

## ***Inland Revenue Notes for Payroll Software Developers***

***SERIES 10 – NUMBER 12.1***

***November 2002***

### ***Contents:***

#### ***1. Income Tax and National Insurance changes from 6 April 2003***

- 1.1 Income Tax Changes*
- 1.2 Class 1 National Insurance Contributions                      Annexes A-D*
- 1.3 Summary of changes from 6 April 2003*
- 1.4 Effecting the changes*
- 1.5 Computer Specification for PAYE Tax Table Routines*

#### ***2. Other Information***

- 2.1 Electronic Data Interchange (EDI) changes*
- 2.2 Expenses and Benefits Returns on Magnetic Media 2002/2003  
(EEC1 booklet)*
- 2.3 CA51/52 (2002/2003) – Magnetic Media Technical Specification*
- 2.4 New Tax Credits (NTC)*
- 2.5 Payroll Process Improvement*
- 2.6 Payroll Standard Accreditation*
- 2.7 Statutory Payments*
- 2.8 Substitute forms P14/P60*
- 2.9 Review of van benefit charge*
- 2.10 Congestion charges –tax and NICs treatment*
- 2.11 Benefits in kind-effect of leap year*

#### ***3. Next Issue of these notes***

#### ***4. Mailing List for these Notes***

#### ***5. Contacts for enquires***

## 1. **Income Tax and National Insurance changes from 6 April 2003**

### 1.1 Income Tax Changes

In his Pre-Budget Report on 27 November 2002, the Chancellor of the Exchequer confirmed the Budget 2002 announcement that the income tax personal allowance will be frozen at £4,615 for 2003/04.

There are above inflation increases to the age related personal allowances with effect from 6 April 2003. Other personal tax allowances, including the married couple's allowance for couples in which one of the spouses was born before 6 April 1935, will all rise in line with indexation with effect from 6 April 2003.

Income tax rates and bandwidths will be announced in the Budget in the usual way.

### 1.2 Class 1 National Insurance Contributions

In the April 2002 issue of these Notes, Series 10 – Number 9, we provided a summary of the changes to National Insurance contributions (NICs) effective from 6 April 2003.

We also outlined changes to the *Deductions Working Sheet*, form *P11*, and the *End of Year Summary*, form *P14*, and changes to the recording and reporting requirements for NICs, effective from 6 April 2003.

Following the Chancellor's Pre Budget Report on 27 November 2002, we can confirm, subject to parliamentary approval, that with effect from 6 April 2003 :

- the National Insurance rates will be as announced in the April 2002 issue of these Notes
- the Lower Earnings Limit will be raised to £77.00 per week
- the Earnings Threshold is frozen at £89.00 per week; and
- the Upper Earnings Limit will be raised to £595.00 per week.

Annexes A to C provide a summary of the National Insurance earnings limits, thresholds and rates.

Annex D provides examples of NIC calculations for employers and employees.

### 1.3 Summary of changes from 6 April 2003

- **the income tax personal allowance is frozen at £4,615**
- **age related allowances are increased**
- **both employees and employers earnings threshold for NICs are frozen at £89 per week (£385 per month).**

#### 1.4 Effecting the changes

Employers should continue to use Taxable Pay tables SR + B to D (June 2002).

There will be no general uplift of tax codes. **All code changes will be notified to employers on forms P9(T) (or code list or electronic version).**

The PAYE threshold **with effect from 6 April 2003 remains at £89 per week (£385 per month).**

The code for emergency use **with effect from 6 April 2003 remains at 461L.**

#### 1.5 Computer Specification for PAYE Tax Table Routines

There is no amendment to the Computer Specification.

## 2. Other Information

### 2.1 Electronic Data Interchange (EDI) changes

#### Technical specifications

The new technical specifications for the 2002-2003 P14 and the new tax credit, TC 700 series, forms are now available on the IR website. The titles are EB5 (PAYE)/P14 (2002-2003) and EB5 (PAYE)/TC700 Series.

These specifications are discrete documents and are not part of the very large EB5 Message Implementation Guidelines.

In the next months all the EDI specifications are to be re-written and produced as individual EB5 (PAYE) documents. There will be one for each EDI enabled PAYE form. The specifications have become known, colloquially, as "miglets".

Each "miglet" will contain all the information needed to develop the EDI message. The content of the messages will not change as a result of the re-writing exercise.

#### P46 message change

The date of birth field on the EDI P46 message is no longer mandatory. This change will be reflected in the new P46 "miglet".

### 2.2 Expenses and Benefits Returns on Magnetic Media 2002/2003

The Submission Instructions and Technical Specifications for Expenses and Benefits Returns on Magnetic Media have been updated and contain a number of significant technical changes/additions when compared with the 2001/02 edition.

You should ensure your software follows the latest specification - version October 2002 - before submissions of 2002/03 forms P11D are made. Changes can be found in the EEC1 booklet at sub records:

2B, 2E, 2F, 2X, 2N, 2O, 2T and 2U.

Testing facilities are available and testing is strongly recommended before any live submissions are made.

Copies of the booklet are available from the Inland Revenue Orderlines at Edinburgh, Liverpool and Nottingham and the Electronic Business Unit in Shipley

In addition, copies are also available to download from our website at [www.inlandrevenue.gov.uk/ebu/ebu\\_paye\\_ts.htm](http://www.inlandrevenue.gov.uk/ebu/ebu_paye_ts.htm)

### 2.3 CA51/52 (2002/2003) – Magnetic Media Technical Specification

Employees whose babies are due or born on or after 6 April 2003 can be entitled to Statutory Paternity Pay. If the baby is due on or after 6 April 2003, but is born early SPP may need to be paid in 2002/03.

You should use the SMP field (field 29 in Record Type 2) to record SPP paid in 2002/03. The validation within this field is error type 1 for cash values and the cross reference to the gender field is error type 3 (which was erroneously omitted from this specification although this information is built into our computer validation routines).

You should also use the SMP fields (fields 8 & 9 in Record type 3) to record SPP and SPP compensation recovered.

Processing will not be affected if SPP is recorded within the SMP field for 2002/2003.

### 2.4 Tax Credits from April 2003

#### When an employee leaves

Under the existing tax credits system, if an employee receiving WFTC or DPTC through the payroll leaves his job, his employer can choose to pay the tax credit up to the date of leaving or up to the end of the pay period that includes the date of leaving. In either case he must issue the employee with a Certificate of Payments (form TC02) showing the date up to which the tax credit has been paid.

This procedure will change in two ways under the new tax credits system which comes into effect on 6 April 2003.

First, if an employee receiving Working Tax Credit leaves, the employer must pay the tax credit up to and including the employee's date of leaving. He should not pay beyond the date of leaving, because the employee may not be entitled to Working Tax Credit after leaving his job (unless he has another job). If an employer inadvertently pays the leaving employee beyond the date of leaving (for example, because when he did the payroll he was unaware that the employee was leaving), he must call the Employer's Helpline (0845 7 143 143) without delay.

Second, there will be no equivalent of the form TC02. The employer will simply stop paying tax credit and the employee will be responsible for telling the Revenue about this change in his circumstances.

#### Emergency stops and restarts

If an employee receiving Working Tax Credit through the payroll is not due to receive any wages/salary or SSP/SMP/SPP or SAP in a pay period, the employer does not

have to make up a pay packet simply to pay the tax credit (although he can do so if he wishes). If the employer chooses not to pay the tax credit in these circumstances, he should telephone the Employer's Helpline, who will inform the Tax Credit Office (TCO). TCO will confirm with the employer by telephone the date up to which he has paid (or will pay) the tax credit and the date from which he will restart payments. We will make the necessary tax credit payment direct to the employee for any period between these dates.

Once a restart date has been agreed between TCO and the employer, the Revenue system will be updated to amend the payment profile and issue the appropriate notices to the employer, that is, an emergency stop notice (form TC703) and a restart notice (form TC704).

The restart notice will include similar details to those contained in the start notice (form TC700) but the restart date will be the date that the employer has already agreed to, which may be less than 42 days after the issue of the restart notice.

### Further guidance

To obtain an updated edition of the employer's guidance booklet E6, *Working Tax Credit paid with wages*, call the Employer's Orderline on 0845 7 646 646.

## 2.5 Payroll Process Improvement

In the last three editions of Notes for Payroll Software Developers we have outlined the provisions for the compulsory electronic submission of employer End of Year returns. 'Electronically' means filing using the Internet Service for PAYE or Electronic Data Interchange (EDI), it does not include filing by Magnetic Media.

For large employers these arrangements start in 2004/05 with the first compulsory electronic return (forms P35 and forms P14) being submitted by 19 May 2005. This will also be the first year when incentive payments will become available to the small employer who files electronically. As yet no decision has been made about whether the small employer must use IR accredited software in order to qualify for the incentive payment.

Remember that whilst the employer form P14 will be sent to the IR electronically the payroll software will need to retain a capability to produce paper forms P60. For the time being there are no plans to allow the employer to provide form P60 details in electronic format to employees.

In line with the electronic services IR provide and support, certain types of employer do not have to send their End of Year returns electronically. They are:

- Contractor Only schemes
- Taxed Award schemes
- Electoral Payment schemes
- Profit Sharing schemes

### **Test Services**

There are three strands to the Revenue's testing service.

#### **1. IR Payroll Standard Accreditation.**

IR will continue to promote to all new employers only payroll software that has been fully tested and accredited as meeting the requirements of the IR Payroll Standard. This test

includes the accurate calculation of tax and NICs etc as well as checking the Electronic Exchange capability. Full details can be found at <http://www.inlandrevenue.gov.uk/ebu/psu.htm>

## **2. Quality Standard**

In April 2003 the IR will publish the revised Business Rules for 2004/05 End of Year. We expect that these will be the same for both EDI and Internet submissions with the exception of some media specific business rules. These business rules, together with format & validation rules will form the new Quality Standard.

The Quality Standard represents the IR requirements, and the EDI and Internet systems will reject submissions that do not meet these standards.

To assist software developers in meeting the requirements of the new Quality Standard we are planning to release an enhanced test service in autumn 2003. We will continue to consult software developers regarding test service enhancements in the period to 31 March 03.

## **3. Electronic Exchange (sometimes known as Third Party Vendor Service)**

This test service enables developers to test that their product generates electronic PAYE forms and returns which can be sent to IR electronically - over the Internet or by EDI.

Further details are available at [http://www.inlandrevenue.gov.uk/ebu/softw\\_index.htm](http://www.inlandrevenue.gov.uk/ebu/softw_index.htm)

### **2.6 Payroll Standard Accreditation**

From 6<sup>th</sup> April 2003 accredited software must be able to perform the following payroll functions:

- Calculation and recording of Statutory Sick Pay
- Calculation and recording of Statutory Maternity Pay
- Calculation and recording of Statutory Paternity Pay (for new born children)
- Recording of Statutory Paternity Pay (for adoption)
- Recording of Statutory Adoption Pay
- Calculation and recording of Working Tax Credits
- Changes to recording and calculation of National Insurance Contributions described in the NI Guidance for Software Developers 2003+

The Additional Test Data document available from [www.inlandrevenue.gov.uk/ebu/testdata.htm](http://www.inlandrevenue.gov.uk/ebu/testdata.htm) includes test data for these payroll functions. The Payroll Standard accreditation tests will be based on the information in this document. All payroll software developers, who are either accredited or are considering an application for accreditation, are advised to check their software against these tests. Please note that full calculation tests for Statutory Paternity Pay (adoption) and Statutory Adoption Pay are included for developers who wish to provide this functionality, but the Payroll Standard requirements will only specify recording of the amounts paid during the year. The accreditation process will be based upon both the calculation and recording of all the other payment types mentioned above.

The current testing requirements for Payroll Standard accreditation are included in the Test Data document, which is also available from the above web page.

## 2.7 Statutory Payments

### ***The legislation for the changes to Statutory Maternity Pay, and the new Statutory Adoption and Paternity Pay schemes***

The Employment Act received Royal Assent on 8 July 2002 and most of the regulations have been approved by Parliament. The Employment (NI) Order received Royal Assent on 20th November 2002 and the Statutory Rules should be finalised shortly after that. The changes to the SMP and maternity leave schemes come into effect from 24 November 2002.

The new SPP and paternity leave schemes come into effect from 8 December 2002. If a baby due on or after 6 April 2003 is born before 8 December 2002 the father should wait till 8 December 2002 before starting his paternity leave or being paid SPP.

The new SAP and adoption leave schemes come into effect from 6 April 2003.

**There are minor changes to the specifications on *Statutory Adoption Pay (SAP) and Statutory Paternity Pay (SPP) where a child is placed with their new parents on or after 6 April 2003.*** The changes are shown below with the IR values. New versions of these specifications will be published on the Internet as soon as possible.

#### Technical Specification on Statutory Maternity Pay (SMP) for women expecting a baby on or after 6 April 2003

The values for the IR data are now confirmed as:

IR data			
	Description of data	Abbreviation used	Values
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SMP to arise	<b>LEL</b>	£75 from 6/4/02 £77 from 6/4/03
A2	The number of weeks an employee needs to be continuously employed	<b>Cont_Emp_weeks</b>	26
A3	The number of weeks in the Maternity Pay Period (MPP)	<b>MPP_weeks</b>	26
A4	Standard rate of SMP (this was previously known as the lower rate).  <b>NB</b> the Standard rate will no longer underpin the earnings-related rate for complete weeks in the MPP starting on or after Sunday 6 April 2003.  There are transitional rules affecting MPPs spanning 6/4/03.  For examples go to <a href="http://www.inlandrevenue.gov.uk/cbr-smp/smp_examples.htm">www.inlandrevenue.gov.uk/cbr-smp/smp_examples.htm</a>	<b>Standard_Rate</b>	£75 for weeks in the Maternity Pay Period (MPP) starting on or after Sunday 7 April 2002. £100 for weeks in the MPP starting on or after 6 April 2003
A5	Small Employer Threshold (field size set at 100 thousand just in case)	<b>SER_Threshold</b>	£40,000 for SMP payments made on or after 6 April

IR data			
			2002. £40,000 for SMP payments made on or after 6 April 2003
A6	Small Employer Recovery Rate	<b>SER_Recovery</b>	100%
A7	Small Employer Compensation rate	<b>Comp</b>	4.5% for SMP payments made on or after 6 April 2002. 4.5% for payments made on or after 6 April 2003
A8	Standard Recovery rate	<b>Standard_Recovery</b>	92%

Technical Specification on Statutory Paternity Pay (SPP) where the baby is expected to be born or is actually born on or after 6 April 2003

The values for the IR data are now confirmed as:

IR data			
	Description of data	Abbreviation used	Recommended Field size
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SPP to arise	<b>LEL</b>	£75 from 6/4/02 £77 from 6/4/03
A2	The number of weeks an employee needs to be continuously employed	<b>Cont_Emp_weeks</b>	26
A3	The number of weeks in the Paternity Pay Period (PPP) (field size set in double figures just in case)	<b>PPP_weeks</b>	2
A4	Standard rate of SPP  <b>NB</b> The earnings-related rate will not apply throughout PPPs starting before Sunday 6 April 2003.	<b>Standard_Rate</b>	£75 throughout Paternity Pay Periods (PPP) starting before Sunday 6 April 2003. £100 throughout PPPs starting on or after Sunday 6 April 2003
A5	Small Employer Threshold (field size set at 100 thousand just in case)	<b>SER_Threshold</b>	£40,000 for SPP payments made before 6 April 2003. £40,000 for payments made on or after 6 April 2003.
A6	Small Employer Recovery Rate	<b>SER_Recovery</b>	100%

IR data			
A7	Small Employer Compensation rate	<b>Comp</b>	4.5% for SPP payments made before 6 April 2003. 4.5% for payments made on or after 6 April 2003
A8	Standard Recovery rate	<b>Standard_Recovery</b>	92%

Technical Specification on Statutory Paternity Pay (SPP) where a child is placed with their new parents on or after 6 April 2003

Change to B7- SPP\_stop.

The employee can continue to get SPP after the child's 18<sup>th</sup> birthday

B7	SPP entitlement stops on: <ul style="list-style-type: none"> <li>□ <b>PPP_End_Week(n+1)</b> after the employee dies</li> <li>□ <b>PPP_End_Week(n)</b> after the employee is taken into legal custody</li> <li>□ <b>PPP_End_Week(n)</b> before <b>Child_Placed_Date + 56 days</b></li> </ul>	<b>SPP_stop</b>	Date. May be blank.
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The values for the IR data are now confirmed as:

IR data			
	Description of data	Abbreviation used	Recommended Field size
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SPP to arise	<b>LEL</b>	£75 from 6/4/02 £77 from 6/4/03
A2	The number of weeks an employee needs to be continuously employed	<b>Cont_Emp_weeks</b>	26
A3	The number of weeks in the Paternity Pay Period (PPP) (field size set in double figures just in case)	<b>PPP_weeks</b>	2
A4	Standard rate of SPP	<b>Standard_Rate</b>	£100 for weeks of SPP starting on or after 6 April 2003
A5	Small Employer Threshold (field size set at 100 thousand just in case)	<b>SER_Threshold</b>	£40,000 for SPP payments made on or after 6 April 2003
A6	Small Employer Recovery Rate	<b>SER_Recovery</b>	100%
A7	Small Employer Compensation rate	<b>Comp</b>	4.5% for payments made on or after 6 April 2003
A8	Standard Recovery rate	<b>Standard_Recovery</b>	92%

Technical Specification on Statutory Adoption Pay (SAP) where a child is placed with their new parents on or after 6 April 2003

Change to B8- SAP\_stop.

The employee can continue to get SAP after the child's 18<sup>th</sup> birthday.

B8	SAP entitlement stops on: <ul style="list-style-type: none"> <li>□ <b>APP_End_Week(n+1)</b> after the employee dies</li> <li>□ <b>APP_End_Week(n)</b> after the employee is taken into legal custody</li> </ul>	<b>SAP_stop</b>	Date. May be blank.
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The values for the IR data are now confirmed as:

<b>IR data</b>			
	<b>Description of data</b>	<b>Abbreviation used</b>	<b>Recommended Field size</b>
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SAP to arise	<b>LEL</b>	£75 from 6/4/02 £77 from 6/4/02
A2	The number of weeks an employee needs to be continuously employed	<b>Cont_Emp_weeks</b>	26
A3	The number of weeks in the Adoption Pay Period (APP)	<b>APP_weeks</b>	26
A4	Standard rate of SAP	<b>Standard_Rate</b>	£100 for weeks in the Adoption Pay Period (APP) starting on or after 6 April 2003
A5	Small Employer Threshold (field size set at 100 thousand just in case)	<b>SER_Threshold</b>	£40,000 for SAP payments made on or after 6 April 2003
A6	Small Employer Recovery Rate	<b>SER_Recovery</b>	100%
A7	Small Employer Compensation rate	<b>Comp</b>	4.5% for SAP payments made on or after 6 April 2003
A8	Standard Recovery rate	<b>Standard_Recovery</b>	92%

Statutory Sick Pay(SSP) Technical Specification

Please note the changes to the following values

A2	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SSP to arise	<b>LEL</b>	£77 from 06/04/03
A3	The weekly rate of SSP payable	<b>Weekly_Rate</b>	£64.35 from 06/04/03

## 2.8 Substitute forms P14/P60

In the September 2002 issue of these notes (Series 10 – Number 11), we explained that substitute forms P14/P60 for 2003-2004 would need to be updated in line with the official forms. We also advised that all authorised substitute stationery producers would be contacted about this in due course.

During December 2002, Inland Revenue Forms Unit will send the specification booklet, RD1, to all existing producers of IR approved substitute forms. Anyone wishing to design a substitute P14/P60 for the first time can get a copy of the specification booklet from:

**Inland Revenue  
Forms & Information Delivery  
4<sup>th</sup> Floor  
Melbourne House  
Aldwych  
London WC2B 4LL**

The 2003-04 forms can be viewed at [www.inlandrevenue.gov.uk/ebu/pnforms.htm](http://www.inlandrevenue.gov.uk/ebu/pnforms.htm)

## 2.9 Review of van Benefit charge

In the Series 10, Number 9 edition of the Notes issued on 17 April 2002 we told you about a review of the tax and Class 1A NICs charge on vans made available for private use, announced by the Chancellor in the 2002 Budget.

The Government is currently developing proposals for a reform of the tax and NICs treatment of employer provided vans, and discussing with industry and other key stakeholders how best to achieve this with a view to a formal consultation this year.

The review is also focusing on how to simplify the rules relating to shared vans and on the scope for encouraging the use of environmentally friendly vans.

## 2.10 Congestion charges –tax and NICs treatment

The London congestion-charging scheme comes into effect from 17 February 2003. We have received a number of queries asking whether the charge is tax deductible.

For employees and officeholders, the normal rules on the tax and NICs treatment of employee travel and subsistence apply.

## 2.11 Benefits in kind –effect of leap year

There are proposals in the Income Tax (Earnings and Pensions) Bill to replace references to a 365 day year with references to the actual number of days in the year to accommodate leap years.

This means, that with effect from 6 April 2003 the calculation of car, car fuel and van benefits should be carried out by reference to the number of days in the year rather than 365, as previously advised in the Series 10, Number 2 edition of the Notes issued on 22 March 2000). This is on the assumption that the proposal will become law if the Bill is enacted to have effect from 6 April 2003.

This change will first have an impact in 2003/04 as the year 2004 is a 366 day leap year.

## 3. Next issue of these Notes

The next issue of these notes is scheduled to follow the Chancellor's Budget announcement in March 2003.

#### 4. **Mailing List for these notes**

The mailing options for these Notes are:

- Advance notification by post
- Advance notification by email
- Paper issue of these Notes

Requests to be included on the mailing list and notification of address changes should include details of your preferred option, your email address, company name and address and be sent by email to [irnotes@reply.co.uk](mailto:irnotes@reply.co.uk)

Or you can put in writing and send to:

**“Inland Revenue Notes for Payroll Software Developers”,  
PO Box 1460,  
Bristol BS99 3NW.**

If you wish to be removed from mailing list please send your request by email to [irnotes@reply.co.uk](mailto:irnotes@reply.co.uk) or write to the address shown above.

#### 5. **Contacts for enquiries**

*If you require further information about any of the subjects included in these Notes, please ring the Helpline numbers quoted **before** contacting the Electronic Business Unit.*

Any other query you have about the contents of the “Specification” or the “Inland Revenue Notes for Payroll Software Developers” should be made to:

Electronic Business Unit,  
Crown House,  
Victoria Street,  
Shipley,  
West Yorkshire BD17 7TW.

Telephone: **0845 60 55 999**  
Fax: **01274 534618**  
E-mail: [helpdesk@ir-efile.gov.uk](mailto:helpdesk@ir-efile.gov.uk)

General payroll enquiries should be directed to your local Inland Revenue Office or to the Employer's Helpline whose number is **0845 7 143 143**.

**Please note, that EBU cannot deal with change of mailing address information, which should be directed to 'PO Box 1460' as detailed above.**

### Class 1 Contribution rates for Not Contracted-out and Contracted-out Schemes - 2003-2004

#### Class 1 Not Contracted-out contribution rates

Category Letters A (Standard rate), B (Married Woman's Reduced Rate) & C (Employer only rate)

Earnings Bands	Employee's contribution			Employer's contribution
	Contribution Category letter A	Contribution Category letter B	Contribution Category letter C	Contribution Category letters A, B and C
Below £77.00 weekly, Below £334.00 monthly, Below £4,004.00 yearly	Nil	Nil	Nil	Nil
£77.00 to £89.00 weekly, or £334.00 to £385.00 monthly, or £4,004.00 to £4,615.00 yearly	<b>0%</b>	<b>0%</b>	Nil	<b>0%</b>
£89.01 to £595.00 weekly, or £385.01 to £2,579.00 monthly, or £4,615.01 to £30,940.00 yearly	<b>11%</b> on earnings above the Earnings Threshold	<b>4.85%</b> on earnings above the Earnings Threshold	Nil	<b>12.8%</b> on all earnings above the Earnings Threshold
Over £595.00 weekly, Or over £2,579.00 monthly, Or over £30,940.00 yearly	<b>11%</b> on earnings above the Earnings Threshold, up to and including the UEL <b>and</b> <b>1%</b> on earnings above the UEL	<b>4.85%</b> on earnings above the Earnings Threshold, up to and including the UEL <b>and</b> <b>1%</b> on earnings above the UEL	Nil	<b>12.8%</b> on all earnings above the Earnings Threshold

Weekly LEL = £77, ET = £89, UEL =£595.

Employer's rates for mariners should be reduced by 0.5%

**Class 1 Contribution rates for Contracted-out Salary Related Schemes (COSR)**

Category Letters D (Standard Contracted-out) & E (Married Woman Reduced Contracted-out rate). These rates should only be used where the employer operates a COSR occupational pension scheme.

	Employee's contribution		Employer's contribution	Employee's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold (Applies to contribution category letter D only)	Employer's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold
Earnings Bands	Contribution Category letter D	Contribution Category letter E	Contribution Category letters D and E		
Below £77.00 weekly, Below £334.00 monthly, Below £4,004.00 yearly	Nil	Nil	Nil	Nil	Nil
£77.00 to £89.00 weekly, or £334.00 to £385.00 monthly, or £4,004 to £4,615.00 yearly	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>1.6%</b> on earnings from <b>£77.00</b> , up to and including <b>£89.00</b> (or monthly or annual equivalents)	<b>3.5%</b> on earnings from <b>£77.00</b> , up to and including <b>£89.00</b> (or monthly or annual equivalents)
£89.01 to £595.00 weekly, or £385.01 to £2,579.00 monthly, or £4,615.01 to £30,940.00 yearly	<b>9.4%</b> on earnings above the Earnings Threshold	<b>4.85%</b> on earnings above the Earnings Threshold	<b>9.3%</b> on earnings above the Earnings Threshold		
Over £595.00 weekly, Or over £2,579.00 monthly, Or over £30,940.00 yearly	<b>9.4%</b> on earnings above the Earnings Threshold, up to and including the UEL, <b>and</b> <b>1%</b> on earnings above the UEL	<b>4.85%</b> on earnings above the Earnings Threshold, up to and including the UEL, <b>and</b> <b>1%</b> on earnings above the UEL	<b>9.3%</b> on earnings above the Earnings Threshold, up to and including the UEL, then <b>12.8%</b> on all earnings above the UEL		

Weekly LEL = £77, ET = £89, UEL =£595.

Employer's rates for mariners should be reduced by 0.5%

**Class 1 Contribution Rates for Contracted-out Money Purchase Schemes (COMP)**

Category Letters F (Standard contracted-out rate for COMP schemes) & G (Married Woman's Reduced Rate). These rates should only be used where the employer operates a COMP occupational pension scheme.

	Employee's contribution		Employer's contribution	Employee's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold (Applies to contribution category letter F only)	Employer's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold
Earnings Bands	Contribution Category letter F	Contribution Category letter G	Contribution Category letters F and G		
Below £77.00 weekly, Below £334.00 monthly, Below £4,004.00 yearly	Nil	Nil	Nil	Nil	Nil
£77.00 to £89.00 weekly, or £334.00 to £385.00 monthly, or £4,004.00 to £4,615.00 yearly	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>1.6%</b> on earnings from <b>£77.00</b> , up to and including <b>£89.00</b> (or monthly or annual equivalents)	<b>1.0%</b> on earnings from <b>£77.00</b> , up to and including <b>£89.00</b> (or monthly or annual equivalents)
£89.01 to £595.00 weekly, or £385.01 to £2,579.00 monthly, or £4,615.01 to £30,940.00 yearly	<b>9.4%</b> on earnings above the Earnings Threshold	<b>4.85%</b> on earnings above the Earnings Threshold	<b>11.8%</b> on earnings above the Earnings Threshold		
Over £595.00 weekly, Or over £2,579.00 monthly, Or over £30,940.00 yearly	<b>9.4%</b> on earnings above the Earnings Threshold, up to and including the UEL, <b>and</b> <b>1%</b> on earnings above the UEL	<b>4.85%</b> on earnings above the Earnings Threshold, up to and including the UEL, <b>and</b> <b>1%</b> on earnings above the UEL	<b>11.8%</b> on earnings above the Earnings Threshold, up to and including the UEL, then <b>12.8%</b> on all earnings above the UEL		

Weekly LEL = £77, ET = £89, UEL =£595.

Employer's rates for mariners should be reduced by 0.5%

## Examples of NIC calculations for employers and employees

The examples reproduced below use the earnings limits and threshold for 2003-2004.

Please note that the examples are calculated using the exact percentage method.

### Not contracted-out employment

#### Example 1

Weekly earnings of £77.00

Employee NICs due = NIL

Employer NICs due = NIL

Complete P11 as follows:

1a	1b	1c	1d	1e
77	0	0	0.00	0.00

#### Example 2

Weekly earnings of £89.00

Employee NICs due = NIL

Employer NICs due = NIL

Complete P11 as follows:

1a	1b	1c	1d	1e
77	12	0	0.00	0.00

#### Example 3

Weekly earnings of £91.00

£91.00 - £89.00 = £2.00

Employee NICs due = £2.00 x 11% = £0.22

Employer NICs due = £2.00 x 12.8% = £0.256

*rounded to £0.26*

Total NICs due = £0.22 + £0.26 = £0.48

Complete P11 as follows:

1a	1b	1c	1d	1e
77	12	2	0.48	0.22

#### Example 4

Weekly earnings of £110.00

£110.00 - £89.00 = £21.00

Employee NICs due = £21.00 x 11% = £2.31

Employer NICs due = £21.00 x 12.8% = £2.688

*rounded to £2.69*

Total NICs due = £2.31 + £2.69 = £5.00

Complete P11 as follows:

1a	1b	1c	1d	1e
77	12	21	5.00	2.31

**Example 5****Annex D cont'd**

Weekly earnings of £605.00

£595.00 - £89.00	=	£506.00			
£605.00 - £595.00	=	£10.00			
Employee NICs due	=	£506.00 x	11%	=	£55.66
		£10.00 x	1%	=	<u>£ 0.10</u>
					£55.76
Employer NICs due	=	£516.00 x	12.8%	=	£66.048
					<i>rounded to £66.05</i>
Total NICs due	=	£55.76 +	£66.05	=	£121.81

Complete P11 as follows:

1a	1b	1c	1d	1e
77	12	506	121.81	55.76

**Contracted-out employment**

Employers who operate a contracted-out occupational pension scheme and employees who are members of that scheme will continue to pay a lower rate of NICs on earnings between the Earnings Threshold and the Upper earnings Limit.

Membership of an occupational pension scheme does **not** exclude members from paying employee NICs at 1% on earnings above the UEL.

The percentage rates for calculation of the NIC rebates are:

**Employers**

- 3.5% for Contracted-out Salary Related schemes (12.8% less 9.3%)
- 1.0% for Contracted-out Money Purchase schemes (12.8% less 11.8%)

**Employees**

- 1.6% for Contracted-out Salary Related and Contracted-out Money Purchase schemes (11% less 9.4%)

For example:

Employer operating a Contracted-out Salary Related scheme**Example 6**

Weekly earnings of £86.00

£86.00 - £77.00	=	£9.00			
Employee NICs due	=	NIL			
Employer NICs due	=	NIL			
Employee NIC rebate due	=	£9.00 x	1.6%	=	£0.144
					<i>rounded to £0.14</i>
Employer NIC rebate due	=	£9.00 x	3.5%	=	£0.315
					<i>rounded to £0.31</i>
Total NIC rebate due	=	£0.14 +	£0.31	=	£0.45

Complete P11 as follows:

1a	1b	1c	1d	1e
77	9	0	R 0.45	0.00

As there are no employee NICs due against which to off-set the employee NIC rebate, the full value of the employee NIC rebate is available to the employer, in addition to the value of the employer NIC rebate.

Because there are no employer NICs due, the effect of off-setting the employee and employer NIC rebates due is that the total (employee and employer) NICs payable is a minus amount. The column 1d entry on the P11 is therefore marked 'R'.

### Example 7

Weekly earnings of £90.00

£90.00 - £89.00	=	£1.00			
Employee NICs due	=	£1.00	x	9.4%	= £0.094
					<i>rounded to £0.09</i>
£89.00 - £77.00	=	£12.00			
Employee NIC rebate due	=	£12.00	x	1.6%	= £0.192
					<i>rounded to £0.19</i>
Net Employee NICs due	=	£0.09	-	£0.19	= £0.00

*Balance of Employee NIC rebate available to the employer = £0.10*

Employer NICs due	=	£1.00	x	9.3%	= £0.093
					<i>rounded to £0.09</i>
£89.00 - £77.00	=	£12.00			
Employer NIC rebate due	=	£12.00	x	3.5%	= £0.42
Net Employer NICs due	=	£0.09	-	£0.42	= - £0.33
					+ - £0.10 <i>balance of</i>
					<u><i>Employee NIC rebate</i></u>
					= - £0.43

Total NICs due = £0.00 + - £0.43 = - £0.43

Complete P11 as follows:

1a	1b	1c	1d	1e
77	12	1	R 0.43	0.00

Where the employee NICs due are less than the value of the employee NIC rebate due, only the value of the employee NIC rebate equivalent to that of the employee NICs due is paid to the employee. This, in effect, will reduce the employee NICs to NIL. Any balance of the employee NIC rebate is available to the employer.

### Example 8

Weekly earnings of £100.00

£100.00 - £89.00	=	£11.00			
Employee NICs due	=	£11.00	x	9.4%	= £1.034
					<i>rounded to £1.03</i>

**Annex D Cont'd**

£89.00 - £77.00	=	£12.00					
Employee NIC rebate due	=	£12.00	x	1.6%	=	£0.192	
							<i>rounded to £0.19</i>
Net Employee NICs due	=	£1.03	-	£0.19	=	£0.84	
Employer NICs due	=	£11.00	x	9.3%	=	£1.023	
							<i>rounded to £1.02</i>
£89.00 - £77.00	=	£12.00					
Employer NIC rebate due	=	£12.00	x	3.5%	=	£0.42	
Net Employer NICs due	=	£1.02	-	£0.42	=	£0.60	
Total NICs due	=	£0.84	+	£0.60	=	£1.44	

Complete P11 as follows:

1a	1b	1c	1d	1e
77	12	11	1.44	0.84