HR BUDGET BRIEFING 2020

March 2020

Whilst the Government's proposed response to coronavirus may have grabbed most of the immediate headlines, the UK 2020 Budget also included a number of other significant changes affecting employees' pay and pension arrangements. In this remuneration-focussed bulletin, we have highlighted the key amendments for employers to consider from an HR perspective.

Significantly, the 2020 Budget included proposals affecting the vast majority of employers, notably material amendments to the current pension regime and the taxation of some employees' share awards. The Government will provide more detail on its intended approach when it publishes Finance Bill 2020 next week.

Coronavirus

Measures to help the UK economy and businesses respond to the COVID-19 outbreak were at the heart of yesterday's Budget. The Chancellor built on the announcement by the Prime Minister on 4 March 2020 that **statutory sick pay (SSP) will be made available from day one**, not (as is usual) from day four of absence from work.

The Budget also included an announcement that **SSP will be made available for all those who are self-isolating** in line with Government advice, even if they have not displayed symptoms. In addition, people who are advised to self-isolate for COVID-19 will soon be able to obtain an **alternative to the fit note** to cover this by contacting NHS 111, rather than visiting a doctor. Employees will be able to use this alternative document where their employers require evidence (although Public Health England has already advised employers to relax their requirements for documentary evidence where employees are self-isolating).

The Chancellor announced that the **Government will meet the costs for businesses with fewer than 250 employees of providing SSP to those off work due to COVID-19 for the first two weeks of absence**. SSP is currently paid at £94.25 per week, although this is due to rise to £95.85 per week from 6th April 2020. The Chancellor estimates that this measure will cost up to £2 billion and help up to 2 million businesses. The eligibility criteria for the scheme will be as follows:

- Employers will be able to reclaim up to two weeks' SSP for each eligible employee (according to the new eligibility criteria outlined above) who has been off work because of COVID-19.
- Employers with fewer than 250 employees will be eligible. The size of an employer will be determined by the number of people they employed as of 28 February 2020.
- Employers should maintain records of staff absences, but employees will not need to provide a GP fit note.
- The eligible period for the scheme will commence the day after the regulations on the extension of SSP to self-isolators (see above) comes into force.

- The Government will work with employers over the coming months to set up the repayment mechanism for employers as soon as possible. Existing systems are not designed to facilitate employer refunds for SSP.

There will be no change to the other eligibility requirements for SSP, including that it is only available to employees and some casual workers who earn at least £118 per week. The Chancellor has however announced additional support for low-paid workers and self-employed individuals who are not eligible for SSP, by making it easier to make a claim for Universal Credit or Contributory Employment and Support Allowance:

- For the duration of the outbreak, the requirements of the Universal Credit Minimum Income Floor will be temporarily relaxed for those who have COVID-19 or are self-isolating in accordance with Government advice.
- People will be able to claim Universal Credit and access advance payments upfront without the current requirement to attend a job centre if they are advised to self-isolate.
- Contributory Employment and Support Allowance will be payable, at the rate of £73.10 a week for workers aged over 25, for eligible people affected by COVID-19 or self-isolating in line with advice from day 1 of sickness, rather than day 8.

Legislation to implement these changes has not yet been published, but is expected imminently.

Action points

Employers should communicate these changes clearly to employees and ensure that their sickness policies are updated to reflect the new rules.

Employers who offer enhanced sick pay should check their policies; if enhanced pay is linked to entitlement to SSP, they may need to extend entitlement to enhanced pay in the same way.

Employers should also start recording details of the nature of the illness when an employee is absent. This may require changes to recording systems which have not previously differentiated between types of leave for SSP administration purposes.

Other employment-related measures

Off-payroll working: Budget 2020 also confirmed that the reform of the off-payroll working rules in the private sector will go ahead from April 2020. The final form legislation will be included in Finance Bill 2020.

Neonatal leave and pay: In accordance with the Conservative party manifesto, the Government will create an entitlement to 12 weeks of neonatal leave and pay for employees whose babies spend an extended period of time in neonatal care.

Carers' leave: The Government will shortly consult on the design of a new in-work entitlement for employees with unpaid caring responsibilities, such as for a family member or dependents.

National Living Wage: Alongside the Budget, the Government formally announced its target for the National Living Wage (NLW) to reach two-thirds of median earnings and to be extended to workers aged 21 and over by 2024, provided that economic conditions allow. Based on the latest forecasts, this means the NLW is expected to be over £10.50 in 2024.

Income Tax and National Insurance bands and rates: The National Insurance contributions threshold for employees and self-employed workers will increase to £9,500 from April 2020, delivering a saving for a large proportion of the workforce. Income tax rates and bands for the next tax year however remain unchanged.

Veterans' relief: A National Insurance "holiday" is proposed for employers recruiting former members of the Armed Forces for the first year of their civilian employment. The Government intends for this exemption to be available with effect from April 2021.

Pensions

Annual allowances: The annual allowance taper will be amended. The **current thresholds will each be increased by £90,000** from 2020/21, and **the taper "floor" will be reduced to £4,000**. As a result:

- Individuals with "threshold income" (broadly UK taxable income) of under £200,000 will no longer be affected by the taper.
- The annual allowance will begin to taper down for individuals with "adjusted income" (which includes the value of any pension provision) above £240,000 who also have "threshold income" of £200,000 or more.
- The "old" taper floor of £10,000 will be reached at an adjusted income of £300,000. Individuals with higher adjusted incomes will be affected by the new taper floor. Assuming the taper continues at the current rate (£1 reduction for each £2 of adjusted income) the new floor of £4,000 would be reached at £312,000. The actual details will follow and are expected in Finance Bill 2020.

The upward adjustment is higher than had been rumoured in press reports before the Budget whilst the reduction to the floor had not been trailed. Whilst the impetus for the change has been to manage work force pressures in the NHS and public services, the change will benefit members of all pension schemes. Although there had been speculation before the Budget that higher rate tax relief might be in the Chancellor's sights, in the event there was nothing on pensions tax reform.

Action point

Once the detail of the changes is available, employers should reconsider how pension provision fits into their remuneration policy for higher paid employees, in light of the increased "headroom" for tax efficient pensions savings for individuals in the £150,000 to £300,000 "adjusted income" bracket, and the reduction in headroom for those over £300,000.

Lifetime allowances: The lifetime allowance will rise in line with CPI for 2020/21 to **£1,073,100** (from £1,055,000 in 2019/20), as required by legislation.

Call for evidence on the "net pay anomaly": The Government has committed to reviewing options for addressing the "net pay anomaly" and will publish a call for evidence "shortly".

Individuals with very low pay (under £12,500 2019/20) whose occupational pension schemes operate tax relief via "net pay" at their marginal tax rates are disadvantaged compared to individuals whose schemes operate "relief at source" (RAS), typically personal pension schemes/group personal pension schemes. RAS schemes can reclaim 20% basic rate tax from HMRC regardless of whether the member is taxed at that rate. This is known as the "net pay anomaly".

RPI methodology consultation: As expected, the Treasury and UK Statistics Authority have published a consultation seeking views on the intention to reform the RPI measure of inflation by bringing into RPI the methods and data sources from CPIH (CPI including owner occupier housing costs). The change will take place no earlier than 2025 and no later than 2030. The consultation is on a short timetable and will close on 22 April 2020.

Action point

Employers and trustees of defined benefit pension schemes will want to keep an eye on how this proposed measure progresses, as, depending on the structure of scheme benefits and the investment strategy adopted, the proposed changes may have a significant impact on a scheme's funding position

Incentives

Entrepreneurs' relief: The key change from an employee incentives perspective is the reduction in the maximum lifetime amount of gains that an employee can make when disposing of shares, on which entrepreneurs' relief can be claimed. Entrepreneurs' relief reduces the effective rate of capital gains tax (CGT) an individual pays on a sale of shares to 10%. The Budget reduces the amount of gains that can be subject to this favourable regime from £10 million to £1 million. Two classes of employee are going to be most affected by these changes:

1) Individuals who hold a material stake (at least 5%) in their employing company. This is likely to be most commonly found in the unlisted sphere; and

2) Individuals holding tax-advantaged Enterprise Management Incentive (or EMI) options. EMI optionholders can benefit from entrepreneurs' relief (regardless of the size of their shareholding), provided that the period between the grant of the option and the sale of the underlying shares is at least two years.

This change will affect disposals made on or after 11 March 2020, although, where contracts for the disposal of shares have been exchanged before 11 March 2020 but completion has not yet occurred (and for certain exchanges of shares or securities made before 11 March 2020), special rules apply.

Annual exempt amount: the standard annual exemption from CGT has been increased to £12,300 for the 2020/21 tax year.

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