



Notes for Payroll Software Developers

SERIES 12 – NUMBER 2

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1. **New PAYE Service launched**

During July 2009 we successfully launched the National Insurance and PAYE Service (NPS). This is a single, national computer system which has replaced the 12 regional databases that handled PAYE processing for over 20 years. The NPS brings together what used to be the National Insurance Recording System (NIRS) and the PAYE elements of our previous system – Computerisation of PAYE (COP). This new service processes both National Insurance as well as PAYE.

The major upgrades to our IT systems were completed on time and 43.6 million customer records were successfully transferred to the new system. Over 28,800 of our staff, working in more than 650 teams across 23 business units, acquired the new service between 29 June and 20 July. We are now using this to process over 2.7 million transactions each day.

These are the biggest changes to the way that we administer PAYE since it was first introduced in 1947. The new system will help us deliver a faster, more efficient service to employers and their employees and improve our internal PAYE processes.

What are the benefits?

- The new system has created one single record of a customer's PAYE pay and tax details to enable us to deal with the majority of enquiries at the first point of contact and manage the demand for our services more effectively.
- The PAYE Service allows most PAYE customer records to be viewed and worked by authorised staff in any location.
- It will deliver improved accuracy through increased automation and better processes. Also it will enable us to manage work nationally without any geographical constraints. This will help us to better handle peaks in our workload.
- The PAYE Service will significantly reduce the volume of correspondence issued to employers and their staff as PAYE will be applied more accurately at the first point of contact.
- It will ensure that we can deliver a better customer service, which is at the very heart of our departmental vision, whilst at the same time supporting the efficiency savings that we must make.

Further upgrades

There will be two further releases in November 2009 and April 2010. These will build upon the changes that we have already implemented and complete the functionality required for the new service and for the full tax cycle.

The November release will introduce business critical functionality that will allow us to complete the annual coding run in January 2010. This is a key business event that will, for the first time, run on the newly introduced service. In addition to this key enhancement, Release 4.1 will also introduce some new functionality that was not delivered as part of changes we made in the summer. Whilst this will only have a relatively small overall impact on users, this release will deliver some improvements to system performance as levels of automation will increase.

In April 2010, we will introduce 'reconciliation scans'. These will help us to automatically clear taxpayers' records as and when incomplete previous years are reviewed. This release will also introduce functionality allowing for the merging of individual tax records

as well as improvements to overall system performance. Calculation and display enhancements will also make the service easier for our staff to use.

2. PAYE Online Service

2.1 Filing starter and leaver forms online

In the July 2009 edition of Notes for Payroll Software Developers (Series 12, Number 1, para 4.1) we referred to the penalties that will be charged where employers with 50 or more employees do not send their starter and leaver forms online. The text below is a reminder of the forms concerned and an explanation of when the penalties will be charged.

Employers with 50 or more employees should now be filing not only their Employer Annual Return (P35 and P14s) online, but also all their starter and leaver forms.

Since 6 April 2009, they have been required to send us the following starter and leaver notifications online:

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.

Penalties

In December 2009 we will begin issuing warning letters to those employers with 50 or more employees who are still not filing their PAYE starter and leaver forms 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 not issue more than one warning letter per quarter to each employer. The letter will only refer to one paper form that is received in that quarter when it 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, P46 or any variations of them) and give details of the employee by stating their 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 charging penalties to those employers with 50 or more employees who send us their starter and leaver notifications on paper. Penalties will range from £100 to a maximum of £3000 depending on the number of paper forms that are sent to us.

The first penalty notices will be sent to employers in April 2010. Although this may seem some time away, we are advising employers to make sure that their payroll processes are working properly now. We are recommending employers check that they are already sending us all their starter and leaver notifications online so as to avoid these penalties in the future.

2.2 Filing Employer Annual Returns (P35 and P14s) online

In the July 2009 edition of Notes for Payroll Software Developers (Series 12, Number 1, para 4.2) we explained about the government's proposals to make it a legal requirement for employers with fewer than 50 employees to file their 2009-10 Employer Annual Return online. It is already a statutory requirement for employers with 50 or more employees to file their Employer Annual Return (P35 and P14s) online.

From 13 August 2009, amended PAYE Regulations came into force that also require employers with fewer than 50 employees to file their Employer Annual Return (P35 and P14s) online. The 2009-10 Employer Annual Return (for the tax year ending 5 April 2010) is the first Return that they must file online. This is due by 19 May 2010.

Towards the end of this year we will be writing to employers to let them know what they have to do and provide more information about filing their Employer Annual Return (P35 and P14s) online.

Penalties

If employers file their Employer Annual Return (P35 and P14s) on paper when they are required to file online, they may be charged a penalty. This will range from £100 up to a maximum of £3000 depending on the number of P14s that are filed by the employer.

Exemptions

The new PAYE Regulations require employers with fewer than 50 employees, who send us an Employer Annual Return (P35 and P14s), to send their 2009-10 and subsequent Returns online. However, there are a few exceptions to this requirement. These are:

- employers who cease paying PAYE during the 2009-10 tax year providing that their complete Return reaches us by 5 April 2010
- 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 previously received a tax-free incentive payment for filing online
- employers who are a practising member of a religious society or order whose beliefs are incompatible with the use of electronic communications
- 'care and support' employers – that is 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 incentive payment in respect of the last 3 tax years, and
- it must be the employer who sends the return to HMRC (and not some other person on the employer's behalf).

How do employers claim an exemption?

Where employers wish to apply for an exemption to submitting their Employer Annual Return (P35 and P14s) online, they should send a letter to their local tax office which contains the following information:

- the employers reference number (EmpRef), name and business address
- the grounds for their claim or appeal.

There is no specific form for this purpose. After the letter has been processed, the employer will be advised whether their claim or appeal has been accepted or denied.

Substitute form P14s

Software developers are reminded that, aside from those employers covered by the exemptions detailed above, all employers should now be filing their Employer Annual Return (P35 and P14s) online. If they use substitute paper forms P14 they may be charged a penalty.

We would be grateful to software developers if they could highlight this within their payroll software and marketing.

Employer Annual Return P35 Cessation Date

We are aware that not all products contain the ability to record an employer's cessation date.

Although this is an optional field within the Return, if a business ceases trading during the tax year, the date the business ceased should be included in the End of Year submission. This will enable HMRC to help businesses finalise their accounting responsibilities at the time they ceased to trade. For this reason, we would ask that software developers include this facility within their products to enable employers to make this declaration.

2.3 Penalties for late payment of PAYE

Following the Budget 2009 announcement, we intend to implement the new penalties for late payment of PAYE from the 2010-11 tax year.

The new penalties will apply to all employers and contractors and will replace the mandatory electronic payment surcharge (though large employers will still have to pay electronically).

How will the new penalties work?

We will calculate the penalties as a percentage of the amounts that are paid late or remain unpaid. The percentage will vary between 1% and 4% depending on the number of late payments in a year. There is also a penalty of 5% if a payment is more than 6 months late and another after 12 months.

There will be no penalty if only one payment is late (unless that payment is more than 6 months late). Nor will there be any liability to a penalty if the employer or contractor has a reasonable excuse. The employer or contractor can appeal against the penalty if they disagree. We will be publishing more information about the penalties on the HMRC website in the near future.

Financial difficulties

We will not charge further penalties on amounts covered by a time to pay arrangement – provided the employer or contractor sticks to it (although they may still have to pay a penalty for any late payments which occurred before they approached us). Any penalties that employers and contractors have to pay can be included in the arrangement.

Employers and contractors who cannot pay can ring HMRC's Business Payment Support Service (BPSS). More information is available on our website at

www.hmrc.gov.uk/pbr2008/business-payment.htm

2.4 Enhancements to the Employer CD-ROM

The P11 calculator within the CD-ROM is aimed at small employers with less than 10 employees. It enables the employer to calculate tax, National Insurance (NI) and student loan deductions each pay day for their employees. These employers are now required by law to send HMRC their 2009-10 Employer Annual Return (P35 and P14s) online from April 2010 and, under government proposals, will also have to send their starter and leaver forms online from April 2011.

In 2008 we updated the CD-ROM to enable employers who had less than 10 employees at 5 April, and calculated their tax and National Insurance contributions (NIC) on the P11 calculator, to send us their Employer Annual Return (P35 and P14s) online direct from their CD-ROM. For the year 2010-11, these same employers will also be able to send to HMRC forms P45 Part 1, P45 Part 3, P46 and P46 (Expat) online directly from their CD-ROM.

2.5 PAYE Desktop Viewer (PDV)

We told you in the December 2008 edition of the Notes (Series 11, Number 7, para 3.1) that we were testing the PAYE Desktop Viewer with a number of employers. Those tests have been successful and we plan to make PDV available to all employers from 5 October 2009. It will be available to download and install onto a users computer from the HMRC website (there will be a 'What's New' message on the HMRC website closer to the time with the URL).

The PDV, an alternative to the current Data Provisioning Service (DPS) portal viewer, allows you to access and action online PAYE codes and notices. It gives users a summary of the codes and notices that they have, shows them which are unactioned and lets them mark them as actioned. It can also be used to search by individual, employer, date, notice type, NINO or works number.

There are two ways to use PDV. They are:

Administrator	Can connect to HMRC and download new codes and notices.
Sub-administrator	Can only work on codes and notices sent to them by an Administrator.

After installation, an Administrator will get everything held in DPS the first time that they connect to HMRC to download codes and notices. We recommend that anyone wanting to use PDV should install the application and carry out this initial download as soon as possible. PDV contains tools to help users mark notices as 'Actioned' in bulk.

We have developed the PDV after listening to feedback from those employers who currently use the DPS Viewer but find its use limited because of the number of employees they have or the large volume of codes and notices that they receive. We also want to encourage those who still receive codes and notices on paper to start getting information

online. PDV is not aimed at employers and agents who currently get their online codes and notices through enabled third party software.

3. Online Filing: end of year - Forms P14/P60 for 2009-10

P14/P60(Continuous-Portrait)(2009-10)
P14/P60(Continuous-Landscape)(2009-10)
P14/P60(LaserSheet Portrait)(2009-10)
P14/P60(LaserSheet Landscape)(2009-10)

We told you in the May 2009 edition of the Notes for Payroll Software Developers (Series 11, Number 8, para 7.2) about the changes made to the above forms to incorporate the introduction of the Upper Accruals Point (UAP).

The adjustments required to the National Insurance contributions fields to include UAP have resulted in the repositioning of other fields on the forms.

To view the changes, illustrations of these forms can be downloaded from our website at www.hmrc.gov.uk/ebu/pnforms.htm

4. Developer Test Services

4.1 Changes in the Quality Standard and Business Validation Specification from April 2009 – Error in Rule 28a

In the July 2009 edition of the Notes for Payroll Software Developers (Series 12, Number 1, para 6.1) we advised there was an error in Rule 28a.

The revised Quality Standard and Business Validation Specification from April 2009, incorporating the correction to Rule 28a, is now available on our website at http://www.hmrc.gov.uk/ebu/qual_stand.htm

The validation in our End of Year (EOY) 2009-10 test services will carry the change from October 2009 when the test services are next updated. We will implement the changed validation into our EOY 2009-10 live environment from 6 April 2010.

4.2 Technical Specifications

Expenses and Benefits 2009-10

All the documentation, including Business Validation Rules and Schemas, necessary to start product development are available in the technical pack on HMRC's website.

The main change is for the P46(Car) where there is no requirement on the employer to notify HMRC when there has been a 'replacement' car. Electronic Data Interchange (EDI) developers are reminded only version 3 of the P46(Car) Message Implementation Guides (MIGs) will be supported from April 2010 as from this date support for version 2 will be withdrawn.

Test services

The Expenses and Benefits 2009-10 test service for P11D, P11D(b) and P46(Car) will be available to developers in early October 2009.

End of Year

The Quality Standards for the Employer Annual Return (P35 and P14s) and Employer Supplementary Return (P38A) were published in July 2009 on our website at www.hmrc.gov.uk/ebu/qual_stand.htm

The 2010-11 Schemas and MIGs were published in July and August 2009 on our website at www.hmrc.gov.uk/ebu/softw_index.htm

Test services

The Desk Top checker was released in July 2009 and the EOY Third Party Validation Service (TPVS) and EDI test services will be available from 6 October 2009.

4.3 In-year Movements

There are no year on year changes to the in-year forms. The current technical specifications and test services will continue as at present.

5. Other Information

5.1 Additional Paternity Leave and Pay (APL&P)

Government has announced its intention to introduce APL&P for fathers of children due on or after 3 April 2011. Similar provisions will apply in the case of adoption for children matched for adoption on or after 3 April 2011. There will be consultation on draft Regulations.

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 and an electronic calculator on our internet site and a helpline calculation and advice service (as we do now for the other statutory payments). We will not be providing employers with an ASPP calculator on the Employer CD-ROM for 2010-11. But 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. To allow for this a workaround may be needed in a very small number of cases – payroll software validation rules may very occasionally need to be changed.

Rules

Software developers wanting to know the likely rules for ASPP in advance can look at:

- The government responses to previous consultations. These can be found at:
2006 consultation response - <http://www.berr.gov.uk/files/file35584.pdf>
2007 consultation response - <http://www.berr.gov.uk/files/file44293.pdf>
- The draft Regulations. These will be published on the website for Department for Business Innovation and Skills [BIS] along with the final consultation document later this month. The Regulations are of course subject to Parliamentary approval and the intention is they should be in place for April 2010.

After the Regulations have been finalised by Parliament, HMRC will publish technical specifications on ASPP for developers. The aim will be to give developers enough time to prepare for the change from April 2011.

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

No decision has been taken to extend SMP, MA or SAP entitlement beyond the current 39 weeks.

Further information

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

Business Innovation and Skills website at www.berr.gov.uk
HMRC's "What's New" page at <http://www.hmrc.gov.uk/news/index.htm>

and other future publications.

5.2 National Minimum Wage (NMW)

We would like to share with developers information received from the NMW team. This information has already been made available to developers in an email sent out by the Software Developer Support (SDS) team on 31 July 2009.

Although HMRC does not have a responsibility to provide details on future NMW changes, we are happy to do this as a service to developers.

Future changes

The rates of NMW and the accommodation offset rates are increasing for pay reference periods starting on or after 1 October 2009. The new rates will be:

Main rate for workers aged 22 and above	£5.80	
18-21 year old	£4.83	
16-17 year old	£3.57	
Accommodation offset	£4.51/day	(maximum of £31.57 per week).

There are also two other changes for pay reference periods starting on or after 1 October 2009.

- Tips, gratuities, service charges and cover charges will not count towards national minimum wage pay in any circumstances.
- There will be two new classes of persons who do not qualify for the NMW. These are workers participating on the European Community Erasmus and Comenius Programmes, part of the European Union action programme in the field of lifelong learning.

The Department for Business, Innovation and Skills are responsible for publicising changes to the NMW. They have announced that the government intend to change the age band for the main rate of NMW to include 21 year olds from October 2010.

6. Next issue of these Notes

The next edition of these Notes is scheduled for December 2009.

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 details of your email address and company name to **hmrcnotes@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 **hmrcnotes@replyservice.co.uk** stating 'unsubscribe' in the subject field or write to the address shown above.

8. Contacts for enquiries

Where helpline numbers are shown for a specific topic within the Notes please 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 mailing address information; these should be directed to **hmrcnotes@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 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**.