FINANCE
UPDATES
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wattmoney

CORPORATE FINANCIAL PLANNING

Key financial considerations for employers.

The lengthening list of rules and regulations involved with running a small business can take its toll on those in charge – even more so if you employ members of staff.

First, you need to ensure the business gets paid on time, every time, and ideally that it makes a profit. Then you must comply with a whole host of employer obligations.

The law requires you to pay at least the national living wage, while auto-enrolment legislation in place since 2012 compels you to provide defined contribution workplace pensions to eligible workers.

Above certain earnings thresholds, you might also need to deduct tax, National Insurance contributions (NICs) that go towards state benefits, and student loan repayments.

That might sound like a chore but many employers see these challenges as an opportunity to reward and hopefully retain key employees within the business.

On top of offering independent financial advice for your personal wealth, we can also review your circumstances if your business or personal goals were to change.

For many owner-operators, the business is probably their most significant asset. As such, we can monitor your financial strategy to check your business is on the right path, help secure funding to facilitate growth, or provide corporate financial planning solutions for your business.

WORKPLACE PENSIONS

If you employ staff who are aged between 22 and state pension age, and you pay them more than £10,000 a year, you must provide them with a defined contribution workplace pension.

This can be complicated by things like bonuses and overtime, while ineligible employees can also request to join the workplace pension scheme – a request you cannot legally refuse.

In practice, this means virtually everyone you employ, full or part-time, must be enrolled into a workplace pension scheme.

You are required to set up a workplace pension scheme on the first day you employ someone who meets the auto-enrolment criteria – known as your 'duties start date'.

As an employer, you need to contribute at least 3% towards eligible employees' pensions. You can choose to contribute more than this if you wish.

This is based on each worker's qualifying earnings from gross pay, which is before deductions for income tax and NICs. In 2021/22, qualifying earnings fall between the lower (£6,240) and upper (£50,270) earnings limits.

Other more complex calculations can help reduce your employer contributions, but they often require time and expertise.

The chances are you are not a pensions expert and selecting and running your employees' pensions is not a responsibility you want, especially with the potential for hefty fines.

The Government's National Employment Savings Trust corporation, or NEST for short, is the default occupational pension option for many business owners or employers.

But many other providers also offer suitable workplace pension schemes and some might be able to outperform the NEST. We can help your business find the providers offering the best potential for your pensions.

PROTECTION POLICIES

Otherwise known as group life cover, **death-in-service cover** shows your workers you value their welfare and their wellbeing.

This is a type of individual term insurance policy, where you pay the premium and decide the level of cover.

Usually, employers provide death-in-service schemes to all employees while they work for your business. Or, they can be set up on a standalone basis or linked to the company pension.

Speak to us and we can shop around to find the best type of group life cover you can get for your employees, putting their minds at ease in the process.

Relevant life cover is beneficial for small employers that don't have enough eligible staff to warrant group life cover. It is also useful to high-earning employees and directors with substantial pension funds who don't want their benefits to form part of their lifetime allowance.

Usually, a lump sum is paid out if an employee is diagnosed with a terminal illness or dies. These policies are considered to be tax-efficient for both you and your employee as they are written into trust, while they do not count as a taxable benefit-in-kind.

Instead, this policy is deemed a business expense, which can reduce an incorporated business's taxable profits. Because premiums are deducted before profits are calculated, relevant life cover can reduce corporation tax bills. It is not liable for employer's NICs either.

Group **critical illness policies** usually pay out tax-free lump sums between one and five times an employee's annual salary sum if they are diagnosed with a critical illness.

Most policies cover around a dozen critical illnesses as standard, although the exact amount of conditions covered varies from provider to provider. The top three claims are for cancer, heart attacks and strokes.

Some policies can also provide extended cover for a worker's family, supporting your employees when they need it most.

With NHS waiting lists at an all-time high following the COVID-19 pandemic, **private medical cover** is arguably the one benefit employees would most like their employer to provide.

This company-paid private health insurance gives your employees access to healthcare in the UK's private hospitals, allowing them to obtain faster diagnosis and treatment.

EXTRACTING PROFITS

If you run an incorporated business, you will want to know the most tax-efficient ways to pay yourself from any profits.

There are three main ways to extract profits from your business in 2021 – salary, dividends and pension contributions; the latter involves taking money out of your company for future use.

Usually, combining these methods of profit extraction works out to be the most tax-efficient, ensuring you keep more of your profits while reducing your corporation tax bill in the process.

It's not uncommon for directors to extract a small salary, usually below the NICs thresholds, and avoid the company having to pay employers' NICs at 13.8% in 2021/22.

Money taken out of the business's profits as dividends is taxed more favourably than if taken as salary. In 2021/22, you won't pay any tax on the first £2,000 in dividend income you receive, under the tax-free dividend allowance. Above this allowance, you pay tax based on the rate you pay on your other income.

For the basic-rate band, a rate of 7.5% applies, followed by a 32.5% rate for the higher-rate band, and 38.1% for the additional rate. These rates are more favourable than the 20%, 40%, and 45% respective rates in place for income tax.

With pension contributions, you can reduce your business's profits and avoid any potential NICs charges by paying up to £40,000 into your pension in 2021/22.

You will not incur a tax charge until the time comes for you to start receiving your pension benefits and even then, the first 25% will be tax-free. You can start accessing your pension benefits from the age of 55, although this will rise to 57 from April 2028.

Speak to us about corporate financial planning.

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