

Notes for Payroll Software Developers**SERIES 12 – NUMBER 5****June 2010****Contents:**

- 1. Income Tax changes affecting PAYE – June 2010 Budget**
 - 1.1 Summary of announcement
 - 1.2 Specification for PAYE Tax Table Routines
- 2. National Insurance changes – June 2010 Budget**
 - 2.1 Class 1 National Insurance contributions (NICs)
 - 2.2 NI Guidance for Software Developers, Effective for the tax year 2011-12
 - 2.3 Regional Employer National Insurance contributions (NICs) holiday for new businesses
- 3. Online Filing: end of year / starter and leaver forms**
 - 3.1 Employer Annual Return (P35 and P14s) for 2009-10
 - 3.2 No Employer Annual Return (P35 and P14s) for 2009-10
 - 3.3 Reduction in paper Employer Annual Return (P35 and P14s) is an overwhelming success
 - 3.4 Electronic P60s
 - 3.5 Substitute P60s
 - 3.6 Duplicate P60s
 - 3.7 Extra Statutory Concession (ESC) B46 comes to an end on 31 March 2011
 - 3.8 Penalties for employers with 50 or more employees who are not filing their starter and leaver forms online
- 4. Developer Test Services**
 - 4.1 Employer End of Year return filing
 - 4.2 Data Provisioning Service (DPS) – URL change
- 5. Other Information**
 - 5.1 P46(Car)
 - 5.2 Car and fuel benefits
 - 5.3 Electronic PAYE submissions
 - 5.4 Changes to National Minimum Wage (NMW) from October 2010
 - 5.5 Abolition of Contracted Out Defined Contribution Schemes
 - 5.6 Standardised Child Maintenance Deduction of Earnings Order (DEO) Schedule report
- 6. Next issue of these Notes**
- 7. Email notification of the publication of these Notes**
- 8. Contacts for enquiries**

1. Income Tax changes affecting PAYE – June 2010 Budget

1.1 Summary of announcement

In his Budget statement on 22 June 2010, the Chancellor of the Exchequer did not announce any changes to the current 2010-11 Income Tax allowances, Income Tax rates and Income Tax bandwidths.

For the 2011-12 tax year the Personal Allowance will be increased by £1,000 to £7,475, however the basic rate limit will be reduced so that higher rate taxpayers do not benefit from the increase in the Personal Allowance. The exact figure will be confirmed when September's Retail Prices Index (RPI) is known.

We gave details of the rates and allowances for the 2010-11 tax year in the April 2010 edition of the Notes for Payroll Software Developers (Series 12, Number 4).

1.2 Specification for PAYE Tax Table Routines

No changes are required to any of the 2010-11 parameter values in the Specification for PAYE Tax Table Routines as detailed in **Annex A** of the December 2009 edition of the Notes for Payroll Software Developers (Series 12, Number 3). Changes to the parameter values, to include the change in Personal Allowance and basic rate limits from April 2011, will be included in a future edition of these Notes.

2. National Insurance changes – June 2010 Budget

2.1 Class 1 National Insurance contributions (NICs)

In his Budget statement on 22 June 2010, the Chancellor of the Exchequer announced the following changes for the 2011-12 tax year:

- The alignment of the Upper Earnings Limit (UEL) with the higher rate threshold (the total of the Personal Allowance for those aged under 65 and the basic rate limit) will be maintained by reducing the UEL.
- The Secondary Threshold (ST), which is the point at which employers start to pay Class 1 NICs, will be increased by an extra £21 per week above indexation. This is in addition to the increase in the Primary (employee) Threshold (PT) already planned for 2011-12 and the 1% rise in Class 1 NICs percentage rates, as detailed in the December 2009 edition of the Notes for Payroll Software Developers (Series 12, Number 3).
- The Primary and Secondary Thresholds for 2011-12 will be announced in the autumn. In the meantime, developers should ensure that software can accommodate these thresholds being either higher or lower than each other.

Details of the 2011-12 National Insurance earnings limits, thresholds and rates will be included in a future edition of these Notes.

2.2 NI Guidance for Software Developers, Effective for the tax year 2011-12

The revised formulae, together with worked examples showing how the NICs changes from 2011-12 will affect the method of calculating Class 1 NICs, was included as appendices to the April 2010 edition of the Notes for Payroll Software Developers (Series 12, Number 4). Whilst the exact limits and thresholds for 2011-12 cannot be confirmed until the autumn, these are not expected to affect the basic formulae already provided in the April edition of these Notes. A revised version of the NI Guidance for Software

Developers, together with its supplement, will be issued once the 2011-12 limits and thresholds are known.

2.3 Regional Employer National Insurance contributions (NICs) holiday for new businesses

In his Budget statement on 22 June 2010, the Chancellor of the Exchequer stated that the government will shortly announce details of a scheme to help new businesses in targeted areas of the UK.

The countries and regions which will benefit will be Scotland, Wales, Northern Ireland, the North East, North West, South West, East Midlands, West Midlands and Yorkshire and the Humber. During a three year qualifying period, new businesses which start up in these areas will get a substantial reduction in their employer NICs.

Within the qualifying period, these employers will not have to pay the first £5,000 of Class 1 employer NICs due in the first twelve months of employment. This will apply for each of the first ten employees hired in the first year of business.

Subject to meeting the necessary legal requirements, the scheme is intended to start no later than September 2010. Any new business set up from 22 June 2010, which meets the criteria set out in the forthcoming announcement, will benefit from the scheme. Further information will be published in due course. In the meantime, some frequently asked questions are available on our website at www.hmrc.gov.uk/budget2010/employers.htm#1

3. Online Filing: end of year / starter and leaver forms

3.1 Employer Annual Return (P35 and P14s) for 2009-10

Employer Annual Returns (P35 and P14s) for 2009-10 were due by 19 May 2010. We plan to send out penalty notices in September 2010 to all employers who did not file their returns with HMRC by the deadline date.

Employers who have not yet sent in their 2009-10 Employer Annual Returns (P35 and P14s) must submit them now so that we can update their employee records.

3.2 No Employer Annual Return (P35 and P14s) for 2009-10

If employers have not sent a return because no return is due, we still need to hear from them so that we can update our records and prevent unnecessary reminders and penalty notices being issued.

There are two new structured email forms to help you do this; one for employers and one for agents to make a declaration on behalf of their clients (up to a maximum of eight employers). On receipt of a completed form we will send you an acknowledgement followed by a further email when we have processed the form.

Many employers and agents have widely used this facility since April 2010 to notify us that no annual return is due.

Further information and the new forms can be found on our website at www.hmrc.gov.uk/pay/payroll/year-end/annual-return.htm#4

3.3 Reduction in paper Employer Annual Return (P35 and P14s) is an overwhelming success

Employers with 50 or more employees have been required to file their Employer Annual Return (P35 and P14s) online for some years but 2009-10 was the first year virtually all employers had to do this. There were very few exceptions.

We asked employers to consider whether they needed to order paper 2009-10 forms P14 due to their online filing obligation. There was a very positive response from them and orders for paper forms P14 reduced by 92% - from over 15.5 million (2008-09) down to just over 1 million (2009-10).

We are very grateful for your help in promoting the online filing message in your publications and on products; thank you.

3.4 Electronic P60s

Changes have been made to the PAYE regulations which will allow you to provide P60 information to your employees electronically. The changes come into effect for the tax year 2010-11 onwards. This means that the first P60 that you can provide electronically will be for the tax year ending 5 April 2011. The deadline for providing the P60 information to your employees has not changed, and remains before 1 June following the end of the tax year.

The provision of an electronic P60 must be agreed with your employees and ideally accessible from a secure website or area. If this is not possible the electronic P60 can be issued to an email address that has been provided by your employee. If your employee does not have access to a computer you must continue to provide a paper version of the P60. Further guidance for employers will be available on the HMRC website in the autumn.

The form P60 and the information it contains is not changing. The electronic means by which the P60 information is delivered will not require approval from HMRC. However, the proposed content will require HMRC approval as the paper output arising from that electronic information will be a substitute form P60 and will be subject to the same approval procedure used for substitute paper forms P60. Software developers and employers will therefore be required to send two drafts or proofs of the proposed form for approval to the following address:

HM Revenue & Customs
Customer Information Team
Room 54
1st Floor New Wing
Somerset House
Strand
London
WC2R 1LB

3.5 Substitute P60s

Any substitute P60s which arise from the output of an electronic P60 must carry the text **'this is a printed copy of an eP60'**. This must be at the top of the form next to the form title "P60 End of Year Certificate" and in an acceptable font size, no smaller than point 10.

3.6 Duplicate P60s

Duplicate P60s for the tax year 2010-11 onwards, irrespective of whether they are provided on paper or electronically, will no longer need to carry a 'duplicate' annotation.

Payroll software will not be required to take any additional or different action in respect of subsequent, or multiple prints, of the electronic P60 information. Each printout will be a copy P60 in its own right.

3.7 Extra Statutory Concession (ESC) B46 comes to an end on 31 March 2011

ESC B46 was introduced in 1995. Under this concession, we did not issue penalties for late filing of Company tax returns or employers' and contractors' (Construction Industry Scheme) end of year returns, provided they are received by the last working day within seven days of the filing date. The ESC ensured that penalties would not be charged when customers had taken all reasonable steps to file the returns on time, but were prevented from doing so, for example due to postal delays.

From 1 April 2011, Company tax returns for accounting periods ending after 31 March 2010 must be filed online. All Employer Annual Returns (P35 and P14s) must already be filed online, and we will no longer accept paper returns from the majority of customers. Contractors are no longer required to file end of year Construction Industry Scheme returns. ESC B46 has therefore become redundant because the possible causes of late filing it was intended to address can no longer arise.

Therefore, ESC B46 will come to an end on 31 March 2011. Customers submitting Company tax returns and Employer Annual Returns (P35 and P14s) after this date must make sure the returns are submitted to us by the required dates. The required date for Employer Annual Returns (P35 and P14s) is the 19 May following the end of the tax year.

Any customers filing a return late will continue to be able to appeal against the penalty, if they believe they had a reasonable excuse for the delay in filing. We will consider every case on its own merits. Customers can also appeal against the penalty to the Tribunal.

Further information and a copy of the Revenue and Customs Brief 24/10 can be found on our website at www.hmrc.gov.uk/briefs/company-tax/brief2410.htm

3.8 Penalties for employers with 50 or more employees who are not filing their starter and leaver forms online

We told you in the December 2009 edition of the Notes for Payroll Software Developers (Series 12, Number 3, para 6.1) that we would send penalty warning letters to employers who have 50 or more employees and who were not sending their starter and leaver forms (P45, P46 and variations of them) online, and that we would issue the first non e-filing penalties from April 2010.

As a result of the penalty warning letters, we have received considerable feedback from employers and are now looking at the issues they raised with us. To allow sufficient time for this, we will not be issuing any non e-filing penalty notices for the time being.

However, employers with 50 or more employees must continue to file their employee starter and leaver forms online while we consider their feedback and they should only send one starter or leaver form for each period of employment.

We will tell you when we intend to start issuing penalty notices.

4. Developer Test Services

4.1 Employer End of Year return filing

In October 2010 the HMRC end of year validation and processing of the online P14, P35 and P38A messages is moving to a new platform. The messages are currently processed on the ERIC platform and this will move to the ChRIS platform.

The message validation, as detailed in the Quality Standard for each tax year, will be **strictly** applied within ChRIS.

The Quality Standard and Business Validation Rules document and the technical specifications can be found at www.hmrc.gov.uk/ebu/softw_index.htm

4.2 Data Provisioning Service (DPS) – URL change

The DPS web service is changing domains from ws.hmrc.gov.uk to dps.ws.hmrc.gov.uk.

From October 2010 the live URL's will change from:-

<https://ws.hmrc.gov.uk/dpsauthentication/service> to

<https://dps.ws.hmrc.gov.uk/dpsauthentication/service>

<https://ws.hmrc.gov.uk/dps/service> to <https://dps.ws.hmrc.gov.uk/dps/service>

HMRC will continue to support the ws.hmrc.gov.uk domain for a maximum period of twelve months. Software should be updated with the new domain no later than October 2011.

5. Other Information

5.1 P46(Car)

We told you in the May 2009 edition of the Notes for Payroll Software Developers that from April 2009 employers no longer had to submit P46(Car) replacement changes, and that from April 2010 we would no longer accept P46(Car) replacement changes.

We have listened carefully to customers about the impact on employers and employees. We have been working with a small group to determine how we might resolve the issue, so that employers are able to send us replacement car details in-year. The outcome of these considerations is that although we cannot make the changes during the course of the current year, we will accept P46(Car) replacement changes electronically from April 2011.

5.2 Car and fuel benefits

The Employment Income Manual (EIM) guidance on cars and fuel has been restructured (and so renumbered). Although there are no substantive changes, any links that software developers may have to the EIM guidance on those subjects are now out of date. The new structure is:

- EIM23000 – main subject page; structure of car benefit charge which can be found on our website at www.hmrc.gov.uk/manuals/eimanual/EIM23000.htm
- EIM24000 – calculation of the benefit charge (cash equivalent) which can be found on our website at www.hmrc.gov.uk/manuals/eimanual/EIM24000.htm
- EIM25500 - car fuel benefit which can be found on our website at www.hmrc.gov.uk/manuals/eimanual/EIM25500.htm

A conversion chart from the old to the new numbers can be found on our website at www.hmrc.gov.uk/manuals/eimanual/EIM23005.htm

5.3 Electronic PAYE submissions

We would like to remind you that correct and valid data is critical to the effective operation of PAYE, and has a wider impact on the service to employees. Could you please take all reasonable steps to ensure that all employee personal information, including the address and country identifier, is complete and correct and that the indicators used (for example, the deceased indicator) are always appropriate. When using the PAYE online service, please ensure that fields are not populated with null or invalid data, which will create system errors and unnecessary re-work of mismatched items. Because we share data with other parts of HMRC and with the Department of Work and Pensions (DWP) employees can be adversely affected by erroneous data that cancels benefit entitlement or triggers some other action (for example, as a consequence of a mistaken belief that an employee has changed address).

5.4 Changes to National Minimum Wage (NMW) from October 2010

A new NMW rate will be introduced for apprentices for pay reference periods starting on or after 1 October 2010. Full details will be published in the Employment and skills/Pay and pensions/National minimum wage section of the Business Link website at www.businesslink.gov.uk

From the same date, 21 year olds will become entitled to the main rate of national minimum wage. Currently, only workers aged 22 and over are entitled to the main rate.

For pay reference periods starting on or after 1 October 2010 the new rates will be:

	£ per hour
Main rate for workers aged 21 and over	5.93
Rate for workers aged 18-20	4.92
Rate for workers aged under 18 and above compulsory school age (16-17 year old rate)	3.64
Rate for apprentices who are either under 19 or over 19 and in the first year of their apprenticeship	2.50

For pay reference periods starting on or after 1 October 2010 the new accommodation offset rates will be:

	£
Accommodation offset – daily rate	4.61
Accommodation offset – weekly maximum	32.27

5.5 Abolition of Contracted Out Defined Contribution Schemes

From 6 April 2012 individuals with an Appropriate Personal Pension (APP), an APP Stakeholder Pension or members of an employer's Contracted Out Money Purchase (COMP) occupational pension scheme will no longer be contracted out of the additional State Pension scheme. These contracted out schemes are known collectively as defined contribution schemes.

Their abolition was provided for in the Pensions Act 2007 and the Pensions Act 2008. Only those employers who operate COMP schemes will be affected by this change. Contracted Out Salary Related (COSR) schemes will remain unchanged. HMRC records will be updated to show employer's COMP and individual personal pension scheme memberships as closed from 5 April 2012.

Changes for Individuals -

The contracted out pension rights that scheme members have accrued up to the abolition date will still need to be used to provide benefits for the period that they were contracted out. From 6 April 2012 scheme members will be brought back into the State Pension scheme and, depending upon the level of their earnings will build up additional State Pension entitlement. Members contracted out on a COSR basis are not affected by this change.

Changes for Employers -

For those employers who operate COMP schemes, 2011-12 will be the last tax year that Contracted Out Contribution category letters F, G, H, K, V and S should be used.

From the 2012-13 tax year these category letters and the National Insurance (NI) rates they represent will no longer be processed and should not be entered on either form P11 (Deduction Working Sheet or equivalent record) or form P14 (End of Year Summary). The relevant 'not contracted' out rate and the corresponding NI category letters should be used. Where employees join a COSR scheme the appropriate COSR category letters should be used.

As part of the abolition process HMRC will also be removing the Scheme Contracted Out Number (SCON) field from the P14 end of year return.

Further updates will be given in due course. Further information on Additional State Pension and Contracted Out Pensions is also available on the Department of Work and Pensions website at

www.dwp.gov.uk/docs/emp-contracting-out-factsheet.pdf

5.6 Standardised Child Maintenance Deduction of Earnings Order (DEO) Schedule report

The Child Maintenance and Enforcement Commission plan to introduce a new Child Maintenance Service in 2011. As a result, they have asked that software developers standardise the report formats for their software.

Standardisation of this report format will enable the Commission to upload these reports via a new employer self-service website (due for release at the same time), using both XML and CSV formats, automating the processing of a significant percentage of these submissions. This automation will benefit both employers and the Commission because a reduced level of outbound contact will be required to clarify the information received.

Following the introduction of this report format you will see a number of key differences from the current employer deduction from earning order (DEO) schedule reporting, namely:

- an 'Employer Reference Number' which links the employer back to an employer record
- an 'Employee Child Maintenance Reference Number' which links the individual DEO back to the non-resident parents' record
- an optional 'Reason' code, from a pre-defined range, when payments made vary from the normal deduction rate.

The Commission has asked that software developers implement this new report format in time for their releases in early 2012, although if a developer wishes to implement this earlier, then the Child Support Agency is happy to accept the new report format.

The report format will be available from 5 July 2010 on the Child Support Agency website at www.csa.gov.uk/payrollsoftware

If you require any additional information or have any questions please send an email to Andy Cooper at Andrew.cooper3@childmaintenance.gsi.gov.uk

6. Next issue of these Notes

The next edition of these Notes is scheduled for September 2010.

7. 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 your request, giving details of your company name, by email to hmrnotes@replyservice.co.uk stating 'subscribe' in the subject field.

If you no longer wish to receive email notification please send your request, giving details of your company name, by email to hmrnotes@replyservice.co.uk stating 'unsubscribe' in the subject field.

8. 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
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

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 or phone **01274 539666**.

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**.