Inland Revenue

Notes for Payroll Software Developers

SERIES 10 – NUMBER 23 ***May 2005***

Contents:

1 *Online Filing*

1.1 *Changes to the Incentive Regulations*

Incentives: new anti-avoidance provisions

Changes to the incentive regulations (Statutory Instrument SI2005/826) came into effect on 19 March. These changes are intended to deny incentive payments to a tiny minority of employers who, we believe, intend to abuse the incentive process. The changes also clarify how the incentives will be applied or paid.

The changes introduce an anti-avoidance provision in order to refuse an incentive (or recover it where already paid) where the employing entity appears to have been set up, or to have paid PAYE income, wholly or mainly to gain the tax-free incentive payment. This provision will have no impact on our processing routines and is not intended to prevent the genuine small employer from benefiting from the incentive payment.

The provision has been widely drawn to ensure that those abusing the incentive provisions cannot readily circumvent the new provision by making small changes to their artificial arrangements, or claiming that the motive for the arrangements was for other tax-related advantages. However, we do not intend to use the provision to deny incentive payments to existing businesses which appear to have incorporated primarily to take advantage of wider tax breaks.

We will challenge the relevant employers with a view to not paying or withdrawing an incentive which has already been paid, where we have reason to believe that the incentive provisions are being unfairly exploited. The employer will have the right of appeal to the Commissioners.

The anti-avoidance provision will apply to 2004-05 incentives for employers who made the first 2004-05 payment, which required the creation of a P11 deductions working sheet (or equivalent IT record), after 18 March 2005.

For 2005-06 and subsequent years, the provision will apply to all employers.

Repayment of the incentive

The amendments to the regulations also clarify how the incentives will be applied or paid. With effect from April 2005, when any request for a cheque repayment of the incentive is made we will set the £250 against any outstanding arrears of tax, National Insurance Contributions etc and only send a cheque for the balance. Claims for cheque repayments of the incentive can only be considered by our Accounts Office after the employer has received written confirmation that the incentive has been credited to their payment record.

When making their claim to the Accounts Office employers can authorise agents to receive the incentive on their behalf. The authorisation must make it clear if it relates to the online filing incentive payment only, or any 2004-05 PAYE overpayment as well.

1.2 ***Agent Authorisation***

Following feedback from employers, agents and payroll bureaux we have streamlined the process which enables an agent to send data over the Internet on behalf of the employer. The data includes:

- P35
- P14s
- P11ds
- Leaver details such as the P45(1), and
- Starter information such as P46 and P45(3)
- P9D's
- P38A supplementary
- P11D(b).

From the 6 April 2005 agents can **send** employer data over the Internet without us having signed authority from the employer. An employer is therefore able to appoint any number of agents ('filing only' agents) to send data, on their behalf, for some or all of their PAYE returns. All agents sending data over the Internet must be registered to use the PAYE Online for Agents service.

For incoming PAYE data we no longer require:

- a completed form FBI2, or
- the employer to complete an online authorisation at the Government Gateway.

From 6 April 2005 it's also worth noting that an agent can file online for a ceased employer as long as the employer ceased to trade after 6 April 2004.

Any error messages will be sent to the submitter in the usual way. Please note that under the new process, where we reject forms P35 and P14 because of an invalid Employer PAYE Reference, a new XML response Error 5042 will be generated. This will be as follows: 'Employer Reference is not valid for this submission'.

This change will allow all agents to continue to recruit new customers, irrespective of whether the employers are themselves registered to communicate with us online, and submit returns on the employer's behalf right up to the deadline. Employers remain responsible for the content of the submission and for making the submission by the due date.

We still need the employer's authority, (a signed form FBI2 or online authorisation) to send information such as forms P6 to the agent/bureau. We can only send information to one agent – employers with several agents must choose who they authorise. To authorise an agent online an employer needs to be registered for the PAYE Online for Employers service first.

For more information about agent registration go to
www.hmrc .gov.uk/efiling/help/agentreg.htm

For employers and agents to get the full benefit of electronic communications, they must send **and** receive information online. We can only discuss the progress and content of the employer's online data if we have a completed FBI2 or online authorisation. A 64-8 is still required to discuss the wider affairs of companies/individuals. We will continue to look at ways in which we can streamline the authorisation process. Visit 'What's new?' on our website home page regularly for the latest information and announcements.

Authorised and 'filing only' client lists

The PAYE Online service provides a list of authorised clients. Users of our PAYE Return & Forms – PAYE product must create their own list of 'filing only' clients.

Potential impacts for employers who use the services of authorised and 'filing only' agents

Removing the need for the employer and agent to create a 'formal' link before data is sent to us online does have some consequences which both employers and their agents will need to bear in mind:

- employers can have any number of 'filing only' agents but can only have one authorised agent
- all outputs from IR such as P6 data will only be sent to an authorised agent.

For security reasons:

- users of our free Online Return & Forms – PAYE product can only view employer information that they have entered. Employers, authorised agents and 'filing only' agents cannot see information entered by each other or by any other product or channel
- authorised agents must contact the Online Services Helpdesk when they cease to act for an employer. We will undertake the necessary security checks and remove the employer (client) from the agent's client list, so that the agent will no longer be able to view any of the information they have previously submitted.

Current position with FBI2s

We currently have a small backlog of forms FBI2 waiting processing, and have allocated extra resources to this work. In the meantime we ask that agents don't contact us too quickly to ask whether a form has been received. In the meantime an agent can submit an Employer's Annual Return (P35 and P14 data) as a 'filing only' submission.

1. 3 ***Duplicate or additional paper P35s and P14s***

The *'Online filing and electronic payment handbook'* (page 41) outlines the arrangements for amending an Employer's Annual Return. Anyone who needs another paper P35 (for example, to send amended information) should contact their HM Revenue & Customs (HMRC) office. Additional P14s are available from the Employer's Orderline on **0845 7 646 646**.

1.4 *Updated 'Online filing and electronic payment handbook'*

The 'Do it online handbook' has recently been updated and is available on the Internet. The new or amended text addresses the issues that arise from the May 2005 delivery of Stage 2 of the validation process.

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

1.5 *Employees with very high earnings in the 2004-05 tax year*

On form P14 (or equivalent) there are six 'Pay and Income Tax' fields that are restricted to 9 character spaces. These are:

- Pay in previous employment(s)
- Tax deducted in previous employment(s)
- Pay in this employment
- Tax deducted in this employment
- Total pay for year
- Total tax deducted for year.

There may be rare occasions, therefore, where because an employee has very high earnings, there are not enough character spaces in which to insert the data in the appropriate field. For example, it would not be possible to report in the ***'Pay in this employment'*** field earnings in excess of £9,999,999.99.

The way around this problem is for more than one P14 to be submitted for the individual(s) in question. How those P14s are submitted depends upon whether the employer's payroll software allows more than one P14 to be submitted for the same employee. If there is any doubt about this after reading this guidance, it is recommended that employers check the position with their supplier.

Software does allow more than one P14 per employee

If the payroll software being used does allow more than one P14 per employee to be created and submitted, the employer should complete 2 (or more P14s) as per the examples on page 6 of these notes. Each P14 should show the individual's National Insurance number (NINO) – or, if the NINO is not known, the individual's date of birth and gender. These should be submitted via EDI or the Internet.

Please note, however, that even if a payroll software product does allow for more than one P14 per employee, validation checks built into the software may not allow the production of P14s as described below. For example, the payroll software may not allow for the creation of a P14 where the tax paid is greater than 50% of the pay being reported on that P14. In such circumstances, the employer will have to submit the P14s using PAYE Online for Employers.

Software does not allow more than one P14 per employee

Many commercial software products do not allow the user to submit more than one P14 per employee. In these circumstances, the employer should be told to submit the P14s via PAYE Online for Employers. Again, the forms should be completed as per the examples on page 6 of these notes, and each should show the individual's NINO (or date of birth and gender).

This means that the employer is submitting the return in parts, e.g. the majority of P14s via EDI/Internet and those for the high earners via PAYE Online. The employer should remember to reflect this on the P35.

Examples

The examples here show how the P14s would be completed in cases involving different levels of earnings.

Example 1

Employee's pay in this employment: £15,000,000.00
Employee's tax deducted: £5,992,207.60

The employer would have to complete two P14s, with the relevant fields completed as follows:

	Field name	
	Pay in this employment	Tax deducted
First P14	9,999,999.99	5,992,207.60
Second P14	5,000,000.01	0

Example 2

Employee's pay in this employment: £33,000,000.00
Employee's tax deducted: £13,192,207.60

In this situation, the employer would have to complete four P14s, with the relevant fields completed as follows:

	Field name	
	Pay in this employment	Tax deducted
First P14	9,999,999.99	9,999,999.99
Second P14	9,999,999.99	3,192,207.61
Third P14	9,999,999.99	0
Fourth P14	3,000,000.03	0

National Insurance Contributions

The position is different for National Insurance Contributions. Reporting the employee's earnings should never be a problem because employers are required to report only the earnings up to and including the Upper Earnings Limit. Like those for pay and tax, however, the fields for ***'Total of employee's and employer's contributions'*** and ***'Total of employee's contributions'*** are restricted to 9 and 8 character spaces respectively.

Based on the earnings limits and contribution rates for 2004-2005, an employee would have to earn around £73,000,000.00 before the reporting of NICs would become a problem. As it is not considered that there will be individuals with such high earnings, they are not included in this guidance note.

Future years

We are taking steps to extend the field lengths for 2005-2006 onwards, so this guidance should be used only in relation to submissions for 2004-2005.

Contact point

If further information is required, please contact the Online Services Helpdesk:

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

1.6 ***Advice about replacement and amended returns***

For Internet submissions made using third party software there will be no problem replacing part of a return, provided it is done before the last part (P35 and P14s) to be submitted has received the acceptance 9004 message. We recommend that the P35 is the last part to be submitted. Once all parts have been accepted any changes, instigated by the employer, will have to be an amended submission.

The new message we are trying to convey to both developers and employers is that the replacement must be submitted before the final part is acknowledged. Once each part has received an acknowledgement message 9004 the employer/agent can only amend the return by sending in amendment details.

We recommend that an amended return is not submitted until after our validation process is fully operational, which will be towards the end of May. Our systems will then be capable of accepting amended details.

EDI submissions (P14s only) and part returns using our Online Return & Forms - PAYE product can be replaced at any time up to 18 May. Again the important message is that once we have accepted all parts, including the P35, we cannot accept any replacements.

Employers or their agents can, however, make amended returns although we would prefer that these were not made before the end of May.

During the summer, after the return has been fully validated, we may request the resubmission of a faulty return, (which we will be able to monitor) with the original errors corrected.

1.7 ***Errors in 2004-05 returns***

We have undertaken an early analysis to establish why some 2004-05 returns made by EDI or on paper, are being rejected. Annex A to these Notes contains a list of 'Tips to help you avoid mistakes with your returns' which you may want to draw to the attention of your client(s). Additionally, we have found other more significant submission patterns that will prevent a return from being processed.

There have been a number of instances where the employer return has been submitted in parts, each part ***incorrectly*** accompanied by a P35. To correctly make a submission of part of the P14 data the employer must also provide summary totals and make the part submission using a unique identifier. To make a submission of a part of the P14

data the employer must provide a unique identifier of up to 12 characters on each part (also known as a batch). This id is unique within that employer's PAYE employer scheme reference. It would be very helpful if the P35 could be the last part of the Employer's Annual Return to be submitted.
The P35 must provide an accurate count of the P14 parts.

A P14 cover sheet must accompany each submission of part paper P14s.

It is also worth noting that the submission of a supplementary return (P38A) will be made in a separate transmission to the P35 and P14 data. It is not a 'part' of the return and does not need a unique identifier.

1.8 ***Filing arrangements***

Because of the continued high rate of registrations for online filing we anticipate that the majority of 2004-05 Employer Annual Returns will be submitted online. This high volume of returns, particularly if they are submitted at the last minute, is going to put our IT systems under extreme pressure. Our advice to employers and agents remains that they should file early. Those that file at the last minute may find response times slow and in extreme circumstances the service could become too slow to be useful. Remember that if you do experience delays in filing on the 18/19 May you will not be charged a late filing penalty provided all parts of your return are received on or before 26 May 2005. (Extra Statutory Concession B46)

Additionally we suggest, where possible, that employers and agents file before 10am or after 4pm, Monday to Friday, or at weekends, to avoid those periods when the service is usually at its busiest.

1.9 ***Stage 2 Internet validation process***

The Electronic Returns Storage System stores, both complete and partial returns, for onward processing. We are developing validation routines to check for duplicated returns and clerical processes to deal with them. We will be able to identify:

- duplicate returns with identical content
- more than one complete return for the same employer PAYE reference which indicates the return should have correctly been submitted in parts (see paragraph 1.7 above)
- more than one complete return for the same employer PAYE reference which should have been sent as an original and an amended return.

Our intention is to minimize contact with employers. As we work on repairing Employer's Annual Returns, it may be necessary to contact employers to answer questions that we cannot resolve for ourselves, such as tax code applied.

We intend to identify any common or systematic errors and to advise payroll software vendors of further improvements needed before next year's filing.

2. *Other Information*

2.1 *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 (P35 and P14's).

Employers already making separate tax and NIC payments by BACS can continue to do so 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 developer's 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@hmrc.gsi.gov.uk** or phone **020 7438 4418**

2.2 *Magnetic Media users and the P35*

In the March 2004 issue of these notes (Series 10 – Number 17, paragraph 3.1) we explained that for 2004-05 and subsequent years the P35(MT) would be withdrawn and there would only be one format of the form P35.

Employers or their agents who continue to send their forms P14 using magnetic media (tape, CD-ROM, disk or cartridge) and who send a paper P35 must complete the Part 5 'Employer's certificate and declaration' section of the form to confirm:

- forms P14 have been sent separately
- the number of P14 parts that have been sent. This figure must equal the number of 'Unique Identifiers' that have been used to send the forms P14.

There is no longer a requirement to provide details of the permit number(s) on form P35.

2.3 *Teachers – Amendment to instructions in Employer's Help Book E17- Collection of Student Loans*

This is relevant to Educational Institutions and LEAs in England and Wales who employ teachers who are in the Repayment of Teachers' Loan Scheme

The instructions advising when to stop making Student Loan Deductions and what to do when an employee, who has been accepted by the Repayment of Teachers' Loan Scheme, leaves your employment may not be clear in the current E17 Help Book. It will be revised to make the instructions clearer in the next issue, however, in the meantime, the following instructions should be followed.

You should stop making deductions if a teacher, who has been accepted by the Repayment of Teachers' Loan Scheme, gives you a letter from the Student Loans Company telling you to do so.

If the teacher leaves your employment, and you have not received a Stop Notice (form SL2) from us, you should enter a 'Y' in box 5 of the P45, 'Continue Student Loan Deductions'. If you have received a Stop Notice (form SL2), box 5 should be left blank.

If you have any further queries, please contact the Employer's Helpline on **0845 7 143 143.**

2.4 ***Developer Test Service***

Preparations will start shortly to identify the changes for End of Year (EOY) 2006-07 and Expenses and Benefits year 2005-06. The Business Validation Rules and related schemas for the above are expected to be released to developers July/August 2005. Developers will be advised when the technical packs on our website have been updated.

Test services for 2006-07 EOY and 2005-06 expenses and benefits will be made available in October 2005.

2.5 ***Statutory Payments***

In Notes for Payroll Software Developers Series 10 - Number 22 issued in March 2005 we provided guidance about overpaid statutory payments (item 3.19 question 10). We have been asked how the employer should complete the 2004-05 P14 and P35 when an overpayment occurred in 2003/04 but was corrected in 2004-5.

For example, a woman returns to work early, say in March 2004, and Statutory Maternity Pay (SMP) is no longer due for that month. The March'04 salaries have already been calculated and distributed and it is too late for the early return to work to be correctly reflected. The 2003-04 P14 will show the payment of SMP for the year, including the March'04 payment.

As explained in the March 'Notes for Payroll Software Developers' the March'04 payment of SMP is in fact a payment of wages and consequently the employer will have made on the 2003-04 P35:

- an excessive claim of SMP recovered,
- possibly an excessive claim of NIC compensation on SMP and
- an under payment of National Insurance to the NI fund on the March payment.

These issues will need to be resolved the following year 2004-05.

The employer will adjust the SMP recovery in April 2004 (month1/week1 of the new financial year). At the year-end the employer should not report a negative amount of SMP on the 2004-05 P14 - no adjusting entry in the SMP field of the P14 is required.

The employer however needs to adjust the amount of SMP recovered and SMP compensation on the 2004-05 P35 to reflect the excessive claim made in the previous year. Additionally, having assessed the correct amount of NICs actually due in March 2004, ensure that this is reflected and reported on the P14 and P35 for 2003-2004, if necessary by submitting an amended return.

3. *Next issue of these Notes*

The next issue of these notes is scheduled for July 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:

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 HM Revenue & Customs (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

SENDING 2005-05 EMPLOYER'S ANNUAL RETURNS

YOU WILL GET A BETTER ONLINE FILING SERVICE IF YOU AVOID THE PEAK FILING TIMES BETWEEN 10AM AND 4PM, MONDAY TO FRIDAY.

TIPS TO HELP YOU AVOID MISTAKES WITH YOUR RETURNS

P14s - National Insurance

- Use National Insurance category letter X if there are no National Insurance Contributions to show on an online P14.
- If you do not know the correct NI number, leave the box empty and fill in the Date of Birth and Gender boxes instead. Do not use a temporary ('TN') number. See Page 8 of 'Finishing the tax year up to 5 April 2005' (booklet E10).
- Do not exceed the maximum amounts in National Insurance boxes 1a, 1b and 1c. See Page 10 of 'Finishing the tax year to 5 April 2005' (booklet E10).

P14s – tax

- Online Return & Forms - PAYE users can show a repayment on the P14 as long as the 'Tax deducted in previous employment' figure is more than or equal to the 'Tax deducted in this employment' figure. Show repayments with a minus sign before the figure.
- Make sure your printer is aligned so the figures on paper P14s are printed inside the boxes.
- Make sure that the tax code is shown in full, including the prefix or suffix letter.

P35

- Only send one P35 for each PAYE scheme. Batches of P14s sent as part of a return must each have a P14 Cover Sheet.
- The P35 does not need a Unique Identifier when the return is sent in parts.
- When sending a return in parts, always show the sub-totals for each part of your return and ensure that the whole return adds up.
- If you are not filing online, a paper P35 must be sent with all the P14s, or show on the P35 that the return is being sent in parts and how many parts are to be sent.
- You must sign the paper P35.
- Online Return & Forms - PAYE users can send a P38A using the 'P38A' option on the left-hand toolbar, even if they have already sent the P35.