



Inland Revenue Notes for Payroll Software Developers

SERIES 10 – NUMBER 22.1

March 2005

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1 Income Tax changes affecting PAYE

1.1 Summary of changes – March 2005 Budget

In his Budget statement on 16 March 2005 the Chancellor of the Exchequer proposed changes to the income tax bandwidths.

The rates of tax and bandwidths for 2005-06 are as follows:

Starting Rate	10% - up to £2,090
Basic Rate	22% - £2,091 to £32,400
Higher Rate	40% - over £32,400

1.2 Effecting the changes

Employers will receive a new set of Taxable Pay Tables either within the Budget Pack, or on the Employer's CD-ROM 2005 Budget edition that will be included in the pack. These tables (Calculator Tables May 2005 or Tables SR + B to D May 2005) give effect to the increases to the Starting Rate and Basic Rate bandwidths and are to be brought into use from the first pay-day after 17 May 2005.

General uplifts of codes were announced in the Pre Budget Report (PBR) and included in the December 2004 'Notes' (Series 10 - Number 21). The code uplifts announced in the PBR apply from 6 April 2005.

There are no additional general uplifts of codes as a result of Budget announcements. Any amended codes will be notified to employers on individual forms P6(T) (or code list, magnetic tape or cartridge or via Electronic Data Interchange). Full instructions will be available for employers on form P7X (2005), a copy of which is given at Annex C of these notes.

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

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

1.3 Specification for PAYE Tax Table Routines

Annex A to these Notes gives the amendments to the Specification for PAYE Tax Table Routines – February 2000 (Version 10).

Annex B contains some test data which users may find helpful in verifying their new routines operative from 18 May 2005.

Annex C shows a copy of form P7X(2005) which will be either within the Budget Pack, or on the Employer's CD-ROM 2005 Budget edition that will be included in the pack.

Amendments will also be made to the Specification for PAYE Tax Table Routines for Free Of Tax (FOT) arrangements. The amended specification will shortly appear on the Inland Revenue website at www.inlandrevenue.gov.uk/ebu/ebu_paye_ts.htm

1.4 Test facility

The payroll test data currently held on the Internet will be updated to reflect the Budget changes. The updated version of the payroll test data will be made available on the IR Website shortly.

2. Other Budget Proposals

2.1 Extension of outplacement counselling and re-training exemptions to part-time employees.

Currently an employer can provide outplacement counselling and re-training courses as part of a redundancy package (for employees who lose their jobs), without incurring a tax charge. One of the conditions for allowing this exemption is that the employee works full-time, and in the case of the re-training course, the employee attends it on a full-time or substantially full-time basis.

- Budget 2005 announces that from 6 April 2005 when both part-time and full-time employees lose their job, as part of a redundancy package, they will be able to receive free of tax outplacement counselling and re-training expenses.
- The duration of the re-training course covered by the exemption will be extended from one to two years.
- And the employee will no longer be required to attend any course on a full-time or substantially full-time basis.

2.2 Company Car Tax

To maintain a three year lead in time the Government announced, in the Budget, the level of carbon dioxide (CO₂) emissions to qualify for the minimum company car benefit petrol percentage of 15% (the lower threshold) for 2007-08. The 2006-07 CO₂ lower threshold of 140 grams per kilometre (g/km) will be frozen for 2007-08.

Car Fuel Benefit

The company car fuel benefit was reformed in April 2003 to use the same emissions-based percentage charge as the company car for which the free fuel is provided. For free fuel the company car tax percentage is applied against a set figure (the multiplier). In 2004-05 the multiplier was set at £14,400. The Government is freezing the multiplier for 2005-06.

Alternative Fuel Discounts

For 2006-07 the discounts for cars that run on alternative fuels will be simplified to:

- Cost of conversion disregarded for bi-fuel gas and petrol cars converted after type approval, no additional percentage discount.
- 2% discount for bi-fuel gas and petrol cars manufactured or converted before type approval and
- 3% discount for hybrid electric and petrol cars.

The 6% discount for electric-only cars will be maintained.

2.3 Loaned Computer & Cycle Exemption: Value on Sale Rules

From 6 April 2005 the benefit in kind rules on employer provided computers and bicycles will change to ensure that when ownership transfers from the employer, to an employee, no benefit arises where it has:

- Previously been loaned to an employee by the employer
- The employee pays fair market value at the time ownership transfers.

2.4 Payments made by Employers to Employees when in full-time attendance at universities and technical colleges - Limit

Budget 2005 announces the updating and modernisation of Statement of Practice 4/86 (SP4/86) - "Payments made by employers to employees when in full-time attendance at universities and technical colleges". It also introduces a change to National Insurance Contributions (NICs) regulations to align the treatment of NICs with that of tax.

The current limit for the academic years ending on or before 31 August 2005 has applied since 6 April 1992 and is set at £7,000 or an amount that a public awarding body, such as a Research Council, would have granted to a student with similar personal circumstances. The revised Statement of Practice removes the link to amounts paid by awarding bodies and increases the limit from £7,000 to £15,000.

With effect from 1 September 2005,

- payments of up to £15,000 for an academic year can be paid free of tax and NICs to an employee for periods of attendance on a full-time educational course at a recognised educational establishment,
- any payments made after 16 March 2005 that relate to the 2004-05 academic year, should be paid under the Statement Practice 4/86 conditions that existed before the 16 March 2005 update.

2.5 Phasing out payment of Working Tax Credit via employers (PVE)

The Government announced in Budget 2004 that the payment of Working Tax Credit via employers (PVE) would in due course be phased out and replaced by direct payment. Following consultation with representatives of employers and other interested parties the Government has decided that PVE will be phased out between November 2005 and April 2006.

The IR will be issuing targeted publicity to make employees aware of the changes that will result from the phasing out of PVE. To explain the change employers will be required to send one targeted letter to individual employees shortly before the phasing out begins.

IR will be consulting employers' representatives further about the detailed arrangements for phasing out PVE.

2.6 Pension scheme earnings cap

The limit on the level of earnings that may be pensionable under tax Approved Pension schemes (often known as the Pensions scheme earnings cap) has been increased to £105,600 for 2005-06.

3. Other Information

3.1 P11D for 2003-04

In the March 2004 'Notes' (Series 10 - Number 17) we provided an address where employers using our online services could write to us with further information for the car and car fuel sections. As this facility was introduced to cover an anomaly on the 2003-04 P11D and the 2004-05 form comes into use from 6 April 2005, the procedure no longer applies.

3.2 Draft P11D for 2005-06

In order to help you re-program software we are publishing the changes in a draft version of the 2005-06 P11D at ANNEX D. The final full version will be published in the September 2005 edition of Notes. The associated document changes for online and magnetic media submissions will be updated by the end of October 2005.

3.3 Beneficial Loans – Rate of interest 2005-06

The official rate of interest for calculating the cash equivalent of beneficial loans to employees is set to remain at 5% for 2005-06. This official rate will continue to apply for the whole of the tax year unless there are any significant changes in mortgage rates.

3.4 Forms P11 and P14/P60 for 2005-06

The following forms are now available to order from the Employer's Orderline:

P11 (2005-06)
P14/P60 (Continuous-Portrait)(2005-06)
P14/P60 (Continuous-Landscape)(2005-06)
P14/P60 (LaserSheet-Portrait)(2005-06)
P14/P60 (LaserSheet-Landscape)(2005-06)
P60 (Single sheet)(2005-06)
P60 (Continuous)(2005-06)

Illustrations of all the above mentioned 2005-06 forms (labelled 'For information only') can be downloaded from the Inland Revenue website at:
www.inlandrevenue.gov.uk/ebu/pnforms.htm

P14/P60 2005-06

There are no changes to the content of the 2005-06 forms, which retain the same box headings as the 2004-05 versions.

We have however lengthened certain boxes on the OCR P14/P60 (Continuous-Portrait)

and P14/P60 (LaserSheet-Portrait) multipart forms to allow for one extra digit. The boxes affected by this change are:

- Pay – In previous employment(s)
- Pay – In this employment
- Pay – Total for year
- Tax – In previous employment(s)
- Tax – In this employment
- Tax – Total for year
- Total of employee's and employer's contributions – Box 1d
- Employee's contributions due on all earnings above the ET – Box 1e

As usual we have also updated the tax year and changed the colour bands on the top copy of all the OCR forms. Substitute OCR forms P14/P60 will need to be updated to take account of the new box sizes (Portrait versions only), change of year and change of colour bands to match the official forms.

Inland Revenue's Forms Unit will contact all producers of substitute forms P14/P60 about this in April 2005.

3.5 Single Part P60

The 'short' single part P60 for 2005-06 is again available in 'Continuous' and 'Single sheet' format, with the content and print layout unchanged from 2004-05. In view of this, bespoke single part P60 substitutes are not affected by the changes detailed above to the P14/P60 multipart forms.

One of the queries raised on the single part P60 is the lack of a specific box in which to enter an 'R' in circumstances where there has been a net refund of tax.

In contrast the P60's from the multipart forms contain a specific refund box, but this is because they replicate the print positions from the P14 (National Insurance copy) which requires the 'R' to be entered (where appropriate) in a specific position for 'OCR' scanning purposes.

As there are no such constraints with the single part P60, the form simply contains an instruction above the 'Tax deducted - In this employment' box to say 'If refund mark R' as no separate box is required for this purpose.

3.6 Making an amended Employer's Annual Return

This is a reminder that from April 2005, starting with 2004-05, employers will be able to send online amendments to their Annual Return (P14's and P35) using our free Online Return and Forms – PAYE product, or third party software if it will allow. Employers can send amendments to us online even if they did not send their original return online.

Alternatively employers wishing to send amendments on paper and requiring a further form P35 should be advised to contact their local Inland Revenue Office. For P14's contact the Employer's Orderline.

3.7 Statutory Payments

The changes to the SMP, SPP and SAP payment rates come into effect for all payments due to be made for pay weeks starting on, or after 3 April 2005 and the changes for the recovery schemes come into effect for recoveries of payments made on, or after 6 April 2005.

Technical Specification on Statutory Maternity Pay (SMP)

The values for the IR data are now confirmed as:

IR data			
	Description of data and recommended field size	Abbreviation used	Values
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings (AWE) for entitlement to SMP to arise	LEL	£79 from 06/04/04 £82 from 06/04/05
A2	The number of weeks an employee needs to be continuously employed	Cont_Emp_weeks	26
A3	The number of weeks in the Maternity Pay Period (MPP)	MPP_weeks	26
A4	Standard Rate of SMP (this was previously known as the lower rate)	Standard_Rate	The lesser of £102.80 or 90% of average weekly earnings (AWE) for pay weeks in the Maternity Pay Period (MPP) starting on or after Sunday 4 April 2004. First 6 weeks the earnings related rate of 90% of employees AWE. Remaining weeks the lesser of the standard rate which is £106.00, or the earnings related rate, which is 90% of AWE in the Maternity Pay Period (MPP) starting on or after Sunday 3 April 2005.

IR data			
A5	Small Employer Threshold (field size set at 100 thousand just in case)	SER_Threshold	£45,000 for SMP payments made on or after 6 April 2004. £45,000 for SMP payments made on or after 6 April 2005.
A6	Small Employer Recovery Rate	SER_Recovery	100%
A7	Small Employer Compensation Rate	Comp	4.5% for payments made on or after 6 April 2004. 4.5% for payments made on or after 6 April 2005.
A8	Standard Recovery Rate	Standard_Recovery	92%

Technical Specification on Statutory Paternity Pay (SPP) Birth and Adoption

The values for the IR data are now confirmed as:

IR data			
	Description of data and recommended field size	Abbreviation used	Values
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings (AWE) for entitlement to SPP to arise	LEL	£79 from 06/04/04 £82 from 06/04/05
A2	The number of weeks an employee needs to be continuously employed	Cont_Emp_weeks	26
A3	The number of weeks in the Paternity Pay Period (PPP) (field size set in double figures just in case)	PPP_weeks	2
A4	Standard Rate of SPP	Standard_Rate	The lesser of £102.80 or 90% of average weekly earnings (AWE) for pay weeks starting on or after Sunday 4 April 2004. The lesser of the standard rate which is £106.00 a week or the earnings related week which is 90% of the

IR data			
			employees AWE for pay weeks starting on or after 3 April 2005.
A5	Small Employer Threshold (field size set at 100 thousand just in case)	SER_Threshold	£45,000 for SPP payments made on or after 6 April 2004. £45,000 for SPP payments made on or after 6 April 2005.
A6	Small Employer Recovery Rate	SER_Recovery	100%
A7	Small Employer Compensation Rate	Comp	4.5% for payments made on or after 6 April 2004. 4.5% for payments made on or after 6 April 2005.
A8	Standard Recovery Rate	Standard_Recovery	92%

Technical Specification on Statutory Adoption Pay (SAP)

The values for the IR data are now confirmed as:

IR data			
	Description of data and recommended field size	Abbreviation used	Values
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings (AWE) for entitlement to SAP to arise	LEL	£79 from 06/04/04 £82 from 06/04/05
A2	The number of weeks an employee needs to be continuously employed	Cont_Emp_weeks	26
A3	The number of weeks in the Adoption Pay Period (APP)	APP_weeks	26
A4	Standard Rate of SAP	Standard_Rate	The lesser of £102.80 or 90% of average weekly earnings (AWE) for pay weeks starting on or after 4 April 2004. The lesser of the standard rate, which is £106.00 a week or the earnings

IR data			
			related rate which is 90% of the employees AWE for pay weeks starting on or after 3 April 2005.
A5	Small Employer Threshold (field size set at 100 thousand just in case)	SER_Threshold	£45,000 for SAP payments made on or after 6 April 2004. £45,000 for SAP payments made on or after 6 April 2005.
A6	Small Employer Recovery Rate	SER_Recovery	100%
A7	Small Employer Compensation Rate	Comp	4.5% for payments made on or after 6 April 2004. 4.5% for payments made on or after 6 April 2005.
A8	Standard Recovery Rate	Standard_Recovery	92%

Statutory Sick Pay (SSP) Technical Specification

Please note the changes to the following values:

A2	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SSP to arise	LEL	£79 from 06/04/04 £82 from 06/04/05
A3	The weekly rate of SSP payable	Weekly_Rate	£66.15 from 06/04/04. £68.20 from 06/04/05.

3.8 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, a contracting-out certificate will be issued to the employer. This certificate authorises the employer to pay NICs at the contracted-out rate.

The certificate will contain an ECON and a Scheme Contracted-out Number (SCON) showing which pension scheme the certificate relates to. These numbers are used by our National Insurance Contributions Office to record and track National Insurance Contributions and pension liability.

An employer's PAYE reference number will only have one ECON, although they may have numerous SCONs. ECONs are recorded on the P35 and where appropriate SCONs on the P14's.

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 and PAYE reference number – they would have to submit separate End of Year Returns for each company, showing the relevant ECON and PAYE reference number on form P35.

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

We are aware that there may be employers who find that they need to submit an End of Year Return that covers more than one ECON but where they only have one PAYE reference number. To assist employers in this situation, we have set up a dedicated helpline.

Please contact the National Insurance Contributions Office on either **0191 225 0264** or **0191 225 0283** (lines open Monday to Thursday 9.00 to 17.00 and Friday 9.00 to 16.30).

Please note, this helpline will only deal with queries relating to the specific issue of employers who need to submit End of Year Returns covering more than one ECON but, only have one PAYE reference number.

3.9 Reform of Construction Industry Scheme (CIS)

In the December 'Notes (Series 10 - Number 21) we outlined the changes being introduced by the Reform of Construction Industry Scheme in April 2006.

Since then we have started running workshops with software developers interested in developing Internet or EDI products to support CIS Reform. Further workshops are being planned. If you are interested in attending these or would like copies of information from previous workshops then please contact the Software Developer Support team by email at **sdsteam@ir.gsi.gov.uk** or phone **01274 534666**.

To help software developers create successful products we will release a draft technical specification pack for CIS Reform later this month and aim to publish the final version in June 2005.

A third party validation service will be available from October 2005.

3.10 Gender Recognition

Transsexuals will be allowed to legally change their recorded gender under the Gender Recognition Act 2004, which comes into effect on 4 April 2005. If an application is successful a full Gender Recognition Certificate is issued. A holder of a full Gender Recognition Certificate has all the same rights as other people of his or hers acquired gender.

Where an employee has successfully made an application they will receive a full Gender Recognition certificate. Employees should present the certificate to their employer to enable them to update their personnel records and to check if their 'acquired gender' impacts the amount of National Insurance that is currently being deducted. For example, a transsexual female who gets a full Gender Recognition Certificate will pay NI contributions up to the State Pension age for women, which is currently age 60. A transsexual male who gets a full Gender Recognition Certificate will pay NI contributions up to the State Pension age for men, which is 65.

If there is an impact on the amount of NI that is being deducted employers will need to make the necessary in-year adjustment. Where the employer has already submitted their P14's, the current guidance on the over/under payment of NI detailed in leaflet CWG2 should be followed. It is important to note that there is no impact on the current payroll records e.g. P35, P14 or P11.

3.11 Electronic Payments - BACS (Direct Credit)

We have made it simpler to pay by BACS Direct Credit (including Internet and Telephone banking). From May 2005 customers can make their normal monthly or quarterly payment of tax and NIC in a single amount. We will estimate the split of the payment between PAYE and NIC and correct the allocation later when we process the Employer's Annual Return (P14's and P35).

Employers already making separate tax and NIC payments by BACS can continue to do so as now if they wish.

As part of an ongoing review to reduce the number of errors on BACS payments that we receive, we are now offering software developers information on how to modulus check the Accounts Office reference (as shown on the yellow payslip booklet that is sent to employers/agents). The check ensures that the reference the employers use to pay is valid and prevents delays in updating customer payment records.

For more information or to request details of the modulus checker contact James Chok Wing. Email to **James.Chok.Wing@ir.gsi.gov.uk** or phone **020 7438 4418**.

3.12 Developer Test Service – Employer's Annual Return (P14's & P35)

2004-05 Employer's Annual Return

We are sorry that the replacement Third Party Vendor Service (TPVS) due on the 23rd February 2005 was delayed. The new service is now available and is based on the live service infrastructure. There are known issues with the new service, however fixes for all

issues have been identified and we are looking to rectify these as soon as possible. Further information is available on our website 'Email Bulletin for PAYE Software Developers' at http://www.inlandrevenue.gov.uk/ebu/email_bul_paye.htm

The EDI test in live service was launched on 15 March. From that date an employer can either test their submission or send their 2004-05 Return. If the test flag has not been set we will assume that it is a live submission and process the return accordingly.

EDI users can use the test in live service as often as they need by setting the test flag and users will get all the errors identified and reported to them at once.

Customers told us they wanted 'test in the live' to prove connectivity and to ensure their data could get through. For Internet users 'test in the live' will do this. It will confirm employers can connect to IR systems, and

- get a message back from 'test in the live' that indicates that they can send the return,
- send the return and get a response from IR indicating that the end of year obligations has been successfully met.

Internet users will get a report of the first 100 gateway validation errors, but not a report of the more detailed Quality Standard validation failures.

The magnetic media test service ended on the 18 March and we are now preparing to process live submissions. Test data may still be submitted after this date but a guaranteed turnaround time cannot be given.

2005-06 Employer's Annual Return

To support vendors wishing to provide in-year (early or cessation filing for 2005-06 payroll products), the replacement Third Party Vendor Service also caters for the unrestricted testing of 2005-06 Employer Returns. A full test service for 2006-07 Employer Returns will be made available in October 2005

3.13 System Assurance Testing – Employer's Annual Return (P14's & P35)

To ensure that our online services and processing routines are fully tested there will be some small changes to the routines and timetable set out in the December 2004 'Notes' (Series 10 – Number 21).

Stage 1 – available from 6 April 2005

Users will be able to file their return by their chosen channel and make their return in parts. The return will be acknowledged as received if the initial validation requirements are met. Otherwise the return will be rejected. The return received acknowledgement message will be '9004 – The EOY return has been processed and passed full validation' and will be sent after initial validation. Once we have acknowledged receipt of the return it will not be rejected at a later date, but employers may be asked to make corrections and resubmit the return. The Return will be held in channel ready for further processing and posting to our back end systems.

We hope this slightly revised process will lead us to reject fewer returns.

Where an employer sends part of the return, they will also get the acknowledgement message '9004 – The EOY return has been processed and passed full validation'. This should enable the software to stop polling. Vendors may want to advise their customers not to misinterpret this message as a successful submission of the whole return. The message indicates that data has been accepted in respect of a part return. The user (employer/submitter) will still have to send the balance of the return to avoid a late filing penalty.

The acknowledgement message '9004' will also be sent when a 'P35 part' has been submitted.

You can send a replacement part up to getting the P35 acceptance message '9004'. We recommend that the P35 is the last part to be submitted.

A part return (P14 or P35 only) successfully submitted using the Inland Revenue's Online Return and Forms – PAYE product will also receive acknowledgement '9004'.

During Stage 1 IR staff will not have access to the employer's online return and we recommend that the employer does not contact us with queries about their submitted Return. During this period we will be concentrating on processing the Employer's Annual Returns. We also recommend that the employer send their amendments (rather than replacements which should be sent before 19 May) in to us after the end of year peak, for example from June onwards.

Stage 2 – available from late May 2005.

Stage 2 will not impact submissions made by IR's Online Return & Forms – PAYE product and EDI. These will have been fully validated during Stage 1. However it does affect third party software using the Internet. During this period we will consolidate part submissions and finalise the validation process. Wherever possible it would be helpful if users could retain a readily accessible copy of their 2004-05 end of year data in case we have any queries which may involve the resubmission of a corrected submission, whether part or complete. If we ask the employer for a corrected return we will use the original date of receipt and will not levy a late filing penalty where the original return was received by 19 May.

The final part of the validation process is to brigade P14 data, submitted in whole or part returns, with the P35 data and check the financial totals. Any errors will be queried with the employer and may lead to a request for a corrected return to be resubmitted.

Once the return has been fully processed it will be posted to our back end systems.

When there is a consistent error using a particular third party software product, we may contact the service provider to design a technical solution to resolve the problem. It is important for us to understand which payroll software products, in-house bespoke products and bureaux, will be technically able to resubmit in order to correct errors and what steps, if any, need to be taken by employers to allow later resubmission. We would be grateful if software developers could contact us to confirm their capabilities by email to **stacey.doyle@ir.gsi.gov.uk**

We are confident in professional software vendors' ability to build business validation rules into their products correctly and therefore we expect the need for resubmission to be extremely low.

The impact of the revised processing of returns will be minimal. However employers should be made aware of the following.

Tax-free incentive payments for small employers with fewer than 50 employees

The tax-free incentive payment will be noted on the employer's payment record as soon as the return is released and posted to our back end systems. The small employer will receive a written notification when this has happened. In the meantime the employer can deduct, 'self-serve', the payment against future PAYE remittances. Where the 'self-serving' of the tax-free payment of £250 results in there being no further remittance to make for May and/or June we suggest employers send a 'nil' payslip for the relevant month(s) to their Accounts Office. That way they will avoid unnecessary demands for payment. Alternatively they can phone their Accounts Office for advice.

We will not be able to repay the tax-free incentive, as a cheque payment, until our back end accounting system has been updated and the written confirmation is sent.

Penalties

The process that leads to the issue of the online filing penalty notice to a large employer (250 or more employees) who fails to file online or the late filing penalty notice to any employer who failed to meet the filing deadline remains unchanged. The penalty notice will be issued as soon as the return is processed and posted to our back end systems.

Electronic payment surcharge

The electronic payment surcharge notice will be issued as soon as the employers payment record is updated with the 2004-05 P35 data, as originally planned.

Early tax repayments to employees

Until the end of Stage 2 our staff will not have access to the online Employer Annual Return data. Access will be available when the return details are posted to our back end systems. Any early repayment claims by an employee must be made to their own Inland Revenue Office and be accompanied by their P60 in the usual way.

3.14 Online output preferences

Employers

The default is for employers to receive all output online once they have activated the service. This can be changed by using the link 'want to change' from the successful activation page. On this page you can change all or some of your form preferences. The output can be changed at anytime by going to the PAYE service page (<https://online.inlandrevenue.gov.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 they have activated the service. The output can be changed at anytime by going to the PAYE service page (<https://online.inlandrevenue.gov.uk/index.jsp login>) and under 'View PAYE notices' use the link 'change how you receive your client's statutory notices'. On this page you can change all or some of your output preferences for some or all of your clients.

3.15 Filing over the Internet - 'peak' times

Our systems are usually busiest between 10:30am – 1.30pm and 2.30pm – 4pm, Monday to Friday. Submitters (employers/agents/bureaux) may therefore find it more convenient to file at quieter times of the day, or at the weekend.

3.16 Using agent/payroll bureaux to file P14 data only

We know that a number of payroll bureaux and agents intend to file the P14 data online for their clients but will not be handling the P35, which will be filed by the employer. It would be very helpful if the bureau could remind the employer, that in order to get the tax-free incentive payment, or to meet the requirements to file online, the P35 must also be filed online. In these circumstances the employer will need to register for online filing. Details can be found in the '*Online Filing and Electronic Payment Handbook Part 2 - Using an agent or payroll bureau*'.

3.17 Online Filing and Electronic Payment Handbook

Amended on a regular basis the 'handbook' is currently being updated and will be published later this month.

New and amended information will include:

- The quickest way to access your secure mailbox.
- National Insurance number prefixes that will not be accepted on returns for 2005-06.
- The new five-step registration process for employers and agents.

This updated version will also be included in the Budget edition of the Employer's CD-ROM 2005. Meanwhile keep checking our website under 'what's new' for further information.

3.18 New rules for disclosing tax avoidance schemes

In the December 2004 'Notes' (Series 10 – Number 21) we said that we will be including, from 2006-07, an additional question in part 3 of the P35 so that we could identify those employers who need to make a return of any tax avoidance schemes they have used. We have decided to defer making this change until we have had an opportunity to evaluate the extent of the use of tax avoidance schemes by employers.

Meantime an employer using a tax avoidance scheme should continue to complete a form AIU4 and send it to:

The Avoidance Intelligence Unit
22 Kingsway
London
WC2B 6NR.

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 **0845 9000 404**.

3.19 Q&A – Recent queries from employers and payroll programmers

Q1. I intend to file online. Do I need to complete the paper P35 received from IR during March?

A. No. Paper returns have been sent to all employers who did not make an online return last year. The paper form does not need to be completed when an online P35 is made. If the paper P35 is submitted before the online transmission we will treat the return as being made by a non-electronic means.

Q2. What action should an EDI submitter take, in order to send their P35 over the Internet whilst continuing to get their P6s, P6Bs, P9s, Student Loans and Tax Credits using EDI?

A. When EDI submitters wish to send their P35 over the Internet, they should de-select the above forms (notice) from the PAYE Online – Internet service upon activation. Otherwise these will be sent to their secure mailbox and EDI output will cease.

From the activation page select 'want to change' under the 'Statutory notices over the Internet' section. Details of all the above notices will be shown as automatically selected 'Yes'. You need to use the radio buttons to change the answer to "no" for each of the notices you do not wish to receive over the Internet.

Q3. I have submitted an amended P14. Do I need to issue amended forms P60 to my employees?

A. Yes the employer must give their employees details of the amendment. They can give them a letter showing the amendment or a new P60 marked 'REPLACEMENT'. For more information see *Employer's Further Guide to PAYE and NICs, CWG2 (2005)* page 18.

Q4. Are there any plans to allow online reporting of information where an employee receives further payment of salary when an employee leaves the employment and has already been given form P45(1)?

A. We have no plans to develop an amendment/further P45(1) function. Page 19 of the CWG 2(2005) advises that when a payment of salary is made after the original P45 has been issued the employer must use code BR. It goes on to say that employers should not issue a further P45 but includes the additional amount on the P14. The employer must also write to their Inland Revenue office (with a copy to the employee) telling us the amount paid, the tax deducted and the date the payment was made.

Q5. Does form P45(1) allow negative value for tax in this employment field?

A. The Day to Day Payroll Booklet (E13), available on the CD-ROM from February 2005 has been amended to include the following on the guidance for P45s: 'The totals at item 8 are the amounts of employee's pay and tax deducted in your employment for the current year. If the 'Total tax in this employment figure' is nil, enter £0.00 in the box. Do not enter any refunds made.'

Q6. Online filing registration - where can I find my Accounts Office reference number?

A. You can find your Accounts Office reference number on your Payslip Booklet (P30). Enter the number in full. If, exceptionally, you get an error message when registering that says either "the details you have entered are incorrect" or, "you have already enrolled for this service", re-enter your Accounts Office reference but leave out the zeros after the two letters.

Q7. Can I send an Annual Return for a PAYE scheme that has ceased online?

A. Yes. Returns for PAYE schemes that cease can be filed online during the next tax year. For example, an employer that ceased during 2004-05 can send their 2004-05 return online by 19 May 2005. Either the employer or their agent can send the return. Employers or agents having difficulty registering for a ceased scheme must contact the Online Services Helpdesk (phone **0845 60 55 999**).

Where the employer ceases during 2005-06 and later years the final cessation return can be filed at once.

The magnetic media specification and process does not cater for in-year cessation. Any employer using the magnetic media service for in year cessation will have to submit the final return by a different channel. The return could be submitted online after 5 April 2005 and if it relates to a small employer the tax free incentive will be paid.

Q8. Can I use multiple PAYE references when testing P14s through the TPVS service?

A. No. This is not what the TPVS service was designed for and has caused problems for the vendor users and software developers as the references can only be deleted from the test area one at a time. A developer or large bureau developing their software should only use one employer reference for testing. In theory if their software works for one reference it should work for them all.

Q9. Why do I need to show a unique identifier when submitting my P14 data in parts?

A. The unique identifier will help when we (or the employer/submitter) want to discuss a part P14 submission. Both parties will be able to identify which part we are talking about.

Q10. Can the employer report negative amounts of Statutory Payments on a P14?

A. No. There is no provision for Negative Statutory Payments on P11s, P14s or Employer Annual Returns because any Statutory Payment wrongly paid is not a Statutory Payment but is an overpayment of wages. Any corrections are therefore adjustments of earnings.

It has always been the case that wrongly paid Statutory Payments change identity once the erroneous payment is discovered. If the Statutory Payment was not lawfully due, it is merely wrongly paid earnings. Once the error was discovered corrective action would be the same as for any other over/under payment of earnings.

Regarding the adjustment of the earlier NI'able pay, which impacts on the NICs paid, the employer needs to keep in mind that once it is discovered that a Statutory Payment wasn't due, the payment is no longer a payment of SP but an overpayment of wages or salary and should be treated as such. As a result of this the employer is required to pay back the amount he wrongly recovered from the NI fund.

This is paid back by adding it to the NICs payments for the tax month in which the error was put right. However, if the erroneous recovery relates to a previous tax year the employer may have to discuss with their Accounts Office how they should properly record and pay this to avoid creating problems in the current tax year. Once this is done, the NICs position should be, more or less, back to where it should have been had the error not occurred.

Q11. I am an EDI user and aggregate National Insurance contributions. Can I test, before making a live submission, to make sure that I have calculated the National Insurance correctly?

A. Yes from the 15 March 2005 an employer can use the EDI test service, which will check that NICs have been handled correctly.

Q12. What is the field size length for Statutory Sick Pay on the P14?

A. The field size on the P14 for both Internet and EDI services is 6 numeric characters in the range 000000 – 999999 for EDI, and 0.00 – 9999.99 for Internet.

Q13. What is the field size length for the employer reference?

A. The maximum field length for the employer reference is 10 characters. There is a further field of 3 characters for the IR office number.

Q14. Can I show a negative value in the 'Now Payable' field on the P35?

A. Yes

Q15. How are error or acceptance messages, arising from online transmissions, communicated to the submitter?

A. For Internet users, acceptance/error messages are provided as on-screen messages. They are not sent by secure mail. Additionally where a customer has provided an email address we will also send email confirmation that the submission has passed or failed validation.

EDI users will not receive a screen message. Messages are all sent by email. The message has not changed and will remain exactly the same as it is now.

3.20 Email Bulletins for PAYE Software Developers

Email bulletins are issued from time to time to provide further guidance for PAYE software developers. The aims of the bulletins are to provide assistance in the development of your product, with the result of reducing and eliminating failure of future live submissions. The guidance included in these bulletins is based on results from previous live PAYE submissions but also includes further information that you may find useful. The email bulletins are published on the Inland Revenue website at http://www.inlandrevenue.gov.uk/ebu/email_bul_paye.htm

4. Next issue of these Notes

The next issue of these Notes is scheduled for late spring 2005.

5. 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.

6. 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@replyservice.co.uk

Amendments to the Specification for PAYE Tax Table Routines

APPENDIX A of the Specification

The following values should be inserted.

Use the first blank column and on each blank page enter the heading “2005/2006” against “Income Tax Years” and “18/05/2005” against “Date from which effective”.

Symbol	Value
B1	2090
B2	30310
C1	2090
C2	32400
K1	209.00
K2	6877.20
G	2
M	50.00%

Please complete the “Incorporation of Amendments” sheet at the front of the booklet showing that the amendments in “Series 10 – Number 22” have been made.

Test Data – 2005-2006, Which Will Take Effect On 18 May 2005

The Test Data for each code or each week or month is not intended to relate to one particular person.

1.1 CUMULATIVE SUFFIX CODES

(Code 489L)

WEEK NUMBER	GROSS PAY	PAY ADJUSTMENT	TAXABLE PAY	RESULTS PER SPECIFICATION
12	2808.00	1130.64	1677.36	311.06
29	2899.89	2732.38	167.51	16.70

MONTH
NUMBER

(Code 319T)

4	12515.75	1066.36	11449.39	2552.00
10	9141.40	2665.90	6475.50	1215.49

(Code K255)

5	6023.66	1066.25	7089.91	1455.07*
8	32799.98	1706.00	34505.98	9746.80*

*These are the amounts of tax due to date per the Taxable Pay Tables. The tax due for the pay period would be subject to the Regulatory Limit of 50% of gross pay for the period concerned.

In the above examples the gross pay is the gross pay for PAYE purposes. The figure of pay adjustment and tax calculated is by reference to the manual tables and is the same as the result per the specification.

Tax codes to use from 18 May 2005



What you should do before 18 May

First make sure you have a *Deductions Working Sheet* (form P11 or equivalent) for every employee. If you take on a new employee before 18 May 2005, refer to part 4 of the Employer's Help Book, E13, *Day-to-day payroll*.

Then apply any tax codes that we send to you on forms P6(T) dated 30 April or earlier.

Finally put to one side any *Deductions Working Sheets* for employees leaving before 18 May (even if, because of 'lying time', the last wages payment will be made after 17 May). Take no further action with these in connection with this leaflet.

What you must do on the first pay day after 17 May

Budget changes

Apply Budget changes on the first pay day after 17 May 2005

use

- any Budget-increased tax codes dated 1 May 2005
- the reprinted Employer's Help Book, E12, *PAYE and NICs rates and limits for 2005-2006*
- the new Taxable Pay Tables, either
 - *Calculator Tables (May 2005)*, or
 - *Tables SR + B to D (May 2005)*.

Revised forms and tables are available on the Employer's CD ROM, on the Inland Revenue website or from the Employer's Orderline.

scrap

- the earlier version of the Employer's Help Book, E12
- Taxable Pay Tables
 - *Calculator Tables (May 2004)* and
 - *Tables SR + B to D (May 2004)*

continue to use

- *Pay Adjustment Tables – Tables A (1993 issue)*.
- The PAYE threshold remains £94 per week (£408 per month).
- The Emergency code remains 489L.

Employees with a new tax code on form P6(T) or electronic equivalent dated 1 May 2005

- Use the tax code shown on any P6(T) dated 1 May 2005. (After 1 May 2005 no further tax code notices will be sent until 22 May 2005.)
- Copy the tax code onto the *Deductions Working Sheet*.

Employees without a new tax code on form P6(T) or electronic equivalent dated 1 May 2005

- For codes with suffix L, P, T, V, and Y or prefix D or K, and codes NT and BR – continue with the code on the P11, *Deductions Working Sheet*.

- Suffixes A and H are no longer in use. If, exceptionally, you have carried forward a code with either of these suffixes, contact your Inland Revenue office immediately.

What you may have to do after 17 May

If you get a tax code notice dated on or after 18 May 2005 for any employee

Use the tax code on the notice from the next pay day in the normal way.

If you use payroll software

If you buy in software, make sure that you have an updated 2005-2006 program.

If you do your own reprogramming the technical details for 2005-2006 are in the December and March issues of our Notes for Payroll Software Developers.

These notes are available on our website at www.inlandrevenue.gov.uk/comp

If you would like to receive advance notification about future releases of the notes to our website, or a paper copy, please send your request, including your name and address 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.**

Note to employer

Complete this return for a director, or an employee who earned at a rate of £8,500 a year or more during the year 6 April 2005 to 5 April 2006. Do not include expenses and benefits covered by a dispensation or PAYE settlement agreement. Read the **P11D Guide** and **Booklet 480, Chapters 24 and 25**, before you complete the form. You must give a copy of this information to the director or employee by 6 July 2006. The term employee is used to cover both directors and employees throughout the rest of this form. **Send the completed P11D and form P11D(b) to the Inland Revenue office by 6 July 2006.**

Note to employee

Your employer has filled in this form. Keep it in a safe place as you may not be able to get a duplicate. You will need it for your tax records and to complete your 2005-06 Tax Return if you get one. Your tax code may need to be adjusted to take account of the information given on this P11D. The box numbers on this P11D have the same numbering as the Employment Pages of the Tax Return, for example, 1.12. Include the total figures in the corresponding box on the Tax Return, unless you think some other figure is more appropriate.

Employer's details

Employer's name

Employer's PAYE reference

Employee's details

Employee's name
 If a director tick here

Works number/department

National Insurance number

Employers pay Class 1A National Insurance contributions on most benefits. These are shown in boxes which are brown and have a 1A indicator

A Assets transferred (cars, property, goods or other assets)

Description of asset	Cost/Market value	Amount made good or from which tax deducted	Cash equivalent	
<input type="text"/>	£ <input type="text"/>	£ <input type="text"/>	1.12	£ <input type="text"/> 1A

B Payments made on behalf of employee

Description of payment	1.12	£ <input type="text"/>
Tax on notional payments not borne by employee within 90 days of receipt of each notional payment	1.12	£ <input type="text"/>

C Vouchers or credit cards

Value of vouchers and payments made using credit cards or tokens (for qualifying childcare vouchers the excess over £50 a week)	Gross amount	Amount made good or from which tax deducted	Cash equivalent
	£ <input type="text"/>	£ <input type="text"/>	1.13 £ <input type="text"/>

D Living accommodation

Cash equivalent of accommodation provided for employee, or his/her family or household	1.14	£ <input type="text"/> 1A
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E Mileage allowance and passenger payments

Amount of car and mileage allowances paid to employee for business travel in employee's own vehicle, and passenger payments, in excess of maximum exempt amounts (See P11D Guide for 2005-06 exempt rates)	1.15	£ <input type="text"/>
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F Cars and car fuel *If more than two cars were made available, either at the same time or in succession, please give details on a separate sheet*

	Car 1	Car 2
Make and Model	<input type="text"/>	<input type="text"/>
Date first registered	<input type="text"/> / <input type="text"/> / <input type="text"/>	<input type="text"/> / <input type="text"/> / <input type="text"/>
Approved CO2 emissions figure for cars registered on or after 1 January 1998 <i>Tick box if the car does not have an approved CO2 figure</i>	<input type="text"/> g/km <input type="checkbox"/>	<input type="text"/> g/km <input type="checkbox"/>
Engine size	<input type="text"/> cc	<input type="text"/> cc
Type of fuel or power used <i>Please use the key letter shown in the P11D Guide</i>	<input type="text"/>	<input type="text"/>
Dates car was available <i>Only enter a 'from' or 'to' date if the car was first made available and/or ceased to be available in 2005-06</i>	From <input type="text"/> / <input type="text"/> / <input type="text"/> to <input type="text"/> / <input type="text"/> / <input type="text"/>	From <input type="text"/> / <input type="text"/> / <input type="text"/> to <input type="text"/> / <input type="text"/> / <input type="text"/>
List price of car <i>Including car and standard accessories only: if there is no list price, or if it is a classic car, employers see booklet 480; employees see leaflet IR172</i>	£ <input type="text"/>	£ <input type="text"/>
Accessories <i>All non-standard accessories, see P11D Guide</i>	£ <input type="text"/>	£ <input type="text"/>
Capital contributions (maximum £5,000) the employee made towards the cost of car or accessories	£ <input type="text"/>	£ <input type="text"/>
Amount paid by employee for private use of the car	£ <input type="text"/>	£ <input type="text"/>
Date free fuel was withdrawn <i>Tick if reinstated in year (see P11D Guide)</i>	<input type="text"/> / <input type="text"/> / <input type="text"/> <input type="checkbox"/>	<input type="text"/> / <input type="text"/> / <input type="text"/> <input type="checkbox"/>
Cash equivalent of each car	£ <input type="text"/>	£ <input type="text"/>
Total cash equivalent of all cars available in 2005-06		1.16 £ <input type="text"/> 1A
Cash equivalent of fuel for each car	£ <input type="text"/>	£ <input type="text"/>
Total cash equivalent of fuel for all cars available in 2005-06		1.17 £ <input type="text"/> 1A

G	Vans	Cash equivalent of all vans made available for private use	1.18	£	1A
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H	Interest-free and low interest loans	If the total amount outstanding on all loans does not exceed £5,000 at any time in the year, there is no need for details in this section.			
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	Loan 1	Loan 2
Number of joint borrowers (if applicable)	<input type="text"/>	<input type="text"/>
Amount outstanding at 5 April 2005 or at date loan was made if later	£ <input type="text"/>	£ <input type="text"/>
Amount outstanding at 5 April 2006 or at date loan was discharged if earlier	£ <input type="text"/>	£ <input type="text"/>
Maximum amount outstanding at any time in the year	£ <input type="text"/>	£ <input type="text"/>
Total amount of interest paid by the borrower in 2005-06 – enter "NIL" if none was paid	£ <input type="text"/>	£ <input type="text"/>
Date loan was made in 2005-06 if applicable	<input type="text"/> / <input type="text"/> / <input type="text"/>	<input type="text"/> / <input type="text"/> / <input type="text"/>
Date loan was discharged in 2005-06 if applicable	<input type="text"/> / <input type="text"/> / <input type="text"/>	<input type="text"/> / <input type="text"/> / <input type="text"/>
Cash equivalent of loans after deducting any interest paid by the borrower	1.19 £ <input type="text"/> 1A	1.19 £ <input type="text"/> 1A

I	Private medical treatment or insurance	Cost to you	Amount made good or from which tax deducted	Cash equivalent
	Private medical treatment or insurance	£ <input type="text"/>	– £ <input type="text"/>	= 1.21 £ <input type="text"/> 1A

J	Qualifying relocation expenses payments and benefits	Non-qualifying benefits and expenses go in sections M and N below		
	Excess over £8,000 of all qualifying relocation expenses payments and benefits for each move	1.22	£ <input type="text"/>	1A

K	Services supplied	Cost to you	Amount made good or from which tax deducted	Cash equivalent
	Services supplied to the employee	£ <input type="text"/>	– £ <input type="text"/>	= 1.22 £ <input type="text"/> 1A

L	Assets placed at the employee's disposal	Annual value plus expenses incurred	Amount made good or from which tax deducted	Cash equivalent
	Description of asset <input type="text"/>	£ <input type="text"/>	– £ <input type="text"/>	= 1.22 £ <input type="text"/> 1A

M	Other items (including subscriptions and professional fees)	Cost to you	Amount made good or from which tax deducted	Cash equivalent
	Description of other items <input type="text"/>	£ <input type="text"/>	– £ <input type="text"/>	= 1.22 £ <input type="text"/> 1A
	Description of other items <input type="text"/>	£ <input type="text"/>	– £ <input type="text"/>	= 1.22 £ <input type="text"/>
	Income tax paid but not deducted from director's remuneration			Tax paid 1.22 £ <input type="text"/>

N	Expenses payments made to, or on behalf of, the employee	Cost to you	Amount made good or from which tax deducted	Taxable payment
	Travelling and subsistence payments (except mileage allowance payments for employee's own car - see section E)	£ <input type="text"/>	– £ <input type="text"/>	= 1.23 £ <input type="text"/>
	Entertainment (trading organisations read P11D Guide and then enter a tick or a cross as appropriate here) <input type="checkbox"/>	£ <input type="text"/>	– £ <input type="text"/>	= 1.23 £ <input type="text"/>
	General expenses allowance for business travel	£ <input type="text"/>	– £ <input type="text"/>	= 1.23 £ <input type="text"/>
	Payments for use of home telephone.	£ <input type="text"/>	– £ <input type="text"/>	= 1.23 £ <input type="text"/>
	Non-qualifying relocation expenses (those not shown in sections J or M)	£ <input type="text"/>	– £ <input type="text"/>	= 1.23 £ <input type="text"/>
	Description of other expenses <input type="text"/>	£ <input type="text"/>	– £ <input type="text"/>	= 1.23 £ <input type="text"/>