



City HR

Compensation Forum

March 2020



Agenda – Developments in Reward

1. Regulatory Update
2. Key aspects of the 2020 Budget

Regulatory update

Regulatory update



Current regimes

- Little change or development.
- PRA are requesting specific information from level 2 and 3 firms about their implementation of ex ante risk adjustment.



CRD V

- New draft regulatory technical standard setting out the criteria for identifying Material Risk Takers was published in December 2019. The changes are broadly positive and pragmatic. The greatest impact is the change in the quantitative criteria which is likely to reduce the number of MRTs for firms with a high number of quantitative MRTs earning between €500k and €750k
- PRA consultation expected in late May 2020 although could be delayed further
- Other national regulators typically follow the UK



IFD

- FCA consultation expected in late May 2020 although could be delayed further
- Definition of MRTs likely to not be published until late 2020/early 2021

CRD V vs IFD

- Applies from 1 Jan 2021
- Applies to firms with 'bank-like' activities
- Bonus cap, malus and clawback for all firms
- New MRT RTS (Q4 2019)
- Proportionality for deferral and payment in instruments restricted to 'small and non complex' firms. Threshold currently set at €5bn but member states can increase to €15bn
- Deferral extended to 4-5 years
- De minimis reduced to those earning less than €50,000 and 1/3 of total pay is variable.
- Large firms threshold likely to drop to €30bn balance sheet assets which may bring more firms in scope of the PRA/ FCA's annual review process.

- Expected to apply from 1 April 2022
- Firms to set their own 'bonus cap'
- Malus and clawback for all firms
- Firms split into significant and not significant
- New MRT RTS (Q1 2021)
- Significant firms defined as those with on and off balance sheet assets greater than €100m (member states can increase to €300m)
- 40-60% deferral over 3-5 years and 50% of variable paid in instruments for all significant firms as well as establishment of a gender balanced RemCo
- De minimis reduced to those earning less than €50,000 and 1/4 of total pay is variable
- Groups need to consider interaction with CRD V which is not expected to apply to the majority of asset managers but firms should check their permissions.

Key aspects of the 2020 Budget

Pension tax relief

Entrepreneurs' relief

IR35

Pension tax relief – existing rules

- The pension Annual Allowance (“AA”) of £40,000 is reduced for higher earners by a tapering mechanism.
- Currently this impacts people with broadly total taxable income of over £110k, where their “adjusted income” exceeds £150k
- “Adjusted income” is broadly total taxable income plus pension contributions
- Where the tapering applies, the AA is reduced from £40,000 to £10,000 for Adjusted Income between £150,000 and £210,000. The AA remains at £10,000 for people with Adjusted Income of £210,000 and above.

Example 6 April 2016- 5 April 2020

Total taxable income	£150,000
Pre payroll pension contributions	£35,000
Adjusted Income	£185,000

AA is reduced by £1 for every £2 of Adjusted Income between £150,000 and £210,000

So AA is reduced by $(£185,000 - £150,000) \times \frac{1}{2} = £17,500$

AA is $£40,000 - £17,500 = £22,500$

Assuming no brought forward AA available, tax is charged on £12,500 of the pension contributions made (£35,000- AA of £22,500)

Impact 2016- 6 April 2020



Employees reduced pension savings

Where pension saving above AA continued because of employer match contributions, all / most of the match could end up being paid in tax.

Some employers gave cash allowances in lieu of pension contributions.

Pension tax relief – what's changing?

- From 6 April 2020 new thresholds apply
- The threshold for total taxable income increases from £110,000 to £200,000
- The threshold for Adjusted Income increases from £150,000 to £240,000.

So the £40,000 AA remains intact until Adjusted Income reaches £240,000.

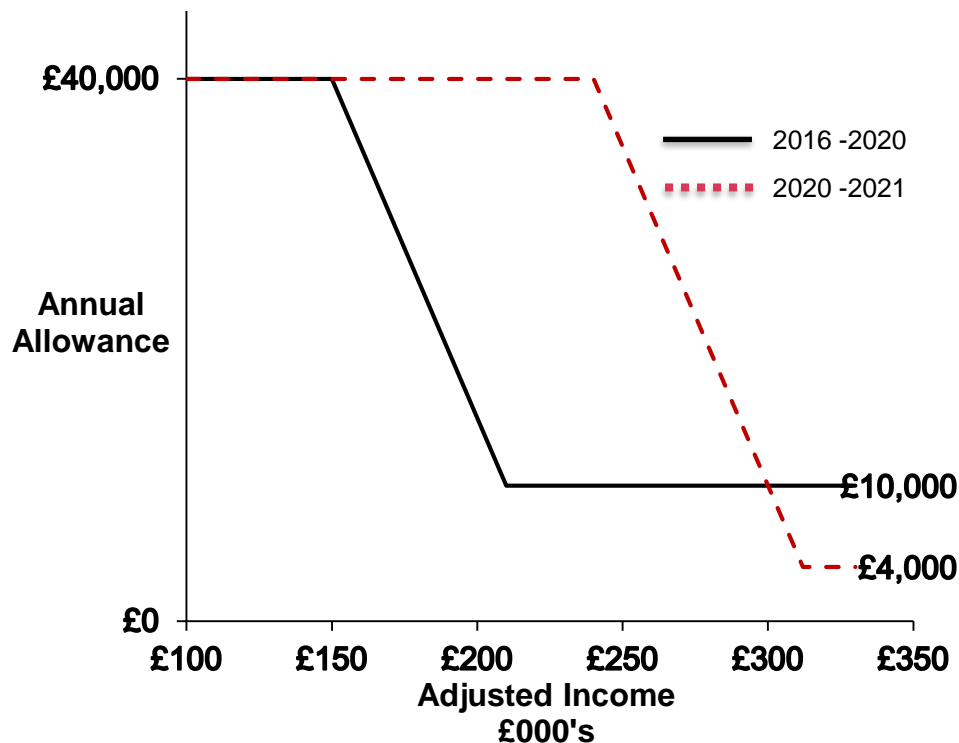
- For Adjusted Income between £240,000 and £312,000, the tapering of the AA is now from £40,000 to £4,000.

This change gives flexibility for a significant population higher earners to save more into pension plans in a tax efficient way, and not have to consider the complex tapering rules.



People with Adjusted Income of over £300,000 will have less AA than before due to the minimum AA now being £4,000 rather than £10,000.

Pension tax relief – impact and action



The £40,000 AA remains intact until Adjusted Income reaches £240,000

People with Adjusted Income of over £300,000 will have less AA than before due to the minimum AA now being £4,000 rather than £10,000

- ✓ Employees may look to increase pension contributions from April 6 2020
- ✓ Employers may need to consider off cycle opening of flexible benefit systems etc to allow employees to adjust pension saving via salary sacrifice (this also saves employer 14% NIC cost)
- ✓ Employees may look for opportunity to sacrifice bonus for pension contributions (again saving employer 14% NIC cost)
- ✓ Total compensation costs for internationally mobile employees may increase or decrease depending on where they fall on the above graph.

Entrepreneurs' Relief (ER)

- The usual rate of capital gains tax (CGT) is 20%
- ER can give a 10% CGT rate on disposals of shares and some other assets where qualifying conditions are met. Previously the 10% rate applied to £10m of gains.
- ER relief also applies to some tax favoured employee share options (EMI options)
- For gains on or after 11 March 2020 ER only applies to £1m of gains.

Who in FS is most likely impacted? Some examples:

- Companies where employees / directors own a significant proportion of the share capital, with generally individuals owning 5% or more
- Fintech companies and smaller FS companies
- Businesses structured as LLP's
- Companies that operate employee share incentives where employees own shares in subsidiaries.

Off-payroll working in the private sector (“IR 35”)

IR35 applies to people providing services to you directly via a personal service company (PSC), or an agency arrangement where the person is using a PSC to engage with the agency.

- You will need to assess such people and, where necessary, account for PAYE on payments made.
- The Government are getting it done! No delay in implementation.
- New rules effective 6 April 2020.
- Reduced penalty regime in year 1 of new rules

Key items that need to be considered as part of the reforms to ensure compliance with the changes:

- The ability to issue status determination statements to all contractors for existing / new engagements from 6 April 2020 as required by the legislation;
- issue new contracts to both contractors and agencies;
- have in place new contractor payroll policy / processes; and apply new contractor appeals policy / processes within statutory timelines.

Any questions?

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