

Inland Revenue Notes for Payroll Software Developers

SERIES 10 – NUMBER 1.1.

February 2000

Due to the release of the revised PAYE Tax Table Routines Specification the Inland Revenue Notes for Payroll Software Developers will now be published under Series Number 10.

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1. **Construction Industry Scheme – New Deduction Rate**

The rate of deduction from payments made to subcontractors holding a CIS4 Registration Card will change from 6 April 2000.

The new Rate is 18%

Further Information

Further information is available at the CIS Contractors Helpline: **08457 33 55 88**

2. **Important information on operating Contracted-Out Occupational Pension Schemes**

The information below is intended to clarify for employers operating Contracted-out occupational pension schemes the treatment of the NIC rebate due on the earnings above the LEL, up to and including the newly-introduced 'Primary Threshold' (also referred to as the 'Employee's Earnings Threshold').

Background

Employers who operate contracted-out pension schemes pay National Insurance contributions (NICs) at a reduced (contracted-out) rate. The difference between the full not contracted-out rate and this reduced rate is known as the 'NIC rebate'.

Following changes introduced on 6th April 1999, employers pay secondary contributions only on those earnings above a Secondary Threshold (also known as the 'Employer's Earnings Threshold'). Moreover, as a result of this change, employers operating contracted-out pension schemes have been able to make from their overall NIC payments a deduction to reflect the NIC rebate that *would* have applied to the employer's contributions due on earnings above the Lower Earnings Limit (LEL), up to and including the Secondary Threshold.

With the introduction from 6th April 2000 of a Primary Threshold, these arrangements will be extended. From that date, a rebate will be due on earnings between the LEL and the Primary Threshold for employees. Where the NICs due from an employee are reduced by this rebate to nil, any excess sum is available for the employer to offset against his wider NICs liability. The Deductions Working Sheet (form P11 or equivalent) for 2000/2001 allows for the recording of these figures:

- the rebate due on the earnings above the LEL, up to and including the Primary Threshold - i.e. the primary rebate - is recorded in column 1g; and
- the rebate due on the earnings above the LEL, up to and including the Secondary Threshold - i.e. the secondary rebate - is recorded in column 1h.

At the end of the 2000/01 tax year, the totals of columns 1g and 1h will be added together and recorded in box 1g/1h on the End of Year Summary (form P14 or equivalent).

Treatment of the NIC rebate calculated on earnings above the LEL, up to and including the Primary Threshold

The treatment of the rebate depends upon which of 3 possible scenarios is appropriate:

Scenario 1. The amount of NICs actually payable by the employee is equal to or exceeds the amount of NIC rebate calculated.

Where an employee in a Contracted-Out Salary Related (COSR) Scheme earns £100 per week, the relevant columns of form P11 are completed as indicated on the illustration below.

As the amount of employee's contributions payable - column 1f - exceeds the amount of rebate recorded in column 1g, the amount in column 1g further reduces the employee's contribution. (The amount shown in column 1h is, of course, available to the employer).

Scenario 2. The amount of rebate calculated exceeds the NICs actually payable by the employee

Where an employee in a COSR scheme earns £77 per week, the relevant columns of form P11 are completed as indicated.

As the amount of rebate calculated and shown in column 1g exceeds the employee's contributions payable - as shown in column 1f - the employee's contribution is further reduced by £0.08, and the remaining £0.06 is available to the employer. (The amount shown in column 1h is, of course, available to the employer).

Scenario 3. No NICs are payable by the employee

Where an employee in a COSR scheme earns £69 per week, the relevant columns of form P11 are completed as indicated.

As there are no employee contributions payable, the whole of the amount calculated and shown in column 1g is available to the employer. (The amount shown in column 1h is, of course, available to the employer).

Although a COSR scheme is used in the illustrative examples, the same principles apply if the employer is operating a Contracted-out Money Purchase (COMP) scheme.

Please note, this primary rebate is only applicable to NICs paid at Categories D and F. There is no primary rebate due where the employee is paying contributions at the married women's reduced rate, Categories E and G. This is because the contracted-out and not contracted-out percentage rates are the same at the married women's reduced rate.

Where there are employer only contributions due to the employee being granted deferment, i.e. where contributions are due at Category C contracted-out or Category S, again, there is no primary rebate due.

Completion of forms P11 and P14 for 2000/2001

It is important to stress that the above information does not change the way in which forms P11 and P14 are completed. The forms should be completed as illustrated, which accords with guidance contained in the CWG1 cards, the *Employer's Quick Guide to PAYE and NICs*, the *NI Guidance for Software Developers*, and the Contracted-out NI tables (leaflets CA39 and CA43). Even though the amounts shown in columns 1g and 1h will be deducted from the overall NICs bill on no account should the values shown in columns 1e and 1f be reduced by those amounts when completing forms P11 and P14.

Although there is no change to the way in which forms P11 and P14 (and equivalents) should be completed, if any change is necessary to incorporate the treatment of the primary rebate in the payroll arrangement, employers should make these as soon as they are able.

Further information

Further information is available from Technical Support Group, Inland Revenue National Insurance Contributions Office. Telephone (0191) 2253355 or (0191) 2259660.

3. Tax Credits

The period of the employer's responsibility for paying tax credits will always begin on a Tuesday. The general rule is that the tax credit paid on pay day will cover the same period as the wages/salary being paid on that pay day. This is true even if the pay day is outside the pay period to which it relates. For example, if wages are paid on a Thursday for the week that ended on the previous Sunday, the employer would also pay tax credits for the week that ended on the previous Sunday. Tables as at Annex B show, for weekly and monthly paid employees, the pattern of tax credit payments to an employee at the beginning of a 26-week award and the interaction between direct TCO payments and employer payments at the start of a renewed award of tax credit.

4. Collection of Student Loans – Order of Deduction: Scotland

Rules for how to deduct student loan repayments when attachment of earnings orders are in place were published in the Collection of Student Loans Employers Guide which was available from the Employers orderline in December 1999 and the Inland Revenue Notes for Payroll Software Developers Series 9 Number 15. Those rules only related to court orders in England and Wales. The equivalent rules for Scotland are as follows:

In Scotland, employers may be required to apply an Earnings Arrestment, a Current Maintenance Arrestment or a Conjoined Arrestment Order. If any of these are to be applied for a pay period, then no student loan deduction should be made.

If a Scottish employer is required to operate a Detachment of Earnings Order (DEO), then the same rules apply as for any other employer. The student loan deduction should be made after the DEO, and must not breach the protected earnings level set in the DEO.

If an employer is required to apply both a DEO and a Scottish court order for the same employee, then no student loan deduction should be made.

5. Internet Filing and Discounts

5.1 Internet Filing - For Self Assessment (SA) taxpayers

From April 2000, most individuals will be able to file their 1999/2000 Self-Assessment tax returns over the Internet. To use the service taxpayers will first need to visit the Inland Revenue Website to register. The registration service opens on 3/4/00 and registration in advance of this date is not possible. Once a taxpayer has registered successfully they will be sent a User Identity (User ID) through the post which they can then use with their own choice of password to e-file their returns. The Inland Revenue will be making its free software available on the Website but we are also working closely with commercial Software Developers to encourage the development and introduction of their products.

In April 2000 the Inland Revenue's software will only be able to support the core return, employment and self-employment pages of the return. But later in the year further supplementary pages are to be added. Also, when the service is first introduced only individual taxpayers will be able to file, so agents will not be able to file on their client's behalf nor will trusts and partnerships be able to use the services. We recognise the need to provide services to all our taxpayers and so will be continually monitoring and developing the service in our effort to meet customer needs.

5.2 Internet Filing - For PAYE/NICs employers

During 2000-01, services will also be introduced so that employers can send and receive a wide range of Pay As You Earn forms and returns over the Internet. Current working assumptions are that the registration service for employers will be introduced towards the end of 2000 and that the various PAYE forms and returns will be rolled out between then and 2001.

5.3 Relationship with Commercial Software Developers

We are keen to encourage Software Developers to implement Internet filing capabilities for both SA and PAYE/NICs forms and returns, as the emphasis for Internet filing will be on the receipt of data that can be processed without manual intervention. Forms and returns received electronically will be validated at the Inland Revenue's electronic gateway and those that do not pass the validation checks will be rejected.

To help Software Developers create successful products we are supporting and participating in a group set up by BASDA (Business & Accounting Software Developers Association) to define XML schemas for certain Inland Revenue forms and returns.

Software Developers interested in working with BASDA on this are welcome to telephone Dennis Keeling of BASDA on 0171 878 1750 or email to [**dkeeling@basda.org**](mailto:dkeeling@basda.org)

5.4 Electronic Payment Methods

The Inland Revenue already offers a range of ways businesses and taxpayers can pay electronically. Businesses can pay by Direct Credit (BACS or CHAPS). Individual taxpayers may prefer to pay by Debit Card or to initiate a Direct Credit (BACS) transfer through other means such as PC or telephone banking. There are also plans to provide payment facilities over the internet (for example by Debit Card and Direct Debit). Taxpayers and businesses interested in paying electronically should contact their Accounts Office for advice on the options open to them.

5.5 Discounts

On 16/2/00 an incentive to encourage small businesses and individuals to use the Internet was announced by the Chancellor Gordon Brown.

Tax discounts will be made available

- From April 2000, Self-Assessment (SA) taxpayers who file their 1999/2000 return over the Internet and pay any tax due electronically will receive a one-off discount of £10.
- From April 2001, small businesses that file their VAT returns or PAYE end of year returns over the Internet and pay any tax due electronically will receive a one-off discount of £50 (or a double discount of £100 for both PAYE and VAT).

We will be consulting with representative bodies, including the Taxpayer Service Delivery Sub-Group of the joint Inland Revenue and Customs Electronic Commerce Consultation Forum on the mechanism of the discount scheme. Other representations from the public should be directed to: edecs.c&e@gtnet.gov.uk

5.6 Further Information and Your Questions Answered

Further information on Internet Filing and Discounts including `Your Questions Answered` pages can be found at :

<http://home.inrev.gov.uk/inlandrevenue/ebu/questions.htm>

6. Next issue of the Notes

The next issue of these Notes is scheduled for March 2000 following the Chancellors Budget announcement on the 21st.

7. Mailing List for these "Notes"

Requests to be included on (or deleted from) the mailing list and, notifications of address changes should be put in writing and sent to "**Inland Revenue Notes For Payroll Software Developers**", PO Box 1460, Bristol, BS99 3NW.

Addresses for enquiries concerning the “Notes”

Any query you have about the contents of the “Specification” or the “Inland Revenue Notes For Payroll Software Developers” should be made to the Electronic Business Unit, Crown House, Victoria Street, Shipley, West Yorkshire BD17 7TW. Telephone 01274 534555 or fax 01274 534514 or e-mail at ebu.ops.ir@gt.net.gov.uk. **But please note that EBU cannot deal with change of mailing address information, which should be directed to PO Box 1460 as detailed above.**

General PAYE enquiries should be directed to your PAYE Tax Office or to the Employer’s Helpline whose number is 0845 7 143 14.

IMPORTANT INFORMATION FOR EMPLOYERS OPERATING CONTRACTED-OUT OCCUPATIONAL PENSION SCHEMES

ANNEX A

	Earnings details				Contribution details		Rebate details	
	Earnings at the LEL (where earnings reach or exceed the LEL)	Earnings above the LEL, up to and including the <i>employee's</i> Earnings Threshold	Earnings above the <i>employee's</i> Earnings Threshold, up to and including the <i>employer's</i> Earnings Threshold	Earnings above the <i>employer's</i> Earnings Threshold, up to and including the UEL	Total of employee's and employer's contributions payable	Employee's contributions payable	NIC rebate due on amount in column 1b	NIC rebate due on the sum of the amounts in columns 1b and 1c
	1a £	1b £	1c £	1d £	1e £ p	1f £ p	1g £ p	1h £ p
Scenario 1	67	9	8	16	3.49	2.02	0.14	0.51
Scenario 2	67	9	1	-	0.08	0.08	0.14	0.30
Scenario 3	67	2	-	-	0.00	0.00	0.03	0.06

EXAMPLES

<u>Award Details</u>		Original Award Made on 30/03/00 for period 04/04/00 - 02/10/00			
<u>Employer pay info</u>		Pays weekly, 1 week in arrears on a Thursday (for previous week). Pay period Monday to Sunday. E.g. Pay day - 20/04/00 for period 10/04/00 - 16/04/00			
<u>Tax Credit Office (TCO) Lead-in</u>		04/04/00 - 17/04/00, Employer responsible from 18/04/00			
<u>Earnings and Tax Credit Payment Details</u>					
Award Original (O) /Renewal (R)	Pay Period	Period Tax Credits paid for	No of Tax Credit days paid for	TCO/Employer	Pay date
O		04/04/00-17/04/00	14	TCO	11/04/00
O	10/04/00 – 16/04/00	None	Nil	Employer	20/04/00
O	17/04/00 – 23/04/00	18/04/00-23/04/00	6	Employer	27/04/00
O	24/04/00 – 30/04/00	24/04/00-30/04/00	7	Employer	04/05/00
Earnings and 7 days tax credits paid every Thursday for the period 01/05/00 - 17/09/00					
<u>Renewal Award Details</u>		Award Made on 18/09/00 for period 03/10/00 - 02/04/01			
<u>Employer pay info</u>		Pays weekly, 1 week in arrears on a Thursday (for previous week). Pay period Monday to Sunday. E.g. Pay day – 26/10/00 for period 16/10/00 - 22/10/00			
<u>TCO Lead-in</u>		03/10/00 - 16/10/00, Employer responsible from 17/10/00			
<u>Earnings and Tax Credit Payment Details</u>					
Award Original (O) /Renewal (R)	Pay Period	Period Tax Credits paid for	No of Tax Credit days paid for	TCO/Employer	Pay date
O	18/09/00 – 24/09/00	18/09/00 – 24/09/00	7	Employer	28/09/00
O	25/09/00 – 01/10/00	25/09/00 – 01/10/00	7	Employer	05/10/00
R		03/10/00 – 16/10/00	14	TCO	10/10/00
O	02/10/00 – 08/10/00	02/10/00	1	Employer	12/10/00
R	09/10/00 – 15/10/00	None	Nil	Employer	19/10/00
R	16/10/00 – 22/10/00	17/10/00 – 22/10/00	6	Employer	26/10/00
R	23/10/00 – 29/10/00	23/10/00 – 29/10/00	7	Employer	02/11/00
Employer continues paying tax credits with the employee's pay for remainder of award					

EXAMPLES

<u>Award Details</u>		Original Award Made on 30/03/00 for period 04/04/00 - 02/10/00			
<u>Employer pay info</u>		Pays monthly, on last working day, for current month. Pay period whole month. E.g. Pay day – 31/05/00 for period 01/05/00 - 31/05/00			
<u>TCO Lead-in</u>		04/04/00 - 15/05/00, Employer responsible from 16/05/00			
<u>Earnings and Tax Credit Payment Details</u>					
Award Original (O) /Renewal (R)	Pay Period	Period Tax Credits paid for	No of Tax Credit days paid for	TCO/Employer	Pay date
O		04/04/00 – 17/04/00	14	TCO	11/04/00
O		18/04/00 – 01/05/00	14	TCO	25/04/00
O		02/05/00 – 15/05/00	14	TCO	09/05/00
O	01/05/00 - 31/05/00	16/05/00 - 31/05/00	16	Employer	31/05/00
O	01/06/00 – 30/06/00	01/06/00 – 30/06/00	30	Employer	30/06/00
Earnings and tax credits for whole month paid on last working day of each month for the period 01/07/00 - 31/08/00					
<u>Renewal Award Details</u>		Award Made on 18/09/00 for period 03/10/00 - 02/04/01			
<u>Employer pay info</u>		Pays monthly, on last working day, for current month. Pay period whole month. e.g. Pay day - 29/12/00 for period 01/12/00 - 31/12/00			
<u>TCO Lead-in</u>		03/10/00 - 13/11/00, Employer responsible from 14/11/00			
<u>Earnings and Tax Credit Payment Details</u>					
Award Original (O) /Renewal (R)	Pay Period	Period Tax Credits paid for	No of Tax Credit days paid for	TCO/Employer	Pay date
O	01/09/00 – 30/09/00	01/09/00 – 30/09/00	30	Employer	29/09/00
R		03/10/00 – 16/10/00	14	TCO	10/10/00
R		17/10/00 – 30/10/00	14	TCO	24/10/00
O	01/10/00 – 31/10/00	01/10/00 – 02/10/00	2	Employer	31/10/00
R		31/10/00 – 13/11/00	14	TCO	07/11/00
R	01/11/00 – 30/11/00	14/11/00 – 30/11/00	17	Employer	30/11/00
R	01/12/00 – 31/12/00	01/12/00 – 31/12/00	31	Employer	29/12/00
Employer continues paying tax credits with the employee's pay for remainder of award					