



Notes for Payroll Software Developers

SERIES 12 – NUMBER 8

March 2011

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1. Income Tax changes affecting PAYE – March 2011 Budget

1.1 Summary of announcement

In his Budget statement on 23 March 2011, the Exchequer Secretary to the Treasury did not announce any changes to the 2011-12 Income Tax allowances, Income Tax rates and Income Tax bandwidths previously announced in his written ministerial statement on 2 December 2010.

For 2012-13, the Personal Allowance for those aged under 65 will be £8,105 and the basic rate limit will be £34,370. Increases to other Income Tax Allowances will be based on the Retail Prices Index (RPI) ("indexation"). The actual amounts of the other allowances will be published towards the end of 2011.

A reminder that the details for the 2011-12 tax year are as follows:

Personal Allowance for people aged under 65 £7,475
Personal Allowance for people aged 65-74 £9,940
Personal Allowance for people aged 75 and over £10,090
Married Couple's Allowance (born before 6/4/1935) aged 75 and over £7,295

These age related allowances are subject to an income limit of £24,000.

Minimum amount of Married Couple's Allowance £2,800
Blind Person's Allowance £1,980

The Income Tax rates and Income Tax bandwidths are:

Basic Rate 20% Bandwidth £1 to £35,000
Higher Rate 40% Bandwidth £35,001 to £150,000
Additional Rate 50% Bandwidth £150,001 and above

The April 2011 versions of Tax Tables and payroll software should be used from 6 April 2011.

1.2 Specification for PAYE Tax Table Routines

No changes are required to any of the 2011-12 parameter values in the Specification for PAYE Tax Table Routines as detailed in **Annex A** of the December 2010 edition of the Notes for Payroll Software Developers (Series 12, Number 7) – see <http://www.hmrc.gov.uk/comp/notes12-7.pdf>

2. National Insurance changes – March 2011 Budget

2.1 Class 1 National Insurance contributions (NICs)

In his Budget statement on 23 March 2011, the Exchequer Secretary to the Treasury confirmed the 2011-12 Class 1 National Insurance contribution limits previously announced following his Autumn Statement on 2 December 2010. This also confirmed that the employer's secondary threshold will be set at a lower level than the employee's primary threshold.

A reminder that the details for the 2011-12 tax year are as follows:

Lower Earnings Limit	£102 a week
Secondary Threshold	£136 a week
Primary Threshold	£139 a week

Upper Accruals Point	£770 a week
Upper Earnings Limit	£817 a week

Details of the National Insurance rates and limits can be found on our website at <http://www.hmrc.gov.uk/paye/rates-thresholds.htm>

2.2 Class 1 National Insurance Contributions (NICs) – Changes for 2012-13

National Insurance contributions thresholds

The Exchequer Secretary to the Treasury announced that from 2012-13 the basis for indexation of the following National Insurance contribution thresholds will be in line with the Consumer Price Index (CPI).

- The Class 1 Lower Earnings Limit - which is the level of earnings at which employees start to accrue contributory benefit entitlements;
- The Class 1 Primary Threshold - which is the level of earnings at which employees begin to pay Class 1 NICs.

The Secondary Threshold for Class 1 employer NICs will continue to rise by the equivalent of the Retail Price Index for the course of this Parliament. As a result developers should ensure that software can also accommodate the possibility of the Secondary Threshold being higher than the Primary Threshold in future years. This would require a change to the current version of the NI Guidance for Software Developers and we will publish further information about this on the software developer pages of our website in due course.

The annual level of the Class 1 Upper Earnings Limit will continue to be aligned with the income tax higher rate threshold (the sum of the personal allowance and basic rate limit).

3. Announcements for Car Fuel Benefit Charge and Approved Mileage Allowance Payments (AMAPs) – March 2011 Budget

In the budget statement on 23 March 2011 it was announced that the car fuel benefit multiplier was to increase from £18,000 to £18,800 with effect from 6 April 2011.

It was also announced that the rate of Approved Mileage Allowance Payment (AMAPs) paid to an employee who uses their own car for business purposes will be increased from 40p to 45p for the first 10,000 business miles. This change will take effect from 6 April 2011.

AMAPs are paid to employees who use their own cars for business mileage. If they claim reimbursement from their employers through AMAPs it is not regarded as a taxable benefit. Where individual employees are paid less than those amounts by their employer, they can claim Mileage Allowance Relief (MAR) for the residual amount.

AMAPs can also be used by volunteers who use their cars as part of their volunteering duties. From 6 April 2011 volunteers who carry a passenger as part of their volunteering duties can also claim 5p per mile passenger rate without it being regarded as a taxable sum.

4. Regional Employer National Insurance Contributions (NICs) Holiday for New Businesses

We told you in the December 2010 Edition of Notes for Payroll Software Developers (Series 12, Number 7, para 6.5) that the Bill containing the NICs holiday legislation had

been published and was going through its Parliamentary stages. We can now confirm that the NICs holiday legislation became law on 22 March 2011.

Any new business wishing to take advantage of the NICs holiday must – before they withhold any NICs – submit an application for the scheme. Applications can now be submitted by agents on behalf of their clients for whom a valid 64-8 is held by HMRC. Those employers who have successfully applied for the scheme and have employed someone during the 2010-11 tax year should by now have received an Employer NICs Holiday End of Year Return form. This needs to be completed providing details of the NICs holiday claimed.

We recommend that the NICs holiday return form is completed at the same time as the Employer Annual Return (P35 & P14s) to avoid discrepancies. Whilst the P35 and P14s will need to be submitted online, the NICs holiday return and supporting forms E89 (or equivalent) must be returned in the envelope provided in time to reach HMRC by 19 May.

Detailed guidance to help employers complete their NICs holiday return is now available at www.businesslink.gov.uk/nicsholiday

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

In the last issue, we advised that almost all employers and agents must now send their Employer Annual Return (P35 and P14s) online. Employer Annual Returns must reach us by 19 May 2011. There will be no period of grace beyond that date. For further information, please see 7 below.

Once the Employer Annual Return has been completed, it should meet HMRC's quality standard validation specifications to ensure it is processed successfully. Up to date information on business validation rules is available from www.hmrc.gov.uk/e bu/qual_stand.htm

Employers and agents can take steps to avoid errors - for information on avoiding and correcting errors go to www.hmrc.gov.uk/pay e/payroll/year-end/errors.htm

Employers or agents who have not previously sent returns online must act now by registering for HMRC's online service and allowing sufficient time to activate the service. More information on filing online and registration can be found at www.businesslink.gov.uk/usingpayeonline

We recommend that employers file their return online as soon as it is ready. Employers shouldn't wait until the last minute to send in returns but should allow sufficient time in case there is a need to resubmit before the statutory deadline.

Sending returns on paper may incur a penalty up to a maximum £3000. More information is available from www.hmrc.gov.uk/pay e/problems-inspections/wrong-filing-method.htm

Remember, to avoid penalties, employers and agents should file their Employer Annual return (P35 and P14s) online and file as soon as possible before 19 May 2011.

6. *Amended Employer Annual Returns (P35 and P14s)*

To send in further information after submitting an original return (as a complete return or in parts), it is necessary to submit an additional return. Some software will not support the submission of an additional return. If this is the case, employers can use HMRC's Online Return and Forms - PAYE service at <http://www.hmrc.gov.uk/pay e/payroll/year-end/annual-return.htm>

This software should not be used for submissions with more than 50 forms P14. Nor should it be used to submit a P35 without forms P14. If either of these situations arise employers should contact the Online Service Helpdesk at http://search2.hmrc.gov.uk/kbroker/hmrc/contactus/search.ladv?reaction=view&fl0=_dsid%3A&sm=0&ha=34&as=1&sf=&sp_scope=hmrc&sc=hmrc&nh=10&sr=0&cs=ISO-8859-1&tx1=&tx0=49632

7. Extra Statutory Concession B46 (ESC B46) ended on 31 March 2011

In the last issue, we explained that the extra period of grace permitted by ESC B46 would end on 31 March 2011. From that date, employers filing their 2010-11 and subsequent years' returns must ensure they are filed by the statutory deadline on 19 May. Employers should not wait until the last minute to send a return as there will be no extension of the deadline. For further information on ESC B46 and to see Revenue and Customs Brief 24/10 go to www.hmrc.gov.uk/briefs/company-tax/brief2410.htm

8. No Employer Annual Return (P35 and P14s) to make for 2010-11

Employers who did not have to complete a P11 deductions working sheet during the 2010-11 tax year are not required to send us an Employer Annual Return but must inform us that they have no return to make so that we can prevent unnecessary reminders and penalty notices being issued.

Last year we introduced two structured email forms, one for employers and one for agents, to tell HMRC that they had no return to make for 2009-10. This facility will continue for 2010-11. Two new structured forms are now available on the website to help you do this.

Using these forms is quicker, cheaper and easier than writing or calling. We will also confirm by email that we have received your notification and email you to tell you when we have acted on it.

Last year we could not act on a significant number of forms because we could not link the reference number input onto the form with an employer record. Employers should ensure the reference number entered on the form is correct. This reference number is on the front of the yellow payslip booklet (P30BC) and in the electronic PAYE reminders we send each year.

The form must only be used to tell us there is no return to make for 2010-11. For earlier years, employers can write to us or call the employer helpline. To use the forms and for further information go to www.businesslink.gov.uk/noemployerreturn

9. PAYE starter and leaver forms for employers with fewer than 50 employees - reminder

From 6 April 2011 almost all employers must send their employee PAYE starter and leaver forms online. There are very few exceptions.

The starter and leaver forms that must be filed online are:

- **P45 (Part 1)** details of employee leaving
- **P45 (Part 3)** new employee details
- **P46** details of employees starting work who do not have a P45
- **P46 (Pen)** new pension details
- **P46 (Expat)** details of those seconded to work either wholly or partly in the UK whilst remaining employed by an overseas employer.

Employers who are required to send their starter and leaver forms online should send only one starter or leaver form for each period of employment, in particular they must not send a paper form if they have already filed the form online, or plan to.

Penalties being issued to employers with 50 or more employees failing to file starter and leaver forms online - update

Employers who have 50 or more employees have been required to file their employees' PAYE starter and leaver forms online since 6 April 2009, and although the majority of starter and leaver forms are now sent online, we are still receiving a considerable number of paper forms.

We will begin to issue penalties to employers with 50 or more employees who have not filed their starter and leaver forms online in the period from 6 January 2011 to 5 April 2011. The first penalty notices will be issued on 26 April 2011.

The penalty will range from £100 to £3000 depending on the number of forms that should have been filed online.

When marketing software upgrades and products, we should be grateful if software developers would take the opportunity to alert their customers about these changes, ask them to consider their internal processes and remind them to send their starter and leaver forms online, not on paper.

More information about this can be found on our website at www.hmrc.gov.uk/payee/employees/start-leave/notify-online.htm

10. PAYE starter and leaver forms- correct data

We would like to remind you that correct and valid data is critical to the effective operation of PAYE, and this has a wider impact on the service to employees. Could employers please take all reasonable steps to ensure that all employee personal information, but particularly the employee's date of birth, is correct?

We are aware that some starter and leaver forms are being submitted using the previously accepted default date of 01/01/1901. **Please note a default date is no longer acceptable.** This will create system errors as the data does not match the employee's real date of birth. It can result in an employee being automatically allocated the Personal Allowances for people aged 75 and over which may subsequently result in an underpayment of tax for the employee at the end of the year.

11. Reporting Expenses and Benefits without Errors

There were two common errors made by employers and their agents which affected 2009-10 P11D processing and employees' tax codes –

- **Fuel benefit omission:** Omitting to complete this field where this applied meant amended P11Ds had to be completed and submitted.
- **Incorrect completion of 'dates car available':** Completing the boxes for "from" and "to" dates showing the whole tax year - for example 6/4/2009 to 5/4/2010, to indicate that the car was available throughout that period. If the car was available in the previous tax year then the 'from' box should not be completed. Similarly, if the car will be available in the next tax year, the 'to' box should not be completed so that the tax code is carried into the next year.

Both of these errors mean that HMRC systems automatically update employees' tax codes based on incorrect information.

Payrolling expenses and benefits: P11D recording

Some employers currently payroll expenses and benefits, typically under HMRC agreement. These Employers still have to send in forms P11D, or equivalent, if they have entered into an arrangement to payroll benefits in kind and expenses. Employers may make themselves liable to penalties if they fail to do so.

We should be grateful if software developers would take the opportunity when contacting customers to remind them that to avoid incorrect processing, it is essential that HMRC are notified in advance of the online submission of the P11Ds that expenses and benefits have been payrolled in that year.

Wholly payrolled benefits

This applies to employers who payroll all the benefits paid to their employees.

- One week prior to submission of the P11Ds, they should notify HMRC that all benefits for the year have been payrolled.
- They should complete the 'amount made good or from which tax deducted' box where this box is available for the relevant benefit.
- P11D information may be submitted online or in paper format but all paper P11D and P11D lists must be clearly marked 'PAYROLLED'.
- They should complete P11D(b) as normal.

Partially payrolled benefits

This applies to employers who payroll some benefits for some or all of their employees.

- They should complete the 'amount made good or from which tax deducted' box where this box is available for the relevant benefit.
- They may submit online or in paper format:-
 - P11D information for non-payrolled benefits.
 - P11D information for payrolled benefits where they have a corresponding entry for 'amount made good or from which tax deducted'
- P11D information for other payrolled benefits must be submitted separately in paper format and these separate P11Ds and lists must be clearly marked 'PAYROLLED'.
- They should complete P11D(b) as normal.

12. Workplace Pension Reform

All Software Developers will need to take action to support employers in complying with new legal duties under the workplace pension reforms, which come into effect from October 2012.

There are three key elements to the workplace pension reforms:

1. New legal duties that require employers **to automatically enrol eligible workers**, who meet age and earnings criteria, **into a qualifying pension scheme**. The new requirements will be staged in over four years depending on the size of the employer.
2. **The Pensions Regulator** is responsible for ensuring employers comply with their new duties.
3. A new workplace pension scheme called **NEST (National Employment Savings Trust)**. NEST will be one of the qualifying schemes an employer can choose and will be open to any employer who wants to use it.

Further to the update provided in the December edition of Notes for Payroll Software Developers, the Pensions Regulator is preparing to issue a Guide to Workplace Pension Reforms for Software Developers on its website in mid-April. Software Developers on HMRC's developer distribution list will receive an email alert providing a link to the Guide at the time of publication.

The Guide to Workplace Pension Reforms is intended to make it as easy as possible for Software Developers to update their products in order to support their employer customers in complying with the new employer pension duties.

It is crucial that Software Developers with products being used (even on a small-scale) by the largest employers (i.e. those with around 5000 workers or more) take immediate action on the Guide as those employers will become subject to these new legal duties across their whole workforce within the 2012/13 financial year.

As employer compliance will be driven by the accurate assessment of eligibility for automatic enrolment in terms of earnings and age, and the timely deduction of pension contributions, the primary focus of the Guide is payroll software.

It is very likely that, beyond payroll, other areas of an employer's business will need to be changed to support compliance. Human Resources, internal communications or pensions administration functions, and the software that supports them, will all need to be considered in light of these reforms. The software Guide also includes a section on the aspects of the duties likely to be supported outside of payroll.

The Pensions Regulator urges both Software Developers and employers to work together to ensure that payroll software supports compliance with the new laws wherever possible and to ensure the need for change across all an employer's operations is fully understood.

Shortly after publication of its software Guide, the Pensions Regulator will also publish a series of detailed Plain English Guides to Workplace Pension Reform aimed at a wider audience. Software Developers might find it helpful to refer to these Guides in building a general understanding of the duties. Again Software Developers on HMRC's developer distribution list will receive an email alert providing a link to the detailed Guides as soon as they are available.

If you have any questions on the Guide to Workplace Pension Reform for Software Developers please email: pensoftware@thepensionsregulator.gov.uk.

13. Other Information

13.1 PAYE forms and guidance now online

As part of HMRC's drive to move more of its business online and reduce the cost of the services we currently provide, we will no longer routinely send employer information by post. We have replaced the Employer and Budget Packs with online guidance and all the forms and guidance you need to operate your payroll can also be accessed online. We now expect the vast majority of employers to use this route as opposed to requesting paper products. The Employer Orderline holds a limited stock of paper products and can only supply copies to those employers who are exempt from online obligations or who are unable to access the internet.

E-alerts

We recommend that you register for our free employer alert service. It only takes a few minutes to register and you will receive an email when new information becomes available online. To register go to www.businesslink.gov.uk/hmrcemployeremailalerts

13.2 National Minimum Wage - Consultation

The Government is consulting on possible changes to the national minimum wage rules on employer-provided accommodation in relation to students who work part-time for their educational institution. The consultation document, "*National Minimum Wage: Employed*

Students and the Accommodation Offset” was published on 18th January 2011 and can be viewed on the BIS website at www.bis.gov.uk/Consultations.

The consultation period lasts until 12 April 2011.

13.3 In-year forms: 2011-12 submissions

In Year Movements form P46 statement C tax code validation (BR or OT) will apply to P46 submissions made after 6 April 2011. This has been present in TPVS since February 2011. The In Year Movements RIM artefacts in the respective Technical Pack include this validation – go to http://www.hmrc.gov.uk/ebu/pay_e_techpack/inyear2011.htm.

The In Year Movements namespace that should be present in all In Year Movements internet submissions that are made from 6 April 2011 is unchanged as follows: -
<IRenvelope xmlns="http://www.govtalk.gov.uk/taxation/PAYE/MOV/09-10/1">.

14. Withdrawal of Future Notes

HMRC has been reviewing its regular external publications in the light of its future strategy and the tighter financial climate following the Government Spending Review. We have looked especially at where two or more publications effectively serve the same customer group or subject matter. As a result of this review it has been decided to discontinue Notes for Payroll Software Developers as a free-standing product with immediate effect.

This will therefore be the last publication.

We apologise for any inconvenience that this decision might cause. However readers will wish to note that in future information that would have previously been included in the Notes will be provided as follows

- to Software Developers via the Software Developers Support Team (SDST) – see <http://www.hmrc.gov.uk/softwaredevelopers/index.htm>
- to Employers via the Employer Bulletin – see http://www.hmrc.gov.uk/pay_e/employer-bulletin/index.htm

and for Budget matters for our wider audience

- through our Budget 23 March 2011 homepage – for Budget day information <http://www.hmrc.gov.uk/budget2011/index.htm>
- and through our Budget 23 March - Updates homepage for future Updates <http://www.hmrc.gov.uk/budget-updates/march2011/index.htm>

15. 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**.