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WS&Co. Briefing

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International Benefits Compliance Alert

Germany

Germany introduces a new pension guideline that will become effective in 2018.

Projected Legislation – EU Mobility Guidelines – Impact on Pension
Effective January 1, 2018, the vested benefit will be increased by extending the age that it is applied from age 21 instead of age 25. The promise has been in force for at least three years (currently five years) at the time employment is terminated and currently, only Germany has adopted this regulation. Employers will need to cover the extra costs of additional vested entitlements and extra administrative costs of implementing the change.

Employers should start the process to review their pension plans following the release of EU Mobility guidelines for Germany.

India

Legislation – Increase of ESI Wage Ceiling
Effective January 1, 2017, the wage limit for coverage under the Employees' State Insurance Act, 1948 (ESI Act) has increased from INR 15,000 to INR 21,000.

These are funds used towards providing benefits for employees in case of sickness, maternity, workers' compensation, and other related benefits.

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Woodruff-Sawyer's Integrated Global Consulting Model for All International Benefits Needs:

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Switzerland

Switzerland introduces the Pension Reform 2020 to the local government.

Projected Legislation – Pension Reform 2020

The long-term financing of the Swiss Social Security System as well as the Pension Reform 2020 is still being discussed by Parliament. The following legislative changes are proposed:

- **Pension Age** - From 2018, increase the pension age for women from 64 to 65 (matching the current pension age for men). From 2033, the retirement age could gradually increase to 67 for men and women.
- **Conversion Rate** - In order to determine a fixed retirement pension, insurers currently use a conversion rate of 6.8%. This conversion rate is determined by the Swiss government. It is planned that from 2021, the conversion rate would gradually decrease to 6%.
- **VAT rate** - Currently a rate of 0.3% is used for the financing of the disability state insurance (IV). As of 2018, the 0.3% will be used to finance the old age insurance (AHV), and from 2021, there may be another increase of 0.3%, totaling 8.3% (the current VAT is 8%). In 2035 and 2038, the VAT could get increased by another 0.2%.
- **Retirement contributions** - Retirement contributions and insured salary thresholds might get adjusted in order to make up for the lower conversion rates. Compulsory contributions may still start at 25 but go up to 9%, then to 13.5% from age 35 (currently 7%/10%/15%/18% for each age bracket).

United Kingdom

The UK government draws attention to the Employment and Support Allowance reduction and the announcements in the Chancellor's autumn statement affecting pensions, employee benefits, tax and National Insurance.

State Pensions

For the remainder of this Parliament the triple lock will remain in place, meaning that the State pension rises every year by the highest of price inflation, earnings growth or 2.5%.

Money Purchase Annual Allowance

The amount of money purchase savings that can be made into a registered pension scheme without triggering a tax charge is restricted to £10,000 p.a. for 2016/17. The proposal is that this will be reduced to £4,000 p.a. from 2017/18.

Foreign Pensions

The tax treatment of foreign pensions will be more closely aligned with the UK's domestic pension tax regime by bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones.

Measures also include:

- Closing specialist pension schemes for those employed abroad ('section 615' schemes) to new saving.
- Extending from 5 to 10 years the taxing rights over recently emigrated non- UK residents' foreign lump sum payments from funds that have had UK tax relief.
- Aligning the tax treatment of funds transferred between registered pension schemes.
- Updating the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes.

Salary Sacrifice Arrangements

From April 2017, most salary sacrifice schemes will be subject to the same tax and National Insurance treatment as cash income.

However, there will be exemptions to this change, notably arrangements relating to pension contributions and also for pension advice, childcare, cycle to work and ultra-low emission cars.

Arrangements in place before April 2017 will be protected for up to a year but a longer protection period of up to 4 years will apply for cars, accommodation and school fees.

Savings

The ISA limit (a savings account with a maximum amount where no tax is applied) will be increased from £15,240 to £20,000 in April 2017 and the band of savings income that is subject to the 0% starting rate will remain at its current level of £5,000 for 2017/18.

Termination Payments

From April 2018 termination payments over £30,000, which are subject to income tax, will also be subject to employer National Insurance Contributions. The first £30,000 of a termination payment will remain exempt from income tax and National Insurance.

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Tax-free Childcare Arrangements
Tax-free Childcare will be introduced gradually from early 2017, with the roll out beginning upon completion of the trial.

Reforms to the Taxation of Non-Domiciled Individuals
The Government has stated that individuals who live in the UK and make use of public services should pay their fair share of tax. The reforms to the taxation of non-domiciled individuals include:

- Ending the permanency of non-domiciled tax status.
- Closing a loophole that has been used by non-domiciled individuals to avoid paying inheritance tax on their UK residential property.
- Changing the rules for the Business Investment Relief (BIR) scheme from April 2017 to make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK for the purpose of investing in UK businesses.

Personal Taxes and National Insurance Contributions (NICs)
Income Tax Personal Allowance – this will increase from the current level of £11,000 to £11,500 in 2017/18. The personal allowance is expected to increase to £12,500 by the end of this Parliament with increases after this expected to be in line with prices inflation (CPI) as opposed to increases in the National Minimum Wage.

Higher Rate Threshold Increase - this will increase from the current level of £43,000 to £45,000 in 2017/18. The intention is that by the end of Parliament this threshold will be £50,000.

Corporation Tax – Corporation tax will decrease in line with previous announcements to 17% from 2020.

Insurance Premium Tax – Insurance premium tax (IPT) will increase from 10% to 12% from 1 June 2017.

National Minimum Wage Rates – The National Minimum Wage rates which were last increased in October 2016 will increase from April 2017 as set out below:

- 21 to 24 year olds from £6.95 to £7.05 per hour
- 18 to 20 year olds from £5.55 to £5.60 per hour
- 16 to 17 year olds from £4.00 to £4.05 per hour
- Apprentices from £3.40 to £3.50 per hour

National Living Wage – the National Living Wage for those aged 25 and over will increase from £7.20 to £7.50 per hour from April 2017.

National Insurance Thresholds – the National Insurance secondary (employer) threshold and primary (employee) threshold will be aligned from April 2017, meaning that both employees and employers will start paying National Insurance on weekly earnings above £157.

Class 2 NICs (Self-Employed) – will be abolished from April 2018, simplifying National Insurance for the self-employed. Following the abolition of Class 2 NICs, self-employed contributory benefit entitlement will be accessed through Class 3 and Class 4 NICs.

Employment and Support Allowance Reduced From April 6, 2017
In the July 2015 Budget, the Chancellor announced that from April 6, 2017, applicants for Employment and Support Allowance (ESA) who are assessed as unfit for work but capable of work-related activity, will receive a lower level of State benefit, equivalent to Jobseeker's Allowance. This means those applicants who are entitled to the Work-Related Activity Component (WRAC) of ESA currently receive an annualized value of State Benefit of £5,312, but from April 6, 2017, that amount will reduce to £3,801. This is a reduction of approximately 30%.

This means the insured benefits will increase for employers who have a Group Income Protection (GIP) scheme with a fixed benefit deductible based upon the ESA plus WRAC, (e.g. 75% salary minus ESA and WRAC).

Employees who currently have income protection benefits in place will be impacted by this depending on their respective salary level as the current offset is a fixed amount.
