

## ***Inland Revenue Notes for Payroll Software Developers***

**SERIES 10 – NUMBER 18.1**

**May 2004**

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## **1. Modernising PAYE Processes for Customers (MPPC)**

### **1.1 Developer Testing – October 2004 and beyond**

The existing 04/05 EOY Internet test submission service (TPVS) facility has been available for complete submission testing since October 2003. Both the Internet and EDI test services also support testing P14 part submissions and P35 part submissions, but do not yet provide facilities to send multi-part P14 and P35 data that completes the set. From October 2004 the test submission services for the two channels (Internet and EDI) will be integrated behind the scenes, allowing multi-channel and multi-part submission testing to be undertaken. Return parts submitted via either channel will be validated (as now) and held pending receipt of the complete set of parts. Once complete, the final stage of the Quality Standard validation (P35 cross-field checks) will be applied to the return. The submitter of the P35-part will be informed of overall success or failure, assuming the P35-part passes its individual validations first.

Following necessary decisions regarding service implementation, the October 2004 integrated test service will impose a small set of restrictions on the size and order of part submissions. These do not result in any serious restriction of functionality, which should be the main focus of product testing at this stage.

The 2004 test service restrictions are:

1. A return's P35-part submission must always be the last part received by the test service. If not, a test-service-only error will be generated and the P35-part rejected. After the developer's test area has been cleared (see next paragraph) re-submission of the P35-part once all the P14-parts have been received will correct the error.
2. Each P14-part must be less than 1Mb in size (before any compression is applied in the case of XML submissions).
3. The aggregate size of a Return (whether submitted 'complete' or in parts) must be less than 25Mb (before any compression is applied in the case of XML submissions).
4. Submitters will not be able to conduct multiple distinct multi-part tests in parallel.

Successful, or complete but failed, tests will be deleted automatically from the test service immediately. However, the possibility exists that the results of partial submissions from previously aborted tests may remain. To ensure that a developer can start with a 'clean slate' when re-using credentials for tests over the Internet, a simple web interface will be provided to allow a particular developer's test area to be cleared on demand.

At the same time as the 04/05 EOY test service is upgraded in October 2004, the 05/06 EOY test service will be launched, with an identical set of restrictions.

A subsequent upgrade to the developer test service, scheduled for February 2005, will remove all the restrictions listed above for both 04/05 and 05/06 test services. Primarily for those developers whose submissions are likely to be very large, this will provide a small window of further testing for full and unrestricted compression testing for 04/05 submissions.

From April 2005, it will be possible to send large files over the Internet, using compression. This can be tested from February 2005.

## **1.2 User Testing – April 2005 and beyond**

User testing, also known as ‘test-in-live’, is a function of the live submission service, whereby a submitter of an EOY Return (whether complete or in parts, original or amended, current year or past year) can indicate a ‘test’ submission. This is submitted and processed in exactly the same way as a live submission, up to and including final Quality Standard validation. However, no further processing is undertaken, and no IR systems are updated as a result of the data in the submission. All responses, whether for success or failure, are identical to those received for live submissions. It is primarily intended for users to gain reassurance with their own live data and/or to test their own procedures or train staff.

Software products will obviously need to be built in such a way that the ‘test-in-live’ flag (the ‘TestMessage’ element of the submitted IRheader for XML submissions or the ‘test’ indicator for EDI submissions) can be set or unset under user control. Of course, multi-part ‘test-in-live’ submissions will need co-ordination amongst all the submitting applications.

The ‘test-in-live’ facility will only be available from 6<sup>th</sup> April 2005 for 04/05 EOY submissions and for early 05/06 EOY submissions. In subsequent years it will be possible to submit an early ‘test-in-live’ Return, in the same way that it will be possible to submit an early live Return.

There will be restrictions imposed upon the use of the ‘test-in-live’ facility but the exact nature of these is still to be determined. It is highly likely that the ‘test-in-live’ facility will be withdrawn during periods of peak filing activity (e.g. in the days leading up to May 19<sup>th</sup>) and that certain size restrictions, particularly for the EDI channel, might need to be put in place.

## **1.3 Magnetic Media Test arrangements**

The Inland Revenue will no longer invite developers or employers/bureaux to submit their products or data for testing as they have done in the past. From April 2005 all live magnetic media submissions received for processing will be converted to an XML format for validation against the quality standard.

Guidance has been issued in the Online Filing Handbook advising that all magnetic media will be converted to XML format in IR and if it fails to convert will be return to the Submitter.

## **1.4 Quality Standard 2005/06**

The Quality Standard for 2005/06 is now available on the IR website. The changes from the previous 2004/05 Quality Standard are outlined at

[www.inlandrevenue.gov.uk/ebu/qual\\_stand.htm](http://www.inlandrevenue.gov.uk/ebu/qual_stand.htm)

Any comments regarding the changes can be sent to [Catherine.Sweeney@ir.gsi.gov.uk](mailto:Catherine.Sweeney@ir.gsi.gov.uk) or [Adrienne.Hodgkinson@ir.gsi.gov.uk](mailto:Adrienne.Hodgkinson@ir.gsi.gov.uk)

The final version of the Quality Standard for 2005/06 will be published in June '04 when we have considered any responses from you.

The Quality Standard for 2004/05 can be viewed on the IR website at [www.inlandrevenue.gov.uk/ebu/qual\\_stand\\_valid\\_spec.pdf](http://www.inlandrevenue.gov.uk/ebu/qual_stand_valid_spec.pdf)

## **1.5 Multi – channel multi – part submission replacements**

### **Original returns**

In the September 2003 edition of Notes (Series 10 – Number 15) we gave details of how returns which are submitted in a number of fragments/parts, using a variety of the submission channels – Internet, EDI, paper and magnetic media - would be handled by the Inland Revenue.

For clarity, while the parts of a multi-part submission are sitting in the ‘holding area’, behind the four submission channels, awaiting the final part, they can be replaced at any time by a ‘duplicate’ submission. The duplicate submission must bear the same unique identifier as the original submission. The duplicate submission does not have to be submitted using the same media. The same is applicable for a previously rejected P35-part.

For example, an employer sends in the original return, P35 and four P14 parts using EDI that fails the full Quality Standard validation. The P35 is rejected. The employer realises that the P35 did not balance with the four P14 parts as one of the parts was missing a P14. Employer can send ‘duplicate’ P14 part (with the same Employer’s PAYE reference and unique identifier), including the previously omitted P14 and P35 again, using any permitted media, for the Inland Revenue to accept it.

### **Amended Returns**

Similarly if an employer needs to make an amended Annual Return they will not have to send this using the same media channel, or channels in cases of multi-channel multi-part submissions (Internet, EDI, paper and magnetic media) as their original Employer’s Annual Return for the Inland Revenue to accept it.

For example, an employer sends the original return, P35 and P14s using EDI then realises, for what could be a number of reasons, that it needs to be amended. Employer can send in an amended return as a single complete amended return using the Internet or multi-channel multi-part amended return.

## **1.6 Amended Returns and documentation for the employee**

In the December 2003 edition of these Notes (Series 10 Number 16 para. 2.8) we explained that any employer who needs to send amended P14 data, must only include details of the amended items and the amount of change on the amended P14, and **not** the revised P14 totals.

As a consequence an amended P14 will only reflect the difference between the old and the new figures. In such circumstances the employer needs to ensure that details of all amendments to an original P60 are provided to the employee on letter-headed paper.

## **1.7 Electronic Payment of NIC Class 1A and 1B**

Employers are not compelled to make payments of Class 1A or Class 1B electronically. However Social Security regulations have been amended to let employers pay National Insurance contributions Class 1A and 1B electronically by the 22<sup>nd</sup> July (Class1A), and 22<sup>nd</sup> October (Class 1B). Employers must use an approved electronic method of payment (see Notes for Payroll Software Developers Series 10 – Number -14).

The changes apply to payments made 'in respect of earnings paid after the 5<sup>th</sup> April 2004' and made 'in the year immediately following'.

The amount of Class 1A due on benefits in kind or Class 1B due on a PAYE Settlement Agreement cannot be determined until the end of a tax year. In practice, the first payments the changes will apply to will be those made for the 2004/05 tax-year and due by July and October 2005. Payments of Class 1A and Class 1B made during 2004/05 (for the tax-year 2003/04) must still be paid by the 19<sup>th</sup> July and 19<sup>th</sup> October 2004 respectively.

The Social Security (Contributions, Categorisation of Earners and Intermediaries)(Amendment) Regulations 2004 (SI 2004 No. 770) amend the following:

Social Security (Contributions) Regulations 2001, Reg &(1) (Class 1A), and Social Security (Contributions) Regulations 2001, Sch 4, Para 13(1) (Class 1B).

## **2. Other Information**

### **2.1 Tax Codes with suffix A or H**

We know that for a number of reasons some employers still have employees' tax codes with suffix 'A' or 'H'. These are no longer valid and we will not be able to accept them when the 2004/05 employer end of year returns are made. A list of valid code suffixes is set out in the 2004/05 Quality Standard.

However, we recognise that most payroll software will not be able to process payments using a code with suffix 'A' or 'H'. Therefore, exceptionally, where an employer is still operating a code with an "A" or "H" suffix we agree, as a temporary measure, that the suffix can be changed to a "T" to enable the payroll software to be used. Apart from changing the suffix no other change to the code must be made.

As these 'A' and 'H' codes are out of date and will result in the wrong amount of tax being deducted for the year the employer should notify their local office immediately to obtain a revised code number to replace the one currently in use. They will need the employee's name, National Insurance number and current code number. We will then issue a revised notice of coding to the employer.

It is important that the employer does obtain a revised notice of coding to avoid their employee paying the wrong amount of tax for the year.

Please note that these special arrangements apply only for the year 2004/05 and only to codes with suffix 'A' or 'H'.

### **2.2 Retention of records**

Regulation 97 of the PAYE regulations SI 2003 No.2682 requires PAYE records to be kept for 3 years after the end of the tax year to which they relate, unless those records have already been sent to the Inland Revenue. The 3 year rule applies both to paper records and electronic records. This 3 year rule relates to forms such as the P6/P9, and P46, as these are records created solely for PAYE.

However some records which are relevant to PAYE are really business records, even though they may be looked at during a PAYE inspection, for example records relating to employees' travel and expenses claims.

For those records the time limits for retention of business records apply. The Inland Revenue have published guidance in relation to retention of business records in Tax Bulletin issues 37 and 58.

### **2.3 Student Loan Deductions**

More and more employers are having to deduct Student Loan repayments from an employee's salary. The Inland Revenue has collected Student Loan repayments on behalf of the Department for Education and Skills since April 6<sup>th</sup> 2000, using PAYE and Self Assessment. It is expected that the Threshold Rate will change from April 2005 and we will provide details in the next issue of the employer's information pack.

Questions have been raised as to what is attributable pay; guidance is given on pages 4 and 28 of the Employer's Guide (IR59).

Enquiries have been made by employers as to whether they should mark Box 5 on a P45 when the employee leaves employment before the deduction start date given on form SL1 and the start date is in a future tax year. Box 5 is labelled "Continue student loan deductions?" and so the answer is no. Please make sure your software takes this into account, the Department has produced a flow chart on page 14 of the Employer's Guide (IR59).

For more information visit: <http://www.inlandrevenue.gov.uk/pdfs/ir59.htm>

### **3. Next issue of these notes**

The next issue of these notes is scheduled for Summer 2004.

### **4. Mailing Lists for these notes**

The mailing options for these Notes are:

- Advance notification by email
- Advance notification by post
- Paper issue of these Notes

Requests to be included on the mailing list and notification of address changes should include details of your preferred option, your email address, company name and address and be sent by email to [irnotes@reply.co.uk](mailto:irnotes@reply.co.uk)

Or you can write to:

**Inland Revenue Notes for Payroll Software Developers**  
**PO Box 7364**  
**Ashby de la Zouch**  
**LE65 1XG**

If you wish to be removed from the mailing list please send your request, including details of your company name and address, by email to [irnotes@reply.co.uk](mailto:irnotes@reply.co.uk) or write to the address shown above.

## 5. Contacts for enquiries

Where Helpline numbers are shown for a specific topic within the notes please ring the number quoted for more information.

General payroll enquiries should be directed to your local Inland Revenue Office or to the Employer's Helpline on **0845 7 143 143**.

Any other queries about the contents of the notes should be made to the Online Services Helpdesk:

Email **helpdesk@ir-efile.gov.uk**  
Telephone **0845 60 55 999**  
Fax **01274 841288**  
Minicom **01274 841278**

**Please note, the Online Services Helpdesk cannot deal with change of mailing address information, these should be directed to [irnotes@reply.co.uk](mailto:irnotes@reply.co.uk)**