

# **Notes for Payroll Software Developers**

**SERIES 12 – NUMBER 3**

**December 2009**

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## 1. **Income Tax changes affecting PAYE from April 2010**

### 1.1 **Income Tax changes**

In his Pre-Budget Report on 9 December 2009 the Chancellor of the Exchequer announced that the Income Tax allowances for the 2010-11 tax year would remain at their 2009-10 levels. These are:

Personal Allowance (the "basic personal allowance")	£6,475
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(From 2010-11 the basic personal allowance will be subject to an income limit of £100,000. Further information regarding the implementation of the income-related reduction to the basic personal allowance can be found at para 1.5 of these Notes.)

Personal Allowance for people aged 65-74	£9,490
Personal Allowance for people aged 75 and over	£9,640
Married Couples Allowance (born before 6/4/1935) aged 75 and over	£6,965

(These age related allowances will be subject to an income limit of £22,900.)

Minimum amount of Married Couples Allowance	£2,670
Blind Persons Allowance	£1,890

We told you in the December 2008 edition of the Notes for Payroll Software Developers (Series 11, Number 7, para 1.6) which was subsequently updated by the information the May 2008 Notes (Series 11, Number 8, para 2.3) about the Chancellor's intention to introduce a new additional rate of tax from 6 April 2010. The additional rate of tax was confirmed in Finance Act 2009.

The Income Tax rates and Income Tax bandwidths which will take effect from 6 April 2010 are:

Basic Rate 20%	Bandwidth	£1 to £37,400
Higher Rate 40%	Bandwidth	£37,401 to £150,000
Additional Rate 50%	Bandwidth	£150,001 and above

Revised payroll software must be used from this date.

Further information regarding the implementation of the new additional rate of Income Tax can be found at para 1.4 of these Notes.

### 1.2 **Effecting the Income Tax announcements**

#### Changes in Coding

As a result of the Chancellor's announcement not to change the Income Tax allowances detailed above:

- there will **not** be a general uplift of tax codes with suffix 'L' at this time,
- the PAYE threshold with effect from 6 April 2010 will continue to be £125 per week (£540 per month), and
- the code for emergency use from 6 April 2010 will continue to be 647L.

We will however issue some tax code notifications on form P9(T) (or an Internet or Electronic Data Interchange equivalent) and employers should use these 2010-11 codes from 6 April 2010. Full instructions will be issued to employers on form P9X(2010) which will be contained in the Employer CD-ROM as part of the Employer Pack.

## Changes to Tax Tables from 6 April 2010

The new Taxable Pay Tables will be available on the Employer CD-ROM 2010 that will be included in the Employer Pack, or can be requested by contacting the Employer Orderline on **08457 646 646**. These tables (Calculator Tables April 2010 or Tables B to D April 2010) give effect to the revised Income Tax rates and bandwidths, and are brought into use from the first pay-day on or after 6 April 2010.

The paper PAYE Tax Tables are being drafted and will be available in December 2009 in the Software Developers Draft Forms PAYE download area of our website at [www.hmrc.gov.uk/ebu/pnforms.htm](http://www.hmrc.gov.uk/ebu/pnforms.htm)

### **1.3 Summary of changes from 6 April 2010**

- New 50% additional rate of tax applying to a taxable income above £150,000 introduced – see para 1.4.
- Income-related reduction to the basic personal allowance introduced – see para 1.5.

### **1.4 Additional rate of Income Tax – 50%**

From the 2010-11 tax year an additional tax rate of 50% will apply to individuals with taxable income above £150,000. In view of the reduced timescale to implement this change, for the 2010-11 tax year the additional rate will be supported by tax table calculations only as detailed at para 1.6 of these Notes.

In the time available it was not possible for HMRC to introduce a new D1 tax code for those circumstances where an individual has a subsidiary source(s) of employment income liable to tax at 50%. In addition the tax codes for those individuals liable to tax at 50% will not include any adjustments to take account of the additional rate of 50%. It is our intention to introduce these changes from the 2011-12 tax year and further information will be published in future editions of these Notes.

The relatively small number of individuals affected by the additional rate are within the scope of Self Assessment and we will finalise their correct tax liability for 2010-11 once their Self Assessment tax return has been processed.

### **1.5 Income-related reduction to the basic personal allowance**

As previously advised in the May 2008 edition of the Notes for Payroll Software Developers (Series 11, Number 8, para 2.3) the Chancellor also announced that from the 2010-11 tax year the basic personal allowance will be gradually reduced for people with adjusted net incomes above £100,000, up to a maximum of their total personal allowance. The reduction is £1 for every £2 that the individual's income exceeds the income limit. The reduction applies regardless of an individual's age (i.e. it applies equally to people aged under 65, 65 to 74 and 75 and over).

HMRC will be issuing 2010-11 tax codes to those individuals affected by this income-related reduction, based on an estimate of their adjusted net income and the employee copy of the tax code will contain an explanatory message. Software developers will not be required to do anything to plan for this particular change.

Any individual with an annual income of £100,000 or more is required to submit a Self Assessment tax return. The actual amount of personal allowance they are entitled to for 2010-11 will be established after their tax return has been processed, and will be included in the Self Assessment calculation.

## **1.6 Specification for PAYE Tax Table Routines**

**Annex A** to these Notes gives the amendments to the Specification for PAYE Tax Table Routines – July 2009 (Version 12)

**Annex B** contains some test data which users may find helpful in verifying their new routines from 6 April 2010.

**Annex C** shows a copy of form P9X(2010) which will be included on the Employer CD-ROM 2010 or alternatively will be available from the Employer Orderline.

Amendments will also be made to the Specification for PAYE Table Routines for Free of Tax (FOT) arrangements. The amended specification will shortly be published on our website at [www.hmrc.gov.uk/ebu/ebu\\_paye\\_ts.htm](http://www.hmrc.gov.uk/ebu/ebu_paye_ts.htm)

## **1.7 Payroll Test Data**

The Payroll Test Data will be updated shortly and can be found on our website at [www.hmrc.gov.uk/ebu/testdata.htm](http://www.hmrc.gov.uk/ebu/testdata.htm)

## **1.8 Future Income Tax changes announced in the Pre-Budget Report on 9 December 2009**

The Chancellor announced that the point at which someone starts to pay higher rate tax will be frozen in 2012-13 at the 2011-12 amount. However, for 2012-13 the personal allowance will be increased and the basic rate limit will be reduced by the same amounts (to be announced). The point at which someone starts to pay higher rate tax is the total of the basic personal allowance and the basic rate limit (sometimes referred to as the “higher rate threshold”).

## **2. National Insurance changes from April 2010**

### **2.1 Class 1 National Insurance contributions (NICs)**

In his Pre-Budget Report on 9 December 2009 the Chancellor of the Exchequer announced that the only change to Class 1 NICs for 2010-11 is an increase to the Lower Earnings Limit from £95 per week to £97 a week. There are no other changes and the 2010-11 Class 1 National Insurance contribution limits are:

Lower Earnings Limit	£97 a week
Earnings Threshold	£110 a week
Upper Accruals Point	£770 a week
Upper Earnings Limit	£844 a week

From April 2010 the contracted-out rebates remain as follows:

- Contracted-out Salary Related Schemes (COSR), 3.7% for employers and 1.6% for employees.
- Contracted-out Money Purchase Schemes (COMP), 1.4% for employers and 1.6% for employees.

**Annexes D to F** provide a summary of the National Insurance earnings limits, thresholds and rates.

## **2.2 NI Guidance for Software Developers, Effective for the tax year 2010-11**

The 2010-11 version of this technical specification will be available before the end of December on our website at [www.hmrc.gov.uk/ebu/ebu\\_paye\\_ts.htm](http://www.hmrc.gov.uk/ebu/ebu_paye_ts.htm)

## **2.3 Future National Insurance (NI) changes announced in the Pre-Budget Report on 9 December 2009**

In addition to the 2011-12 NI changes previously announced in the 2008 Pre-Budget Report, the Chancellor has announced that there will be a further 0.5% increase to those rates, making a 1% increase in total from 6 April 2011. As a result for the 2011-12 tax year:

- the main rate of Class 1 NICs will be increased to 12%
- the Class 1 employer rate of NICs will be increased to 13.8%. The increased rate will also apply to Class 1A and Class 1B contributions
- the additional rate of Class 1 will be increased to 2%
- the Primary Threshold for the year will be increased by £570. This follows on from the Chancellor's announcement in the 2008 Pre-Budget Report that the Primary Threshold would be increased to the same level as the weekly equivalent of the income tax personal allowance in 2011-12. The further increase of £570 will mean that the Primary Threshold will be higher than the equivalent Income Tax personal allowance in 2011-12.

As with the 2008 announcement, no changes were announced to the contracting out rebate percentages.

## **3. Other Budget Proposals**

### **3.1 Further information on Pre-Budget Report changes**

Further information on the Chancellor's Pre-Budget Report can be found on our website at [www.hmrc.gov.uk/pbr2009/index.htm](http://www.hmrc.gov.uk/pbr2009/index.htm)

### **3.2 Changes to car benefit from 2012-13**

Car benefit is being further simplified from 2012-13. The special 10% band for QUALECs (qualifying low emissions cars, those with CO<sub>2</sub> emissions of exactly 120 g/km or less) is being abolished. The lowest appropriate percentage will remain at 10%, but will only apply to cars with CO<sub>2</sub> emissions of up to 99g/km. Cars with CO<sub>2</sub> emissions above 99g/km will have their appropriate percentage increased by 1% for every further 5g/km as happens at present, so the range will now be 10% to the same maximum of 35% in 1% steps. The appropriate percentage for cars with CO<sub>2</sub> emissions of 125–224 g/km will therefore increase by 1% and there will also be increases for cars with CO<sub>2</sub> emissions of 100–120 g/km.

### **3.3 Car fuel benefit multiplier increased to £18,000**

The car fuel benefit charge takes the appropriate percentage for car benefit purposes but applies it to a fixed figure, often known as 'the multiplier'. This figure is increased to £18,000 for 2010-11 onwards.

### **3.4 Electric cars and vans from 2010-11 for 5 years**

There will be a nil benefit charge for cars or vans propelled solely by electricity for 5 years from 2010-11. The appropriate percentage for electric cars will be reduced to nil. Electric vans will be defined and a separate charge of £0 applied to them.

### **3.5 Van fuel benefit charge increased to £550**

The van fuel benefit charge is a flat rate charge. It is increased to £550 for 2010-11 onwards.

## **4. National Insurance and PAYE Service**

In June 2009, we successfully introduced the National Insurance and PAYE Service (NPS). This is the biggest change in 25 years to the way that PAYE is administered.

NPS is a single, national computer system which has replaced the 12 regional databases that previously handled PAYE processing. It has brought together the former National Insurance Recording System (NIRS) and elements of the Computerisation of PAYE (COP) databases to help improve the service we provide to our customers.

No matter how many sources of PAYE income an employee has, NPS brings together all of their PAYE details onto one record and one database. This is resulting in more accurate tax codes so that employees will be less likely to have underpaid or overpaid tax at the end of the year. The new system has automated more processes, improved efficiency of processing and is enhancing the management information we hold.

We told you in the September 2009 edition of Notes for Payroll Software Developers (Series 12, Number 2, para 1) about the benefits of NPS to our customers. We also told you that the scale of the changes necessitates introducing NPS in three planned phases and that the next two would take place in November 2009 and April 2010. All three releases are needed to complete the transformation of PAYE processing.

### **November 2009 upgrade**

This was part of a larger departmental IT Enterprise Release and was successfully introduced on 23 November 2009 as planned. The release included enhancements to daily coding processes and will allow us to complete the annual coding run in January 2010 using NPS for the first time.

It has also provided us with the ability to scan cases that have missing information (P14, P11D and targeted review forms) and flag these up for appropriate action.

Testing for the annual coding run is well advanced and will ensure that this runs as smoothly as possible in January.

### **April 2010 Release**

This planned upgrade will complete the final phase of the transformation to the new PAYE Service. It will deliver major improvements to end of year reconciliations for individuals. After it has gone live, we will perform a one-off review of cases to clear automatically existing under and overpayments without the manual intervention currently required. The functionality will also be extended to deal with earlier unreconciled years.

This Release will include upgrades that will allow us to merge individuals' PAYE records, for example when a customer gets a new National Insurance number. We will also be able to automatically issue forms to customers who do not need to submit a Self Assessment

tax return but are still required to notify us of changes in certain types of income. Calculation and display enhancements will make the system quicker and easier for our staff to use.

When we make this last upgrade, there will be a short period of service interruption. We will publish the details nearer the time on our website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

### NPS issues

NPS is working well overall but there are some issues in the live system that were not apparent during testing, which might affect tax agents and advisers. Given the size and scale of the changes, this was to be expected.

We are applying fixes and changes regularly to tackle the issues identified and apologise for any inconvenience which they may be causing. We are working hard to resolve these issues as quickly as possible.

For an up-to-date view of the PAYE issues HMRC is working on please refer to the News, Updates and Events section of the Tax Agents and Advisers page on our website at [www.hmrc.gov.uk/agents/news-payeservice.htm](http://www.hmrc.gov.uk/agents/news-payeservice.htm)

### **5. PAYE Online Services – Employers receiving PAYE notices and reminders online**

Before an employer can do any PAYE business with us online they must first register as a user of the PAYE Online for Employers service. Once registered, we automatically give the employer access to their PAYE notices and reminders online, including their employees' tax codes and student loan notices. Employers will no longer receive these on paper unless they elect to opt out of receiving certain notices online when they register.

It is important for the employer to check regularly to ensure that they receive and act on any notices we send them. To help employers with this, we can send an email alert each time new codes and notices are available to view, as long as an employer has advised us of their current email address.

If an employer is registered as a user of the PAYE Online for Employers service but has not provided an email address, we recommend that they do so urgently. To do this, they need to select 'provide us with an email address' under 'Notice options' from the PAYE Online service page and ensure that this email address is kept up-to-date.

To access their tax codes and notices online an employer can:

- use a commercial software product
- use the Data Provisioning Service (DPS) portal viewer by logging onto 'PAYE for employers' on the HMRC website, using their User ID and password and, selecting the appropriate option from the 'Notice summary' section, or
- use the new PAYE Desktop Viewer (PDV). This is an application that employers can download and install from our website at [www.hmrc.gov.uk/payee/tools/PDV](http://www.hmrc.gov.uk/payee/tools/PDV)

PDV provides a range of improvements over DPS and introduces new functionality that was not previously possible to provide. With PDV there is no need for an employer to log onto their online services page.

## **6. Online Filing: in-year**

### **6.1 A reminder about penalties for employers with 50 or more employees who are not filing their starter and leaver forms online**

From December 2009, we will issue penalty warning letters to employers with 50 or more employees who are still not filing their starter and leaver forms (P45s, P46s and variations of these) online. When these letters are issued they will refer to paper submissions made in the second (6 July 2009 to 5 October 2009) and third (6 October 2009 to 5 January 2010) quarters of the 2009-10 tax year.

We will only issue one warning letter per quarter to each employer. The letter will advise the employer of one specific instance of a paper form received in that quarter that should have been sent online. It will not refer to any other paper forms sent subsequently. The letter will confirm the type of form (P45 parts 1 and 3, P46 or P46(Pen)) and give details of the employee's name and National Insurance number (NINO) or, where this is not available, their date of birth and gender.

From the start of the fourth quarter of the 2009-10 tax year (6 January 2010), we will begin to count the number of starter and leaver forms that employers with 50 or more employees have sent to us on paper. These will form the basis of the penalty charge. The first penalties will be issued in April 2010 and will range from £100 to £3000, depending on the number of paper forms that we receive.

Employers with 50 or more employees who are still not filing their starter and leaver forms online must start doing so now to avoid penalties.

HMRC would appreciate help from software developers. When they market software upgrades, software developers should communicate the mandation dates to their customers and clarify that penalties may apply for failing to file starter/leaver forms and a completed annual return online, when mandated to do so.

### **6.2 Changes to code NT and D0 from April 2010**

Under the current procedures, code D0 is always operated on a non-cumulative (Week 1/Month 1) basis. Code NT should always be operated on a non-cumulative (Week 1/Month 1) basis unless notified otherwise by HMRC.

In response to employer requests, we are changing the way that codes NT and D0 are operated and will no longer be issuing a letter where we want code NT operated on a cumulative basis.

From 6 April 2010, in these type of cases, a notice of coding will show D0 (or D0 Week 1/Month 1) or NT (or NT Week 1/Month 1).

In line with other code notifications, forms P6 or P9 will identify whether the employer operates codes D0 and NT on a cumulative or non-cumulative (Week 1/Month 1) basis. For example, forms P6 and P9 showing:

- code D0 indicates the code is to be operated on a cumulative basis
- code D0 Week 1/Month 1 indicates the code is to be operated on a non-cumulative basis
- code NT indicates the code is to be operated on a cumulative basis
- code NT Week 1/Month 1 indicates the code is to be operated on a non-cumulative basis.

The guidance in the E13 Day-to-day payroll booklet and the notes on the reverse of the P6 form will be updated to reflect the changes. The E13 Day-to-day payroll booklet can be found on our website at [www.hmrc.gov.uk/helpsheets/2008/e13.pdf](http://www.hmrc.gov.uk/helpsheets/2008/e13.pdf)

## **7. Online Filing: end of year**

### **7.1 Employer Annual Returns (P35 and P14s)**

#### **Sending Employer Annual Returns (P35 and P14s) online – changes that affect employers**

Employers with 50 or more employees already have to file their Employer Annual Returns (P35 and P14s) online. Amended PAYE regulations that came into force on 13 August 2009 mean employers with fewer than 50 employees must also send their Employer Annual Return for 2009-10 (and all subsequent years) online. The 2009-10 return is due by 19 May 2010. There are very few exceptions to this – details are in the section headed 'Exemptions'.

If employers do not file their completed Employer Annual Return online but send it on paper instead, they may incur a penalty. This can be up to a maximum of £3000, depending on the number of P14s they send.

Employers will also receive a further penalty if we do not receive their return by the due date.

#### *So what has changed?*

We will no longer send employers a paper P35 unless we have accepted that they are exempt from filing online. Instead, during February and March 2010, we will send employers either:

- a P35PN - notification to complete a P35 Employer Annual Return, reminding employers to file their return online and on time, or
- a P35N - an online notice to those employers who have already filed earlier years' returns online.

We will not issue any P35 notifications to Electronic Data Interchange (EDI) users.

#### **Tax-free payments**

Please remember that the tax-free payments (of up to £825 over 5 years) for employers with fewer than 50 employees ceased after filing the 2008-09 Employer Annual Return. It is therefore no longer applicable for 2009-10 Employer Annual Returns filed online.

#### **Should employers complete a return?**

Employers only need to file an Employer Annual Return if they have been required to complete at least one P11 deductions working sheet or equivalent during the 2009-10 tax year.

Employers who do not need to send HMRC a return must tell us so that we can update our records and avoid sending unnecessary reminders or penalty notices. To help employers and their agents do this, we are introducing a new facility from February 2010, which allows them to provide the necessary information online. More information will be available on our website shortly at

[www.hmrc.gov.uk/payroll/year-end/no-annual-return.htm](http://www.hmrc.gov.uk/payroll/year-end/no-annual-return.htm)

## Keeping records

Employers do not have to keep a copy of the return if they send it themselves but do need to keep the PAYE records they used to help them complete their return (for example P11 deductions working sheets). These must be kept for no less than three years after the end of the tax year.

## Exemptions

The new PAYE Regulations require virtually all employers with fewer than 50 employees to file their 2009-10 Employer Annual Returns (P35 and P14s) online. However, we told you in the September 2009 edition of Notes for Payroll Software Developers (Series 12, Number 2, para 2.2) that there are a few exceptions to this requirement and those employers are:

- a) employers who cease paying PAYE during the 2009-10 tax year, providing that their return reaches us by 5 April 2010
- b) employers who are authorised by HMRC to deduct tax in accordance with regulation 34 of the IT (PAYE) Regulations (i.e. domestic employers operating a simplified deduction scheme) and who have not received a tax-free incentive payment for filing online previously
- c) employers who are a practising member of a religious society or order whose beliefs are incompatible with the use of electronic communications
- d) 'care and support' employers – employers who employ someone to provide domestic or personal services at or from the employer's home.

To qualify as a 'care and support' employer:

- those services must be provided to the employer or a member of the employer's family
- the recipient of those services must have a physical or mental disability, or be elderly or infirm
- the employer must not have received a tax-free payment in respect of the preceding last three tax years
- it must be the employer who sends the return to HMRC (not another person on the employer's behalf).

There is no specific claim form so employers in categories (c) or (d) should send a written claim to their HMRC office giving full details. Subject to accepting the claim, we will arrange for a paper P35 to be sent to the employer.

## Updated Employer guidance on filing 2009-10 Employer Annual Returns (P35 and P14s)

As virtually all employers are now required to file their 2009-10 Employer Annual Return (P35 and P14s) online, we have updated our end of year guidance to reflect the fact that online filing is now the 'default' option. The updated guidance is available on our website (and also on the 2010 Employer CD-ROM) at [www.hmrc.gov.uk/payee/payroll/year-end/index.htm](http://www.hmrc.gov.uk/payee/payroll/year-end/index.htm)

We will still produce the Employer Helpbook E10(2010) 'Finishing the tax year up to 5 April 2010' but this will only provide guidance on filing Employer Annual Returns on paper. It will not contain any guidance about filing online and is only intended for the very small number of employers who are not required to file online.

## P14 Processes – Works/payroll numbers

Following the launch of the National Insurance and PAYE Service (NPS) we have changed our form P14 processing procedures. When we match pay and tax details to the correct employment, and there are multiple employments for the individual, NPS will use the works/payroll number employers provide on the P14 as well as the start or leaving dates. If there is no match to an existing employment then a further employment record will be created from the information included on the form P14.

We are aware that some employers use different works/payroll numbers on forms P14 to those used in their day-to-day payroll records. This can cause problems when attempting to match P6/P9 tax code notices with day-to-day payroll records as these notices may show the form P14 works number.

We would be grateful if employers could use the same works/payroll number on both day-to-day payroll and the End of Year P14s.

### **7.2 P35 2010-11**

There will be no changes to the 'Summary of payments for the year' section on the form P35 for 2010-11. It will remain the same as for 2009-10. A PDF version of the final 2010-11 P35 will be available to view shortly at the software developer pages of the HMRC website.

## **8. Statutory Payments**

### **8.1 Statutory Payments rates for 2010-11**

At the time of going to press Department for Work and Pensions (DWP) had not announced the statutory rates for 2010-11. When they are known we will publish an update on our "What's New" page. You can also check the DWP website at [www.dwp.gov.uk](http://www.dwp.gov.uk)

### **8.2 Additional Paternity Leave and Pay (APL&P)**

Following a short legal and technical consultation on APL&P regulations it is the government's intention to introduce legislation to allow parents of children due on or after 3 April 2011 to take up to 26 weeks Additional Paternity Leave, some of which may be paid if taken during the mother's maternity pay period. Similar provisions will apply in the case of adoption for children matched for adoption on or after 3 April 2011.

#### What does this mean in practice?

##### Normal cases

APL&P cases will first arise in 2011-12. Early cases will arise in April 2011 - where babies due in April 2011 are born very prematurely (this could be as early as November 2010) and the fathers are entitled to Additional Statutory Paternity Pay (ASPP) from 20 weeks after the birth. The majority of cases will be from September 2011 onwards.

##### Exceptional cases

The very earliest that APL&P cases are likely to arise is, in highly exceptional circumstances, during 2010-11 (where a baby due in April 2011 is born prematurely, the mother dies in childbirth and the father takes APL&P early). This could happen from November 2010. The number of such cases is likely to be very small.

## Payroll software and IT implications

We are not expecting commercially produced software to be in place to help employers with the small number of early cases in 2010-11. For these we will provide guidance on the HMRC website, an electronic calculator and a helpline calculation and advice service (we provide this now for the other statutory payments). We will not be providing employers with an ASPP calculator on the Employer CD-ROM for 2010-11 issued in February 2010. But currently we plan to provide an ASPP calculator (as provided now for all the other statutory payments) on our Employer CD-ROM for 2011-12.

Because of the very small number of cases expected HMRC will not be changing the design or validation rules for the Employer Annual Return (P35 and P14s) for 2010-11 to allow for reporting cases of ASPP. Instead employers will be asked to report ASPP entries for 2010-11 in Statutory Paternity Pay (SPP) boxes.

## Extension of Statutory Maternity Pay (SMP), Maternity Allowance [MA] and Statutory Adoption Pay (SAP)

At the time of drafting no decision had been taken to extend SMP, MA or SAP entitlement beyond 39 weeks.

### Further information

Further information on APL&P can be found on the following websites:

Business Innovation and Skills at [www.bis.gov.uk](http://www.bis.gov.uk)  
HMRC's "What's New" page at [www.hmrc.gov.uk/news/index.htm](http://www.hmrc.gov.uk/news/index.htm)

and other future publications.

### **8.3 Form SMP1**

This is given to an employee by their employer when their employee is not entitled to Statutory Maternity Pay (SMP), or when the employer cannot continue to pay SMP. A new style form was introduced from 5 October 2009. Employers can still continue to use the old form if they hold paper versions. For the first time there are two electronic versions of the new SMP1: an interactive version for employers to complete online and then print, and one to print and then complete. Both versions are available on the directgov website at [www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/Expectingorbringingupchildren/DG\\_10018741](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/Expectingorbringingupchildren/DG_10018741)

### **8.4 North Yorkshire Police and the Commissioners for HMRC and Mrs Deborah Wade**

HMRC together with DWP have decided to lodge an application for permission to appeal against the Tribunal decision in the above case. Further information will be provided on the HMRC website when it is available.

### **8.5 Childcare Vouchers guidance**

The Department for Business Innovation and Skills intend to publish guidance for employers relating to the use of childcare vouchers. At the time of going to press the publication date was not known but it will be published on the Business Link website at [www.bis.gov.uk](http://www.bis.gov.uk)

## **8.6 Statutory Sick Pay (SSP) and swine flu flexibility**

Since the start of the swine flu pandemic, no changes have been made to the existing rules and arrangements for medical certificates, self certification and payment of Statutory Sick Pay (SSP).

However, employers are asked to consider adapting their current sickness policies and procedures to reduce the burden on General Practitioners (GPs) by considering;

- extending the period of self certification period for your employees, e.g. from seven to ten calendar days
- using your occupational health staff to contact those off sick with flu-like symptoms to satisfy themselves that the individual is ill and unable to work.

Further information and updates on swine flu can be found at

<http://www.businesslink.gov.uk>

<http://www.direct.gov.uk/en/index.htm>

<http://www.nhsdirect.nhs.uk/>

## **8.7 Entitlement to paid leave during sick absence**

Under a European Court ruling in January 2009, any employee is entitled to paid leave during periods of sickness. Where an employee who is in receipt of SSP takes paid leave, their entitlement to SSP continues if their period of incapacity for work continues.

Employers can offset the paid leave earnings against the SSP they pay for the same day(s). As long as they pay earnings of at least the daily SSP rate due for each Qualifying Day they would not need to make any other payments, unless they wished to do so. However, if the amount due for paid leave is less than the amount due for SSP on the same day, the employer must top up the payment to at least the level of SSP.

These guidelines apply to all employees on sick absence on or after the date of the ruling on 20 January 2009. For more information on the European Ruling go to the Business Innovation and Skills website at

[www.berr.gov.uk/whatwedo/employment/working-time-regs/case-law/index.html](http://www.berr.gov.uk/whatwedo/employment/working-time-regs/case-law/index.html)

## **8.8 Revised medical certificate**

As part of the wider package of reform, DWP intends to amend the current medical statement or "sick note".

The revised medical statement will continue to allow GPs to advise whether an employee should refrain from work, but will also be able to advise whether it would be appropriate for them to do some work. This will give employers greater flexibility in managing sick absence.

The employer **will not be bound** to implement the GP's suggested changes which will be implemented at the discretion of employers and with the agreement of the employee.

These changes are subject to parliamentary approval. However, it is intended that the revised medical statement will be introduced in April 2010. Guidance on how the changes will affect SSP will be made available in February 2010.

More information on the revised medical statement and guidance will be published on the Working for Health website at [www.workingforhealth.gov.uk](http://www.workingforhealth.gov.uk)

## **9. Developer Test Services**

### **9.1 Payroll Standard and Pensioner Payroll Standard requirements**

Developers are reminded that:

- a) Payroll Standard accredited products must achieve Recognition for the latest versions of the online P45(1), P45(3) and P46 **before 1 April 2010**.

Pensioner Payroll Standard accredited products must achieve Recognition for the latest versions of the online P45(1), P45(3) and P46(PEN) **before 1 April 2010**.

For more information about Recognition testing contact the HMRC Software Developers Support Team:

Tel: 01274 534666

Email: [sdsteam@hmrc.gsi.gov.uk](mailto:sdsteam@hmrc.gsi.gov.uk)

- b) Developers with Payroll Standard accredited products should also refer to the Additional Payroll Test Data document, which contains some amendments to our General Validation tests for the 2010-11 tax year, and can be found on our website at [www.hmrc.gov.uk/ebu/testdata.htm](http://www.hmrc.gov.uk/ebu/testdata.htm)

or contact the HMRC Software Developers Support Team:

Tel: 0845 9159146

Email: [sdsteam@hmrc.gsi.gov.uk](mailto:sdsteam@hmrc.gsi.gov.uk)

### **9.2 In-year forms: 2010-11 submissions**

The in-year movements RIM artefacts remain unchanged for 2010-11. The namespace that is used for **IR-PAYE-MOV** submissions therefore also remains unchanged from 2009-10.

Vendor product recognition will not be necessary for 2010-11 for those movements forms that were successfully tested and which received recognition in 2009-10. New product recognition applications should continue to be made as directed in the in-year movements technical pack.

## **10. Other Information**

### **10.1 National Minimum Wage (NMW)**

The government has accepted a Low Pay Commission recommendation that the main rate of NMW will be payable to workers aged 21 and over from 1 October 2010. The NMW rate bands will then be 16-17 years, 18-20 years and 21 years old and over. Until October 2010, 21 year olds are included in the 18-21 year old rate.

### **10.2 New initiative to reduce student loan over-repayments for PAYE borrowers**

It has often been difficult for student loan borrowers to avoid over repaying their student loan as the loan term neared its end. This is because of the time delay between

employers making deductions from salary each month and submitting an annual return with detail of repayments.

A new initiative to help PAYE borrowers avoid this was introduced by the Student Loans Company (SLC) on 14 December 2009.

In the last 23 months of repayment PAYE student loan borrowers can opt out of PAYE student loan deductions and go on to a Direct Debit arrangement. Doing this means a borrower will not over repay. The SLC will try to contact borrowers shortly before this time to offer and arrange this option. However if a borrower is aware that they are reaching this point they can contact the SLC direct and arrange to repay the balance of their loan in this way. Contact details can be found on the SLC repayment website at [www.studentloanrepayment.co.uk](http://www.studentloanrepayment.co.uk)

The advantages of the Direct Debit arrangement are:

- A borrower will not over repay, and
- they can agree monthly repayment dates with the SLC.

The normal terms and conditions attached to student loans will still apply, and borrowers must pay their direct debit every month on the agreed date. If a borrower fails to do this, they will be removed from the direct debit repayment scheme, a student loan start notice will be issued to the employer and the borrower will go back into PAYE repayment.

**This will not change any of the procedures for Employers who have student loan borrowers on their payroll.** If a borrower does enter into this type of arrangement HMRC will issue an SL2 Stop Notice to the employer who can then stop making deductions in the normal way.

The form P46 wording will be amended so that only those borrowers who need to repay through their earnings, and who are not part of a direct debit arrangement, will tick the student loan box. Updated online versions of the newly worded P46 will be available from 21 December 2009 with paper copies being made available from July 2010. The handling of these forms by employers will **not** change.

HMRC guidance and communications for 2010 will be updated to include this information.

#### **11. Next issue of these Notes**

The next edition of these Notes is scheduled to follow the Chancellor's Budget announcement in early spring 2010.

#### **12. Email notification of the publication of these Notes**

If you wish to receive an email notification, advising that the 'Notes' have been published on HMRC's website, please send details of your email address and company name to [hmrnotes@replyservice.co.uk](mailto:hmrnotes@replyservice.co.uk) stating 'subscribe' in the subject field.

Or you can write to:

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

If you no longer wish to receive email notification please send your request, including details of your company name, by email to [hmrnotes@replyservice.co.uk](mailto:hmrnotes@replyservice.co.uk) stating 'unsubscribe' in the subject field or write to the address shown above.

### **13. Contacts for enquiries**

Where helpline numbers are shown for a specific topic within the Notes please phone the number quoted for more information.

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

Email: [helpdesk@ir-efile.gov.uk](mailto:helpdesk@ir-efile.gov.uk)  
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 email address information; these should be directed to [hmrnotes@replyservice.co.uk](mailto:hmrnotes@replyservice.co.uk)

#### Other useful contacts

Software Developers requiring help and advice about the development of payroll software for online submissions should contact the Software Developer Support Team (SDST) by email at: [sdsteam@hmrc.gsi.gov.uk](mailto:sdsteam@hmrc.gsi.gov.uk) or phone **01274 534666**.

Employers requiring help and advice about general payroll matters should contact their local HM Revenue & Customs Office or phone the Employer Helpline on **0845 7 143 143**.

### Amendments to the Specification for PAYE Tax Table Routines, Version 12 (issued July 2009)

The following are the changes to the parameter values to be added to Appendix A of the Specification for PAYE Tax Table Routines, Version 12 (issued July 2009). Use the first blank column and on each blank page enter the heading "2010/2011" against "Income Tax Years" and "06/04/2010" against "Date from which effective". (These are the same as those published in July but are required to record the PBR changes where TBA was previously used)

Parameter values to be effective from 6 April 2010.

B <sub>1</sub> – Bandwidth 1	0	Unchanged	
C <sub>1</sub> – Bandwidth 1 Cumulative	0	Unchanged	
K <sub>1</sub> – Annual Tax 1 Cumulative	0	Unchanged	
B <sub>2</sub> – Bandwidth 2		Changed to	37,400
C <sub>2</sub> – Bandwidth 2 Cumulative		Changed to	37,400
K <sub>2</sub> – Annual Tax 2 Cumulative		Changed to	7,480
B <sub>3</sub> – Bandwidth 3		Changed to	112,600
C <sub>3</sub> – Bandwidth 3 Cumulative		Unchanged at	150,000
K <sub>3</sub> – Annual Tax 3 Cumulative		Changed to	52,520
R <sub>1</sub> – Rate 1	10%	Unchanged	
R <sub>2</sub> – Rate 2	20%	Unchanged	
R <sub>3</sub> – Rate 3	40%	Unchanged	
R <sub>4</sub> – Rate 4	50%	Unchanged	
G – Gpointer	2		
M – Maxrate	50.00%		

Please complete the "Incorporation of Amendments" sheet at the front of the booklet showing that the amendments in the September 2009 edition of the Notes for Payroll Software Developers (Series 12, Number 2) have been made.

**Test Data – 2010-2011, which will take effect on 6 April 2010**

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

**Cumulative Suffix Codes**

(Code 510L)

WEEK NUMBER	GROSS PAY	PAY ADJUSTMENT	TAXABLE PAY	RESULTS PER SPECIFICATION
08	2046.15	786.08	1260.07	252.00
29	3091.22	2849.54	241.68	48.20

MONTH  
NUMBER

(Code 560T)

03	2750.00	1402.26	1347.74	269.40
10	21287.75	4674.20	16613.55	3322.60

(Code K255)

05	6023.66	1066.25	7089.91	1417.80*
08	32799.98	1706.00	34505.98	8815.33*

\*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 Table changes

Following the introduction of the Additional Rate of tax new Tax Tables must be used from 6 April 2010. Income Tax rates and bandwidths are:

Rate	%	Bandwidth
Basic Rate	20%	£1 to £37,400
Higher Rate	40%	£37,401 to £150,000
Additional Rate	50%	£150,001 and above

- The threshold (starting point) for PAYE will continue to be **£125** per week (**£540** per month).
- The emergency code will continue to be **647L**.

**The P11 Calculator on the Employer CD-ROM** has been updated to include the Additional Rate of tax. If you use:

- **Payroll software** - make sure that it incorporates the changes from 6 April 2010 and if you are not sure, check with your software supplier.
- **Tax Tables** - use the new Calculator Tables (April 2010) or Taxable Pay Tables (April 2010) and continue to use Tax Tables A (1993), which have not been changed.

## Get ready for the new tax year starting on 6 April

For each employee you will need to:

- prepare a form P11 *Deductions Working Sheet* (or equivalent record) who will be working for you on 6 April
- identify the correct tax code to use in the new tax year
- enter the correct tax code in box L of the P11 (or equivalent record).

Follow the same steps if you use payroll software.

When we send a new tax code for any of your employees, you will receive either:

- an Internet notification of coding if you are registered to use our PAYE Online - Internet service. (To view your online notices select the 'tax code notices' link from your PAYE Online service page)
- an Electronic Data Interchange notice of coding, or
- a paper form P9(T) *Notice to employer of employee's tax code*.

Please keep this notice with any new tax codes until you are ready to set up your 2010-11 payroll. We will not send a new tax code for every employee.

### What to do if you do not receive a new tax code from us

If we have not sent you tax codes for the new tax year and you were expecting them, please contact your HMRC office for duplicates.

## What you need to do before 6 April 2010

### Employees without a new tax code

Carry forward the authorised tax code from the 2009-10 form P11 to the 2010-11 form P11 (or equivalent record), **but** if you have received a 2009-10 tax code on a form P6 too late to use in 2009-10 carry forward this code instead.

Do not copy or carry over any 'week 1' or 'month 1' markings.

Tax codes ending in V are no longer used. Please contact your HMRC office immediately if you have any tax code ending in V.

The P11s (or equivalent records) for these employees are now ready for the new tax year.

### Employees with a new tax code

Keep and use the form P9(T) or other tax code notification with the most recent date for each employee. Please:

- scrap any P9(T) or other tax code notification for the same employee with an earlier date
- copy the tax code from the form P9(T) or other tax code notification onto the P11
- update any tax codes where you have received a P9(T) or other tax code notification after you have set up your forms P11.

The P11s (or equivalent records) for these employees are now ready for the new tax year.

Please turn over

## Employee leaving

You do not need to change the tax code for an employee who leaves before 6 April, even if you will be paying the employee after 6 April. Just use the old tax code.

## New employees

If an employee starts between 6 April and 24 May, and gives you a P45, follow the instructions on page 2 of the Helpbook E12(2010) *PAYE and NICs rates and limits for 2010-11*.

The Helpbook E12(2010) *PAYE and NICs rates and limits for 2010-11* is available on the Employer CD-ROM, and can also be obtained from the Employer Orderline. Go to [www.hmrc.gov.uk/paye/forms-publications.htm](http://www.hmrc.gov.uk/paye/forms-publications.htm)

## P11 Calculator on the Employer CD-ROM

If you use the P11 Calculator on the Employer CD-ROM you will need to follow the 'Complete End of Year' actions for the 2009-10 P11 Calculator. When opening the 2010-11 P11 Calculator use:

- any new tax code we have issued (if you have received more than one, use the one with the most recent date), or
- if no new tax code has been received, continue to use the tax code you used in 2009-10.

## Helplines

If you have any problems setting up your payroll please phone one of the Employer Helplines below:

New and inexperienced employers	<b>0845 60 70 143</b>
More experienced employers	<b>08457 143 143</b>
Employers with hearing difficulties please use textphone on	<b>0845 602 1380</b>

## Payroll software users

If you program your own software you can find the technical details for 2010-11 in the December 2009 issue of our Notes for Payroll Software Developers.

These Notes are available on our website. Go to [www.hmrc.gov.uk/comp](http://www.hmrc.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 [hmrcnotes@replyservice.co.uk](mailto:hmrcnotes@replyservice.co.uk)

or you can write to:

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

## ANNEX D

### Class 1 contribution rates for Not Contracted-out and Contracted-out Schemes – 2010-11

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

Earnings Bands	Employee's contribution: Category letters				Employer's contribution: Category letters
	A	B	C	J	A, B, C & J
Below £97.00 weekly, Below £421.00 monthly, Below £5,044.00 yearly	Nil	Nil	Nil	Nil	Nil
£97.00 to £110.00 weekly, or £421.00 to £476.00 monthly, or £5,044.00 to £5,715.00 yearly	0%	0%	Nil	0%	0%
£110.01 to £770.00 weekly, or £476.01 to £3,337.00 monthly, or £5,715.01 to £40,040.00 yearly	11% on earnings above the ET	4.85% on earnings above the ET	Nil	1% on earnings above the ET	12.8% on earnings above the ET
£770.01 to £844.00 weekly, or £3,337.01 to £3,656.00 monthly, or £40,040.01 to £43,875.00 yearly	11% on earnings above the ET	4.85% on earnings above the ET	Nil	1% on earnings above the ET	12.8% on earnings above the ET
Over £844.00 weekly, or over £3,656.00 monthly, or over £43,875.00 yearly	11% on earnings above the ET, up to and including the UEL, then 1% on all earnings above the UEL	4.85% on earnings above the ET, up to and including the UEL, then 1% on all earnings above the UEL	Nil	1% on all earnings above the ET	12.8% on all earnings above the ET

Weekly LEL = £97, ET = £110, UAP = £770, UEL = £844

Employer's rates for mariners should be  
reduced by 0.5%

## ANNEX E

### Class 1 contribution rates for Contracted-out Salary Related Schemes (COSR) – 2010-11

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

Earnings Bands	Employee's contribution: Category letters			Employer's contribution: Category letters	Employee's NIC Rebate on earnings above the LEL, up to & including the ET	Employer's NIC Rebate on earnings above the LEL, up to and including the ET
	D	E	L	D, E & L	(Applies to category letters D & L only)	
Below £97.00 weekly, Below £421.00 monthly, Below £5,044.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£97.00 to £110.00 weekly, or £421.00 to £476.00 monthly, or £5,044.00 to £5,715.00 yearly	0%	0%	0%	0%	1.6% on earnings from <b>£97.01</b> , up to and including <b>£110.00</b> (or monthly or annual equivalent)	3.7% on earnings from <b>£97.01</b> , up to and including <b>£110.00</b> (or monthly or annual equivalent)
£110.01 to £770.00 weekly, or £476.01 to £3,337.00 monthly, or £5,715.01 to £40,040.00 yearly	9.4% on earnings above the ET	4.85% on earnings above the ET	1% on earnings above the ET	9.1% on earnings above the ET		
£770.01 to £844.00 weekly, or £3,337.01 to £3,656.00 monthly, or £40,040.01 to £43,875.00 yearly	9.4% on earnings above the ET, up to and including the UAP, then 11% on earnings above the UAP	4.85% on earnings above the ET	1% on earnings above the ET	9.1% on earnings above the ET, up to and including the UAP, then 12.8% on earnings above the UAP		
Over £844.00 weekly, or over £3,656.00 monthly, or over £43,875.00 yearly	9.4% on earnings above the ET, up to and including the UAP, then 11% on earnings above the UAP, up to and including the UEL, then 1% on all earnings above the UEL	4.85% on earnings above the ET, up to and including the UEL, then 1% on all earnings above the UEL	1% on all earnings above the ET	9.1% on earnings above the ET, up to and including the UAP, then 12.8% on all earnings above the UAP		

Weekly LEL = £97, ET = £110, UAP = £770, UEL = £844

Employer's rates for mariners should be reduced by 0.5%

## ANNEX F

### Class 1 contribution rates for Contracted-out Money Purchase Schemes (COMP) – 2010-11

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

Earnings Bands	Employee's contribution: Category letters			Employer's contribution: Category letters	Employee's NIC Rebate on earnings above the LEL, up to & including the ET	Employer's NIC Rebate on earnings above the LEL, up to and including the ET
	F	G	S	F, G & S	(Applies to category letters F, & S only)	
Below £97.00 weekly, Below £421.00 monthly, Below £5,044.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£97.00 to £110.00 weekly, or £421.00 to £476.00 monthly, or £5,044.00 to £5,715.00 yearly	0%	0%	0%	0%	1.6% on earnings from £97.01, up to and including £110.00 (or monthly or annual equivalent)	1.4% on earnings from £97.01, up to and including £110.00 (or monthly or annual equivalent)
£110.01 to £770.00 weekly, or £476.01 to £3,337.00 monthly, or £5,715.01 to £40,040.00 yearly	9.4% on earnings above the ET	4.85% on earnings above the ET	1% on earnings above the ET	11.4% on earnings above the ET		
£770.01 to £844.00 weekly, or £3,337.01 to £3,656.00 monthly, or £40,040.01 to £43,875.00 yearly	9.4% on earnings above the ET, up to and including the UAP, then 11% on earnings above the UAP	4.85% on earnings above the ET	1% on earnings above the ET	11.4% on earnings above the ET, up to and including the UAP, then 12.8% on earnings above the UAP		
Over £844.00 weekly, or over £3,656.00 monthly, or over £43,875.00 yearly	9.4% on earnings above the ET, up to and including the UAP, then 11% on earnings above the UAP, up to and including the UEL, then 1% on all earnings above the UEL	4.85% on earnings above the ET, up to and including the UEL, then 1% on all earnings above the UEL	1% on all earnings above the ET	11.4% on earnings above the ET, up to and including the UAP, then 12.8% on all earnings above the UAP		

Weekly LEL = £97, ET = £110, UAP = £770, UEL = £844

Employer's rates for mariners should be reduced by 0.5%