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The Akhtar & Hasan *letter*

"Auto enrolment" in UK Workplace Pension Schemes from 1 Oct 2012

Huge change, expected to cover 9 million additional people by end 2017

Under the UK Pensions Act, 2008, employers with 120,000 or more employees were required to "auto enrol" them in a Workplace Pension Scheme (WPS) on 1 Oct 2012. By 1 Oct 2017, auto enrolment will apply in stages to all employers, even if there is only 1 employee.

The WPS can be an existing or a new one. It must meet minimum statutory requirements.

Auto enrolment will not apply to employees:

with less than 3 months' service

already in a qualifying WPS

aged below 22, or over State Pension Age

whose "qualifying earnings" are (currently) £8,105 pa or less

An auto enrolled employee can opt out.

Minimum contributions as % of salary

These will apply to earnings over a minimum (currently £5,564 pa), up to a maximum limit (currently £42,475).

Period	Total	Employer's minimum %
Oct 2012 - Sep 2017	2 %	1%
Oct 2017 - Sep 2018	5%	2%
Oct 2018 onwards	8%	3%

The total includes contributions by the (a) employee; (b) employer; (c) approximately 1% from Government, as tax relief on contributions by (a) and (b).

Defined Benefit schemes are dying out. Almost all schemes will be Defined Contribution. Contributions will accumulate with investment income up to retirement. Rules prescribe how this "pot" may be used to meet retirement needs.

WPS's will increase UK's savings rate, and lead to more comfortable retirement

The UK State Pension system was created immediately after WW2, and will remain. It is compulsory. Contributions from employers and employees are collected through the tax system. It is a pay-as-you-go system, like almost all such national schemes. No large fund is built up.

However, WPS's aim to fund the pension fully by retirement. Under auto enrolment, much more money should flow into such schemes, which should increase UK's saving rate.

The State Pension provides subsistence pensions. Auto enrolment in WPS's would provide additional money, for a more comfortable retirement.

NEST: public sector pension provider

UK's pension market is highly developed. There are many insurance companies and other pension providers in the private sector.

In addition, there is the National Employment Savings Trust (NEST) in the public sector. NEST will ensure that all employers, even the smallest, will be able to implement auto enrolment. It cannot turn away any employer.

The UK system is complicated. Readers affected by the UK Pensions Act, 2008 or auto enrolment should take expert UK advice.

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Rule (47B) of 2nd Schedule Part IV now exempts Provident, Pension, Gratuity Funds from 7th Schedule CGT at source

"Any income" of Recognised Provident Funds and Approved Pension and Gratuity Funds is exempt from tax. This exemption is given by clause 57(3) (ii) of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Despite this, entities required by law to deduct tax at source, usually asked Funds for specific exemption from such deduction.

So up to 30 June 2008, Funds had to get annual tax deduction exemption certificates, to prevent tax deduction at source from dividends u/s 150, and from profit on debt u/s 151.

Fortunately, a new clause (47B) was substituted by the Finance Act, 2008 in Part IV of the Second Schedule to the ITO 2001. This exempted such Funds from deduction at source under SS.150 and 151. So annual exemption certificates were no longer needed.

However, the Finance Act, 2010, added S.37A, which said "the capital gain arising on or after the first day of July 2010, from disposal of securities held for a period of less than a year, shall be chargeable to tax at the rates specified in Division VII of Part I of the First Schedule".

Mutual funds or collective investment schemes have to deduct this CGT at source. The existing exemption to Provident, Pension and Gratuity Funds by Clause (47B) did not cover this. Once again, they had to get annual tax deduction exemption certificates in respect of this CGT.

So it's a good thing that the Finance Act, 2012, has extended Clause (47B) to exempt Funds from deduction under Division VII. This has dispensed with annual certificates.

National Clearing Company of Pakistan Ltd (NCCPL) to collect CGT

Under a new regime, the NCCPL will compute, collect and deposit CGT. A presentation on www.nccpl.com.pk explains the new system.

The Finance (Amendment) Ordinance, 2012, effective 24 Apr 2012, inserted S.100(B) in the ITO, 2001. Rules for computing CGT were made in a new Eighth Schedule. Detailed procedures were described in Section 13N of the Part III of the Chapter II of the Income Tax Rules, 2002. There is zero CGT on disposal after a holding period of 12 months or more.

The new regime will apply to "Individual Investors; Brokers; and Corporate Entities".

However, it will not cover:

"Mutual fund; Banking Company; Non-Banking Finance Company; Insurance Company; Modaraba; 'Foreign Institutional Investor' being a person registered with NCCPL as a foreign institutional investor; and any person or class of persons as notified by the FBR."

The laws and rules listed do not specifically exempt Provident, Pension and Gratuity Funds from 8th Schedule CGT deduction at source. But we understand that exemption was intended. Trustees may ask the NCCPL about the position.

"Why are we so emotional about money?"

Megan Lane asked this question in the BBC News magazine earlier this year. She goes on to say "Money is emotional. Debt sparks worry. A windfall is exciting. And many people dose up on retail therapy, shopping to feel better".

So next time we go on a shopping spree, call it retail therapy. It sounds so much better.