

Inland Revenue Notes for Payroll Software Developers

SERIES 9 - NUMBER 15

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1. **National Insurance , Statutory Sick Pay and Statutory Maternity Pay changes from 6 April 2000.**

1.1 National Insurance changes.

The tables in Appendices A - D reflect changes to the way in which Class 1 National Insurance contributions (NICs) for employees and employers will be calculated, recorded and reported from 6th April 2000. The first stage of these changes was announced in the Chancellor of the Exchequer's Budget Statement of 17th March 1998 - and came into effect on 6th April 1999 - whilst the second stage was announced by the Chancellor on 9th March 1999.

Summary of the changes

More detail is given below, but in general terms; the changes from 6th April 2000 are as follows:

- the introduction of a 0% rate of NICs for employees on earnings above the Lower Earnings Limit (LEL), up to and including a new **Employee's Earnings Threshold**;
- there will be an extension of the NIC rebate for employers operating contracted-out occupational pension schemes. This will be based on the band of earnings between the LEL and the Employee's Earnings Threshold. This is in line with the extension introduced from 6th April 1999 on the employee's earnings between the LEL and the **Employer's Earnings Threshold**.

Changes affecting employee's

- the introduction, from 6 April 2000, of a 'nil-rate' band for primary (employee) NICs on earnings above the LEL, up to and including a new Employee's Earnings Threshold. For 2000/2001, the level of the weekly Employee's Earnings Threshold will be £76.00;
- on earnings above the Employee's Earnings Threshold, up to and including the Upper Earnings Limit (UEL), NICs will be due at:
 - 10% for employees in not-contracted-out employment; and
 - 8.4% for employees in contracted-out employment.

For example, using the 2000/2001 Employee's Earnings Threshold of £76.00 for:

Weekly earnings of £76.00, employee NICs due = NIL

Weekly earnings of £77.00, employee NICs due = £0.10 (£77 - £76 = £1 x 10%)

Weekly earnings of £84.00, employee NICs due = £0.80 (£84 - £76 = £8 x 10%)

The above examples are calculated using the exact percentage method.

Changes affecting employer's

Rates of Secondary (Employer's) 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.

These rates apply to all earnings above the Employer's Earnings Threshold, but as now, where the employment is linked to a contracted-out occupational pension scheme, the not contracted-out rate of 12.2% will be payable on those earnings above the UEL.

Using the 2000/2001 Employer's Earnings Threshold of £84, examples of how this works are as follows:

Example 1: not contracted-out employment

Weekly earnings of £84, employer NICs due = NIL

Weekly earnings of £85, employer NICs due = £0.12 (£85 - £84 = £1 x 12.2%).

Example 2: employer operating a Contracted-out Salary Related (COSR) scheme

Weekly earnings of £192, employer NICs due = £9.94 (£192 - £84 = £108 x 9.2%).

Example 3: employer operating a Contracted-out Money Purchase (COMP) scheme

Weekly earnings of £222, employer NICs due = £16.01 (£222 - £84 = £138 x 11.6%).

The above examples are calculated using the exact percentage method.

NIC Rebate

Although employees and employers will pay Class 1 NICs only on those earnings which exceed the relevant Earnings Thresholds, employers 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 both the:

- employee's NICs on earnings above the LEL, up to and including the Employee's Earnings Threshold; and
- employer's NICs on earnings above the LEL, up to and including the Employer's Earnings Threshold.

The rebate is due to the employer and is intended to provide employee benefits broadly equivalent to the State Earnings Related Pension Scheme (SERPS) given up on earnings between the Lower and Upper Earnings Limits.

The employer will deduct the rebate from their monthly or quarterly payments of PAYE and NICs before making payment to their Accounts Office. Annexes C and D to this Note give details of the NIC rebate percentage rates.

Rounding

In April 1999, the Department introduced a 1p primary NICs liability for employees earning between £0.01 and £0.10 above the Lower Earnings Limit. This was introduced to protect the employee's entitlement to benefit where, by using the previous rounding rules, the employee would not pay any Class 1 NICs. From April 2000, with the introduction of the Employee's Earnings Threshold and the commitment given to protect the entitlement to benefit of those employees who earn between the LEL and the Employee's Earnings Threshold, this requirement is no longer necessary.

When calculating Class 1 NICs therefore, round the calculation to the nearest penny, with £0.005 being rounded down.

1.2 *How these changes affect the recording and reporting of NIC-related information.*

As a result of the above changes, forms P11 and P14 for 2000/2001 have had to be redesigned. There follows an explanation of what each column on the redesigned forms is, and how it is to be completed. The figures used for the examples are the Lower Earnings Limit, the Employee's Earnings Threshold, the Employer's Earnings Threshold and the Upper Earnings Limit for 2000/2001:

LEL = £67

Employee's Earnings Threshold = £76

Employer's Earnings Threshold = £84

UEL = £535

Form P11

Column 1a: Earnings at the LEL (where earnings reach or exceed the LEL)

Where earnings in the pay period reach or exceed the LEL, the LEL should be entered in this column, in whole pounds. For example, if the weekly earnings are £100.00, the entry is **67**. If the earnings in the pay period do not reach the LEL, the column should be left blank.

Please note: This column must be completed (and reported at year-end) even if the employee earns *exactly* at the LEL and pays no NICs, but columns 1b and 1c will be left blank. This is to protect the employee's entitlement to benefit which is still related to earnings at the LEL, and for calculating average weekly earnings for Statutory Sick Pay and Statutory Maternity Pay.

Column 1b: Earnings above the LEL, up to and including the Employee's Earnings Threshold

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 Employee's Earnings Threshold**. For example, if the weekly earnings are £73.00, the entry is **6** (i.e. £73.00 - £67.00); if the weekly earnings are £80.00, the entry is **9** (i.e. £76.00 - £67.00); if the employee's earnings are constantly above the Employee's Earnings Threshold, the figure entered would be the same in each pay period.

Please note: This column must be completed (and reported at year-end) even if the employee earns *at or below* the Employee's Earnings Threshold and pays no NICs. Again, this is to protect the employee's entitlement to benefit and for calculating average weekly earnings for Statutory Sick Pay and Statutory Maternity Pay.

Column 1c: Earnings above the Employee's Earnings Threshold, up to and including the Employer's Earnings Threshold

Where earnings in the pay period reach or exceed the Employee's Earnings Threshold, the figure to be inserted here is the difference between those earnings and the Employee's Earnings Threshold – **up to the ceiling of the Employer's Earnings Threshold**. For example, if the weekly earnings are £81.00, the entry is **5** (i.e. £81.00 - £76.00); if the weekly earnings are £100.00, the entry is **8** (i.e. £84.00 - £76.00); if the employee's earnings are constantly above the Employer's Earnings Threshold, the figure entered would be the same in each pay period.

Column 1d: Earnings above the Employer's Earnings Threshold, up to and including the UEL

Where earnings in the pay period exceed the Employer's Earnings Threshold, the figure to be inserted here is the difference between those earnings and the Employer's Earnings Threshold – **up to the ceiling of the UEL**. For example, if the weekly earnings are £82.00 the column is left blank; if they are £100.00, the entry is **16** (i.e. £100.00 - £84.00) ; if they are £540.00, the entry is **451** (i.e. £535.00 - £84.00) ; if the employee's earnings are constantly above the UEL, the figure entered would be the same in each pay period.

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

The figure to be inserted here is the combined total of primary (employee's) and secondary (employer's) NICs payable. It should be shown in £s and pence.

Column 1f: Employee's contributions payable

This figure – in £s and pence – will be the employee's share of the NICs shown in column 1e.

Column 1g: NIC rebate due on amount in 1b

Only those employers operating contracted-out occupational pension schemes will use this column. The figure here will be the amount due by way of NIC rebate on the earnings between the LEL and the Employee's Earnings Threshold – even though no primary contributions will be payable on those earnings. It will be deducted by the employer from the overall NICs bill when payments are made to the Inland Revenue.

This rebate is calculated by multiplying the figure in column 1b by the difference in the employee's not contracted-out and contracted-out percentage rates i.e. $10\% - 8.4\% = 1.6\%$.

Two examples of how this works:

Example 1: Contracted-out Salary Related Scheme

*If the weekly earnings are £100.00, the figure to be inserted here is **0.14** (i.e. Employee's Earnings Threshold minus the LEL, multiplied by the rate of primary rebate for COSR schemes = $£76.00 - £67.00 = £9.00 \times 1.6\% = £0.14$)*

Example 2: Contracted-out Money Purchase Scheme

*If the weekly earnings are £100.00, the figure to be inserted here is **0.14** (i.e. Employee's Earnings Threshold minus the LEL, multiplied by the rate of primary rebate for COMP schemes = $£76.00 - £67.00 = £9.00 \times 1.6\% = £0.14$)*

Column 1h: NIC rebate due on amounts in 1b and 1c

This column too will be used **only** by those employers operating contracted-out occupational pension schemes. The figure here will be the amount due by way of NIC rebate on the earnings between the LEL and the Employer's Earnings Threshold – even though no secondary contributions will be payable on those earnings. It will be deducted by the employer from the overall NICs bill when payments are made to the Inland Revenue.

This rebate is calculated by multiplying the figures in columns 1b and 1c by the difference in the employer's not contracted-out and contracted-out percentage rates.

For Contracted-out Salary Related Schemes the multiplier will be $12.2\% - 9.2\% = 3.0\%$.

For Contracted-out Money Purchase Schemes the multiplier will be $12.2\% - 11.6\% = 0.6\%$.

Columns 1i, and 1j

These will correspond to columns 1h, and 1i on the current form P11, and cover *Statutory Sick Pay in the week or month* and *Statutory Maternity Pay in the week or month* respectively.

Form P14

Form P14 – the End of Year Summary – has been redesigned to correspond to the layout of the P11 for 2000/2001, i.e. column 1a on the P14 will correspond to column 1a on the P11, and so on. The exception is the space in which to enter details of the NIC rebates due on earnings between the LEL, up to and including the Employer's Earnings Threshold. On the P11, these are recorded in columns 1g and 1h; on the P14, the sum of the totals of columns 1g and 1h will be transferred to a 'stand-alone' box similar to those used to record totals of Statutory Sick Pay and Statutory Maternity Pay.

1.3 Class 1A NICs for Cars and Fuel.

1999/2000 Class 1A Fuel Scale Rates.

Cars with a cylinder capacity

<u>Engine Size</u>	<u>Scale Charge</u>
1400 cc or less	£1210
1401 cc to 2000 cc	£1540
Over 2000 cc	£2270

Diesel Fuel Scale Charges

<u>Engine size</u>	<u>Scale charge</u>
2000 cc or less	£1540
More than 2000 cc	£2270

Cars without a cylinder capacity

Any car	£2270
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Calculating Class 1A National Insurance contributions.

The rate at which Class 1A National Insurance contributions are calculated is the highest secondary Class 1 National Insurance contribution rate applicable to the tax year in which the employee had the benefit of the car. For cars made available in the 1999/2000 tax year, the rate is 12.2%. It should be noted that the fuel scale rates shown above refer to cars made available during the 1999/2000 tax year for which Class 1A NICs are payable by 19 July 2000.

1.4 2000/2001 tax year Inland Revenue Authorised Mileage rates for up to 4,000 miles of business travel.

These rates have still to be confirmed. The Inland Revenue will notify employers and software developers as soon as possible.

1.5 Statutory Maternity Pay (SMP) payable from 2nd April 2000.

<u>Rate</u>	<u>Weekly amount</u>
Higher	90% of employee's average weekly earnings *
Lower	£60.20

* Where the 90% figure is lower than the Lower Rate of SMP the higher of the two should be paid.

There is no daily rate of SMP. The compensation rate for SMP for 2000/2001 is 5.0%.

Recovery of SMP paid

Employers who do not qualify for Small Employers' Relief can recover 92% of the SMP paid to their employees. Those who qualify for Small Employers' Relief can recover 100% of the SMP paid to their employees plus compensation.

Small Employers' Relief

For the 2000/2001 tax year, "small employer" is defined as an employer who paid (or was liable to pay) total gross Class 1 National Insurance contributions (excluding Class 1A and Class 1B) of £20,000 or less in the qualifying tax year. **Remember to deduct any contracted-out NIC Rebate.** The qualifying tax year is the last complete tax year before the Sunday, which begins each employee's qualifying week. The qualifying week is the 15th week before the expected week of childbirth. For qualifying weeks:

- Between Sunday 09/04/2000 and Saturday 07/04/2001 inclusive, the qualifying tax year is 1999/2000.
- Between Sunday 08/04/2001 and Saturday 06/04/2002 inclusive, the qualifying year is 2000/2001.

For further information on Statutory Maternity Pay, see the CA29 *Statutory Maternity Pay Manual for employers* from April 2000.

1.6 Statutory Sick Pay (SSP) payable from 6th April 2000.

The Statutory Sick Pay weekly rate is **£60.20** from 6 April 2000.

Recovery of Statutory Sick Pay paid

Under the Percentage Threshold Scheme, employers can recover any Statutory Sick Pay paid in a tax month over and above 13% of their National Insurance liability for that tax month. When working out their National Insurance liability, employers should remember to:

- use the total employer's and employee's Class 1 National Insurance liability;
- exclude any Class 1A and Class 1B NICs;
- Deduct any contracted-out NICs rebate and NIC Holiday.

- *Reminder - Guidelines on the Entitlement to Statutory Sick Pay for Agency Workers and Those on Short-term Contracts*

When an employee is engaged in a series of contracts with the same employer and:

- the individual contracts are separated by periods of not more than eight weeks and
- The overall time in employment with that employer exceeds 13 weeks.

The employee will be treated as being in continuous employment. Their contract should be regarded as being for an indefinite period, i.e. incapable of being terminated without the employer giving seven days' notice. In such cases entitlement to Statutory Sick Pay must be considered.

For further information on Statutory Sick Pay, see the CA30 *Statutory Sick Pay Manual for employers* from April 2000.

1.7 Statutory Sick Pay and Statutory Maternity Pay.

Change in NICs Percentage Rates and Earnings Thresholds - **No change for SSP/SMP.**

The introduction of the 0% rate of NICs and the Employee's and Employer's Earnings Thresholds for NICs **do not** affect the SSP/SMP average weekly earnings level for entitlement. This remains as "equal to or more than the Lower Earnings Limit", i.e. £67.00 from April 2000.

There is not, nor has there ever been, a requirement for any NICs to have actually been paid before an employee can become entitled to receive SSP or SMP. An employee, whose average weekly earnings are £67.00, or more, will qualify for SSP or SMP whether or not they have paid any NICs.

1.8 National Insurance contributions (NIC) - Holiday for Employers.

NIC Holiday was part of the Government's package of Work Incentive Measures. However, it is no longer available in respect of employment starting on or after 1 April 1999, although it will continue to run for up to a year for Holidays already in place and will still be applicable to employment on or before 31 March 1999. Although employers no longer have the option of joining the NIC Holiday, they still have up to the 2005/2006 tax year to claim back any secondary NICs they may be due under the scheme.

1.9 Changes introduced by the Pensions Act 1995 - A reminder.

If you operate a contracted-out occupational pension scheme, please remember that the Pensions Act 1995 introduced changes to the NI category letters. From April 1997, the category letters to be used are:

Contracted-out Salary Related (COSR) Schemes

- D for those employees paying NICs at the standard contracted-out rate.
- E for married women and widows who have the right to pay contracted-out NICs at the reduced rate.
- C for those who have deferred payment of NICs and given form CA2700 to their employer.

There is no change for employers who operate and employees who are members of Contracted-out Salary Related Schemes. They will continue to pay NICs at rebated level, but at a flat rate of 4.6%, split 1.6% to employees and 3% to employers. NICs should continue to be recorded under the appropriate category letter shown above (or Mariners equivalents). There is no need to enter a Scheme Contracting-out Number (SCON) on form P14 for category letters D, E and C (or Mariners equivalents).

Contracted-out Money Purchase (COMP) Schemes

- F for those employees paying NICs at the standard contracted-out rate.
- G for married women and widows who have the right to pay contracted-out NICs at the reduced rate.
- S for those who have deferred payment of NICs and given form CA2700 to their employer.

(For Mariners who are in COMP Schemes, the equivalent letters are H, K and V respectively)

A Scheme Contracting-out Number (SCON) should be entered on form P14 for all returns under Category letters F, G and S (and Mariners equivalents). If there are multiple employment's under these category letters, relating to different COMP schemes, then the contributions should be correctly apportioned to each employment and the SCON for each scheme entered in the relevant fields on form P14. This is necessary to ensure that the correct Age-Related Rebate (ARR) is paid to the correct pension scheme.

For further information about category letters see Card 11 of the CWG1 Employers Quick Guide to PAYE and NICs.

For information about completing P14 at the end of the 1999/2000 tax year see Cards 19 and 21 of the April 2000 CWG1.

If you require further information about Contracting-out contact: Inland Revenue National Insurance Contributions Office, Contracted Out Employment Group, Newcastle upon Tyne NE98 1ZZ. Telephone 06451 50150.

1.10 Other information.

The supplement on the NI Table method of calculation will not be issued this year. The information previously contained in the supplement is now included in the Guidance for Payroll Software Developers.

You can obtain many of the forms and manuals you will need from the Employers Orderline on **0845 7 646 646**. The Orderline is available:

Monday to Friday from 8 a.m. to 8 p.m.

Saturday from 10 a.m. to 1 p.m.

Employers Helpline

For the price of a local call, you can now telephone one number to obtain expert guidance on all aspects of National Insurance including Statutory Sick Pay and Statutory Maternity Pay, general PAYE inclusive of P11D, Tax Credits, Student Loan repayments and basic VAT registration.

Call now on: 0845 7 143 143

The service is available for PAYE, P11D, Tax Credits and Student Loan repayment enquiries:

Monday to Friday from 8.00 a.m. to 8.00 p.m.

Saturdays, Sundays and Bank Holidays from 8.00 a.m. to 5.00 p.m.
(Except Christmas Day, Boxing Day and New Year's Day)

Service is available for National Insurance, Statutory Sick Pay, and Statutory Maternity Pay enquiries:

Monday to Friday from 8.30a.m. to 5.00 p.m.

Customers with hearing and/or speech difficulties, who have a textphone, can call on **0845 7 419 402**.

Monday to Friday from 8.30 a.m. to 5.00 p.m.

Random calls are listened to/recorded for training purposes and maintaining standards. These tapes are erased after use. If you do not want to have your call recorded, please tell the operator. These procedures comply with OFTEL regulations.

1.11 Extension of Class 1A NICs to Benefits In Kind from April 2000.

Introduction

Employers currently pay Class 1A NICs on car and car fuel benefits. From 6 April 2000 Class 1A NICs liability is being extended to all taxable benefits in kind, which are chargeable to income tax under Schedule E *and* do not already attract either a Class 1 or Class 1B NICs liability.

The change will affect all employers who provide taxable benefits, which are returnable on form P11D (or substitute).

Changes

The extended Class 1A NICs scheme has been designed around the existing tax reporting system to minimise employer's administrative work.

Under the extension benefits in kind liable for Class 1A NICs will be identified on a revised P11D return, which will identify those benefits attracting a Class 1A NICs liability. Employers will calculate Class 1A NICs by using the valuation figures for benefits that they already record on each employee's P11D (or substitute) and multiplying the total figure by the appropriate Class 1A percentage rate.

New return and payment arrangements will be introduced for the extended Class 1A NICs. These are also designed to minimise employers' end of year work. Class 1A NICs will continue to be an annual charge and remain the liability of secondary contributors only. There will be no employee contribution payable.

Practical affects

The main practical affects of the change are that employers will have to:

- use a new method of returning Class 1A NICs. The two existing methods of returning Class 1A NICs via the P14/35 End of Year returns or the Alternative Payment Method will be replaced from the end of the 2000/2001. Class 1A NICs will be returned on a modified P11D(b) declaration form.
- pay Class 1A NICs separately to their PAYE/NICs reference at their Accounts Office.

Main dates

The main dates for extended Class 1A NICs are:

- payable on benefits provided on or after 6 April 2000.
- first return due by 6 July 2001.
- first payment due by 19 July 2001.

Paying Class 1A NICs for the 1999/2000 tax year

Payment of Class 1A NICs for the 1999/2000 tax year, due on the 19 July 2000, should be made using the existing PAYE or APM arrangements, explained in leaflet CA 33 - Car and Fuel Manual for Employers.

Further Information

Further information, including draft copies of the revised P11D and P11D(b) will be available in a new *Extension of Class 1A NICs - Guide for Employers*, which will be available in the 2000/2001 Employers Pack.

2. Changes to forms and P11, P14/P60 and P35

2.1 Form P11

Layout changed to Landscape (A2 wide by A4 deep). Boxes A to M realigned in view of the landscape change.

Box	1999/2000	2000/2001
J	Tax code	Student Loan deductions
K	Amended codes	Tax code
L		Amended codes
M		Tax credits (start date,daily rate,stop date)

2000/2001

- Column 1K added to record Student Loan deductions.
- Column 9 added to record Tax Credits.
- Total Pay and Tax totals – boxes widened.

2.2 Form P14/P60

2000/2001

- Boxes included to show Student Loan deductions and Tax Credits.
- Repositioned boxes for:
 - Start/leave dates.
 - Employee's Widows & Orphans/Life Assurance Contributions.
 - Final Tax Code.

Forms P14/P60 for 2000/2001 will be available from the Employer's Orderline from April 2000. This will enable;

- Software users to familiarise themselves with the new layout, and
- ceasing employers to obtain the correct forms to accompany their 2000/2001 P35.

Further details of the codes to be used when placing your order will be supplied at a later date.

A new version of the RD1 'Specification for Employer's PAYE End of Year Forms P14/P60', for the year 2000-01, will be available shortly. Inland Revenue Forms Unit will send a copy of this design guide to stationery manufacturers, software suppliers and employers who are known to be designers of substitute forms. Copies will be obtainable from Inland Revenue Forms Unit, 4th Floor, Melbourne House, Aldwych, London WC2B 4LL.

2.3 Form P35

Box	1998/99	1999/2000
J	Total of F,G,H & I	Employer's NIC Rebate
K	Total NIC payable to Accounts Office	Total of F,G,H, I & J
L	NIC already paid	Total NIC payable to Accounts Office
M	NIC now due	NIC already paid
N	Total form this page	NIC now due
O	Total from continuation sheet	Total form this page
P	Total tax	Total from continuation sheet
Q	Tax refund rec`d	Total tax
R	Tax deducted from sub-contractors see your <i>Contractor's Statement</i> (form SC35)	Tax refund rec`d
S	Total of P & Q	Tax deducted from sub-contractors See your <i>Contractor's Statement</i> (form CIS36)
T	Tax already paid	Total of Q, R, & S
U	Tax now due	Tax already paid
V		Tax now due

3. Return of Expenses and Benefits 1999/2000

The following changes have been made to the form P11D for 1999/2000: -

- in Section H the date loan made or discharged boxes have been split to provide separate boxes for loans made and discharged in the year;
- Section I and box 1.20 have been removed following the abolition of the scale charge for mobile telephones. However, there is no consequential relettering or numbering.

There are also a couple of changes, which affect the calculation of the benefit: -

- new rules for calculating the basic car benefit charge from the price of the car apply from 1999/2000. The basic charge is a proportion of the cost of the car as follows ;

<u>Business miles</u>	<u>Price of first car</u>	<u>Price of second car</u>
less than 2,500	35%	35%
2,500 - 17,999	25%	35%
18,000 or more	15%	25%

- If computer equipment, or software, is lent to an employee the first £500 of the value is exempt, provided it is not loaned under arrangements restricted to directors, or on terms that favour them.

4. Central Approval of Substitute Forms P11D

In response to demand, a central approval service for substitute forms P11Ds was introduced some time ago. This service applies to substitute forms P11D which are copies, or very near copies, of the official forms where it is expected that they will be sent to more than one local tax office.

The Inland Revenue's Electronic Business Unit (EBU) provides this service. Requests for further information can be made to:

Anne-Marie Birch
Electronic Business Unit
Crown House
Victoria Street
Shipley West Yorkshire
BD17 7TW.

Telephone: 01274 534555
Fax: 01274 534514
E-mail: ebu.ops.ir@gtnet.gov.uk.

5. Collection of Student Loans

5.1 Definition of Earnings

The definition of earnings that are subject to deduction by employers is the same as that used for secondary Class 1 National Insurance Contributions, with no upper limit.

5.2 Order of deduction of Student Loan repayments

If you have to make deductions from an employee under an attachment of earnings order (AEO) or a deduction of earnings order (DEO), and you have also been told to make student loan deductions, then follow these rules:

- The student loan deduction is made after any other priority orders—whatever their date—but before non-priority orders.
- Some priority orders are based on percentage deductions. These are Council Tax or Community Charge AEOs. If you have to apply either of these to an employee, **do not deduct any student loan at all**. Start deducting student loan again when all such orders have been paid off.
- If the only priority orders you have to apply are those based on specified amounts, they will be either priority AEOs or priority DEOs. The procedure then is as follows: Apply the priority orders to the employee's attachable earnings in the usual way;
 1. Calculate the net attachable earnings that remain after these deductions have been made;

2. If any of the priority orders specifies a level of protected earnings, that level applies to student loan deductions as well. If different priority orders specify different levels of protected earnings, use the most recent;
3. Compare net attachable earnings (paragraph 2) with the relevant level of protected earnings (paragraph 3). If net attachable earnings are higher than the protected level, then you may need to make a student loan deduction. Continue to paragraph 5. But if net attachable earnings are equal to or lower than protected earnings, do not make a student loan deduction for this pay period;
4. Calculate the full amount of the student loan deduction in accordance with the normal rules. Do not take account of any other deductions at this stage;
5. Compare the full student loan deduction (paragraph 5) with the amount by which net attachable earnings exceeds the protected earnings level (paragraph 4). Deduct from the employee's pay whichever is the smaller amount.

(In other words, if the excess of net attachable earnings over protected earnings is greater than the student loan deduction, then deduct the full amount of the student loan amount. Otherwise, the student loan deduction is limited to the excess of net attachable earnings over protected earnings).

If the full calculated amount cannot be deducted in a pay period, **do not** carry forward the deficit to the next period. Nor should you carry forward any deficit in the level of protected earnings. The calculation for every pay period is independent of other pay periods.

No administration fee may be deducted from the student loan deduction.

Equivalent rules for Scottish orders will be issued soon.

6. **Electronic Commerce Information Paper**

"Electronic Commerce: The UK's Taxation Agenda", a paper written jointly by the Inland Revenue and HM Customs & Excise, was launched by the Chancellor on 26 November. The publication which is another example of the close co-operation between the two departments, sets out what the Revenue and Customs are doing to achieve the Government's goals for e-commerce and electronic delivery of government.

The paper details the new Internet filing services that will be introduced in 2000/2001 and beyond. These will provide the ability to file VAT returns, Self-Assessment returns, and PAYE forms and returns over the Internet. The paper also confirms that the Government intends to offer discounts to those who use the Internet filing services; further details will be announced in Budget 2000.

The paper, which can be downloaded from the Inland Revenue Website, is also available on CD-ROM or paper. To obtain a copy please telephone the Revenue on 020 7438 6420/6425.

7. **Corrections to Series 9 Number 14 of the Inland Revenue Notes for Payroll Software Developers**

Please note there was an error on Page 2, Paragraph 1.4. The sentence “**The code for emergency use** with effect from 6 April 1999 is 438L” should read “with effect from 6 April 2000 is 438L”.

The Collection of Student Loan Specification as at **ANNEX C** contained an error. **ANNEX G** of this publication has replaced this incorrect Specification. We apologise for these errors.

8. **Next issue of the Notes**

The next issue of these Notes is scheduled for Feb/March 2000 following next years Budget Statement.

9. **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@gtnet.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 7 143 143.

EARNINGS LIMITS FOR NATIONAL INSURANCE CONTRIBUTIONS

	Lower Earnings Limit	Employee’s Earnings Threshold	Employer’s Earnings Threshold	Upper Earnings Limit
Weekly	£67	£76.00	£84	£535.00
Monthly	£291	£329.00	£365.00	£2319.00
Yearly	£3484	£3952.00	£4385.00	£27820.00

For earnings periods, which are multiples of a week or a month, the equivalent limits and thresholds must be calculated as follows:

	Multiples of a Week	Multiples of a Month
LEL	Weekly LEL x No of weeks +	Weekly LEL x 4 ¹ / ₃ x No of months +
Employee’s Earnings Threshold	$\frac{\text{Annual Threshold}}{52} \times \text{No of weeks} *$	$\frac{\text{Annual Threshold}}{12} \times \text{No of months} *$
Employer’s Earnings Threshold	$\frac{\text{Annual Threshold}}{52} \times \text{No of weeks} *$	$\frac{\text{Annual Threshold}}{12} \times \text{No of months} *$
UEL	Weekly UEL x No of weeks +	Weekly UEL x 4 ¹ / ₃ x No of months +

If the earnings period is less than 1 week, you must use the weekly limits and thresholds. For any other earnings period:

$$\text{LEL and UEL} = \frac{\text{Weekly Limit}}{7} \times \text{No of days}$$

$$\text{Earnings Thresholds} = \frac{\text{Annual Threshold}}{365} \times \text{No of days}$$

+ Round result of this calculation down to nearest whole pound

* Round result of this calculation up to nearest whole pound

NOT CONTRACTED-OUT CONTRIBUTION RATES

Earnings Bands	Employee's contribution			Employer's contribution
	Contribution Table letter A	Contribution Table letter B	Contribution Table letter C	Table letters A, B and C
below £67.00 weekly, or below to £291.00 monthly, or below £3484.00 yearly	Nil	Nil	Nil	Nil
£67.00 to £76.00 weekly, or £291.00 to £329.00 monthly, or £3484.00 to £3952.01 yearly	0%	0%	Nil	0%
£76.01 to £84.00 weekly, or £329.01 to £365.00 monthly, or £3952.01 to £4385.00 yearly	10% on earnings above the Employee's Earnings Threshold	3.85% on earnings above the Employee's Earnings Threshold	Nil	0%
£84.01 to £535.00 weekly, or £365.01 to £2319.00 monthly, or £4385.01 to £27820.00 yearly			Nil	12.2% on earnings above the Employer's Earnings Threshold
Over £535.00 weekly, or over 2319.00 monthly, or over £27820.00 yearly	10% on earnings above the Employee's Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	3.85% on earnings above the Employee's Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	Nil	12.2% on all earnings above the Employer's Earnings Threshold

Foreign Going Mariners

For employer rates in tables R, T, and W, reduce the employer's NIC percentage rates on earnings above the Employer's Earnings Threshold by 0.5%

CONTRIBUTION RATES FOR CONTRACTED-OUT SALARY RELATED SCHEMES

(Employer contracting out number held)

Earnings Bands	Employee's contribution			Employer's contribution	NIC Rebate on earnings above the LEL, up to and including the Employee's Earnings Threshold	NIC Rebate on earnings above the LEL, up to and including the Employer's Earnings Threshold
	Contribution Table letter D	Contribution Table letter E	Contribution Table letter C	Table letters D, E and C		
below £67.00 weekly, or below £291.00 monthly, or below £3484.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£67.00 to £76.00 weekly, or £291.00 to £329.00 monthly, or £3484.00 to £3952.00 yearly	0%	0%	Nil	0%	1.6% on earnings from £67.00 , up to and including £76.00 (or monthly or annual equivalents)	3% on earnings from £67.00 , up to and including £84.00 (or monthly or annual equivalents)
£76.01 to £84.00 weekly, or £329.01 to £365.00 monthly, or £3952.01 to £4385.00 yearly	8.4% on earnings above the Employee's Earnings Threshold	3.85% on earnings above the Employee's Earnings Threshold	Nil	0%		
£84.01 to £535.00 weekly, or £365.01 to £2319.00 monthly, or £4385.01 to £27820.00 yearly			Nil	9.2% on earnings above the Employer's Earnings Threshold		
Over £535.00 weekly, or over £2319.00 monthly, or over £27820.00 yearly	8.4% on earnings above the Employee's Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	3.85% on earnings above the Employee's Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	Nil	9.2% on earnings above the Employer's Earnings Threshold, up to and including the UEL, then 12.2% on all earnings above the UEL		

Foreign Going Mariners

For employer rates in tables N and O, reduce the employer's NIC percentage rates for earnings above the Employer's Earnings Threshold by 0.5%. **Please note**, for employer's operating Contracted-out Occupational Pension schemes, the NIC Rebate percentage rates on earnings above the LEL, up to and including the Earnings Thresholds are the same for **all** employers whether or not their employees are foreign going mariners.

CONTRIBUTION RATES FOR CONTRACTED-OUT MONEY PURCHASE SCHEMES

(Employer contracting out number held)

Earnings Bands	Employee's contribution			Employer's contribution	NIC Rebate on earnings above the LEL, up to and including the Employee's Earnings Threshold	NIC Rebate on earnings above the LEL, up to and including the Employer's Earnings Threshold
	Contribution Table letter F	Contribution Table letter G	Contribution Table letter S	Table letters F, G and S		
Below £67.00 weekly, or below £291.00 monthly, or below £3484.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£67.00 to £76.00 weekly, or £291.00 to £329.00 monthly, or £3484.00 to £3952.00 yearly	0%	0%	Nil	0%	1.6% on earnings from £67.00 , up to and including £76.00 (or monthly or annual equivalents)	0.6% on earnings from £67.00 , up to and including £84.00 (or monthly or annual equivalents)
£76.01 to £84.00 weekly, or £329.01 to £365.00 monthly, or £3952.01 to £4385.00 yearly	8.4% on earnings above the Employee's Earnings Threshold	3.85% on earnings above the Employee's Earnings Threshold	Nil	0%		
£84.01 to £535.00 weekly, or £365.01 to £2319.00 monthly, or £4385.01 to £27820.00 yearly			Nil	11.6% on earnings above the Employer's Earnings Threshold		
Over £535.00 weekly, or over £2319.00 monthly, or over £27820.00 yearly	8.4% on earnings above the Employee's Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	3.85% on earnings above the Employee's Earnings Threshold, up to and including the UEL then Nil on earnings above the UEL	Nil	11.6% on earnings above the Employer's Earnings Threshold, up to and including the UEL, then 12.2% on all earnings above the UEL		

Foreign Going Mariners

For employer rates in tables H, K and V, reduce the employer's NIC percentage rates for earnings above the Employer's Earnings Threshold by 0.5%. **Please note**, for employer's operating Contracted-out Occupational Pension schemes, the NIC Rebate percentage rates on earnings above the LEL, up to and including the Earnings Thresholds are the same for **all** employers whether or not their employees are foreign going mariners.

NICs, Statutory Sick Pay, Statutory Maternity Pay and Student Loan Deductions Headings for form P11 Year to 5 April 2001

(the width of the columns shown is not to scale)

Month No	Week No	For Employer's use	Earnings details				Contribution details				Rebate details				Student Loan Deductions Whole pounds only 1k £
			Earnings at the LEL (where earnings reach or exceed the LEL)	Earnings above the LEL, up to and including the employee's Earnings Threshold	Earnings above the employer's Earnings Threshold, up to and including the employer's Earnings Threshold	Earnings above the employer's 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	Statutory Sick Pay in the week or month included in column 2	Statutory Maternity Pay in the week or month included in column 2			
			1a £	1b £	1c £	1d £	1e £ p	1f £ p	1g £ p	1h £ p	1i £ p	1j £ p			
1	1														
	2														
	3														
	4														
12	48														
	49														
	50														
	51														
	52														
	§														
										1g total	1h total	SSP total	SMP total	SLD total	

§ Complete this line only if pay day falls on 5 April (in leap years 4 & 5 April)

Enter NI Contribution Table letter here

End of Year Summary

	1a £	1b £	1c £	1d £	1e £ p	1f £ p

Total of 1g + 1h

enter this amount in box 1g/1h on form P14

Scheme Contracted-out Numbers
(for Contracted-out Money Purchase Schemes only)

S									
S									
S									
S									

PAYE Income Tax and Tax Credits Headings for form P11 Year to 5 April 2001

(the width of the columns shown is not to scale)

Month No	Week No	Pay in the week or month including Statutory Sick Pay/ Statutory Maternity Pay	Total pay to date	Total free pay to date *	K codes only		Total taxable pay to date i.e. column 3 <i>minus</i> column 4a or column 3 <i>plus</i> column 4b	Total tax due to date as shown by Taxable Pay Tables	K codes only		Tax deducted or refunded in the week or month Mark refunds 'R'	K codes only		Tax Credits
					Total 'additional pay' to date (Table A)				Tax due at end of current period Mark refunds 'R'	Regulatory limit i.e. 50% of column 2 entry		Tax not deducted owing to the Regulatory limit		
		2 £ p	3 £ p	4a £ p	4b £ p		5 £ p	6 £ p	6a £ p	6b £ p	7 £ p	8 £ p	9 £ p	

AMENDED - COLLECTION OF STUDENT LOANS (CSL) 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 Weekly/Monthly Constants (shown in *Italics*) derived from them for the payroll run.

2. Annual Constants - definitions Symbol

Definition 1 - Annual Threshold for CSL **aT**

Definition 2 - Rate of Student Loan Recovery **Rs**

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

aT - 99999
Rs - 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.

NB. The first set of parameter values for the Annual Constants were included in Notes on PAYE for Computer Users (Series 9 Number 10) issued in October 1998.

4. Weekly/Monthly Constants

Definition 1 :- $\text{Threshold } (T_l) = \mathbf{aT} \times \frac{N_{pp}}{Z}$

Take the calculations for Definition 1 to 4 decimal places of a pound and then round down, if necessary, to the nearest 1p below.

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

5. Calculation of Student Loan Deductible

$SL = [E_n - T_l] \times \mathbf{R_s}$

Take the calculation to 2 decimal places and then round down the result, if necessary, to the nearest pound below.

Glossary of Symbols

N_{pp}	=	Number of days/weeks/months in this pay period
Z	=	Number of days/weeks/months in the tax year
aT	=	Annual Threshold
Rs	=	Rate of Student Loan Recovery
T_l	=	Pay period threshold
E_n	=	Earnings in pay period liable to student loan deductions
SL	=	Student Loan Deductible