which replaces the E101 and E102 from May 2010 for EEA nationals.

There are two application forms which the employer may need to complete.

1. CA 3821 employer's questionnaire for employees working in an EEA or reciprocal agreement country.

2. CA3822 employees temporarily posted to another country in the EEA.

The first form must be completed the first time the employer sends employees to work abroad and the second form must be completed for each worker temporarily posted to another EEA country. Form A1 provides evidence of the employee's continued liability to home country National Insurance contributions exempting the employee from liability to pay social security contributions in the posted country.

MORE THAN ONE MEMBER STATE

Special rules apply to employees and their employer if they normally work in more than one member state, Effective 1 May 2010.

If an employee lives in one member state and does work in another member state, the rules that apply are within the country where the employer has the registered office. However if the employee lives and works in one member state but has to travel occasionally on a business trip to another member country then the rules of the employee's country of residence apply.

HM Revenue and Customs state that the decision regarding in which country substantial activity is undertaken in should be based on 25%. If an employee undertakes 25% of their work in any member state and earns 25% of their salary in that member state then that is where the tax and National Insurance liability should be paid.

Therefore if a UK based employee spends 25% of their time in the UK they are liable to UK tax and National Insurance.

RECIPROCAL AGREEMENT COUNTRY

When an employee goes to work in a non EEA reciprocal country where the UK has a social security agreement the employee can if they wish to do so continue to pay National Insurance in the UK as long as they obtain the relevant certificate. However this does depend on the amount of time the employee will be working in that country as reciprocal agreements are usually subject to time limits.

OTHER COUNTRIES

When an employee goes to work in a non EEA country and to a country that does not have a reciprocal agreement if the employee is being paid by the UK based company then National Insurance (but not necessarily tax) remains payable by both the employee and employer for the first twelve complete months.

Tax Liability

When employees leave the UK to work in another country their tax liability in the UK ceases in respect of their salary. Other items such as all income from UK assets, for example rental income from a UK property, remains subject to UK tax.

However, if an employee that is living and working in another country but receives a bonus or commission from their ex-UK employer that relates to their employment whilst in the UK then that element of earnings remains subject to UK tax and in some cases National Insurance in the UK and must be deducted.

Employees working in another country on different days of the week may be able to claim percentage tax relief which may be reflected in their tax code or may be able to pay less tax or claim a tax refund. To be able to qualify the number of days away should normally exceed 30 days and it is essential to keep a record of the dates and this should ideally be recorded by both the company and by the employee. In the majority of cases the day of travel from the UK and the day of travel returning to the UK is excluded from the time spent in another country.

Card Protection

The majority of people are aware that if a credit card is used for most purchases protection is included if the goods are faulty or if the supplier goes bust before the goods or services are delivered.

Very few people are aware, (probably due to the lack of publicity), that the majority of banks have extended that type of cover albeit in some cases reduced cover to debit cards.

A recent case was when concert tickets were purchased with a debit card and the tickets failed to arrive because the provider did not send them and the bank paid the money back to the customer. HSBC is one of the banks that have extended the cover to their debit cards.

The majority of the banks cover transactions from £100 up to £30,000.

Claims should be made as soon as possible and backup paperwork such as receipts and confirmation of the order should be provided at the time of the claim.

The British Economy

For the last few decades one of the main indicators as to how the British economy was doing was the monthly mortgage lending data. If people were generally borrowing more, they would be buying a house then spending on their credit card for decoration and furnishing, then within weeks the value of the property would increase. Then people would go out for dinner or spend money on a holiday to celebrate the relatively swift gains in value.

However like most of the developed world the UK has reached the end of that road. The days of easy money are over and credit has all but dried up. Whether the UK does well or badly in the coming years it will not go through another house price and retail spending boom.

What indicators should we be looking at now the economy has changed? Although it used to be headline news, it has been somewhat forgotten over the last two decades the trade balance is a good indicator as to how the British economy is doing. As people tighten their belts and cut down on purchasing hopefully imports will fall and with a lower pound the exports will increase, providing a healthier balance of trade.

The savings ratio is another good indicator which will help to rebuild the economy. Other indicators are the rate of company formations and the rate of bankruptcies.

People currently reporting on the state of house prices or retail sales are reporting on an historical economy and not on the parts of the economy that matter now. Right now things are not looking too bad, exports are high, imports are low, manufacturing is up and savings are up.

Quotations for the Month

The hardest job kids face is learning good manners without seeing any.

Life is like a sewer, what you get out of it depends on what you put into it.

Don't worry about temptation as you grow older, it starts avoiding you.

He who angers you conquers you.

Resentment is like taking poison and waiting for the other person to die.

Source: The CML Collection

Statistics of the Month

23% of Afghan Army recruits taken on to serve with coalition forces and 14% of the police leave their posts and vanish. Source: The Times.

18% of Americans believe that Barack Obama is a Muslim, up from 11% a year ago, while only 34% believe he is a Christian, down from 48%. A further 43% of those polled said they didn't know. Even among Democrats, only 46% think Obama is Christian, although the President attended the same church in Chicago for 20 years. Source: Paw Research Centre/ The Guardian.

CHANCERY MANAGEMENT LIMITED
1ST FLOOR EXCHANGE HOUSE,
1 SELDEN HILL, HEMEL HEMPSTEAD,
HERTS, HP2 4TN
TEL: 01442 212686 FAX: 01442 230009
E-MAIL: cml@cmlpay.co.uk
WEBSITE: www.cmlpay.co.uk