Inland Revenue Notes for Payroll Software Developers

SERIES 10 – NUMBER 21.1 ***December 2004***

Contents:

1. *Income Tax and National Insurance changes from 6 April 2005*

1.1 *Income Tax Changes*

In his Pre-Budget Report on 2 December 2004, the Chancellor of the Exchequer announced that the income tax personal allowance will be increased to £4,895 for 2005-06.

There are above inflation increases to the age related personal allowances with effect from 6 April 2005. Other personal tax allowances, including the married couple's allowance for couples in which one of the spouses was born before 6 April 1935, will all rise in line with indexation with effect from 6 April 2005.

Income tax rates and bandwidths will be announced in the Budget in the usual way.

1.2 *Class 1 National Insurance Contributions*

Following the Chancellor's Pre Budget Report on 2 December 2004, we can confirm, subject to parliamentary approval, that with effect from 6 April 2005:

- the Lower Earnings Limit will be raised to £82.00 per week
- the Earnings Threshold will be raised to £94.00 per week; and
- the Upper Earnings Limit will be raised to £630.00 per week.

Annexes A to C provide a summary of the National Insurance earnings limits, thresholds and rates.

1.3 *Summary of changes from 6 April 2005*

- the income tax personal allowance is increased to £4895
- age related allowances are increased
- both employees and employers earnings threshold for NICs has risen to £94 per week (£408 per month).

1.4 *Effecting the changes*

Employers should continue to use Calculator Tables or Taxable Pay Tables SR + B to D (May 2004).

There will be a general uplift of tax codes with suffix 'L'. Full instructions will be issued to Employers on form P9X (2005) which will be issued as part of the Employer's Pack and/or on the Employer's CD ROM.

As a general rule, unless an amended code notification has been received on form P9(T) or (code list, magnetic media, Internet or EDI equivalent) employers should amend 2004-05 codes as follows:

'L' suffix code –increase by 15 e.g. code 474L becomes 489L.

The PAYE threshold with effect from 6 April 2005 is raised to £94 per week (£408 per month).

The code for emergency use **with effect from 6 April 2005 is 489L.**

1.5 ***Computer Specification for PAYE Tax Table Routines***

There is no amendment to the Computer Specification.

1.6 ***Childcare Vouchers - Exemption of employer administration fees***

The Chancellor has announced that he will exclude voucher administration fees from charge.

- This will mean that from 6 April 2005, the £50 exempt limit will apply in full to the face value of childcare vouchers.
- The 2004 Finance Act introduced a new tax exemption for employer-provided childcare vouchers from 6 April 2005, limited to the first £50 a week of the benefit.
- The valuation of vouchers for tax purposes is the cost to the employer of providing the voucher.

As the cost of providing a childcare voucher in most cases includes an administration fee a further measure is being introduced in FA2005 to exclude voucher administration fees from charge.

1.7 ***Company Cars - 3% Diesel Waiver***

The 2000 Finance Act introduced the waiver of the 3% diesel supplement for diesel cars that meet the Euro IV emissions standards as part of the package to reform the company car tax. The waiver was introduced to encourage early take up of Euro IV technology and this purpose has been achieved.

In his Pre Budget Report on 2 December 2004, the Chancellor announced that from 6 April 2006, the waiver of the 3% diesel supplement for diesel cars that meet the Euro IV emissions standards will be withdrawn for cars registered from 1 January 2006. The waiver will be retained for the life of diesel cars that meet Euro IV emissions standards and are registered before 1 January 2006.

2. ***Other Information***

2.1 ***P35 2005-06***

In the July 2004 issue of these *'notes (series 10 - number 19.1)'* we provided a PDF of the summary of payments section of this form and explained that a PDF of the final version of the 2005-06 P35 would follow.

Please note that an illustration of the final version can now be viewed at: www.inlandrevenue.gov.uk/ebu/pnforms.htm

2.2 ***New version of form P60***

From 6 April 2004, employers with 250 or more employees are required to make their payments of tax/NICs and report end of year totals online.

We recognise that some employers affected by this change would normally use continuous versions of the P14/P60 sets, so to assist in the transition to online filing we have introduced a new continuous version of form P60. This will be available from the Employer Orderline in February 2005.

Meanwhile you can view a sample of the new form at
http://www.inlandrevenue.gov.uk/ebu/pnforms.htm

2.3 ***Payroll Standard***

The Payroll Support Team would like to remind developers with accredited software products of their obligation to ensure their product(s) continue to meet the Payroll Standard requirements during the accreditation period.

The testing requirements for the Payroll Standard accreditation scheme are contained in the Payroll Test Data documents on our website at
http://www.inlandrevenue.gov.uk/ebu/testdata.htm

This website page also contains a list of amendments to each version of the test data and the facility to add your name to a ‘contacts list’ so you will be notified when updates are made. The Payroll Test Data documents are available for anyone to download and all changes to test requirements will be included. The same tests are used for accreditation testing but the inputs and answers are different.

Developers considering an application for the scheme or developers who already have accredited products, should contact the Payroll Support Team immediately with any queries relating to the test data, rather than wait until the accreditation/re-accreditation stage. Failure to comply with these tests at any point in the accreditation period can result in withdrawal of accredited status. The terms and conditions of the scheme also state that we reserve the right to carry out spot checks at our discretion throughout the accreditation period.

If you have any queries on the test data or the Payroll Standard accreditation scheme contact the Payroll Support Team on **0845 91 57690** or **0845 91 59146**

2.4 ***Tax Credits and the Scottish Debt Arrangement Scheme (DAS)***

Tax credits cannot, under any circumstances, be assigned. Therefore employees cannot assign any part of their Working Tax Credit to repay a debt under the new Scottish Debt Arrangement Scheme (DAS).

If an employee instructs his employer to deduct an amount from his net pay under a DAS, the employer must deduct the specified sum from the employee's net earnings only and not from any Working Tax Credit that he may be paying him through the payroll. Employers must always pay the full amount of Working Tax Credit we have told them to pay.

The Scottish Executive is amending its guidance to money advisers to make clear that, in calculating surplus income and the amount to be the subject of a payment mandate, Working Tax Credit must not be included.

For more information contact Elizabeth Savidge on **020 7438 6264 (020 7147 2488 from 9 December 2004).**

2.5 ***Pensions Tax Simplification Online***

From the start of the new simplified regime for taxation of pensions on 6 April 2006, registered pension schemes will be required to send forms online and make electronic payments to the Inland Revenue (IR).
We are asking software suppliers and other interested parties to work closely with us on how this can be achieved.

Further details of the proposals can be viewed at
http://inlandrevenue.gov.uk/pensionschemes/online-services.htm

If you are interested in getting involved in this work, please contact the Pensions Simplification Online team on **0115 974 2340** or email pensionsconsult@ir.gsi.gov.uk

2.6 ***Reform of Construction Industry Scheme (CIS)***

The Chancellor announced in the 2003 Budget his decision to replace the current Construction Industry Scheme, which had been introduced in 1999, with a new approach. This reform of CIS will be implemented for April 2006.

The main policy drivers behind the implementation of the CIS reform are to:
- reduce regulatory burden on the construction industry
- improve the level of compliance by construction businesses with their tax obligations
- help construction businesses get their employment status of their workers right.

Changes will include:
- replacement of Registration Cards (CIS4) and Gross Payment Certificates (CIS6 and CIS5) used in the current scheme with a verification service
- new employment status declaration
- replace vouchers in the current scheme with periodic returns
- replace our current computer system with a new system capable of supporting the use of online services.

Online Services for Construction Industry Scheme

Internet
From April 2006 we will start introducing services to enable CIS contractors to file monthly returns and perform subcontractor verifications over the Internet.

We are also planning for CIS contractors to send and receive other forms over the Internet. These may include notifications and penalty notices for example.

Electronic Data Interchange (EDI)
Contractors will be able to submit their monthly returns and verifications using EDI. EDI is best suited to those contractors that have large numbers, or a high turnover, of subcontractors (typically in the thousands).

Partnership with Software Developers

We (IR) will provide online forms and returns on our website but are keen to encourage software developers to implement online service Internet/EDI capabilities for CIS Reform in their own products. The emphasis for online service will be on the receipt of data that can be processed without manual intervention. Forms and returns will be validated by us and those that do not pass the validation checks will be rejected.

We expect to publish the final technical specification pack for CIS Reform in June 2005. A test service is expected to be available from October 2005. Development of the technical specifications will be carried out in consultation with software developers. Software developers interested in finding out more should contact the Software Developers Support team on **01274 534666** or email sdsteam@ir.gsi.gov.uk

2.7 *Statutory Payments*

The rules relating to Statutory Payments remain substantially unchanged for the coming year. However, there are two particular issues covered in this note. The first affects Statutory Maternity Pay and the treatment of pay rises and second provides clarification of the rules relating to Statutory Adoption Pay where the child is adopted from abroad.

These notes also include the rates for 2005-06 and information relating to recovery.

Statutory Maternity Pay (SMP) and the treatment of pay rises during a period of maternity leave.

Previously for a pay rise to be taken into account when calculating a woman's average weekly earnings it had to be backdated into the relevant set period. However, following a European Court of Justice (ECJ) ruling (M J Alabaster v Woolwich plc and the Secretary of State for Social Security) this restriction no longer applies.

Under regulations coming into force from 6 April 2005 a woman on maternity leave is entitled to have any pay rise awarded by an employer which applies to the period starting with the beginning of her set period and ending with the end of her ordinary or additional maternity leave taken into account for the calculation of the average weekly earnings on which her SMP entitlement is based.

The procedure is no different from that which employers have had to follow previously where a pay rise was backdated into the set period. It just means that:

Where a pay rise is awarded which takes effect from an effective date in the period starting with the beginning of the set period and finishing with the end of her maternity leave period it must be included in the average weekly earnings calculation as though it had been backdated.

Where a pay rise is awarded and the effective date is before the beginning of the set period and the earnings in the set period have not yet been adjusted to reflect that pay rise, the pay rise must also be taken into account.

The regulations mean that from 6 April 2005 employers must look again at any SMP cases affected by rises paid after that date.

As a result, employers may need to recalculate a woman's average weekly earnings as a result of a pay rise, but the actual process is no different from what they would have done as a result of a backdated pay award that was covered by the Gillespie ruling and an example is included below to illustrate this.

The most straightforward way to work out the revised AWE is to apply the percentage pay rise to the original AWE figure or if it is a flat rate rise then convert it to weekly and add it to the original AWE figure. The employer is then required to pay the difference between the original award and the revised award.

Where the employer is entitled to make a recovery they should do this using the rates in force for the tax year in which the additional payment is actually made. The earliest tax year being 2005-06

Example: Start of set period 01/01/05 AWE = £152.00 (90% = £136.80). Pay rise of 2% announced on 1 April 2005 to be effective from 01/06/05. New AWE £155.04 (90% = £139.536 rounded up). Additional amount to be paid £139.54 - £136.80 = £2.74 x 6 = £16.44.

An important point to note is that although the UK legislation is effective from 6 April 2005 the change is as a result of a ECJ ruling and this may operate retrospectively.

The case returns to the UK Court of Appeal in February 2005 and no advice can be given on the effect of the ECJ's judgement on past periods until the Court of Appeal has given its decision.

Statutory Adoption Pay (SAP) - adoptions from abroad.

The July 2004 edition of the 'notes (series 10 number 19)' suggested that the changes in the Regulations relating to the adoption of a child from abroad did not affect the entitlement conditions for Statutory Paternity Pay (SPP). This is incorrect. Someone who is adopting a child from abroad and who satisfies the relevant conditions for SPP can benefit from the 2004 legislative changes.

These allow for:

- the calculation of AWE to be made on an 8 week period up to the point where an employee completes 26 weeks of continuous service, and
- the employee to qualify for SPP, providing they complete their 26 weeks continuous employment with their new employer before they want their pay period to begin and they satisfy all other criteria.

Note the adopter has to complete their service before they begin their paternity leave but must also complete their leave within 8 weeks of the date of the child's entry to the UK. Logically they must therefore complete their service at least either one week or two weeks before the end of that eight week period.

Further information can be found in the Employers Help Book E16 Pay and time off work for adoptive parents.

Rates of Statutory Payments 2005-06

Statutory Sick pay (SSP)

The weekly rate for days of sick absences on or after 6 April 2005 is:

Employees with AWE of £ 82.00 or more	SSP Weekly rate £ 68.20

For the daily rate use the table below:

Daily rates table for days of sickness from 6 April 2005 to 5 April 2006

Unrounded Daily Rates*	**No of QDs in week**	**No of days due**						
		1	**2**	**3**	**4**	**5**	**6**	**7**
£		**£**	**£**	**£**	**£**	**£**	**£**	**£**
9.7428	**7**	9.75	19.49	29.23	38.98	48.72	58.46	68.20
11.3666	**6**	11.37	22.74	34.10	45.47	56.84	68.20	
13.6400	**5**	13.64	27.28	40.92	54.56	68.20		
17.0500	**4**	17.05	34.10	51.15	68.20			
22.7333	**3**	22.74	45.47	68.20				
34.1000	**2**	34.10	68.20					
68.2000	**1**	68.20						

*Unrounded daily rates are shown for employers with computerised Payroll Systems.

Further information about the SSP daily rates for 2005-06 can be found in the Employers Help Book E14 "What to do if your employee is sick" for use from 6 April 2005.

Statutory Maternity Pay (SMP)

The amount of SMP paid to an employee for payment weeks starting on or after 3 April 2005 is:

1st 6 weeks of payment	The earnings related rate of 90% of the employees AWE.
Remaining weeks	The lesser of the standard rate which is £106.00, or the earnings related rate, which is 90% of the employees AWE.

Statutory Paternity Pay (SPP)

The weekly rate of SPP paid to an employee for payment weeks starting on or after 3 April 2005 is:

The lesser of the Standard rate, which is £106.00 a week or,
The earnings related rate which is 90% of the employees AWE.

Statutory Adoption Pay (SAP)

The weekly rate of SAP for payments starting on or after 3 April 2005 is

The lesser of the Standard rate, which is £106.00 a week or,
The earnings related rate which is 90% of the employees AWE.

Amount of SSP employers are entitled to recover under the Percentage Threshold Scheme (PTS)

Unless an employer qualifies under the PTS they cannot recover any of the SSP they pay to their employees.

To check whether they qualify they must compare their total SSP liability for their whole workforce in the tax month with 13% of their total gross Class 1 NIC liability in all of their PAYE schemes for the same tax month. Class 1A and Class 1B NICs should not be included.

They can recover the whole amount by which their total SSP liability exceeds 13% of their total gross Class 1 NICs figure.

Amount of SMP, SPP, SAP employers are entitled to recover or apply for funding for

From 6 April 2005 all employers who do not qualify to recover under the Small Employers Relief (SER) scheme can get 92% of the SMP/SPP/SAP they pay to their employees. This is unchanged from last year.

From 6 April 2005 employers who qualify under the SERs can recover 100% of the SMP, SPP, SAP paid to their employees plus 4.5% in NICs compensation. This is unchanged from last year.

For the 2005-06 tax year a "small employer" is an employer who paid (or was liable to pay) total gross Class 1 NICs under all of their PAYE schemes of £45,000 or less in the individual employee's qualifying tax year. This is unchanged from last year.

Advance Funding

If an employer needs to get the SMP/SPP/SAP back quickly, they can apply to their Accounts Office for payment. They can do this where, for example, the amount of money they need to pay out exceeds the amount they will have available for the same tax month or quarter. The Accounts Office will pay them the amount they are entitled to recover.

2.8 *Electronic Payments – Bank Automated Clearance Service (BACS)*

There is an increasing and welcome trend among employers towards electronic payment of their monthly remittances. This is partly due to the recent mandatory electronic payment legislation compelling large employers (with more than 250 employees) to pay their monthly remittances electronically and in full, ensuring that IR receives cleared funds by the new later payment date of 22 of the month. However other employers voluntarily paying by approved electronic methods can also take advantage of this new later payment date, and many of them have elected to do so.

BACS is one of the most popular electronic payment methods used, but significant numbers of these transactions are failing to reach customer's tax records at the first pass. The failures are occurring largely because employers are still using incorrect formats or reference numbers when initiating their payments, despite the best efforts of IR and all concerned to provide considerable help and guidance.

As an approach to reducing these errors, we are now urging software developers who provide payment facility software to incorporate reference number validation within their products, in an effort to ensure that the references included in electronic payment submissions are correct.

We are always willing to provide support and help to any developers who are prepared to incorporate reference validation, by providing examples of specific types of reference numbers and formatting, or other advice and guidance on queries in this area.

If you are able to consider incorporating validation within future software packages and would like more information or assistance, please contact James Chok Wing on **020 7438 4418.**

2.9 ***Employer's Contracting-out Numbers (ECONs)***

If an employer has an occupational pension scheme that satisfies certain conditions, they can apply to become a contracted-out scheme, which allows them to contract their employees out of the additional state pension, commonly known as SERPS or State Second Pension.

Once an employer has made an election to contract out and certain criteria have been met, then a contracting-out certificate will be issued to the employer. This certificate authorises the employer to calculate NICs at the contracted-out rate.

The certificate will contain an ECON and a Scheme Contracting-out Number (SCON) showing which scheme they belong to.

These numbers are used by the Inland Revenue National Insurance Contributions Office to record and track National Insurance contributions and pension liability.

It is not possible for an employer, or to be more specific a PAYE reference number, to have more than one ECON attached to it, although they may have numerous SCONs.

We have been asked about the recording of ECONs in cases of mergers and take-overs. In these circumstances, if Company A took over Company B - but each retained their individual ECON - then they would have to submit separate End of Year Returns for each company, showing the relevant ECONs on form P35.

If however Company A took over Company B and all employees of Company B then became employees of Company A, then only one End of Year Return would be required and the ECON for Company A should be shown on form P35 (subject to the relevant transfer action being taken).

Detailed guidance for setting up and operating contracted-out schemes can be found in booklets:

- CA14c **-** Contracting-out Guidance for Salary Related Pension Schemes and Salary Related Overseas Schemes

- CA14d - Contracting-out Guidance for Money Purchase Pension Schemes and Money Purchase Overseas Schemes

- CA14e - Contracting-out Guidance for Mixed Benefit Pension Schemes and Mixed Benefit Overseas Schemes.

Further advice can be obtained for the Inland Revenue Savings Pensions and Shares Schemes helpline on **0115 974 1444**.

2.10 ***End of Year Technical Packs 2004-05 and 2005-06***

The End of Year Technical Packs for 2004-05 and 2005-06 have been updated to include the 'GGIS XML Response Message Structure' documents. These documents contain advisory messages for 'test in live' submissions and error messages for submissions which fail.

The 2004-05 'GGIS XML Response Message Structure' document can be found at http://www.inlandrevenue.gov.uk/ebu/paye_techpack/eoy2005-response-message.pdf

The 2005-06 'GGIS XML Response Message Structure' document can be found at http://www.inlandrevenue.gov.uk/ebu/paye_techpack/eoy2006-response-message.pdf

2.11 ***System Assurance Testing - Employer's Annual Return (P14s and P35)***

In order to ensure that IR systems are fully tested and fit for purpose we intend to introduce the new mandatory online filing regime in two stages.

- Stage 1 – available from 6 April 2005, this involves filing, validating and accepting employer returns made online. Stage 1 also includes the receipt and capturing of magnetic media and paper returns.
- Stage 2 - takes place mid May when the returns information is sent to the IR's back end systems for employer, taxpayer and contributor record to be updated. This controlled release of data to our back end systems will be completed by mid-June.

The impact of this will be minimal. Employers should however consider the following.

Tax-Free (Incentive) payments for small employers (fewer than 50 employees)

The first tax-free payment of £250 will not be credited to the employer's payment record until the return is released and posted to our back end systems. This could delay payment of the tax-free payment until mid-June, however this is well before the first quarterly payment (due by 19 July) for those employers whose monthly payments are less than £1,500.

When the tax-free payment is formally credited to the payment record the employer will be notified by letter.

Employers who have to, or voluntarily choose to, make monthly remittances by 19 May and 19 June 2005 can deduct (self-serve) from their remittance the value of the tax-free payment after they have received an acknowledgement [online] that their return has been successfully filed online. Where the 'self-serving' of the tax-free payment results in there being no further remittance to make for May and/or June we suggest employers send a 'nil' payslip for the relevant months to their Accounts Office, that way they will avoid unnecessary demands for payment. Alternatively they can phone their Accounts Office for advice. An employer cannot notify the IR of a 'nil' payment by electronic means.

Small employers must **not** deduct the tax-free payment from any remittance they make for the 2004-05 tax year, for example months 12 or 13 payments. Employers can however arrange for the tax-free payment to be re-allocated to specified arrears and should contact their Accounts Office to arrange once they have received their tax-free payment notification.

Error handling and how errors will be identified and returned to submitters

Returns (or part returns) made online (Internet/EDI), will be validated at once and those that have errors will be rejected. The submitter will be informed of the reason for the rejection. **This online process will not be delayed because of our staged implementation.**

Magnetic media returns will be checked to make sure they are readable and have no completion errors. If there are any such errors the return will be sent back to the submitter. When a corrected return is received it will be held until stage 2 validation begins, only then will the P14s be subjected to the more detailed Quality Standard validation checks.

Consequently this late identification of errors will not allow sufficient time for correction before the submission deadline of 19 May. When a magnetic media return is rejected we propose to allow employers two weeks from the date of our rejection letter to make the correction and resubmit the return. Any employer who does not meet this timetable may incur a late filing penalty.

Paper returns will be checked on receipt to make sure they are made on the correct form, are readable and contain all the required information. Where there are errors, the returns will not be accepted and will be returned to the submitter for correction. Returns that are of an acceptable quality will be recorded as received and we will capture the P14 data. No further processing will take place until the commencement of stage 2. The submitter will be contacted about any further validation errors identified in paper returns when they are processed.

Electronic payment surcharge

As the surcharge is based on the employer's return figures, there may be a delay in calculating and issuing the Surcharge Notice if the employer submits their return successfully during the initial 6 week period. The deadline for paying the surcharge is 30 days from the date of the notice.

Online filing penalty.

There will be a short delay in the issue of non-online filing penalty notices to large employers who have not made their return online. The issue of penalty notices will not start until mid-June 2005.

Tax Repayments to employees

The current procedures will continue to apply. Any employee who seeks a 2004-05 tax repayment will be asked to provide their form P60 to aid the early processing of repayments.

2.12 *Tax-free payments in cessation cases*

Small employers (with fewer than 50 employees) who cease trading during the tax-year 2004-05 must:

- tell their Inland Revenue Office immediately that they have ceased
- pay all outstanding tax/NIC to the Revenue immediately
- keep their PAYE records safe until they file online.

Cessation returns for 2004-05 can only be filed online after 6 April 2005. If our records show a date of cessation during 2004-05 and the employer has filed online we will credit the tax-free (incentive) payment to that year. Where there are no outstanding amounts, employers must contact their Accounts Office, to seek repayment of the tax-free payment.

2.13 *Application of the Extra Statutory Concession B46 (Period of Grace)*

Employers must send us a complete Employer's Annual Return (P14s and P35 data) by 19 May each year, this also applies to returns sent online.

Extra Statutory Concession B46 allows employers a further period of up to seven business days to allow for delays in the transmission of a return. The concession applies to online returns as well as those sent on paper or by magnetic media.

Employers, and their agents, are being encouraged to file the Employer's Annual Return (P14s and P35 data) as soon as they can, and not to leave it until the last minute. They should allow enough time for the return to be sent, corrected and resubmitted by the deadline, if they are to avoid a penalty for failure to make the return by the deadline.

To help employers make a full and complete return over the Internet by the 19 May it is recommended that they test a batch of P14s for accuracy, as soon as they are ready. Any errors identified can be corrected while the balance of the return is being completed. This will help achieve the correct format even if all errors are not captured.

2.14 *Developer Test Service Upgrade in February 2005*

From February the limitations in the present developers test services will be lifted. First, when testing multi-part messages through VSIPS or EDI, the requirement to submit the P35-part last will be removed. A P35-part can be successfully submitted to the test service by either channel even if there are still outstanding P14-parts (as defined by the P14-part count in the P35-part).
However, as now, QS3 validation is not performed until all the parts of a multi-part submission have been successfully received. This behaviour exactly matches the behaviour of the live service to be introduced in April 2005.

Similarly, in February, the TPVS compressed submission restriction will be removed to bring TPVS into line with the live service in April 2005.
Currently, compressed submissions to TPVS are limited to a size that will not exceed 25 million bytes when decompressed. When this restriction is removed, the only limits will be defined by the ability of the compression algorithm in use to 'squeeze' a submission into a message not exceeding 25 million bytes in size. In practice this means that submissions containing up to about 250,000 P14s (the exact number will depend on the compression algorithm and the presence or absence of optional P14 data items) can be compressed into a message of 25 million bytes or less and successfully submitted to the TPVS.

The current message size limit of 1mb for ISV/VSIPS, imposed by Gateway, will remain in force.

2.15 *Testing the Employer's Annual Return (test in the live) from 6 April 2005*

From 6 April 2005 an employer or agent/payroll bureau will be able to test their online return before they actually send it online over the Internet.

To access the test service an employer or their agent must set a flag on their test transmission. Test in the live is performed through the live infrastructure, in exactly the same way, as the user would make a live filing. The submitter must set a test in the live flag on the software being used to make the filing to indicate it is a test submission, and use the same submission details and Gateway credentials.

Software developers have been asked to make the test flag available within their product. The submitter will be able to test all or part of the P14 data to identify completion errors or items that do not meet the validation requirements. If they send a whole return for testing the system will also check the arithmetic accuracy of the totals of the P14s to ensure they are correctly reflected in the P35.

An employer, agent or payroll bureau using software which does not have the test flag built-in will not be able to use the test in the live facility.

An employer, agent or payroll bureau can also use the test service to test any amended returns and, if the employer ceases to trade after 5 April 2005 they (or their agent or bureau) can test the return relating to the period up to the date the employer ceased.

The legislation to file online introduced tighter validation requirements for online filing. The software developer or service provider should have built these validations into their payroll product and there should be no additional work at the year end. It is strongly recommended that the employer, agent or payroll bureau finalise the 2004-05 payroll and have it ready for testing as soon as they can after 5 April 2005. The test will identify any instances where the return will not meet the validation requirements.

The Electronic Business Unit (EBU) advises EDI Trading Partners to submit a test file of no fewer than 100 and no more than 1000 forms P14. This is to keep the submission to manageable proportions and mirrors the previous years SQA rules. In addition and perhaps of more importance, it keeps the Trading Partner transmission costs to a reasonable amount. EBU do not support a volumetric testing facility and have always discouraged the practice.

There are no limits to the number of times an EDI Trading Partner can test.

It is recommended that as soon as the submitter has a batch of P14s ready for submission, they test them to check their accuracy, especially if the return is large. The submitter will be notified very quickly of any errors, which they can correct while the balance of the return is being finalised.

Employers who intend to use IR's free Online Return and Forms – PAYE product don't have this flexibility. These employers will be able to test part of their submission if they have decided that their final return will be made in parts. But an employer using the service cannot make a test submission in a part and then follow it up with a final whole submission (P14s and P35 data) in one single submission. Once the decision to submit either in parts or as a whole submission has been recorded on the system it cannot be changed.

EDI submitters should talk to their account manager about their test arrangements.

2.16 ***Magnetic Media Test Service***

As mentioned in the September 2004 edition of the '*notes* (*series 10 – number 20)'*, we will no longer invite developers or employers/bureaux to submit their products or data for testing. Further guidance was given in the *Employer's Bulletin,* October 2004 issue, and in the '*Online filing and electronic payment handbook (Part 3).*

We will offer a limited service to check data against the Quality Standard and some limited database checks such as to the accuracy of ECON numbers.
Employers/bureaux should send their data to:

Magnetic Media Test Service
Room BP2102
Benton Park View
Longbenton
Newcastle upon Tyne
NE98 1ZZ

Telephone **0191 225 7932**

The service will be available from the 31 January 2005 and employers/bureaux can send data up to two weeks in advance of this date if they would find it helpful. Data can only be submitted on CD or floppy disk. The test team will perform the following checks.

- P14 Field and Format Checks against the Inland Revenue Quality Standard
- ECON and PAYE Reference checks

Responses will be sent back to employers and bureaux with a paper report detailing the number of errors by data field. The testing team will aim to respond within ten days of receiving data.

2.17 ***New rules for disclosing tax avoidance schemes***

On 17 March 2004, new rules were announced which introduce an obligation on promoters and users of certain tax avoidance schemes and arrangements to disclose details to the Inland Revenue. In order to identify those employers who need to make a return of any tax avoidance scheme they have used we will be including, from 2006-07, an additional question in part 3 of the P35. We will publish more information in a future edition of these 'notes' next year.

Until the P35 is amended for 2006-07 form AIU4 will be used by employers. For further information or a copy of the AIU4 go to www.inlandrevenue.gov.uk/aiu/index.htm
A copy of AIU4 can also be obtained from the Inland Revenue Orderline on **0845 9000 404**.

2.18 ***Quality Standard for 2005-06***

The Quality Standard setting out the validation rules for Employer Annual Returns for 2005-06 was published in the summer 2004. Appendix 2 sets out the acceptable and forthcoming National Insurance Number prefixes. Please note that prefixes NC, NK, NO, ZZ, XX and QQ will not be acceptable for 2005-06 and later years. It would help those employers, who may hold some of these prefixes in their payroll records, if payroll systems could be run identifying existing errors and an error message for newly input invalid National Insurance Numbers. The message could suggest that the employer asks the relevant employee to provide their National Insurance Number as the one they are using is invalid. We are keen to avoid employer returns being rejected because an unauthorised prefix is used.

2.19 ***Penalties- Employer Annual Return outstanding.***

The Employer's Annual Return is to be submitted and accepted by 19 May, subject to Extra Statutory Concession B46 (see para 2.13) and a penalty will be levied in those cases where the return is received late. Employers should note that we have reviewed our internal processes. We will be providing our staff with guidance about those exceptional circumstances where they may extend the submission deadline to ensure that the penalty set by Sec 98A(2)(a) TMA 1970 is imposed in a more timely manner. The facts of any appeal will be checked and the Appeals Commissioners will determine disputes.

2.20 ***Online filing and electronic payment handbook***

The '*Do it online: Online filing and electronic payment handbook'* has been updated and contains more information about online filing, including:
- testing your return (Part 1)
- keeping PAYE records electronically (Part 1)
- amending your return using Online Return and Forms – PAYE (Part 3)

Go to http://www.inlandrevenue.gov.uk/employers/onlineindex.htm for more information.

2.21 ***Online output preferences***

We have been asked how employers or their agents change their preferences in respect of outputs from IR.

Employers
The default is for employers to receive all output online once activation has taken place. The output can be changed on activation by using the link 'want to change' from the successful activation page. On this page you can change all or some of your output preferences. The output can be changed at anytime by going to the PAYE service page (https://online.inlandrevenue.go.uk/index.jsp.login) and under 'View PAYE notices' use the link 'change your statutory notice options'. On this page you can change all or some of your output preferences.

Agents
The default is for agents to receive all output online once activation has taken place. The output can be changed at anytime by going to the PAYE service page (https://online.inlandrevenue.go.uk/index.jsp.login) and under 'View PAYE notice' use the link 'how you receive your clients statutory notices'. On this page you can change all or some of your output preferences for some or all of your clients.

2.22 ***Q&A - Recent queries from employers and payroll programmers***

Q1. If I have two (or more) payrolls processed on one Employer's PAYE reference number, is it possible to submit a P35 for each payroll?
A. No, the IR can only accept one P35 in respect of each employer's PAYE Reference. The employer will have to make their own internal arrangements to merge the two (or more) P35s and add together all the financial totals. Longer term, the employer could consider whether they would prefer to have a PAYE reference in respect of each payroll. Details are in booklet *CWG2 (2004)* on page 10 paragraph 9.

Q2. How do I notify IR of any amendments to the Employer's Annual Return?
A. As soon as the employer realises that there is an error in the Employer's Annual Return they must notify IR by letter. The letter must include the nature of the error and the reason it occurred. The amended details should be submitted on a P14 and P35. The amended P14 and P35 can be sent online even if the original return was sent by paper, EDI or magnetic media.

Q3. If I send my return as part paper or part magnetic media, when will I receive confirmation that the whole return has been accepted?
A. The online P35 acceptance message will not be sent until all elements of the Quality Standard validations are completed. This includes checking details on the P35 against the totals from the P14s. Employer's should be aware that if they send all or part of their P14 data on paper or magnetic media, then it can takes weeks or even months to capture and could delay the acceptance of the whole return and the transmission of the acceptance message. In line with current routines an acceptance message will not be sent in respect of a return which includes a paper P35 submission.

Q4. Will there be any changes to the P32 Employer's Payment Record, and the P30BC Payslip booklet for 2005-06?
A. Yes the 'NIC Holiday claim' column will be withdrawn.

Q5. Can I continue to send my Annual Return by letter (or other non-standard format) instead of using the prescribed format?
A. No, employers are required to make their return in the prescribed format, letters will not do. And any employer making a paper return will need to use the forms P35 and P14 (or approved substitute P14) as prescribed by the Board of the Inland Revenue.

Q6. Can the alpha character letter 'O' be used in the tax code field?
A. No, for 2004-05 and later years the use of 'O' will fail the Quality Standard requirements and the submission will be rejected.

To avoid rejection:

- there are no circumstances where a tax code includes 'O' (letter)
- the tax code field should not be completed with a lead '0' (zero) with the exception of code '0T'
- code D0 must also be completed with a '0' (zero)
- entries with 'W1' and 'M1' should be included in the specific fields as set out in the MIG/Scheme and not in the tax code field.

Q7. I have been given a new Employer's PAYE Reference due to a reorganisation within IR, so what reference number should I put on my Employer's Annual Return?
A. The Employer's Annual Return must be sent using the very latest employer's PAYE reference.

Q8. How will I be told of any penalty or surcharge if I don't comply with my online filing and electronic payment obligations?
A. Employers will be notified separately of each penalty and surcharge.

- Mid-June 2005 onwards IR will issue penalty notices in respect of those returns that have not been received on time.
- Employers who have not sent their return will receive their first penalty notice during September 2005.
- Mid-June 2005 onwards, large employers will receive the penalty notice for failure to file online as soon as our systems recognise that any part of the return was not submitted electronically.
- Mid-May 2005, surcharge notices will be sent to large employers who have failed to make their full, specified payment on time.
- The employer will be contacted separately if they have been negligent or fraudulent in completing their return.

The employer has the right of appeal against any or all of these penalties and surcharges.

Q9. Can I send in two Employer Annual Returns if my new payroll software is not compatible with my old system?
A. No, an employer is required to make a full and complete return covering the whole year. IR cannot accept more than one original return. Where two returns are filed we will assume the second return is an amendment. We cannot accept one return for the period when the employer was using the old software and a second return to cover the period when using the new software. The employer, especially large employers, must find out from their software provider if it is possible to transfer data from one system to another.

We have some suggestions if an employer cannot transfer data from one system to another:

- use the IR's free Online Return and Forms – PAYE software for this single year to create and send a single Employer's Annual Return (P14 and P35 data) – remember this software is geared for employers with 50 or fewer P14s to file
- use the services of a 3rd party submitter. We understand that there are an increasing number of organisations that have an online filing service only and may not deal with any part of in-year payroll calculations.

Alternatively, the employer can

- use the new payroll software to lead on the submission of P14 data for employees who started in employment before the date of the change and whose pay details were carried forward to the new system; and
- use Online Return and Forms – PAYE product for sending the P35 data, which will include figures for the whole year and, the P14 data for employees who left employment before the new software was introduced. The Online Return and Forms – PAYE product is geared for employers with 50 or fewer P14s to file.

Q10. In April 2004 my software wouldn't let me start the payroll for the new financial year until I had submitted my 2003-04 return. Will the submission of the Employers Annual Return be any easier in April 2005?
A. We suggest that employers or agents who experienced this type of problem last year speak to their software provider to establish what steps they need to take.

Employers can start sending their 2004-05 return on Wednesday 6 April 2005. If they want to calculate, and pay wages, by Friday 8 April, before sending the return, then, they must make sure that their payroll software will allow them to start work on the 2005-06 payroll before the 2004-05 year is finished.

We understand that some software companies are updating their software product so that the user can move to the new financial year before the old one (2004-05) is finished and the return sent. Otherwise generally, software companies may suggest an IT solution upon request.

Q11. There are differences in the Magnetic Media Specification CA51/52, and the Quality Standard Validation Specification for online filing. Which should I use?
A. We are aware of differences in the two specifications and will process both specifications. Each magnetic media submission must follow the requirements of the CA51/52 and each online submission must meet the requirements of the Quality Standard.

Q12. Can I enter a negative amount for 'tax paid in this employment' on the form P45 to indicate a refund made?
A. No, in line with long standing procedures, employers must not record any repayment or negative payment on the P45(1) in box 8. Box 8 must only show the tax deducted.

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

The next issue of these notes is scheduled to follow the Chancellor's Budget announcement in early Spring 2005.

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@replyservice.co.uk

Or you can write to:

Inland Revenue Notes for Payroll Software Developers
PO Box 17289
Edinburgh
EH12 1WY

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@replyservice.co.uk stating 'unsubscribe' in the subject field 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 enquires 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@replyservice.co.uk

Class 1 contribution rates for Not Contracted-out Schemes 2005-2006 Annex A

Category Letters A (Standard rate), B (Married Woman's Reduced Rate), C (Employer only rate) & J (Not Contracted-out deferment rate)

	Employee's contribution: Category letters				Employer's contribution: Category letters
Earnings Bands	**A**	**B**	**C**	**J**	**A, B, C & J**
Below £82.00 weekly, Below £356.00 monthly, Below £4,264.00 yearly	Nil	Nil	Nil	Nil	Nil
£82.00 to £94.00 weekly, or £356.00 to £408.00 monthly, or £4,264.00 to £4,895.00 yearly	**0%**	**0%**	Nil	**0%**	**0%**
£94.01 to £630.00 weekly, or £408.01 to £2,730.00 monthly, or £4,895.01 to £32,760.00 yearly	**11%** on earnings above the ET	**4.85%** on earnings above the ET	Nil	**1%** on earnings above the ET	**12.8%** on earnings above the ET
Over £630.00 weekly, or Over £2,730.00 monthly, or Over £32,760.00 yearly	**11%** on earnings above the ET up to and including the UEL **and** **1%** on earnings above the UEL	**4.85%** on earnings above the ET up to and including the UEL **and** **1%** on earnings above the UEL	Nil	**1%** on all earnings above the ET	**12.8%** on all earnings above the ET

Weekly LEL = £82, ET = £94, UEL = £630. **Employer's rates for mariners should be reduced by 0.5%**

Class 1 contribution rates for Contracted-out Salary Related Schemes (COSR) 2005-2006 Annex B

Category Letters D (Standard Contracted-out rate), E (Married Woman's Reduced Contracted–out rate) & L (Contracted–out deferment rate). These rates should only be used where the employer operates a COSR occupational pension scheme.

	Employee's contribution: Category letters			**Employer's contribution: Category letters**	**Employee's NIC Rebate on earnings above the LEL, up to and including the ET (Applies to category letters D & L only)**	**Employer's NIC Rebate on earnings above the LEL, up to and including the ET**
Earnings Bands	**D**	**E**	**L**	**D, E & L**		
Below £82.00 weekly, Below £356.00 monthly, Below £4,264.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£82.00 to £94.00 weekly, or £356.00 to £408.00 monthly, or £4,264.00 to £4,895.00 yearly	**0%**	**0%**	**0%**	**0%**	**1.6%** on earnings from **£82.01** up to and including **£94.00** (or monthly or annual equivalents)	**3.5%** on earnings from **£82.01** up to and including **£94.00** (or monthly or annual equivalents)
£94.01 to £630.00 weekly, or £408.01 to £2,730.00 monthly, or £4,895.01 to £32,760.00 yearly	**9.4%** on earnings above the ET	**4.85%** on earnings above the ET	**1%** on earnings above the ET	**9.3%** on earnings above the ET		
Over £630.00 weekly, or over £2,730.00 monthly, or over £32,760.00 yearly	**9.4%** on earnings above the ET, up to and including the UEL, **and** **1%** on earnings above the UEL	**4.85%** on earnings above the ET, up to and including the UEL, **and** **1%** on earnings above the UEL	**1%** on all earnings above the ET	**9.3%** on earnings above the ET, up to and including the UEL, then **12.8%** on all earnings above the UEL		

Weekly LEL = £82, ET = £94, UEL = £630. **Employer's rates for mariners should be reduced by 0.5%**

Class 1 contribution rates for Contracted-out Money Purchase Schemes (COMP) 2005-2006 Annex C

Category Letters F (Standard contracted-out rate), G (Married Woman's Reduced Contracted-out rate) & S (Contracted-out deferment rate). These rates should only be used where the employer operates a COMP occupational pension scheme.

	Employee's contribution: Category letters			**Employer's contribution: Category letters**	**Employee's NIC Rebate on earnings above the LEL, up to and including the ET (Applies to category letter F & S only)**	**Employer's NIC Rebate on earnings above the LEL, up to and including the ET**
Earnings Bands	**F**	**G**	**S**	**F , G & S**		
Below £82.00 weekly, Below £356.00 monthly, Below £4,264.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£82.00 to £94.00 weekly, or £356.00 to £408.00 monthly, or £4,264.00 to £4,895.00 yearly	**0%**	**0%**	**0%**	**0%**	**1.6%** on earnings from **£82.01** up to and including **£94.00** (or monthly or annual equivalents)	**1.0%** on earnings from **£82.01** up to and including **£94.00** (or monthly or annual equivalents)
£94.01 to £630.00 weekly, or £408.01 to £2,730.00 monthly, or £4,895.01 to £32,760.00 yearly	**9.4%** on earnings above the ET	**4.85%** on earnings above the ET	**1%** on earnings above the ET	**11.8%** on earnings above the ET		
Over £630.00 weekly, or over £2,730.00 monthly, or over £32,760.00 yearly	**9.4%** on earnings above the ET, up to and including the UEL, **and** **1%** on earnings above the UEL	**4.85%** on earnings above the ET, up to and including the UEL, **and** **1%** on earnings above the UEL	**1%** on all earnings above the ET	**11.8%** on earnings above the ET, up to and including the UEL, then **12.8%** on all earnings above the UEL		

Weekly LEL = £82, ET = £94 UEL = £630. **Employer's rates for mariners should be reduced by 0.5%**