

Notes for Payroll Software Developers**SERIES 11 – NUMBER 1****September 2007**

Due to the release of the revised PAYE Tax Table Routines Specification the HMRC Notes for Payroll Software Developers will now be published under Series Number 11.

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1. Online filing: in-year

1.1 Online transmission of P45,P46 and Pennot information

During the period 6-8 April 2008, whilst we test our new infrastructure, employers will not be able to send P45(1), P45(3), P46, and similar information in respect of pensioners to us online. Further details about our test facilities are in para 1.8.

Transmission of all other data is unaffected.

1.2 Changes to the P45

Annex A of these Notes outlines the various changes to our in-year stationery. These will ensure that our online data requirements match the requirements of a paper submission and support the introduction of Date of Birth and Gender fields needed to help in the automatic matching of information (see February 07 Notes Series 10 – Number 33 para 1.5). The MIGs and Schemas to support the April 2008 changes were published earlier and can be found at http://www.hmrc.gov.uk/ebu/softw_index.htm

We are now working towards the introduction of the changes for October 2008, which include the changes to the P45 which we mentioned in the July 07 edition of the Notes (Series 10 Number 35 para 1.5).

The most significant change is the introduction of the 'plain paper' P45. From October 2008 employers, who submit online, will be able to print the P45 parts 1a-3 on plain A4 paper instead of using HMRC's pre-printed stationery.

There will be no facility for any employer-specific designs of the forms. This will make it easier for individuals, who will have to hand the pre-printed version to the new employer, to recognise a plain paper P45 and to maintain the PAYE tax cumulation process by avoiding any unnecessary confusion.

All output onto plain paper must precisely follow the technical specification we will publish early in 2008. Employers, who file online, will be able to mix and match P45 type under these arrangements. They can use both HMRC's pre-printed form for some employees and the plain paper version for others. The decision whether to make the change is for employers to make. And similarly it is for software developers and service providers to determine whether to include this facility into their product. HMRC's Online Return & Forms – PAYE product will be supporting the 'plain paper' version of the P45.

The PAYE regulations will not allow any online circulation of this 'plain paper' version to the employee. We are exploring our options in this area but for the time being, the printing and circulation arrangements used by the employer will be same as for the P60. The data cannot be provided to the employee online.

Additionally in October 2008 we will be introducing a new version of the pre-printed P45. The technical details will be published early next year.

Finally, please remember that HMRC will continue to accept paper forms submitted by or on behalf of large/medium employers until April 2009, while small employers (fewer than 50 employees) will be able to submit paper forms until April 2011.

1.3 P38(S) – Notification of student employed during holidays

In response to employer queries we are content for an employer to obtain the P38(S) information from the student employee electronically and thereby avoid using the pre-printed HMRC stationery. The important points to note are:

- the P38(S) can not be used for term-time working;
- where the new student employee is providing the information electronically they must provide exactly the same information as required by the P38(S);
- the employer must put in place adequate safeguards which would confirm that it was the student employee, and no one else, who had provided the information;
- that an adequate audit trail is maintained and is available to HMRC in support of any future query or compliance visit.

1.4 Filing timetable

In Annex D of the July 2007 Notes (Series 10 – Number 35) we provided details of when in-year data must be sent to HMRC. In response to further queries, we have extended this information. Revised details are provided at **Annex B** of these Notes.

We will also be reminding employers to operate the P46, P45(3) and P6 in date order.

1.5 Common errors

Below is an extract of some advice we are offering employers in the September 2007 edition of the *Employer Bulletin*. You will also want to remind your clients/users that they do not need to submit a hard copy P45(1) when they have sent the information online.

'If you send information online you must not send it on paper as well. And you must not send electronic copies of forms you have already sent on paper.'

This advice is in addition to the common errors provided in the July 07 Notes (Series 10 – Number 35 para 1.9).

1.6 Full Gender Recognition Certificate

Any transsexual person must be recorded on a starter and leaver notification with the gender they were registered with at birth unless they hold a Full Gender Recognition certificate – see *Employer Helpbook CWG2 2007* which can be viewed at <http://www.hmrc.gov.uk/guidance/cwg2.pdf>

1.7 HMRC Mark – update

In the July 2007 edition of the Notes (Series 10 Number 35 para 1.4) we introduced the HMRCmark and explained its relationship with the term IRmark. The introduction of HMRCmark support for In-Year Movements in April 2008 is the first step in introducing HMRCmark to all Internet-based PAYE online services, following its successful introduction and use in several other online regimes. Initially its support in online filing applications will be optional, but the intention is to make it a mandatory requirement for online filing of In-Year Movements submissions across the Internet in April 2009. It is imperative, therefore, that you familiarise yourself with HMRCmark now, and understand what you need to do to ensure your products comply.

From a filing application perspective, there are three operations that your software must be able to carry out:

- W3C Canonicalisation of the XML payload;
- SHA-1 hash of the XML payload;
- Base64 and Base32 encoding of the result of the SHA-1 hash.

For most developers these steps can be accomplished with the use of freely available XML security library components. However, we are aware that a few payroll products, and a number of in-house bespoke payroll systems, still run on 16-bit DOS, where the support for such components is virtually non-existent.

HMRC are committed to the introduction of HMRCmark as part of its online services policy and will seek to provide the practical help necessary to allow DOS-based payroll applications to compute an HMRCmark successfully. However, we need to know who will be affected by this issue so that we can gauge the appropriate level of help and support that will be needed. If you are affected by this, or think you might be, please contact the SDS Team: email sdsteam@hmrc.gsi.gov.uk or phone **01274 534666**.

1.8 Test facilities for April 2008

HMRC has extended the desktop checker service to create a Local Test Service that also comes with an Update Manager to allow developers to download more than one version of the rules, so that they can use the latest version, if HMRC has to make changes. The Local Test Service (LTS) supports Self Assessment forms as well as PAYE in-year forms. LTS allows developers to test locally in their own environments and it supports testing forms separately or in batches.

The LTS was made available in July 2007 along with a draft version of the PAYE rules, 0.94, in order to give developers an opportunity to become familiar with the LTS service, which operates in a slightly different way to the EOY desktop checker. There are a few very minor differences between version 0.94 of the business validation rules and version 1.0 that has been included in the tech pack. These differences are listed at **Annex C**.

Unfortunately, version 1.0 of the PAYE rules (as contained in the tech pack) is not compatible with the LTS you may have already downloaded in July. In order to validate against these latest rules, users should first download the updated version of the LTS which was made available in September 2007 at http://www.hmrc.gov.uk/ebu/pay_e_techpack/inyear08-09.htm

In late October 2007 the Third Party Validation Service (TPVS) will be available for developers to test their products and the new validations that have been introduced for 2008-09. The EDI test and live service for in-year forms will also be available from October 2007.

However there will be no test in live facility available before 6 April 2008. Our proposals are that the in-year filing service will not be available on 6-8 April 2008 whilst, with the help of some volunteer employers, we test the systems with live data (live trial) sent using EDI and over the Internet. We then hope to open up the service on the 9 April to accept live data and over the following days increase the volume of data that is allowed through the gateway. We expect to be fully operational by 14 April 2008.

The PAYE in-year forms live trial, in the period 6-8 April 2008, will be based upon the very successful and useful exercise that we ran in preparation for the early 'go live' end of year online filing facility in March 2006. That trial was only made possible by the active co-operation of developers and customers. We would be interested to hear from any developers who would like to participate in a live trial for in-year forms. We would be grateful for volunteers to assist us in proving the service in the live environment and will contact developers about the trial and range of data we want to test in due course. If you want to participate in the trial please contact the SDS Team: email sdsteam@hmrc.gsi.gov.uk or phone **01274 534666**.

1.9 Service availability

In the February 2008 edition of the *Employer Bulletin* we will tell employers about the availability of the service for the submission of forms P45(1), P45(3), P46 and PENNOT sent over the Internet (EDI submissions and end of year submission will not be affected) in line with the test plans mentioned at para 1.8. And in a later edition of the *Employer Bulletin* we will outline service availability covering the period when we move taxpayer data to the new PAYE Service on NIRS. The *Employer Bulletin* is not the only place where we will publicise the service availability: we will do everything we can to make employers aware using other channels, for example, as a news item on our website. We will also provide immediate updates on our website if there are changes to our plans.

In the July 2007 edition of the Notes (series 10 Number 35 para 1.10) we told you about our plans to move all PAYE taxpayer data to the NIRS computer in 2008. We asked you to include in your product or service a storage facility so that employers could store submissions that will later be sent to HMRC, whilst at the same time being able to give any leaving employee their P45 parts 1a-3 without delay.

Until online filing becomes mandatory for all employers we also suggest that you retain in your products the flexibility to print the P45 as a prudent contingency. This will enable the user to give their employees their P45 part 1a-3 for them to take to their new job and allow for an exceptional paper submission of the P45(1) in the event of any temporary problems with Internet access, submission acceptance, HMRC mark validation or unavailability of the HMRC Online Service.

Our helpline advisors will be recommending to employers that if they are unsure as to whether their software is capable of filing in-year data online that they should contact their software developer or provider. There is also more information for employers at www.hmrc.gov.uk/inyear

1.10 Validations

The validation services for the PAYE in-year forms P45(1), P45(3), P46 and Pension Notification forms, PENNOT, will have a 'test in live' (TIL) feature. The 'Test in Live' feature applies the live validations in the live environment. The Internet 'Test in Live' feature will be introduced in a separate message class, and will be called 'IR-PAYE-MOV-TIL'. This will ensure that the UK Government Gateway (UKGG) response emails will be clear using the word TEST in all responses.

1.11 Test in Live

The Test in Live and Developer in Live features are very useful for proving communication links and the integrity of validations. In 2008, the Test in Live message class 'IR-PAYE-MOV-TIL' will be available from 6 April and withdrawn at close on 8 April to avoid customer confusion.

1.12 Payroll Standard

From 1 April 2010 all accredited products must have 'Recognition' for the online forms P45(1), P45(3) and P46. This is a change to the previously notified date of 1 April 2008 we announced in September 2006 (Series 10 Number 31) edition of these Notes and follows the revision to the Carter Review timetable and further consultation with developers and employer representatives.

Developers who still want to get 'Recognition' for these online forms earlier than 1 April 2010 can still do so.

If you have any queries about the Payroll Standard please contact the Payroll Standard Helpline on **0845 915 9146**.

For information about the 'Recognition' process, please contact the SDS: email sdsteam@hmrc.gsi.gov.uk or phone **01274 534666**

2. Online filing: end of year

2.1 Errors in 2006-07 Returns

Quality Standard errors

We have again seen a reduction in the number of PAYE Employer Annual Returns that did not meet the Quality Standard. We only rejected 1.4% of Returns for 2006-07, compared to 5% for 2005-06.

The majority of errors were caused by incorrect characters in fields and incorrect recording of National Insurance. We have already sent vendors details of how their software performed. The most common reason for error and how they can be avoided are as follows.

P14 SCON (Scheme Contracted Out Number)

- This must be in the correct format - Letter S, followed by 0 or 1 or 2 or 4 or 6 or 8 then 6 numbers followed by a letter.
- It must be a genuine SCON, issued to you by the HMRC Contracted Out Employers Group (COEG).
- The SCON field must be completed for a line with a NIC table letter of F, G, H, K, S or V. It must be omitted in all other cases.

P14 Earnings at the Lower Earnings Limit (LEL) where earnings reach or exceed the LEL

- Entry must be numeric and cannot be a negative amount. Entry must be whole pounds.
- The value must be '0' for NIC table letter X.
- The entry at LEL must be greater than '0' for the following NI table letters A, D, F, H, J, L, N, Q, R, S and V.
- The entry must not be greater than the maximum value.

P14 Earnings above the Earnings Threshold (ET) up to and including the Upper Earnings Limit (UEL)

- Entry must be numeric and cannot be a negative amount. Entry must be whole pounds.
- The value must be zero ('0') for NIC table letter X.
- Value must be greater than '0' when the Total of Employees and Employers Contributions Payable field is greater than 32p for the following NI Category letters: A, D, E, F, G, H, J, K, L, N, O, Q, R, S, V.

- Value must be greater than '0' if Employees Contributions Payable field is greater than 16p for the following NI Category letters: A, D, E, F, G, H, J, K, L, N, O, Q, R, S, V.
- The entry must not be greater than the maximum value.

P14 Employee's contributions payable

- Entry must be numeric and cannot be a negative amount.
- Must be '0' for NIC Table letters C, W or X.
- The entry in this field must be equal to or less than the total contributions field for NIC table letter A, B, J, R, T or Q.

P14 NINO (National Insurance number)

- National Insurance numbers must be in the format of 2 letters followed by 6 numbers followed by 1 letter in the range A - D or a space.
- Must be one of the issued National Insurance Number prefixes.

SSP recovered (Statutory Sick Pay)

- Entry must be numeric.
- Must be equal to or less than the total of the 'statutory sick pay' associated with the P14s in this return.

P14 Forename

- This field should only contain alpha characters A-Z (upper or lower case), hyphen or apostrophe. Must not contain spaces or other invalid characters. First character must be an alpha character.
- Do not use character ` for an apostrophe. Use ' instead.

Total NIC (National Insurance Contributions)

- Entry must be numeric.
- This figure must equal the sum of 'Total employee's and employer's contributions payable' from the P14s.

P14 Total of employee's and employer's contributions payable

- Entry must be numeric.
- If NIC table letter is X then this amount must be '0'.
- The amount in this field must be equal to or greater than the amount shown in the Employees Contributions Payable field for the following NIC table letters A, B, J, R, T and Q.
- The amount in this field must be equal to or greater than '0' for the following NIC table letters A, B, C, J, Q, R, T or W.

P14 Employee's gender

- Entry required if NINO not completed.
- Must be "male" or "female".

Authentication errors

A number of Returns were rejected at the Government Gateway because of authentication errors. The most common reasons were as follows.

- Employers trying to send a Return online immediately after registration instead of waiting until they had activated the service.
- Incorrect characters in the fields (for example, 'O' instead of '0', 'S' instead of '5', 'Z' instead of '2').
- Employers confusing the user ID (sent on a card by the Government Gateway) with the password or activation pin.
- Forgetting the password (chosen by the employer). Lost User ID, PIN and password can all be obtained from the login page.
- Incorrect recording of the PAYE reference. The PAYE reference must be sent as two separate fields; a three digit office numeral and the reference with no prefixing (hyphens or spaces). Do not repeat the three digit office numeral in the second employer reference field.
- Using an old PAYE reference that has been cancelled.
- Trying to use PAYE online to send a non PAYE Return.

Matching errors

We have also identified some errors that slow down the process of matching P14 information to individuals National Insurance records.

- National Insurance Numbers - if you do not have the correct National Insurance Number, please leave the field blank and enter the DOB and gender instead. Please do not use a 'temporary' number of your own design.
- Employee surname - please do not add additional information, for example, '(staff)' or '(Temp)' to the surname field.
- Category C- employers operating pension only schemes must not use National Insurance Category C on their P14s. They must use Category X instead.
- Category X -employers must only use Category X for:
 - a pension only schemes
 - an employee paid below the Lower Earnings Limit (LEL)
 - workers from abroad
 - P14s produced by DWP to record benefits paid to customers.

Employers using Category X to record earning for an employee paid below the LEL must change the National Insurance Category letter to A for any period where the employee exceed the LEL, even if no National Insurance is deducted.

2.2 Developer test services

Electronic Data Interchange

Message Implementation Guidelines (MIG) for the 2008-09 P14 and P35 messages will be published in early October 2007.

End of Year (EOY) Technical Pack

The 2008-09 Quality Standards and schemas for P14, P35 and P38A are now available and are located at <http://www.hmrc.gov.uk/ebu/endofyear2009.htm>

The 2008-09 EOY Desktop Checker will be made available to developers from mid-October 2007 followed by the EOY 2008-09 test service at the end of October 2007.

2.3 Changes for Returns sent in parts

Employers can send their PAYE Employer Annual Return as a complete submission (P14s and P35 sent in the same file, at the same time), or in parts (P14s and P35 sent separately). We are considering a change to the way we send acceptance and rejection messages for part Returns and we would welcome views on this. We want to make the change as we currently accept and correct in-house, part Returns with Quality Standard (QS) 3 errors (Returns where the part totals from the P14s do not match the values on the P35).

What happens currently

Where we receive an employer's Return in parts, we validate each P14 part to QS2 at the Electronic Return Storage System (ERSS). This means that the parts are arithmetically accurate and meet all the rules that apply to P14s. We reject the submission if there are errors and send a response back to the submitter. We pass successful part submissions to External Routing Interface Component (ERIC) to await consolidation.

The P35 part is checked and validated to QS2 in ERSS. This means that the P35 is internally arithmetically accurate and meets all the rules that apply to the fields on a P35 but it does not tell us how well it matches with the P14s. We reject the submission if it fails, and send a response back to the submitter. If the submission is successful, ERSS currently issues a full success response back to the submitter - '9004 'The EOY Return has been processed and passed full validation' and passes the Return to ERIC to await consolidation.

Once we have all parts of a Return we perform the final QS3 checks on the whole Return, (check that the P14 totals match the P35 figures). We pass details from successful Returns after QS3 to the relevant back end systems within HMRC. HMRC staff manually handle Returns that fail the QS3 from a clerical work list.

There is no mechanism for sending the employer another message to say that the consolidated Return has been accepted, once we have already sent a 9004 message for that Return under the current system. Nor can we send a message if the last P14 part received fails to match. In practice, that means that we tell employers that we have accepted their Return before full validation has actually taken place. (This is a consequence of one of the contingency measures put in place to deal with 2004-05 Returns). This means that we do not reject Returns sent in parts in the same way as we reject complete Returns.

Proposed change

We want to change ERSS and ERIC so that employers get the QS3 acceptance or rejection message in response to the P35 part, only after the Return has consolidated in ERIC (replicating the current VSIPS/TPVS-ERIC design and bringing the service into line with the wording of the 9004 advisory message). This means that we will treat complete and part Returns in the same way. We do not anticipate introducing any new XML response messages as part of the change.

We anticipate that messages will go back to employers in real time after we commence full processing, based on the order of submission of the parts. The P35 will process if all P14s have already been sent but if the parts have not all arrived then the P35 will be held until they do. There may be a period before the QS3 check begins when employers will not get either an acceptance or rejection message for a P35 submission. To avoid employers excessively polling during this period, it will be important that software follows the recommended polling protocol.

Currently, employers can replace either a P35 or P14 part while the Return is waiting for all parts counted in the P35 to arrive. Employers will still be able to send replacements. We anticipate that where an employer sends a replacement P35, we will send both the 9004 acceptance message and the 9005 'This EOY Return submission has replaced the one previously submitted using the same Employer Reference and Tax Year' when the QS3 checks have been done, in response to the replacement submission. The replaced part will not trigger a response and its outstanding transaction will be left open until the Government Gateway removes it after one year (as happens now).

We would introduce the 'Duplicate Original' Return check that is currently in place for complete returns for P35 parts that had passed QS3 and had a 9004 response. This would reduce any confusion about which P35 had been successful.

We welcome your views on what this change would mean for your software product and what further information you may need. We also appreciate your views on what impact this would have on your products if we were to implement this change from 6 April 2008 for 2007-08 Returns. Please send any comments to the SDSTeam: email sdsteam@hmrc.gsi.gov.uk by close 10 October 2007.

2.4 2008-09 Return – determining employer size

The annual count to determine the number of employee records that are attached to each PAYE scheme will take place on 28 October 2007. Boards Directions for the count are published at <http://www.hmrc.gov.uk/ebu/dir-si2682.pdf>

The count determines which employers have to send their 2008-09 Employer Annual Return online, those that have to pay electronically from April 2008 and those that could qualify for a tax-free payment. We will write to employers over a four week period starting on 8 November. You will want to be aware of the timing of the mailing.

The letters carry a reminder that employers with 50 or more employees must send in-year data online from 6 April 2009. This is an advisory message only and next year's letters will confirm which employers have to send their in-year forms online.

Please refer to para 1.9 for more about the advice we are offering employers relating to in-year filing.

3. Statutory Payments

3.1 SSP and the introduction of Employment Support Allowance (ESA)

The introduction of ESA (to replace Invalidity Benefit) is likely to be accompanied by changes to the requirements for employers paying SSP to provide information for benefit purposes. This would require changes to the SSP1. We will provide more details on our website (What's New) at www.hmrc.gov.uk as soon as we can.

3.2 Equal Treatment Directive Judicial Review

Following a judgement handed down in February 2007 in the Equal Treatment Directive Judicial Review, changes will be made to the Sex Discrimination Act (SDA). This will result in changes to the maternity and adoption leave regulations to ensure the law is clear and unambiguous.

The effect of the judgement is that there should be no distinction between entitlement to non-pay benefits during ordinary maternity leave and during additional maternity leave.

The result of the legislative changes is likely to extend all the non-pay contractual rights which a woman has during ordinary maternity leave (OML) throughout her additional maternity leave (AML), including accrual of contractual annual leave. These rights would therefore apply to the full 52 weeks maternity leave entitlement as opposed to the first 26 weeks as now.

The judgement will not affect the current flexibility provided by the different rights of return to work which apply at the end of OML and AML respectively.

Parallel amendments are also planned for the relevant adoption legislation.

More information will be available from October / November 2007 at

<http://www.businesslink.gov.uk/bdotq/action/layer?r.l1=1073858787&topicId=1074045869&r.l2=1073858926&r.s=tl>

3.3 Court of Appeal Judgement – Thorn Baker

In a judgement of the Court of Appeal on 27 June 2007 HMRC's appeal from the decision of the High Court in the case of Commissioners for HMRC V Thorn Baker Limited and others) ('Thorn Baker') was dismissed.

This means that the High Court Decision given on 14 July 2006 that *SSP is not payable to agency workers whose contract with the agency is for a specified period of 3 months or less* stands.

More information can be viewed on our website at

<http://www.hmrc.gov.uk/employers/thornbaker.htm>

3.4 Work and Families Act 2006 – update

In previous editions of these Notes we told you about our plans for the introduction of two of the major elements of the Work and Families Act 2006, these being as follows:

- the new Additional Paternity Leave and Pay (APL&P);
- the extension from 39 weeks to 52 weeks of Statutory Maternity Pay (SMP), Maternity Allowance (MA) and Statutory Adoption Pay (SAP).

You may wish to factor the following updates into your development schedules.

Implementation

No decision on the implementation date has yet been taken (except to rule out 2008). However, a decision may be announced in the Chancellor's Pre Budget Report (PBR) 2007 or at Budget 2008.

Meanwhile our planning will continue on the basis of implementation for babies due on or after 5/4/2009. This should not be taken to imply any timing decisions have been taken. But you can reasonably infer from this that if, as for HMRC, your lead-in time for implementation is long, then it would be wise to plan now for April 2009 implementation. You would of course also need to recognise that, as for HMRC, there is a real risk that Government may decide to implement later. Alternative implementation dates are October 2009 and April 2010.

We will update you again in the next Notes following PBR.

Rules and Regulations

The final Regulations for APL&P are not yet in place. However draft Regulations are expected to be published for consultation December 2007 / January 2008. We hope to publish the final version, with Parliamentary approval, June / July 2008.

To give you an early steer on the rules we are hoping to issue the next draft of the Technical Specification for Additional Statutory Paternity Pay by mid October 2007. Meanwhile the Government Responses to previous consultation documents on APL&P indicate some early decisions that have been taken. You can find these at

<http://www.berr.gov.uk/employment/workandfamilies/add-paternity-leave/index.html>

Early Impacts

As explained in previous editions of these Notes, some employees could become entitled to 52 weeks' SMP / SAP / MA or APL&P as early as 2008-09 (in the period from November 2008 to March 2009). For SMP/SAP/MA the numbers could be considerable and you may want to plan for this. However for APL&P the number is expected to be very small and it is not expected that software for the 2008-09 tax year will be configured to cope with these few cases. The aim will be for workarounds, for example recording ASPP entries in SPP boxes on P35 and P14. In some cases it may be necessary to change software validation rules to permit this.

For all the latest news and developments about the Work and Families Act 2006 we suggest you keep checking the website for BERR (Department for Business Enterprise and Regulatory Reform – previously DTI) at

<http://www.berr.gov.uk/employment/workandfamilies/add-paternity-leave/index.html>

We will also alert you to any significant developments on our own website at

<http://www.hmrc.gov.uk/news/index.htm> and
<http://www.hmrc.gov.uk/employers/stoppress.htm>

3.5 Employer Helpbooks for 2008-09

We are improving the Statutory Payment guidance in the Employer Helpbooks E14, E15 & E16. To make it easier to find the information you need and minimise duplication we are amalgamating each supplement with its Helpbook. For example all information relating to SSP will be included in the one Helpbook E14. The new Helpbooks will be made available from February 2008.

4. Expenses and Benefits

4.1 Mixed use of employer provided benefits in kind

Some customers may require clarity about how to calculate correctly the 'cash equivalent' of an employment-related benefit in kind, when the employee has both private and business use of the benefit in kind.

The fundamental point in relation to a benefit in kind provided to an employee for both business and private use, is that all the use represents a benefit in kind to the employee and the full amount of this use (the 'cash equivalent' of the benefit in kind) must be returned on form P11D and on the employee's Tax Return. It is sometimes assumed, incorrectly, that only the private use of a benefit in kind should be returned.

If a benefit in kind is provided solely to an employee, and they use it for business purposes 50% of the time and the other 50% is private use, the amount of the benefit in kind that should be returned is the full 100% of the cash equivalent amount. Generally speaking the cash equivalent of a benefit in kind is determined according to the expense incurred in providing it, less any part made good by the employee and, if relevant, after an apportionment if the benefit is used for 'other matters' as well as for a benefit in kind. No apportionment is due for the 50% business use by the employee referred to above.

Circumstances that can lead to apportionment include use of the same benefit by a different employee (who would be liable separately on the benefit), or use by the employer in the course of its business.

Tax and National Insurance Contributions (NICs) Due

Class 1A NICs (an employer only contribution) are due on most benefits in kind. The Class 1A NICs liability arises on the full cash equivalent amount for a benefit in kind, even where there has been a mixture of business and private use. The only exception is where private use of the benefit in kind is not significant.

However, for income tax the employee is entitled to a deduction equivalent to the proportion of use for qualifying business purposes, but this deduction applies after the cash equivalent of the benefit in kind is determined. A deduction for business use is a wholly separate matter from an apportionment of the cash equivalent of a benefit in kind and does not affect the requirement to report 100% of the cash equivalent on the P11D.

An employee must seek a deduction for business use of a benefit through an entry on a Tax Return or in writing to HMRC. In the example above, the employee must return a benefit in kind based on 100% of the cash equivalent amount but may then seek a deduction for 50% business use of that benefit in kind, leaving a tax liability due on the balance of 50% private use.

If a benefit in kind is provided wholly for business use and there is no private use, no liability to tax or NICs arises in this situation.

For further information; contact the PAYE Technical Helpline on **01789 403350**.

4.2 P11D 2006-07 – incorrect data entries

We have become aware of a problem with the 'Dates car was available' boxes during processing of 2006-07 P11Ds. We are seeing these fields completed even though the car was available before the start of and after the end of the tax year.

The automation of our benefits in kind capture and coding processes has meant that cars showing an available to date of 5 April (when the car remains available after that date) will result in car benefits being removed from the employee's tax code for the subsequent tax year. You must therefore only make an entry in the available 'to' box when the car is not available after that date. We are asking developers to consider how they can avoid customers submitting a return that has an incorrect end date for a company car.

We are reviewing the P11D and related employer guidance and will look at the business validation rules to see how we can avoid this problem for next year.

4.3 P11D 2007-08

The design for the 2007-08 P11D is now final and a copy of the form is at **Annex D** of these Notes.

The use of a NINO or date of birth and Gender data, when the NINO isn't available, is now mandatory for 2007/08 forms, due by 6 July 2008.

The main changes from the 2006-07 version of the form are summarised as follows.

- The Note to employee at the top right has been expanded.
- 'Sex M – Male F – Female' box changed to 'Gender M – Male F – Female'.
- 'Employee name' box is now split into 2 boxes; one for surname, and one for forename(s).
- The number boxes on the left side of the cash equivalent boxes have changed to reflect changes in the Self Assessment Main tax return (a conversion table was published in the July 2007 edition of these Notes at Annex G).
- Section F – the explanatory text beneath 'Dates car was available' has been changed slightly (as a result of the problems explained above).
- New box included in Section G to record van fuel benefit.

Final versions of the P9D and the P11D Working Sheets series of forms (with the exception of the P11D Working Sheet 4) will be available soon on our website at <http://www.hmrc.gov.uk/ebu/pnforms.htm>

4.4 Developer test services

The 2007-08 Third Party Validation Service (TPVS) for expenses and benefits will be available from October 2007. The MIG and Schema for P11D 2007-08 will also be published by the end of October.

4.5 P11D Working Sheet 4

Developers will be aware that the official rate of interest is currently 6.25%, and that it is tied to movements in interest rates. Unfortunately it will not be possible to confirm the official rate of interest for 2007-08 until early in 2008, so P11D Working Sheet 4 will remain as a draft until that time. We would ask developers to watch for announcements about the official rate of interest on our website or wait publication of the P11D (INT) (2008).

4.6 P46 (car)

The P46(Car) is currently being revised to include the new fuel type G for E85 bio fuels.

5. Other Information

5.1 PAYE Tax Table Routines

In his 2007 budget, the Chancellor announced changes to income tax rate bands for 2008-09. The starting rate band for non-savings income will be abolished and the basic rate will be reduced. The rates applicable for PAYE from 6 April will be:

Basic rate 20%
Higher rate 40%

The PAYE Tax Table Routines are now being revised to reflect these changes. The updated PAYE specification and Free of Tax specification will be available on our website from **Wednesday 3 October**. Please don't use any version you've downloaded before that date. http://www.hmrc.gov.uk/ebu/ebu_paye_ts.htm#payroll

The PAYE Tax Tables are currently being rewritten and will be available on our website later in the year. Developers need to be aware that PAYE Tax Tables SR & B to D are being renamed Tables B to D.

5.2 Increased tax/NICs free limit for employees paid while attending full-time educational courses

The tax and NICs free limit applying to payments made by employers to employees attending full-time educational courses is increased from £15,000 to £15,480 for the 2007-08 academic year and subsequent academic years (an academic year begins on 1 September and ends on 31 August).

Payments made by employers to employees for periods of attendance at a full-time educational course (including sandwich courses) at a recognised academic establishment such as a university or technical college may be treated by employers, without further question, as being exempt from income tax where certain conditions are met. The relevant conditions are set out in a HMRC Statement of Practice 4/86 (SP4/86).

One of the conditions set out in SP4/86 is that payments in respect of an academic year must not exceed a specified financial limit. That limit has been set at £15,000 since the beginning of the 2005-06 academic year. For the 2007-08 academic year and later the limit is increased to £15,480. A revised version of SP4/86 has been published to reflect this increase. More information is available at <http://www.hmrc.gov.uk/legislation/sp4-86-note.htm>

The increased limit will also apply for the purposes of disregarding relevant payments from the calculation of earnings for NICs. Regulations have been made to amend the Social Security (Contributions) Regulations 2001 to reflect the new limit.

5.3 Employer Share Schemes (ESS) – Developer test service

The 2007-08 technical pack for internet submissions of ESS is now available and can be viewed at <http://www.hmrc.gov.uk/ebu/ess-techpack/2007.htm>

5.4 Construction Industry Scheme – Developer test service

The technical pack for internet submission of CIS Reform is available and can be found at <http://www.hmrc.gov.uk/ebu/cis-reform.htm>

5.5 Student Loans – removal of the 42-day lead in time on Start and Stop notices

A reminder of the changes which come into effect from 6 April 2008

In the December 2006 'notes' paragraph 4.7 we explained the background to the changes, and in the February 2007 'notes' paragraph 3.4 we gave some further explanatory information.

With effect from 6 April 2008 the legislative mandatory 42 day lead-time constraint will be removed from both Start and Stop notices.

The student loan start date will be the date of issue as printed on the Start Notice (SL1) and the stop date will be the date of issue as printed on the Stop Notice (SL2). This means that employers will be required to start and stop deductions on the first pay day after those dates.

We recognise however that there may be occasions when this may be difficult to implement. For example a payroll may have already been processed and closed when a start or stop notice is received. To address this employers should implement any changes on the first *available* pay day after the dates of issue as shown on the SL1s and SL2s.

Changes to 2008 technical specifications and Employer Helpbooks to reflect this guidance will be announced and in place in due course.

6. Next issue of these Notes

The next edition of these Notes is scheduled to follow the Chancellor's Pre Budget Report announcement in autumn 2007.

7. Mailing lists for these Notes

The mailing options for the Notes are:

- notification by email
- notification by post
- paper issue of these notes.

Notification by email is the quickest and our preferred option. If you currently receive your mailing by post and wish to change to this option please send us details of your email address and company name to hmrnotes@replyservice.co.uk stating 'change option' in the subject field.

New 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 hmrnotes@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 hmrnotes@replyservice.co.uk stating 'unsubscribe' in the subject field or write to the address shown above.

8. 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 Office or to the Employer Helpline on **0845 7 143 143**.

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

email	<u>helpdesk@ir-efile.gov.uk</u>
phone	0845 60 55 999 (opening times - 8am to 8pm, 7 days a week)
fax	0845 366 7828
minicom	0845 366 7805

If you contact the Online Services Helpdesk by email please state 'Notes for Payroll Software Developers' in the subject field.

Note: The Online Services Helpdesk cannot deal with change of mailing address information; these should be directed to **hmrnotes@replyservice.co.uk**

Changes to Stationery -P45/P46
(Please read the full guidance in the technical packs)

Delivery Date	Paper or Online	Form	New Fields
Apr 08	Paper	P45	None
		P46	A small change to the printed version is necessary to tell employers that it must be completed when the earnings reach the LEL and not ET. Can change the print when current stocks run out.
		P46 (Pen)	None -This form will not exist at April'08.
	Online	P45	<ul style="list-style-type: none"> • The addition of DoB and Gender. These will be optional fields. • Adding the Student Loan indicator to P45(1) this is also an optional field. • 'Tax code used' used field will also be added to P45(3) and be optional. • P45(3) only – New field - Employee not paid between date employment began and 5th April – an optional field. • P45(3) only – new field - if tax figure entered on P11 differs from Total Tax to Date enter your figure here. • When DoB and Gender are available they cannot be printed out on the paper stationery.
		P46	Tax code used field will be added and be optional.
		P46 (Pen)	The P46(Pen) does not exist at April'08. Online this will be the PENNOT which does not change at April'08.
Oct 08	Paper	P45	<ul style="list-style-type: none"> • New form A4 size • New form available and run in tandem with old stationery. • New form includes new fields - DoB and Gender on part 1 and gender only on part 3. (DoB already exists) • Introduction of the Plain Paper Version P45
		P46	No change.
		P46 (Pen)	Won't exist.
	Online	P45	No change to the fields.
		P46	No change.
		P46 (Pen)	Won't exist. No change to PENNOT data stream.

Delivery Date	Paper or Online	Form	New Fields
Apr 09	Paper	P45	<ul style="list-style-type: none"> • Old form will be withdrawn. • Date of Birth and Gender become mandatory.
		P46	Date of Birth and Gender become mandatory.
		P46 (Pen)	New form introduced.
	Online	P45	Date of Birth and Gender become mandatory.
		P46	Date of Birth and Gender become mandatory.
		P46 (Pen)	New form replaces the PENNOT data stream.

Filing timetable - Information about tax codes to be used

The following table supersedes the information published in the July 07 Notes - changes/new material are denoted by highlighted text.

Form	Legal position	Tax code to be used
P45(1) - Leaver information	<p>P45(1) must be sent to HMRC on the day the employment ceases or, if that is not practicable, without unreasonable delay. (Reg 36)</p> <p>Note: Submission of the P45(1) on the day the final payment is made would be considered to have been made 'without unreasonable delay'.</p>	<p>Not applicable.</p> <p>For payments after date of leaving see CWG2 Chapter 1 Standard Payments made when or after an employee leaves.</p>
P45(3) – starter information	<p>P45(3) must be sent to HMRC on the day of commencement. Reg 42(a)</p> <p>Note 1: First pay day would be considered to be without unreasonable delay.</p> <p>Note 2: Where the P45(3) is not available the P46 procedure should be followed.</p> <p>Note 3: Where the latest P45 relates to a previous tax year the pay and tax information should be ignored. Follow E12 page 2 to determine what tax code to use.</p>	<ul style="list-style-type: none"> • Previous employment ended in current tax year – use code from P45(3) Reg 42(3). • On or before 24 May and previous employment ended in previous tax year (CY-1) use code from P45(3) on cumulative basis (Reg 44) (plus any uplift specified by P7X/P9X) • After 24 May and previous employment ended in any earlier year use Emergency code non cumulative (currently 522LX) (Reg 45) <p>Final bulleted text in July 07 notes deleted</p>
P46 completed by the employee	<p>P46 must be sent to HMRC when the first relevant payment is made (Reg. 46). A relevant payment is one which requires the preparation of a P11 (deductions Working Sheet or electronic equivalent).</p>	<p>Employer must use the tax code determined by Section 1 and completion of Statements A-C on P46 (Regs 47-49)</p>
P46 - completed by the employer as a default. (Where the employee has not provided the relevant information)	<p>P46 must be sent to HMRC when the first relevant payment is made (Reg. 47). A relevant payment is one which requires the preparation of a P11 (deductions Working Sheet or electronic equivalent).</p>	<p>BR Cumulative. (Reg 49)</p>

Form	Legal position	Tax code to be used
P46 followed by P45(3)	1. Where P46 has not been sent to HMRC - On receipt of late P45 send it to HMRC Reg 51(2) 2. Where P46 sent to HMRC and no P6 received <ul style="list-style-type: none"> - Follow initial P46 routines above - On Receipt of P45(3) it must be sent to HMRC (Reg 52(3)) 	1. (It must be assumed that if the P46 has not been sent to HMRC then its completion has had no impact on tax deductions.) Use previous pay and tax + tax code from P45(3) (Reg 51(2)) 2. - Employer would use a tax code dictated by P46 procedure – see above. - On receipt of P45(3) for the current year the employer must add any pay and tax information from P45(3) to the pay and tax information for this employment shown on P11 and operate the tax code from P45(3). (Reg 52)
P46, followed by P6, followed by P45(3).	1. On receipt of P46 follow routines above. Send P46 to HMRC. 2. On receipt of P6. 3. On receipt of P45(3)	1. Operate tax code dictated by Statements A-C 2. Operate tax code and previous pay and tax information from P6. 3. Ignore the P45(3) and do not use the details on it. (Reg. 51(4))
Employer completes P46 (as a default), Employee completes P46, Employee provides a P45(3). (No P6 received from HMRC)	1. Employer sends P46 to HMRC when first payment is made 2. Employer sends completed P46 to HMRC 3. Employer sends P45(3) to HMRC	1. Code BR cumulative 2. Where a cumulative code applies: from date of commencement recalculate and use code dictated by completed P46. (Reg 47-49). Where a non cumulative code applies it is to be used from the next pay day. 3 On receipt of P45(3) for the current year the employer must add any pay and tax information from P45(3) to the pay and tax information for this employment shown on P11 and operate the tax code from P45(3). (Reg 52)
Employee provides more than one P45(3)	Not covered by the Regulations.	<ul style="list-style-type: none"> • Use the latest P45(3) or where the P45(3)s show similar dates then contact HMRC for advice. • Where the multiple P45(3)s are received in different pay periods contact HMRC for advice.

Changes from 0.94 to version 1.0 of PAYE in year form rules

Changes v0.94 -> v1.0:

- * Date boundaries on StartingDateType amended to fixed values to ensure consistent operation across TPVS / Live
- * Added rules matching keys between GovTalkDetails and IRheader
- * Minor description update to 'Sur' element to align with pattern
- * Message class in schema valid sample artefact updated to sample value
- * Minor error message text updates
- * Schematron <pattern> elements now have @id attributes instead of @name, to make them ISO Schematron compliant.

Please ensure your entries are clear on both sides of the form.

Employer name

Employer PAYE reference

Employee name

Surname

Forname(s)

Works number/department

National Insurance number

If a director tick here

Date of birth *in figures (if known)*

Gender M – Male F – Female

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 to 5 April 2008. Send the completed form to your HMRC office by 6 July 2008.

Note to employee

Your employer has filled in this form, keep it in a safe place. You will need it to complete your 2007-08 Tax Return if you get one. The box numberings on this P11D are the same as on the Employment Page of the Tax Return for example, 13.

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)	Cost/Market value	Amount made good or from which tax deducted	Cash equivalent
	Description of asset <input type="text"/>	£ <input type="text"/>	– £ <input type="text"/>	= 13 £ <input type="text"/> 1A

B	Payments made on behalf of employee	Cash equivalent
	Description of payment <input type="text"/>	15 £ <input type="text"/>
	Tax on notional payments not borne by employee within 90 days of receipt of each notional payment	15 £ <input type="text"/>

C	Vouchers or credit cards	Gross amount	Amount made good or from which tax deducted	Cash equivalent
	Value of vouchers and payments made using credit cards or tokens (for qualifying childcare vouchers the excess over £55 a week)	£ <input type="text"/>	– £ <input type="text"/>	= 12 £ <input type="text"/>

D	Living accommodation	Cash equivalent
	Cash equivalent of accommodation provided for employee, or his/her family or household	14 £ <input type="text"/> 1A

E	Mileage allowance and passenger payments	Taxable amount
	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 2007-08 exempt rates)	12 £ <input type="text"/>

F	Cars and car fuel <i>If more than two cars were made available, either at the same time or in succession, please give details on a separate sheet</i>	
	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 CO ₂ 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="text"/> g/km <input type="checkbox"/> <i>See P11D Guide for details of cars that have no approved CO₂ figure</i>
	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>Do not complete the 'From' box if the car was available on 5 April 2007 or the 'To' box if it continued to be available on 6 April 2008</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</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 2007-08

9 £ **1A**

Cash equivalent of fuel for each car

£

£

Total cash equivalent of fuel for all cars available in 2007-08

10 £ **1A**

G	Vans	
	Total cash equivalent of all vans available in 2007–08	9 £ 1A
	Total cash equivalent of fuel for all vans available in 2007–08	10 £ 1A

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 to complete this section.

	Loan 1	Loan 2
Number of joint borrowers (<i>if applicable</i>)	<input type="text"/>	<input type="text"/>
Amount outstanding at 5 April 2007 or at date loan was made if later	£ <input type="text"/>	£ <input type="text"/>
Amount outstanding at 5 April 2008 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 2007–08 – <i>enter "NIL" if none was paid</i>	£ <input type="text"/>	£ <input type="text"/>
Date loan was made in 2007–08 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 2007–08 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	15 £ <input type="text"/> 1A	15 £ <input type="text"/> 1A

I	Private medical treatment or insurance	
	Cost to you	Amount made good or from which tax deducted
Private medical treatment or insurance	£ <input type="text"/>	£ <input type="text"/>
		= 11 £ <input type="text"/> 1A

J	Qualifying relocation expenses payments and benefits	
	<i>Non-qualifying benefits and expenses go in sections M and N below</i>	
Excess over £8,000 of all qualifying relocation expenses payments and benefits for each move	15	£ <input type="text"/> 1A

K	Services supplied	
	Cost to you	Amount made good or from which tax deducted
Services supplied to the employee	£ <input type="text"/>	£ <input type="text"/>
		= 15 £ <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
Description of asset <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
		= 13 £ <input type="text"/> 1A

M	Other items (including subscriptions and professional fees)	
	Cost to you	Amount made good or from which tax deducted
Description of other items <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
		= 15 £ <input type="text"/> 1A
Description of other items <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
		= 15 £ <input type="text"/>
Income tax paid but not deducted from director's remuneration	15	£ <input type="text"/> Tax paid

N	Expenses payments made to, or on behalf of, the employee	
	Cost to you	Amount made good or from which tax deducted
Travelling and subsistence payments (<i>except mileage allowance payments for employee's own car - see section E</i>)	£ <input type="text"/>	£ <input type="text"/>
		= 16 £ <input type="text"/>
Entertainment (<i>trading organisations read P11D Guide and then enter a tick or a cross as appropriate here</i>) <input type="checkbox"/>	£ <input type="text"/>	£ <input type="text"/>
		= 16 £ <input type="text"/>
General expenses allowance for business travel	£ <input type="text"/>	£ <input type="text"/>
		= 16 £ <input type="text"/>
Payments for use of home telephone	£ <input type="text"/>	£ <input type="text"/>
		= 16 £ <input type="text"/>
Non-qualifying relocation expenses (<i>those not shown in sections J or M</i>)	£ <input type="text"/>	£ <input type="text"/>
		= 16 £ <input type="text"/>
Description of other expenses <input type="text"/>	£ <input type="text"/>	£ <input type="text"/>
		= 16 £ <input type="text"/>