NOTES ON PAYE FOR COMPUTER USERS
SERIES 9 - NUMBER 10 (October 1998)

Contents:

1.<u>New Code Suffixes for 1999/2000</u>

1.1 In the Series 9 - Number 9 notes issued in March we advised that three new code suffixes (A, J and Y) were being introduced from April 1999. The first code notifications employers will receive showing the new suffixes will be on forms P9(T) (or equivalent) for the 1999/2000 tax year. These will be issued in March 1999. The aim of the new suffixes is to reduce the number of individual code notifications to employers at bulk issues.

1.2 The new suffixes will apply to the following groups of employees/pensioners:

<u>Suffix J</u> - those who have a coding which gives the basic personal allowance plus the basic married couple's allowance or the additional personal allowance and tax is paid at the lower rate.

<u>Suffix A</u>- those who have a coding which gives the basic personal allowance plus the basic married couple's allowance or the additional personal allowance and tax is paid at the higher rate.

<u>Suffix Y</u> - those who are aged 75 or over and who receive the higher age related single person's allowance.

1.3 Normally introduction of new suffixes would mean a significant 'one-off' increase in the number of forms P9 issued to employers. But all cases which will become "A" "J" or "Y" currently carry the code suffix "T". Future bulk code notifications to employers should see a reduction in the numbers of individual forms P6/P9 issued by up to 2 million because employers will be able to automatically amend codes via the P7X authority

1.4 <u>It is very important that computer users amend their systems to handle these new code suffixes</u>. Failure to do this will mean that employers will not be in a position to apply Budget changes to the codes with the new suffixes.

2. *<u>Code Changes for 1999/2000</u>*

2.1 As part of the *Employers Annual Pack* issued in January 1999, we will send employers a form P9X instructing them to amend PAYE codes they carry forward with an "H" suffix and use the amended code number from 6 April 1999.

2.2 The P9X will instruct employers to **<u>DECREASE</u>** all Suffix H codes by 41 (e.g. Code 543H becomes 502H).

2.3 This P9X procedure is required because of the change to the rate at which the married couples allowance is given from April 1999. As previously mentioned at 1.1 above, amendments required to other codes as a result of this change will be notified by the issue of individual forms P9

3. ***<u>Inland Revenue to stop sending paper back-up for bulk code notifications issued via magnetic media</u>***

3.1 As a result of changes to legislation in the 1998 Finance Act, it is no longer necessary for the Inland Revenue to issue paper copies of forms P6/P9 where bulk code notifications are sent via magnetic media on open reel tape or cartridge. Users should therefore note that from January 1999 employers receiving bulk code notifications via magnetic media will no longer receive paper back up. Similarly, employers receiving bulk notifications via Electronic Data Interchange (EDI) will not receive paper back-up.

3.2 Employers receiving code notifications via magnetic media will however be able to keep the tape or cartridge as their record of the code notifications (previously they have been required to return the tape or cartridge to the Inland Revenue)

3.3 If you do not already receive bulk code notifications via magnetic media and are interested in doing so, please contact your local tax office for a copy of booklet

MT1 ‘Specification for issue of changed code numbers on magnetic media’. For further information about EDI please see paragraphs 11 and 12.

4. ***Changes to forms P11 and P14/P60 and P35***

4.1 *Changes for 1998/99 to forms P14/P60*

Following numerous requests from employers, the Inland Revenue will be supplying **portrait** format end of year forms P14/P60(OCR) for 1998/99, free of charge, in both continuous and sheet feed versions. These forms will follow the same computer-print layout as portrait P14 substitutes approved for 1997/98. The continuous and sheet feed **landscape** versions and the **manual** form which were supplied for 1997/98 will continue to be available for 1998/99 and employers may use up any stock they have on hand.

Supplies of all five types of form P14/P60(OCR) will be available to order from the Annual Pack Orderline which opens on 1 February 1999. The number is 0345 646 646. Forms will not be available until then.

There is no need for providers of substitute forms P14/P60 approved by the Inland Revenue to change the design of their forms for 1998/99.

There will be no change to form P35 for 1998/99.

4.2 *Changes for 1999/2000 to End of Year forms*

The year 1999/2000 will bring changes to the layout of forms P11/P14/P60 and P35 because of the need for additional NIC columns as a result of changes to NI Contributions which take effect from 6 April 1999. Further information about these NI changes is included at item 13 under the heading ‘National Insurance Changes’.

Sample versions of each new form P14/P60(OCR) will be available from the Annual Pack Orderline from early March next year. When phoning you need to ask for `*1999/2000 P14/P60(OCR) Sample Pack’* Details of how to obtain larger quantities of the sample forms for program testing purposes will be given in the next issue of these Notes.

A new version of the RD1 ‘Specification for Employer’s PAYE End of Year Substitute Forms P14/P60’ will be available later this year for the year 1999/2000. A copy of this design guide will be sent by Inland Revenue Forms Unit to stationery manufacturers, software suppliers and employers who are known to be designers of substitute forms.

As a result of the additional record keeping requirements on forms P11/P14/P60 the Employers Annual Return form P35 will also be revised to include an additional box for Employer’s NIC Rebate.

4.3 *<u>Changes for 2000/2001</u>*

Further changes to forms P11/P14/P60 and P35 may also be required for the year 2000/2001 to accommodate the introduction of Student Loan Repayments and Working Family Tax Credits. The final design of the P14/P60 should be available from Autumn 1999. There will also be a further RD1 Specification

4.4 In view of the fact that for the next two years, stationery is to change each year, effectively making it year related, Substitute forms providers and their clients may wish to ensure that they do not place orders for more than 1 years supply of the stationery for 1999/2000. 1997/98 layouts remain useable for 1998/99.

4.5 You will also wish to consider the effect the changes will have on payslips and any programming revisions to accommodate these changes..

5. *<u>Student Loan Repayments</u>*

5.1 The Inland Revenue, Department for Education and Employment and the Student Loans Company are presently consulting with representatives from employer groups and software houses, as to how the collection of student loan repayments will work in practice. However, users may find the following overview helpful.

5.2 From 6 April 2000 employers will be required to deduct student loan repayments from employees who have become liable to repay their loan, along with PAYE tax and NIC. The student loan repayments will be deducted on a pay period by pay period basis. The amount deducted in each pay period will need to be entered on the P11 Working Sheet (or equivalent) and on the employee's payslip. The deduction will be non cumulative. The definition of "pay" for student loan repayment purposes will be announced in due course.

5.3 The Inland Revenue and employers will be involved only with the recovery of new loans taken out after August 1998. Student Loans Company will remain responsible for loans taken out prior to that date. We will normally notify employers using a separate notification from the P6/P9 when deductions are to start and stop. Employer's will be required to compute and record for each pay period the amount of student loan repayment deducted. Deductions will take place by reference to an annual threshold (or its weekly/monthly equivalent) at a rate of 9%. The annual threshold will initially be £10,000.

5.4 Employers will be required to remit the student loan repayments to the Collector of Taxes together with tax and NIC remittances, on a monthly or quarterly basis as appropriate. End of year documents will need to reflect the amounts of student loan repayments deducted and remitted. There will be an extra box on the payslip (Form P30B) and the employer will be expected to separately identify the student loan repayment element of what is being paid, in that box.

5.5 Forms P45 will require amendment to accommodate student loan repayments. Where an employer is given a P45 in relation to a new employee which indicates that the employee is currently liable to repay a loan, the employer will normally be expected to treat this as a notification to start making deductions.

5.6 A computer specification for student loan repayment is included at Annex A of these notes. The appropriate parameter values will be as follows :

Symbol	**Value**
	£
${}_{a}T$	10000
R_s	9%

6. ***Scottish Variable Rate***

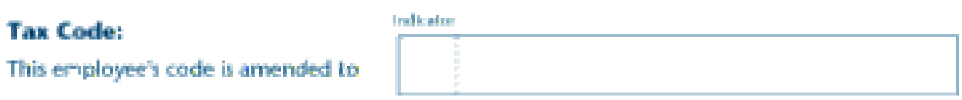
6.1 The last issue of the Notes advised that with effect from 6 April 2000, a devolved Scottish Parliament will have the power to invoke a variance to the Basic Rate of Income Tax for ‘Scottish’ taxpayers by plus or minus 3 pence in the £ at half penny rests.

6.2 Over recent months an Inland Revenue Project Team has been consulting with employer representatives and Payroll Bodies as how the Scottish Variable Rate (SVR) will be implemented. We can now give the following update.

6.3 The Inland Revenue will determine whether or not an employee is liable to SVR, and if they are, will notify employees and employers accordingly. ‘Scottish’ employees will be identified with an ‘S’ preceding the code number or code prefix. This ‘S’ indicator will appear on all code notification forms - it is possible that the first notifications will be issued in February 2000 on forms P9 as part of the normal annual code issue. However, this will depend on what, if any, decisions the Scottish Executive or the Scottish Parliament has made at that time. It may not be possible to provide much in the way of advanced warning of the issue of these ‘S’ codes.

6.4 We will send in-year start and stop notifications to employers on forms P6. Employers would need to enter the ‘S’ on forms P11, P14/P60 and P45 for any employees with the indicator.

Extract of proposed form P6(T)


Tax Code:
This employee's code is amended to
Indicator

6.5 There will be two versions of the Taxable Pay Tables, the Nominal Taxable Pay Tables (Tables G) and the P16 Simplified Tax Tables - a standard version and a Scottish version. The Pay Adjustment Tables (Tables A) will not be affected by SVR and there will not be a Scottish version of these tables.

6.6 The Inland Revenue will identify employers who have employees with the 'S' indicator and issue tables on the following basis:

- employers with 'Scottish' employees only will just receive the Scottish version
- employers without 'Scottish' employees will only receive the standard version
- employers with both 'Scottish' and 'non-Scottish' employees will receive both versions.

6.7 Scottish tables will not be issued until such time as the Scottish Parliament invoke their tax varying powers.

6.8 SVR will necessitate a revised *Computer Specification for PAYE Tax Table Routines*. We hope to issue a new version of the Specification in the Summer of 1999, but in the meantime, a supplement to the existing Specification is enclosed with these Notes at Annex B

7. ***Working Family Tax Credit and Disabled Persons Tax Credit***

7.1 In the last edition of the Notes we advised that an Inland Revenue Project Team, working jointly with DSS and Benefits Agency would be looking closely at all aspects of the new tax credits and would be consulting in confidence with employer groups and Payroll Bodies. The consultation process is well under way and further details of the scheme will be made available to employers within the next few weeks. In the mean time Users may find it helpful to know about the following basic features of the scheme.

7.2 From 6 April 2000 tax credits due to employees will be paid by their employer following notification by the Inland Revenue. The PAYE tax codes will not be used for this purpose. Instead, employers will add the tax credits to wages and show them on the employee's payslip. Awards of the tax credits will be set for a 26-week period, and the Inland Revenue will advise employers of the date on which their responsibility to pay starts and ends and the rate at which they are to pay the tax credits.

7.3 The working assumptions are that tax credit payments will need to be entered by employers on the P11 Working Sheet (or equivalent) and in end-of-year returns; and that they will make the payments by 'netting off' their tax and NIC receipts. Arrangements are being considered under which the Inland

Revenue might fund employers who could provide evidence that they would have insufficient tax and NI to cover the payments of tax credits.

8. *Year 2000 and PAYE annual coding notices on magnetic tape & cartridge*

8.1 The following note was issued in March to employers or their agents who receive annual coding notices from the Inland Revenue on magnetic tape or cartridge. It will also be of interest to software suppliers and information technology service providers. It provides information on :

- the Year 2000 problem
- our policy of 'no change' (i.e. we will not be changing the layout of the annual coding notices issued to our customers)
- what we feel our customers should do.

8.2 *"Year 2000 & computer systems"*

The problem posed for computer systems by the change of century (sometimes called the 'Millennium Bug') has been widely publicised. It arises because many computer systems use only two digits to represent the year, so '1998' for example is held as '98'. As we approach the 21st Century, this will mean that '00' may be misread as '1900' instead of '2000', '01' as '1901' and so on. Many computer programs which use dates for calculating, comparing or sorting information may produce incorrect results.
This problem can exist for both mainframe computer systems and personal computers (PCs). It can also affect the processing of data exchanged between computer systems belonging to different organisations.

8.3 *Year 2000 and annual coding notices*

The Inland Revenue are tackling the century date-change problem as simply and as cost-effectively as possible. We have therefore adopted a policy of 'no change' for the exchange of information between our own and our customers' computer systems. This means that the layout of annual PAYE coding notice information that we send you will not be changing : we will continue to provide year dates as we do at present.

8.4 *What you must do*

You will need to ensure that :

- you are satisfied that your own computer hardware and software can handle the change of century
- your computer system can continue to process the magnetic tapes/cartridges you receive from us after 1999
- you contact any software suppliers you use - including any payroll software supplier - about the work which may be necessary to ensure

that your computer systems are able to continue to function correctly.

8.5 Further information about the Inland Revenue's year 2000 policy can be found on our Website at "www.open.gov.uk/inrev/year2000 "

9. *Changes to P45 for 2000*

9.1 Revised prints of all versions of form P45 will be available from early 1999 and can be brought into use from April 1999.

9.2 The revised form will not have the digits "19" pre-printed in the date boxes. The year boxes on the form will stay the same size.

9.3 The new version is being supplied from early 1999 so that users who find it convenient to change to it from the start of the tax year (April 1999) can do so. If users still have stocks of the current forms on hand these may be used from April 1999, but only the new version will be supplied from early 1999.

9.3 From January 2000 all dates on the form P45 will need to be printed in the format DDMMCCYY, in other words the year is to be shown as 4 digits. Payroll and software packages should be revised accordingly.

10. *Tax Table Problems*

10.1 Most Users and their clients will no doubt be aware of the problems that arose this April/May in connection with the issue of the Taxable Pay Tables LR + B to D. We would like to apologise for any inconvenience experienced by users as a result of these problems.

10.2 The `May 1998 Issue' of Taxable Pay Tables LR + B to D contained significant errors and was immediately withdrawn. It was replaced with a revised version `May 1998 Issue 2'. The errors occurred mainly in the new *Calculator Tables* on pages 12 to 15. The guidance contained in the Series 9 - Number 9 notes was not affected by the errors.

10.3 Copies of the revised version of the tables were sent to all recipients of the original tables in time for the Spring 1998 Budget changes to be effected on the first pay day after 18 May 1998, so we hope disruption was kept to a minimum.

11. *Electronic Data Interchange (EDI)*

11.1 In the last edition of these notes we explained that the Inland Revenue could provide for forms P45 & P46, leaver and starter details to be transmitted via EDI. Those employers who took part in the Enhanced Employer

Communication Phase 2 pilot were able to receive form P6 coding information from the Revenue via the same link directly into their payroll applications.

11.2 The employer benefits of using EDI are:

- faster updating of employee records
- improved accuracy …..less paper.
- Fewer queries from Inland Revenue
- Improved service from payroll section

11.3 The pilot system has confirmed these benefits, and following an interim evaluation, it has been decided to nationally roll-out the Enhanced Employer Communication system in phases from April 1999. During the pilot the Inland Revenue worked with representative employers, payroll bureau and software suppliers to identify additional forms which have been included in plans for the roll-out. These include annual and budget coding P6 and P9, P11D, Works Number Update, P46(Car), P14 EOY and a new EDI pension starter message which was successfully trialled within the pilot by Prudential.

11.4 The Enhanced Employer Communication Phase 2 pilot will continue to run until April 1999 when it will be subsumed by the national system.

11.5 The continued success of this project depends on help and participation from employers and their software suppliers as well as the Inland Revenue. The scope of the national roll-out meets most of the needs that employers have been asking for over many years. If you want to learn more about the Enhanced Employer Communication project and gain the benefits of electronic exchanges please contact:

Dot Hudson Business Requirements Manager	John Glanville Project Manager
On 01952 294789 Or write to Dot at: Enhanced Employer Communication Project Team Inland Revenue, BMSD A301, Matheson House Grange Central Telford TF3 4ER	On 0171 438 6858 Or e-mail to: John Glanville at Pms.ir.sh@gtnet.gov.uk

11.6 Information on the Enhanced Employer Communication national roll-out will also be available with effect from 2 November 1998 from the Employer Electronic Business Support Team whose address and telephone number is shown at paragraph 12.4

12. ***Employer Electronic Communications - Expenses and Benefits Returns on Magnetic Media***

12.1 Following the successful pilot scheme, we are now able to offer the facility to submit annual expenses and benefits returns on magnetic media, to all employers and Software Suppliers who wish and are able to use it. All returns submitted in this way are automatically processed through our Employer Compliance System (ECS) with minimal delay and operator intervention. This can result in employees' tax code numbers being automatically reviewed and accurately updated more speedily than if paper returns (which we have to individually key in to ECS) are used.

12.2 The acceptable types of media are computer produced floppy disk and certain magnetic tapes or data cartridges. The returns that may be submitted on magnetic media are:

- Form P11D details
- Fixed Profit Car Scheme (FPCS) or Car Allowance Enhanced Reporting Scheme (CAERS) details
- Taxable Expenses Payment (TEP) details

We regret that we are currently unable to accept Form P9D details in this way, as our systems automatically process all EEC returns as forms P11D. We will however keep forms P9D in mind for the future.

12.3 In August 1998 we issued a Newsletter and copies of our EEC1 booklet 'Expenses and Benefits Returns on Magnetic Media - Submission Instructions & Technical Specifications for 1998/99' to all employers and software suppliers who have previously expressed an interest or are already using this facility. And later this year we plan to carry out a targeted mailing to those employers who submit a number of paper expenses and benefits returns but have not yet registered an interest in using magnetic media. We also hope to make our EEC1 booklet and Newsletters available on the internet.

12.4 If you would like to know more about expenses and benefits returns on magnetic media and/or would like a copy of the 1998/99 EEC1 booklet, please contact the Employer Electronic Communication Business Support Team. We will be happy to help and once we have your details will ensure that you receive all future issues of our EEC Newsletters and technical specifications etc.

Employer Electronic Communication Business Support Team
Room 116 Accounts Office
Victoria Street
Shipley
West Yorkshire BD98 8AA

Telephone: 01274 539634 Fax 01274 539303

13. ***National Insurance Changes***

13.1 In his Budget Statement on 17th March 1998, the Chancellor of the Exchequer announced major changes to the way in which National Insurance Contributions (NICs) are calculated for employers and employees. **These changes come into force on 6th April 1999.**

13.2 More detail is given below but, in general terms, the changes are as follows:

- the abolition of NICs for employees on earnings up to and including the Lower Earnings Limit
- The abolition of NICs for employers up to and including an `Earnings Threshold'
- the introduction of one single rate for employers, replacing the 4 separate rates currently in operation.

In detail the changes are as follows:

13.3 *Employees*

- abolition of the 2% initial percentage on earnings up to the LEL
- on earnings above the LEL, up to and including the Upper Earnings Limit (UEL), NICs will be due at:

  - 10% for employees in not contracted-out employment
  - 8.4% for employees in contracted-out employment

For example, using the current LEL of £64 for illustrative purposes:

- Weekly earnings of £64.00, employee NICs due = NIL
- Weekly earnings of £65.00, employee NICs due = £0.10p (£65 - £64 = £1 x 10%)

- Weekly earnings of £82.00, employee NICs due = £1.80 (£82 - £64 = £18 x 10%)

NB: Under current rules – and continuing to use the current LEL for illustrative purposes – earnings in the range £64.01 and £64.05 inclusive would attract no liability – 10% of 0.01p to 10% of 0.05p being rounded down to zero. The intention is to amend regulations so that, from 6th April 1999, earnings in the above range will attract primary contributions of £0.01p.

13.4 *Employers*

- abolition of secondary NICs on earnings up to the LEL
- introduction of a so-called 'nil-rate' band for secondary earnings above the LEL, up to and including the new Earnings Threshold
- abolition of the existing rates of 3%, 5%, 7% and 10%
- introduction of a single rate for secondary NICs:
  - 12.2% for employees in not contracted-out employment
  - 9.2% for employers operating Contracted-out Salary Related (COSR) Schemes
  - 11.6% for employers operating Contracted-out Money Purchase (COMP) Schemes

  This will be payable on all earnings above the Earnings Threshold. However, in employment linked to a contracted-out occupational scheme, 12.2% will be payable on any earnings above the UEL.

Examples of how this will work are as follows; **for illustrative purposes only**, the LEL is assumed to be £64, and the Earnings Threshold £81:

Example 1: Not contracted-out employment

Weekly earnings of £81, employer NICs due = NIL

Weekly earnings of £83, employer NICs due = £0.24 (£83 - £81 = £2 x 12.2%)

Example 2: Employer operating a Contracted-out Salary Related Scheme

Weekly earnings of £190, employer NICs due = £10.03 (£190 - £81 = £109 x 9.2%)

Example 3: Employer operating a Contracted-out Money Purchase Scheme

Weekly earnings of £220, employer NICs due = £16.12 (£220 - £81 = £139 x 11.6%)

NB: Although employers will pay secondary NICs only on those earnings in excess of the Earnings Threshold, those operating contracted-out occupational pension schemes will, from their overall NIC payments, make a deduction to reflect the NIC rebate that *would* have applied to employers' NICs on earnings between the LEL, up to and including the Earnings Threshold.

13.5 *What these changes mean for the recording and reporting of data by employers*

As a result of the above changes, the Contributions Agency, and DSS as a whole, has had to reconsider the data which employers are required to record during the year, and report at year end. It has been necessary to radically redesign the forms which employers complete both during the year and at year end. These are form P11 (or substitute) and form P14 (or substitute) respectively.

13.6 *The revised forms*

In describing the changes to the forms, it will be helpful to explain what each column is, and what information has to be recorded in it. **For illustrative purposes only**, the current year's weekly LEL (£64) and UEL (£485) are used, and an assumption is made that the Earnings Threshold is £81.

13.7 *Form P11 (the Deductions Working Sheet)*

Column 1a: Earnings up to and including the LEL (*where earnings reach or exceed the LEL*) (whole £s only)

Where earnings in the pay period reach or exceed the LEL, the LEL should be inserted here. For example, if weekly earnings are £100.00, the entry would be **64.** If the earnings in the pay period do not reach the LEL, the column should be left blank.

Column 1b: Earnings above the LEL, up to and including the Earnings Threshold (whole £s only)

Where earnings in the pay period reach or exceed the LEL, the figure to be inserted here is the difference between those earnings and the LEL – up to the ceiling of the Earnings Threshold. For example, if weekly earnings are £75.00 the entry would be **11** (ie £75 - £64); if weekly earnings are £100.00, the entry would be **17** (ie £81 - £64); if the employee's earnings are constantly above the

Earnings Threshold, the figure entered will be the same each pay period.

Column 1c: Earnings above the Earnings Threshold, up to and including the UEL (whole £s only)

Where earnings in the pay period exceed the Earnings Threshold, the figure to be inserted here is the difference between those earnings and the Earnings Threshold – subject to the ceiling of the Upper Earnings Limit. For example, if weekly earnings are £75.00 the column would be left blank; if they are £100.00, the entry would be **19** (ie £100 - £81); if they are £500.00, the entry would be **404** (ie £485 - £81).

Column 1d: Total of employee's and employer's contributions payable

The figure to be inserted here is the combined total of primary and secondary NICs payable. The figure will be in £s and pence.

Column 1e: Employee's contributions payable

This figure – in £s and pence – will be the employee's portion included in column 1d.

Column 1f : Employer's NIC rebate due on amount in column 1b

This column will be for use only by those operating contracted-out occupational pension schemes. The figure to be inserted here will be the amount of the deduction due by way of NIC rebate on the earnings between the LEL and the Earnings Threshold – even though no secondary NICs will be payable on those earnings. It will be deducted at source by the employer and subtracted from the overall NICs bill when paid to the Inland Revenue.

Two examples of how this works are as follows:

<u>Example 1</u>:

If weekly earnings in a Contracted-out Salary Related Scheme are £100.00, the figure to be entered here would be **0.51** (ie Earnings Threshold minus the LEL, multiplied by the rate of employers' rebate for COSR schemes = £81 - £64 = £17 x 3% = £0.51p).

Example 2:

If weekly earnings in a Contracted-out Money Purchase Scheme are £100, the figure to be entered here would be **0.10** (ie Earnings Threshold minus the LEL, multiplied by the rate of employers' rebate for COMP schemes = £81 - £64 = £17 x 0.6% = £0.10p).

Columns 1g, 1h and 1i

These are the same as columns 1f, 1g and 1h on the current version of form P11, covering ***Statutory Sick Pay in the week or month, Statutory Maternity Pay in the week or month,*** and ***Statutory Maternity Pay recovered*** respectively.

13.8 *Form P14 (The End of Year Summary)*

After space for insertion of the NIC Table letter, the columns on the redesigned P14 will, with one exception, replicate those on the revised P11, ie column 1a on the P14 will correspond to column 1a on the P11, etc. The exception is that relating to the space for entering the NIC rebate due on earnings between the LEL, up to and including the Earnings Threshold. As explained above, on the P11 this will be recorded in column 1f on the P14, the total of this column will be entered in a 'stand-alone' box similar to those used to record totals of Statutory Sick Pay and Statutory Maternity Pay

13.9 *Other changes*

The layout of the National Insurance Tables for use from April 1999 will be amended to reflect the changes to forms P11 and P14, ie the columns in the tables will correspond as far as possible to those on the forms - hopefully minimising the risk of transcription errors.

13.10 *Publicising the changes*

The DSS/Contributions Agency and Inland Revenue acknowledge that these are radical changes for employers to absorb and implement, and are mounting a campaign aimed at ensuring that details of the changes are widely communicated as soon as possible. This campaign will include:

- updated guidance in:
  - the annual Employers' Pack, particularly leaflet CWG1, the ***Employer's Quick Guide to NICs***
  - leaflet CWG2, the ***Employer's Further Guide to PAYE and NICs***

- the NIC Tables

- the Magnetic Media Specification for 1999/2000

- ***the NI Summary for Computer Users*** issued in the Autumn

- the preparation and supply of articles to the specialist press

- articles in the CA’s technical bulletin *NI News.* This is available on the Internet at: **www.dss.gov.uk/ca/ninews/ninindx.htm**

14. *Return of Expenses and Benefits 1998/99*

14.1 There will be no change to the return of expenses and benefits (form P11D) for 1998/99.

15. *Computer User Notes on the Internet*

15.1 The Notes can now be accessed via the Internet on the Inland Revenue and Contributions Agency joint web site. Access the web site on http://www.open.gov.uk/jw/jw.htm.

15.2 *Apologies*

Paragraph 1.4 of the Series 9 - Number 9 Notes referred to the joint IR/CA web site. Unfortunately the web site address given contained an error - the final three letters were preceded by forward slash instead of a full stop. We are sorry for any difficulties this may have caused users in trying to access the web site.

16. *Change of Address for enquires concerning the ‘Notes’*

16.1 From the end of October 1998, any query you have about the contents of the `*Computer Specification for PAYE Tax Table Routines*’ or the `Notes’ should be made to Pete Robinson, 4th Floor, South West Wing, Bush House, Strand, London. Telephone 0171 438 6581. Please do not use this contact point to notify address changes or deletion requests, or for general PAYE enquiries. General PAYE enquiries should be directed to your PAYE Tax Office or to the Employer’s Helpline whose number is 0345 143 143.

16.2 Please send any notifications of change of address or deletion requests to;
Inland Revenue Computer User Notes, PO Box 138, Northampton NN3 6WB.

STUDENT LOANS SPECIFICATION

1. The Routines described in this Specification below make use of two distinct classes of parameters : Annual Constants (shown in **bold** typeface) whose values are supplied by the Inland Revenue, and Pay Period Constants (shown in *italics*) derived from them for the payroll run.

2. Annual Constants - definitions **Symbol**

Definition 1 - Annual Threshold	$_{a}\mathbf{T}$
Definition 2 - Rate of Student Loan Repayment	$\mathbf{R_s}$

3. Annual Constants. The practical maximum field sizes recommended for the Annual Constants are :

$_{a}\mathbf{T}$ -	99999
$\mathbf{R_s}$	99.99%

These values will always have to be subject to change but for all practical purposes the maximum values given in the Specification are likely to remain fixed for several years.

4. Pay Period Constants

Definition 1 :- Threshold (T_1) $= {_{a}\mathbf{T}} \times \frac{n}{Z}$

Having calculated the pay period constants the Routine will pass through the following stage.

5. Calculation of the Student Loan Repayment deductible

$$SL = [Pn - T_1] \times \mathbf{R_s}$$

Glossary of Symbols

n	=	Number of days/weeks/months in this pay period
Z	=	Number of days/weeks/months in the tax year
$_{a}\mathbf{T}$	=	Annual Threshold
$\mathbf{R_s}$	=	Rate of Student Loan Repayment
T_1	=	Pay period threshold
Pn	=	Pay in pay period
SL	=	Student Loan Repayment deductible

<u>COMPUTER SPECIFICATION FOR PAYE TAX TABLE ROUTINES - SUPPLEMENT TO INCORPORATE SCOTTISH VARIABLE RATE</u>

Paragraph 3.3.3 - Insert the following after Definitions 1,4,5,6 and 11:-

(After Definition 1)

	Symbol
Definition 1.1(a) **Scottish Rate 1** = 1st rate of tax	SR_1
" 1.1(b) **Scottish Rate 2** = 2nd rate of tax	SR_2
" 1.1(c) **Scottish Rate 3** = 3rd rate of tax	SR_3

And so on to accommodate the current range of rates shown in Appendix D

(After Definition 4)

	Symbol
Definition 4.1(a) Annual Tax 1 = Bandwidth 1 x **Scottish Rate 1**	-
" 4.1(b) Annual Tax 2 = Bandwidth 2 x **Scottish Rate 2**	-
4.1(c) Annual Tax 3 = Bandwidth 3 x **Scottish Rate 3**	-

And so on to accommodate the current range of Bandwidths shown in Appendix A

(After Definition 5)

	Symbol
Definition 5.1(a) *Cumulative Annual Tax 1* = Annual Tax 1	SK_1
" 5.1(b) *Cumulative Annual Tax 2* = The sum ofAnnual Taxes 1 and 2	SK_2
" 5.1(c) *Cumulative Annual Tax 3* = The sum ofAnnual Taxes 1, 2 and 3	SK_3

And so on to accommodate the current range of *Cumulative Annual Taxes* shown in Appendix D

(After Definition 6)

Symbol

Definition 6.1 **G Pointer** Pointer to Basic Rate(Scotland) ` G1

(After Definition 11)

Symbol

Definition 11.1(a) **Threshold Tax 1** = *Cumulative Annual Tax 1* x $\frac{n}{52}$ Sk_1

" 11.1(b) **Threshold Tax 2 =** *Cumulative Annual Tax 2* x $\frac{n}{52}$ Sk_2

" 11.1(c) **Threshold Tax 3** = *Cumulative Annual Tax 3* x $\frac{n}{52}$ Sk_3

And so on as necessary to accommodate the current range of *Cumulative Annual Taxes* shown in Appendix D

Take the calculations for Definition 11.1 to 4 decimal places of a pound without applying any correction to the final place.

Insert Paragraph 4.3.4 Stage 2 Determine which sub-routine to apply

Having determined a figure of Taxable Pay to date this stage is required to determine which calculation of tax due to date should be applied. To do this the routine must identify whether or not the Scottish Variable rate is applicable.

FOR SUFFIX AND PREFIX K CODES CONTAINING THE `S' INDICATOR, the routine must take the figure of Taxable Pay to date and apply the **Income Test 1(S)**.

FOR SUFFIX AND PREFIX K CODES CONTAINING NO `S' INDICATOR, the routine must take the figure of Taxable Pay to date and apply the **Income Test 1**

Paragraph 4.4.3 - Insert the following additional Income Tests :

Income Test 1(S) Is Taxable Pay to date less than or equal to **C value 1?**

(Is $U_n \leq v_1$?**)** If yes, use Tax Formula 1(S)
If no, consider Income Test 2(S)

Income Test 2(S) Is Taxable Pay to date less than or equal to **C value 2?**

(Is $U_n \le v_2$? **)** If yes, use Tax Formula 2(S)
If no, consider Income Test 3(S)

and so on, up to

Income Test 3(s) Is Taxable Pay to date less than or equal to **C value (x)?**

(Is $U_n \le v_{(x)}$? **)** If yes, use Tax Formula (x)
If no, use Tax Formula (x + 1)(S)

where x = number of Bandwidths currently shown in Appendix A

Paragraph 4.4.4 - Insert the following additional Tax Formula

Tax Formula 1(S) Tax to date = Tax at **Scottish Rate 1** on Taxable pay to date

$$L_n = T_n SR_1$$

Note: This Tax Formula may be expressed in the same style as all subsequent Tax Formulae, provided 2 additional parameter values (k_0 and c_0) are included in the system, both always taking value zero. Thus

$$L_n = Sk_0 + (T_n - c_0)\, SR_1$$

Tax Formula 2(S) Tax to date = Threshold tax 1, plus tax at **Scottish Rate 2** on the excess of Taxable Pay to date over Threshold 1

$$L_n = Sk_1 + (T_n - c_1)\, SR_2$$

Tax Formula 3(S) Tax to date = Threshold tax 2, plus tax at **Scottish Rate 3** on the excess of Taxable Pay to date over Threshold 2.

$$L_n = Sk_2 + (T_n - c_2)\, SR_3$$

and so on, up to

Tax Formula (x + 1)(S) Tax to date = Threshold tax (x), plus tax at **Scottish Rate (x + 1)** on the excess of Taxable Pay to date over Threshold (x)

$$L_n = Sk_{(x)} + (T_n - c_{(x)})\, SR_{(x + 1)}$$

where x = number of Bandwidths currently shown in Appendix A

Replace Paragraph 5.4 with the following text :

Stages 2A and 3 The Taxable Pay should be rounded down to the nearest pound, the whole of the rounded pay to date (regardless of how large an amount it is) should be taxed. The routine must then identify whether or not the Scottish Variable rate is applicable.

Is the `S' indicator present in the code ?

If yes, the whole of the rounded pay to date (regardless of how large an amount it is) should be taxed at **Rate (G1)**.

If no, the whole of the rounded pay to date (regardless of how large an amount it is) should be taxed at **Rate (G)**.

Replace Paragraph 7.1 with the following text :

As for cumulative operation of code BR, Table B of the manual Tax Tables is provided for these cases. However, each payment is dealt with in isolation and the payment should be rounded down if necessary to the nearest pound below. The rounded payment is then taxed at **Rate (G)**, where G is the parameter of Definition 6 or **Rate (G1)**, where G1 is the parameter of Definition 6.1

Replace Paragraph 8.1 with the following text :

Table D of the manual Tax Tables is provided for these cases. The routine must first identify whether or not the Scottish Variable rate is applicable

Is the `S' indicator present in the code ?

If yes, each payment is dealt with in isolation, and the whole of the payment (subject only to rounding down, if necessary, to the nearest pound below) is taxed at the appropriate rate as follows:

D0 means tax the whole of the rounded payment at Rate (G1 + 1)

D1 " " " " " " " " " Rate (G1 + 2)

D2 " " " " " " " " " Rate (G1 + 3)

If no, each payment is dealt with in isolation, and the whole of the payment (subject only to rounding down, if necessary, to the nearest pound below) is taxed at the appropriate rate as follows:

D0 means tax the whole of the rounded payment at Rate (G + 1)

D1 " " " " " " " " " Rate (G + 2)

D2 " " " " " " " " " Rate (G + 3)

And so on as necessary to the limit of the current range of Rates shown in Appendix A, where G is the parameter of Definition 6 and G1 is the parameter of Definition 6.1.

<u>Replace</u> **Paragraph 15.3 with the following text :**

Those users of computerised payrolls who wish to achieve precisely the same results as the user of manual Tax Tables, will need to modify the Tax Formulae (G + 1) or (G1 + 1) and above of paragraph 4.4.4 to the following style:

If there is no `S' indicator

Tax Formula (y) Tax to date = [Threshold tax (y - 1), plus tax at Rate (y) on the excess of Cvalue (y - 1) over Threshold (y - 1)] plus [tax at Rate (y) on the excess of Taxable Pay to date over Cvalue (y - 1)]

$$L_n = [\, k_{(y-1)} + (v_{(y-1)} - c_{(y-1)})\ R_{(y)} \,] + [\, (T_n - v_{(y-1)})\ R_{(y)} \,]$$

Where y = any whole number from (G + 1) up to and including the number of _
Rates currently shown in Appendix A and G is the parameter of Definition 6.

If the code contains the `S' indicator

Tax Formula (y) Tax to date = [Threshold tax (y - 1), plus tax at Scottish Rate (y) on the excess of Cvalue (y - 1) over Threshold (y - 1)] plus [tax at Scottish Rate (y) on the excess of Taxable Pay to date over Cvalue (y - 1)]

$$L_n = [\, Sk_{(y-1)} + (v_{(y-1)} - c_{(y-1)})\ SR_{(y)} \,] + [\, (T_n - v_{(y-1)})\ SR_{(y)} \,]$$

Where y = any whole number from (G1 + 1) up to and including the number of _
Rates currently shown in Appendix C and G1 is the parameter of Definition 6.1.

In applying these modified Tax Formulae, first complete the calculations within each pair of square brackets to 4 decimal places of a pound without applying any correction to the final place. Then round down, if necessary, <u>each</u> of the amounts obtained, to the nearest multiple of 1p below. Finally, add the 2 rounded figures together. It is emphasised that the rounding to 1p below MUST be made before the final summation

ANNEX B

APPENDIX B (Revised)

SUMMARY OF FORMULAE

Calculation of Cumulative Pay to date (paragraph 4.2.1)

$$P_n = P_{(n-1)} + p_n$$

Calculation of Taxable Pay to date (paragraph 4.3.2)

FOR SUFFIX CODES $U_n = P_n - na_1$

FOR PREFIX K CODES $U_n = P_n + ne_1$

Calculation of the tax due to date (paragraphs 4.4.3 & 4.4.4)

For Codes with no `S' indicator

Income Test 1 — Is $U_n - v_1$? If yes, use Tax Formula 1
If no, consider Income Test 2

Income Test 2 — Is $U_n - v_2$? If yes, use Tax Formula 2
If no, consider Income Test 3

and so on up to

Income Test (x) — Is $U_n - v_{(x)}$? If yes, use Tax Formula (x)
If no, use Tax Formula (x + 1)

Tax Formula 1 $L_n = T_n R_1$ or $L_n = k_0 + (T_n - c_0) R_1$

Tax Formula 2 $L_n = k_1 + (T_n - c_1) R_2$

Tax Formula 3 $L_n = k_2 + (T_n - c_2) R_3$

and so on up to

Tax Formula (x) $L_n = k_{(x)} + (T_n - c_{(x)}) R_{(x+1)}$

ANNEX B

ANNEX B

For Codes with `S' indicator

Income Test 1(S) Is $U_n - v_1$? If yes, use Tax Formula 1(S)
If no, consider Income Test 2(S)

Income Test 2(S) Is $U_n - v_2$? If yes, use Tax Formula 2(S)
If no, consider Income Test 3(S)

and so on up to

Income Test (x)(S) Is $U_n - v_{(x)}$? If yes, use Tax Formula (x)(S)
If no, use Tax Formula (x + 1)(S)

Tax Formula 1(S) $L_n = T_n SR_1$ or $L_n = Sk_0 + (T_n - c_0) SR_1$

Tax Formula 2(S) $L_n = Sk_1 + (T_n - c_1) SR_2$

Tax Formula 3(S) $L_n = Sk_2 + (T_n - c_2) SR_3$

and so on up to

Tax Formula (x)(S) $L_n = Sk_{(x)} + (T_n - c_{(x)}) SR_{(x + 1)}$

<u>Calculation of Tax Deduction or Refund for the week</u> (paragraph 4.5)

$$l_n = L_n - L_{(n - 1)}$$

Positive values are deductions
Negative values are refunds

Where the overriding Regulatory limit applies for a prefix K code

$$l_n = M \times p_n$$

Where the prefix K code is operating cumulatively

$$L_n = L_{(n - 1)} + (M \times p_n)$$

APPENDIX C(revised)

GLOSSARY OF SYMBOLS

a_1	Free Pay for Week 1
B_1	Bandwidth 1 - Annual bandwidth of 1st rate of tax
B_2	Bandwidth 2 - Annual bandwidth of 2nd rate of tax
B_3	Bandwidth 3 - Annual bandwidth of 3rd rate of tax
C_1	*Cumulative Bandwidth 1* - Bandwidth 1
C_2	*Cumulative Bandwidth 2* - The sum of Bandwidths 1 & 2
C_3	*Cumulative Bandwidth 3* - The sum of Bandwidths 1, 2 & 3
c_1	**Threshold 1** - *Cumulative Bandwidth 1* x $\frac{n}{52}$
c_2	**Threshold 2** - *Cumulative Bandwidth 2* x $\frac{n}{52}$
c_3	**Threshold 3** - *Cumulative Bandwidth 3* x $\frac{n}{52}$
e_1	Additional Pay for Week 1
G	**G pointer** - Pointer to Basic rate
G1	**G pointer** - Pointer to Basic rate (Scotland)
K_1	*Cumulative Annual Tax 1* - Annual tax 1
K_2	*Cumulative Annual Tax 2* - The sum of Annual taxes 1 & 2
K_3	*Cumulative Annual Tax 3* - The sum of Annual taxes 1, 2 & 3
k_1	**Threshold tax 1** - *Cumulative Annual tax 1* x $\frac{n}{52}$
k_2	**Threshold tax 2** - *Cumulative Annual tax 2* x $\frac{n}{52}$
k_3	**Threshold tax 3** - *Cumulative Annual tax 3* x $\frac{n}{52}$
L_n	Tax liability up to and including Week n
l_n	Tax deductible or refundable in Week n (NB. lower case l)

APPENDIX C(Revised)

M	Maxrate - Maximum percentage tax deductible in a prefix K code case. (Also referred to as the overriding Regulatory limit).
n	Week number
P_n	Cumulative Pay up to and including Week n (NB. upper case P)
p_n	Pay for Week n (NB. lower case p)
SK_1	*Cumulative Annual Tax 1* - Annual tax 1 (Scotland)
SK_2	*Cumulative Annual Tax 2* - The sum of Annual taxes 1 & 2 (Scotland)
SK_3	*Cumulative Annual Tax 3* - The sum of Annual taxes 1, 2 & 3 (Scotland)
Sk_1	**Threshold tax 1 (Scotland)**- *Cumulative Annual tax 1* $\times \frac{n}{52}$
Sk_2	**Threshold tax 2 (Scotland)** - *Cumulative Annual tax 2* $\times \frac{n}{52}$
Sk_3	**Threshold tax 3 (Scotland)** - *Cumulative Annual tax 3* $\times \frac{n}{52}$
R_1	Rate 1 - 1st rate of tax
R_2	Rate 2 - 2nd rate of tax
R_3	Rate 3 - 3rd rate of tax
SR_1	Rate 1 - 1st rate of tax (Scotland)
SR_2	Rate 2 - 2nd rate of tax (Scotland)
SR_3	Rate 3 - 3rd rate of tax (Scotland)
T_n	Taxable Pay up to and including Week n after applying rounding rules
U_n	Taxable Pay up to and including Week n before applying rounding rules
v_1	Cvalue 1 ie. c_1
v_2	Cvalue 2 ie. c_2
v_3	Cvalue 3 ie. c_3