Inland Revenue Notes for Payroll Software Developers

SERIES 10 – NUMBER 4.1 ***November 2000***

Contents:

1. ***Income Tax and National Insurance changes from 6 April 2001***

1.1 *Income Tax changes*

In his Pre Budget report on 8 November 2000, the Chancellor of the Exchequer announced that the income tax personal allowance would be increased in line with indexation to £4,535 from 6 April 2001. Additionally, the age related personal allowances, and the married couples allowance for couples in which one of the spouses was born before 6 April 1935, all rise in line with indexation with effect from 6 April 2001. Income tax rates and bandwidths will be announced in the Budget in the usual way.

1.2 *National Insurance changes*

On 8 November the Chancellor of the Exchequer announced the new earnings limits, threshold and rates for National Insurance that will take effect from 6 April 2001.

The main changes are:

- The Lower Earnings Limit will be raised to £72.00 per week;
- The aligned Primary and Secondary Earnings Thresholds are set at £87.00 per week;
- The Upper Earnings Limit will be raised to £575.00 per week.

In addition to this, there is a 0.3% reduction in the employer's rate of NI. There is no change to the rates for employees. The revised rates will be:

Employee	Employer	
10%	11.9%	Not Contracted-out
8.4%	8.9%	Contracted-out Salary Related
8.4%	11.3%	Contracted-out Money Purchase or COMP Stakeholder pension

The tables in Annexes A to C reflect the changes and provide further details of the monthly and annual earnings limits and threshold. Annex D provides examples of calculating and recording NICs using the National Insurance earnings limits, thresholds and rates for 2001-2002.

1.3 *Summary of changes from 6 April 2001*

- **the Income Tax Personal Allowance is increased to £4535**
- **age related allowances are increased**
- **both employees and employers earnings threshold for NICs are increased to £87 per week (£378 per month)**

1.4 *Effecting the changes*

Employers should continue to use Taxable Pay tables SR + B to D (May 2000).

There will be a general uplift of codes with suffix "L" only. Full instructions will be issued to employers on form P9X(2001) which will be issued as part of the Employers' Annual Pack.

As a general rule, unless an amended code notification has been received on form P9(T) (or code list, magnetic tape or cartridge, or via EDI) employers should amend 2001/2002 codes as follows:

"L" suffix code – increase by 15 e.g. code 438L becomes 453L.

All other suffix codes including P, V and Y and prefix "K" codes will be amended where appropriate by the issue of a form P9(T).

The PAYE threshold with effect from 6 April 2001 is increased to £87 per week (£378 per month).

The code for emergency use with effect from 6 April 2001 is 453L.

1.5 *Computer Specification for PAYE Tax Table Routines*

There is no amendment to the Computer Specification as a result of these changes.

2. *Other Information*

2.1 *Authorised mileage rates for 2001/2002*

The new authorised mileage rates for 2001/2002 were announced on 8 November. The mileage rates may be paid free of income tax to employees who use their own cars, pedal cycles and motorcycles for business travel.

For National Insurance, employers should use the up-to-4,000 mile authorised rates to determine whether NICs are payable on mileage allowances. For pedal cycle and motorcycle allowances, there will be no NICs liability if the employees are paid at or below the authorised rates of 12p per mile for pedal cycles and 24p per mile for motorcycles. And no NICs liability will arise if any of the amounts paid are covered by an Inland Revenue dispensation.

From 6 April 2001 the authorised mileage rates will be

2001/2002 Authorised rate per business mile

Size of car engine	On the first 4,000 business miles in the tax year	On each business mile over 4,000 miles in the tax year
Up to 1,500cc	40p	25p
1,501-2,000cc	45p	25p
Over 2,000cc	63p	36p
Motor Cycle	24p	
Pedal Cycle	12p	

A new statutory scheme for 2002/03 is under consideration.

2.2 *Statutory Sick Pay and Statutory Maternity Pay*

The Secretary of State for Social Security said that the Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP) rates will be increased from April 2001.

For employees with average weekly earnings of £72.00 the SSP rate will be increased to £62.20 per week.

The lower rate for SMP will also be increased to £62.20 per week.

2.3 *Forms P14/P60 for 2001/2002*

Single-part P60 for sheet-feed printers

The September 2000 edition of the Notes advised readers that the revised forms P11, P14 and P60 forms which will be usable for 2001-02 are now displayed on the Inland Revenue web site at: www.inlandrevenue.gov.uk/comp/index.htm

Included amongst these is the Basic Single Part P60 which will also be available from the Employer's Orderline for 2001/2002. This short version P60 form has previously been supplied for manual completion only. But, following recent consultation with employers' representative groups and payroll software developers, we have now redesigned the form so that it can also be completed by sheet-feed computer printers. The form is A4-size, portrait format. When folded it can be inserted into a standard window-panel envelope for issue to employees.

We hope this additional customer service initiative will be helpful particularly to small employers able to file their PAYE/NIC end of year returns over the internet (or by other electronic media). In such cases, the short version single-part P60 can be used instead of the more detailed version which has the same layout as form P14.

Availability of forms from Employers Orderline

Forms P14/P60 and the new single-part P60 for 2001/2002 will be available from the Employer's Orderline from April 2001. This will enable

- software users to familiarise themselves with the new layout, and

- ceasing employers to obtain the correct forms to accompany their 2001/2002 P35.

A new version of the RD1 'Specification for Employer's PAYE End of Year Forms P14/P60', for the year 2001/02, 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.

2.4 *A reminder regarding forms P14 and tax credits*

During the year the employer is required to prepare and maintain a form P11 (deduction working sheet) in respect of all employees who receive a tax credit - including those employees who are paid below the LEL and from whom no deduction of tax or NICs is due. At the end of the year a form P14 will need to be prepared and sent in with all the other forms P14.

2.5 *P14 and P35 2000/2001 – Helpsheets*

After consultation with employers and also assessing the most common questions received through the Employers Helpline, it has been decided to produce designated helpsheets for forms P14 and P35. We anticipate the helpsheets will be available from the Employers Orderline next February. They will also be issued automatically with any orders received for forms P14.

2.6 *Collection of Student Loans*

Reporting of student loan deductions where a priority attachment of earnings order is in force.

From 2000-2001 onwards Student Loan deductions must be recorded on end of year return forms P14 and P35 **in whole pounds only**.

This will be self evident in the majority of cases since student loan deductions for a particular pay period are rounded down to the nearest whole pound using either the SL3 *Student Loan Tables or the Collection of Student Loans (CSL) Specification*. However, a situation can arise whereby the amount of student loan deduction will be made up of an amount including pence following the deduction of a priority attachment of earnings order (AEO).

Priority attachment of earnings orders must be deducted before student loan deductions. The following example demonstrates a situation whereby the student loan deduction is restricted to an amount of remaining earnings (after deducting a priority AEO plus the protected earnings) including pence.

Example

Employee has gross (NI'able) earnings in month of	£1600
Student Loan deduction (per monthly SL3 tables)	£69
Attachable earnings after deduction of priority AEO	£854.96
Less, protected earnings notified by latest priority order	£800.00
	£54.96
Therefore student loan deduction is restricted to	£54.96

This figure should be recorded on the P11 Deductions Working Sheet for each relevant pay period but the total for the year should be rounded down to the nearest pound. This rounded total should then be entered on end of year returns P14 and P35.

Form P11 for 2001-2002 has been suitably amended to allow for £ and pence entries in the Student Loan Deductions column.

2.7 *Extension of Class 1A NICs - updated CWG5*

An updated leaflet CWG5 'Class 1A National Insurance Contributions on Benefits in Kind' is being sent this month to employers who we have identified as potentially liable to Class 1A NICs for 2000-2001.

Issue 1 of the guide was sent to all employers last January/February as part of the *2000 Employers' Annual Pack*. It was a preliminary guide because, although the Government had announced planned changes to extend the Class 1A charge to most benefits from April 2000, at the time of issue the announcements were without legislative support.

The updated guide expands on the information contained in the CWG5 preliminary guide now that the extension of Class 1A has legislative support. It also contains copies of the finalised versions of the P11D and P11D(b) for 2000-2001. From mid-November, you can get a free copy of the updated CWG5 from the Employers' Orderline on 0845 7 646 646. Lines are open from 8.00am - 8.00pm Monday to Friday, and from 10.00am to 1.00pm on Saturdays. Or, from mid November also, you can download a copy from the IR Website at: www.inlandrevenue.gov.uk/employers/download.htm.

2.8 *SSP/SMP Technical Specifications*

Following consultation with the payroll software industry, the Inland Revenue has agreed to develop a technical specification for Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP). Work is continuing to produce this specification which will be made available to the payroll industry as soon as it is complete.

2.9 *Guidance for Software Developers on Stakeholder Pension Deductions*

Guidance is now available for payroll software developers on making Stakeholder Pension deductions from payroll. This guide is attached at Annex E of these notes called 'Guidance for Software Developers on Stakeholder Pension deductions'

Further Information

Full regulations are available on the HMSO web-site at: www.legislation.hmso.gov.uk/si/si2000/20001403.htm Further publicity has been included in a DSS Guide "*stakeholder pensions – a guide for employers PME1"* which has been sent to all employers with 5 or more employees. This guide is available on the DSS web-site at: www.dss.gov.uk/publications/index.htm or you can order a copy from the Inland Revenue Employers Orderline on 0845 7 646 646. For further information, Software Developers should ring the Inland Revenue National Insurance Contribution Office helpline on 0845 9 150 150.

2.10 *Electronic Data Interchange (EDI) - Tax credits*

Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) are schemes administered by the Inland Revenue. They replaced Family Credit (FC) and Disability Working Allowance (DWA).

WFTC tops up the earnings of working families with children. DPTC gives support to working people who have a disability. Both can include a childcare tax credit to help with the childcare costs of a working parent.

From April 2000 employers operating a PAYE scheme have paid tax credits through the payroll, unless a couple has opted for a non-working or self employed partner to receive the tax credit. The Inland Revenue currently inform employers when to start paying the tax credit, how much to pay and when to stop.

After the end of October 2000 employers will be able to receive certain WFTC/DPTC notifications from the Inland Revenue electronically using Electronic Data Interchange (EDI).

EDI is a secure service using encrypted messages (the data that would be on equivalent paper forms) in a language known as EDIFACT. These messages pass from/to the employer's payroll system over communication systems known as Value Added Networks (VANs) or X400s through an Inland Revenue Gateway from/to the IR's system(s) without operator intervention. The service is not email and does not use the Internet.

There are set up costs involved in the use of EDI, so this service is best suited to employers that have high numbers or a large turnover of employees (typically in the thousands).

A revised version of the technical specifications **'EB5 PAYE Message Implementation Guidelines (MIG) issue 3.0.C'** which includes information on the Tax Credits messages is available from the end of October 2000. It can be found on the Inland Revenue's website www.inlandrevenue.gov.uk within the 'Technical Specifications' page of e-business. The MIG is useful to payroll software developers or employers who have developed their own 'in house' payroll system.

The Tax Credit notifications available by EDI are :-

- TC01 'Employer Notification to Start Paying Tax Credits'
- TC02 'Tax Credits ---- Certificate of Payments' and
- TC03 'Employer Notification to Stop Paying Tax Credits'

Employers who currently use EDI to exchange other information electronically with the Inland Revenue will be contacted by the Electronic Business Unit. Further information on testing etc, will be provided to employers wishing to exchange the above forms electronically.

Any employers who wish to know more information about this new EDI service should contact :-

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

Phone 0845 60 55 999
Fax 01274 534618
Minicom 01274 534600
e-mail helpdesk@ir-efile.gov.uk

2.11 *Internet service for PAYE*

We have recently published the draft regulations for the internet service for PAYE on our website. We have also published a consultation paper which seeks comments about the draft regulations and about the arrangements for the discounts linked to the PAYE internet service. In particular we are asking people for their views about the definition of a "small business". The deadline for comments is 30 November. The draft regulations and the consultation paper can be found on our website at: http://www.inlandrevenue.gov.uk/menus/consult.htm . Copies in Word format may be obtained by sending an email to cdpolicy.ir.kw@gtnet.gov.uk .

3. *Next issue of these Notes*

The next issue of these Notes is scheduled to follow the Budget Statement in March 2001.

4. *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.

Or you can email: irnotes@reply.co.uk

Contacts for enquiries

If you require further information about any of the subjects included in these Notes, please ring the telephone 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.**

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 Not Contracted-out contribution rates
Category Letters A (Standard rate), B (Married Woman's Reduced Rate) & C (Employer's only rate)

	Employee's contribution			Employer's contribution
Earnings Bands	**Contribution Category letter A**	**Contribution Category letter B**	**Contribution Category letter C**	**Contribution Category letters A, B and C**
Below £72.00 weekly, Below £312.00 monthly, Below £3744.00 yearly	Nil	Nil	Nil	Nil
£72.00 to £87.00 weekly, or £312.00 to £378.00 monthly, or £3744.00 to £4535.00 yearly	**0%**	**0%**	Nil	**0%**
£87.01 to £575.00 weekly, or £378.01 to £2492.00 monthly, or £4535.01 to £29,900.00 yearly	**10%** on earnings above the Earnings Threshold	**3.85%** on earnings above the Earnings Threshold	Nil	**11.9%** on earnings above the Earnings Threshold
Over £575.00 weekly, Or over £2492.00 monthly, or over £29,900.00 yearly	**10%** on earnings above the Earnings Threshold, up to and including the UEL then **Nil** on earnings above the UEL	**3.85%** on earnings above the Earnings Threshold, up to and including the UEL then **Nil** on earnings above the UEL	Nil	**11.9%** on all earnings above the Earnings Threshold

Class 1 Contribution rates for Contracted-out Salary Related Schemes (COSR) — ANNEX B

Category Letters D (Standard Contracted-out) E (Married Woman Reduced Contracted–out rate) & C (Employer only 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 letter C**	**Contribution Category letters D, E and C**		
Below to £72.00 weekly, Below to £312.00 monthly, Below to £3744.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£72.00 to £87.00 weekly, or £312.00 to £378.00monthly, or £3744.00 to £4535.00yearly	**0%**	**0%**	Nil	**0%**	**1.6%** on earnings from **£72.00,** up to and including **£87.00** (or monthly or annual equivalents)	**3%** on earnings from **£72.00**, up to and including **£87.00** (or monthly or annual equivalents)
£87.01 to £575.00 weekly, or £378.01 to £2492.00monthly, or £4535.01 to £29,900yearly	**8.4%** on earnings above the Earnings Threshold	**3.85%** on earnings above the Earnings Threshold	Nil	**8.9%** on earnings above the Earnings Threshold		
Over £575.00 weekly, Or over £2492.00 monthly, Or over £29,900.00 yearly	**8.4%** on earnings above the Earnings Threshold, up to and including the UEL, then **Nil** on earnings above the UEL	**3.85%** on earnings above the Earnings Threshold, up to and including the UEL, then **Nil** on earnings above the UEL	Nil	**8.9%** on earnings above the Earnings Threshold, up to and including the UEL, then **11.9%** on all earnings above the UEL		

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 & S (Employer's only 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 letter S**	**Contribution Category letters F, G and S**		
Below £72.00 weekly, Below £312.00 monthly, Below £3744.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£72.00 to £87.00 weekly, or £312.00 to £378.00monthly, or £3744.00 to £4535.00yearly	**0%**	**0%**	Nil	**0%**	**1.6%** on earnings from **£72.00,** up to and including **£87.00** (or monthly or annual equivalents)	**0.6%** on earnings from **£72.00**, up to and including **£87.00** (or monthly or annual equivalents)
£87.01 to £575.00 weekly, or £378.01 to £2492.00monthly, or £4535.01 to £29,900.00 yearly	**8.4%** on earnings above the Earnings Threshold	**3.85%** on earnings above the Earnings Threshold	Nil	**11.3%** on earnings above the Earnings Threshold		
Over £575.00 weekly, Or over £2492.00 monthly, or over £29,900.00 yearly	**8.4%** on earnings above the Earnings Threshold, up to and including the UEL, then **Nil** on earnings above the UEL	**3.85%** on earnings above the Earnings Threshold, up to and including the UEL, then **Nil** on earnings above the UEL	Nil	**11.3%** on earnings above the Earnings Threshold, up to and including the UEL, then **11.9%** on all earnings above the UEL		

Examples of NIC calculations for employers and employees

Examples of how to calculate and record NICs on the revised form P11 were provided in the Inland Revenue Notes for Payroll Software Developers published in September 2000 (Series 10 – Number 3). Those examples used the earnings limits and threshold for the 2000-2001 tax year. The examples are reproduced below using the earnings limits and threshold for 2001-2002. Please note that the examples are calculated using the exact percentage method.

Example 1

Weekly earnings of £72.00

Employee NICs due	= NIL	
Employer NICs due	= NIL	

Example 2

Weekly earnings of £87.00

Employee NICs due	= NIL	
Employer NICs due	= NIL	

Example 3

Weekly earnings of £89.00

£89.00 - £87.00	= £2.00	
Employee NICs due	= £2.00 x 10%	= £0.20
Employer NICs due	= £2.00 x 11.9%	= £0.24
Total contributions due	= £0.44	

Example 4

Weekly earnings of £100.00

£100.00 - £87.00	= £13.00	
Employee NICs due	= £13.00 x 10%	= £1.30
Employer NICs due	= £13.00 x 11.9%	= £1.55
Total NICs due	= £1.30 + £1.55	= £2.85

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. Employers and employees will continue to enjoy the extension of the NIC Rebate on earnings between the Lower Earnings Limit and the Earnings Threshold.

The percentage rates for calculation of the NIC Rebate are:

Employers

- 3% for Contracted-out Salary Related schemes (11.9% less 8.9%)
- 0.6% for Contracted-out Money Purchase schemes (11.9% less 11.3%)

Employees

- 1.6% for Contracted-out Salary Related and Contracted-out Money Purchase schemes (10% less 8.4%)

For example:

<u>Employer operating a Contracted-out Salary Related Scheme</u>

Example 5

Weekly earnings of £84.00

Employee NICs due	= NIL	
Employer NICs due	= NIL	
£84.00 - £72.00	= £12.00	
Employee NIC Rebate	= £12.00 x 1.6%	= £0.19
Employer NIC Rebate due	= £12.00 x 3%	= £0.36
Total NIC rebate due	**= £0.19 + £0.36**	**= £0.55**

Complete P11 as follows:

1a	1b	1c	1d	1e	1f	1g
72	12	0	00.00	00.00	0.00	0.55

As there are no employee NICs due against which to offset 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

Example 6

Weekly earnings of £89.00

£89.00 - £87.00	= £2.00	
Employee NICs due	= £2.00 x 8.4%	= £0.17
Employer NICs due	= £2.00 x 8.9%	= £0.18
Total NICs due	= £0.17 + £0.18	= £0.35
£87.00 - £72.00	= £15.00	
Employee NIC Rebate due	= £15.00 x 1.6%	= £0.24
Employer NIC Rebate due	= £15.00 x 3%	= £0.45
Total NIC rebate due	**= £0.24 + £0.45**	**= £0.69**

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, in effect reducing the employee NICs due to NIL. Any balance of the employee NIC rebate is available to the employer.

e.g.	Employee NICs due	= £0.17
	Employee NIC Rebate due	= £0.24
	Balance of Employee NIC Rebate available to employer	= £0.07

Total NIC Rebate available to employer = £0.45 + £0.07 = £0.52

Complete P11 as follows:

1a	1b	1c	1d	1e	1f	1g
72	15	2	0.35	0.17	0.17	0.52

Example 7

Weekly earnings of £100.00

£100.00 - £87.00	= £13.00	
Employee NICs due	= £13.00 x 8.4%	= £1.09
Employer NICs due	= £13.00 x 8.9%	= £1.16
Total NICs due	= £1.09 + £1.16	= £2.25
£87.00 - £72.00	= £15.00	
Employee NIC Rebate	= £15.00 x 1.6%	= £0.24
Employer NIC Rebate	= £15.00 x 3%	= £0.45
Total NIC Rebate due	**= £0.24 + £0.45**	**= £0.69**

Where the full amount of employee NIC Rebate is used to reduce the employee NICs due the employee will pay £1.09 - £0.24 = £0.85

Complete P11 as follows:

1a	1b	1c	1d	1e	1f	1g
72	15	13	2.25	1.09	0.24	0.45

ANNEX E

Contents

Definitions

No.	Definition	Symbol
1	Basic pay (excluding bonus, commission, overtime or similar payments) before compulsory deductions	BP
2	Gross pay (i.e. basic pay plus bonuses, commission etc) before compulsory deductions	GP
3	Statutory Tax, NIC's (and other compulsory deductions)	CDs
4	Tax Credits (WFTC/DPTC)	TC
5	This is the pay on which Stakeholder percentage contribution/deduction is based i.e. before compulsory deductions (This could be based on Gross pay or Basic pay for current year)	SHp
6	This is the pay following Statutory Tax, NIC's (and other compulsory deductions) i.e. Net pay before stakeholder contribution is deducted	SHnet
7	Remaining Pay after Stakeholder Contribution has been deducted	SHRp
8	Employee's Contribution to Stakeholder Pension - this is the final amount payable whether a flat rate deduction or percentage of pay or basis year	SHc
9	An agreed Employee flat rate deduction - this can be a regular fixed amount the employee has chosen as their stakeholder contribution	SHf
10	Employees percentage rate (for percentage of pay Stakeholder deductions)	SHy
11	Employers Contribution to Stakeholder Pension	SHe

12	An agreed Employer flat rate deduction	SHg
13	Employer percentage rate (for percentage of pay Stakeholder deductions)	SHz

Field sizes

The practical maximum field sizes recommended for these are:

SHy, SHz	99.99	Will allow for percentage rates with 2 decimal places e.g. 17.5% would be shown as 17.50
SHc, SHe	99999.99	

Introduction

1.1 This specification covers information on deductions made towards a stakeholder pension (also referred to as contributions[1]) and the record employers need to keep. No provision is made for any other payroll deductions being made from employee's pay.

These guidelines apply only to stakeholder pension schemes. But they may be used on a voluntary basis for other personal pension schemes including group personal pensions.

Throughout these guidelines, references to employees' contributions are to net amounts as if basic rate tax had been deducted. Employers' contributions are gross amounts.

This document concentrates on processing flat rate or percentage contributions and is not intended as a check on the maximum payable. Any subsequent adjustment, or enquiry about the maximum permissible, will be handled by the stakeholder pension scheme.

1.2 Other Specifications covering the deduction of Tax & National Insurance Contribution's are available - Specification for PAYE Tax Table routines Version 10. and NI Guidance for Software Developers 2001/2

1.3 Details on deduction of Tax and National Insurance contributions are fully documented in the 'Employers Guide to PAYE and NIC's' (CWG1) and 'Employers Further Guide to PAYE and NIC's' (CWG2) available from the Employer's Orderline on **0845 7 646 646.**

[1] The term contribution is used to refer to an amount contributed towards a Stakeholder Pension this should not be confused with Employer and Employee NI Contributions

1.4 In addition to these specifications the Inland Revenue issues a series of 'Inland Revenue Notes for Payroll Software Developers' which are produced as circumstances warrant. Such 'Notes' are advisory only, and are used to give as much warning as possible of the changes likely to affect payroll systems. The 'Notes' are also used to publish amendments to this type of specification. Requests to be included on the mailing list should be sent to:

"Inland Revenue Notes for Payroll Software Developers"
PO Box 1460
BRISTOL
BS99 3NW

Or email at : irnotes@reply.co.uk

2. What you need to do

2.1 The legislation requires employers who are not exempt to:

1. Offer payroll deductions from an employee's earnings;
2. Maintain records of employee deductions and payments to the scheme providers
3. Send deducted contributions to the stakeholder pension scheme within given time limits.

2.2 Deducting stakeholder contributions from employee salaries

The payroll deduction can be either a regular fixed amount, or a percentage of pay. Most stakeholder pension schemes are likely to accept either type of payroll deduction, although some schemes may only accept one or the other. To comply with the access requirement the employer must offer at least one of the options but, ideally, could make both types available to his/her employees. Failure to allow both deduction types could restrict the choice employers have amongst the number of schemes being marketed by the Pensions Industry. A payroll system that offers only one of these options will be sufficient to meet employer requirements, but a payroll system that offers a choice of deductions would give the employee the option to decide.

The amount of contribution can be either a fixed amount or calculated on a percentage of Stakeholder Gross or Basic Pay (SHp) but deducted from Stakeholder Net pay (SHnet) i.e. after the deduction of tax, National Insurance contributions, Student Loan Deductions, and any other compulsory deductions (CDs). For programming purposes it is suggested that payroll systems be designed to have stakeholder contributions shown as an entry on individual payslips

Payroll systems should be designed to allow employees to change their contribution whether this is the fixed amount or percentage rate on which deductions are based. There is a legal requirement for employers to accept changes to either the amount or frequency of deductions at least once every 6 months. However employer's can agree to changes more frequently, if they wish to do so.

Note: Stakeholder pensions deductions cannot be made from any Tax Credit awards. Therefore the Stakeholder deduction must be taken from pay prior to the addition of any Tax Credit payments in the whole calculation

Examples of calculations for Flat rate and percentage of pay deductions are shown at Appendix A

2.2.1 Flat rate deduction

Flat rate deductions are, in some ways, simpler to administer. It is suggested that payroll systems are designed so that, should the employee's net pay (SHnet) be insufficient to make the full flat rate deduction (for example because the employee has had a period of unpaid absence), no deduction will be made at all. In these cases it may be appropriate to record a NIL entry on the payslip to flag a warning to employees that no deduction has been made. Contributions can then be made direct to the stakeholder pension scheme outside of the payroll process.

However, this is not a requirement of Stakeholder Pension legislation and an alternative arrangement (e.g. taking as much as is available) is acceptable subject to the discretion of the employer, the employee, and the agreement of the pension provider.

2.2.2 Percentage of pay

Stakeholder regulations do not specify what the percentage calculation should be based on. However it is expected that most schemes/employers/employees will wish to use either basic pay (excluding bonuses, commission, overtime or similar payments) or the gross taxable pay figure (i.e. basic pay plus bonuses, commission, etc).

A deduction based on a percentage of pay will fluctuate "naturally" in line with earnings, and consequently reduces the need to review contributions on a regular basis. Payroll systems may need to take account of different percentage rates for each individual and another percentage rate for employer contributions

2.2.3 Employer Contribution

Employers can contribute to an employees stakeholder pension; these can also be a fixed sum or a percentage of pay (they can be set at a different percentage rate to the employee).

Where both the employer and employee are making a contribution the minimum combined contribution must be at least the agreed minimum set by the pension provider

2.3 Payment Methods

There are no defined methods of payments from employer to pension scheme provider. It is for agreement between employer and scheme provider to define the method.

Payment methods to the scheme could include:
- Cheques sent direct;
- Direct credit;
- Direct debit

Providers are permitted to refuse to accept payments in cash or by credit card.

Pension providers could suggest that building a facility to forward payments automatically from payroll systems may be an option, if so a due date prior to the 19th of each month should be built into the program to allow contributions to be paid on time.

- **Individuals** - the ***due date*** for deductions from earnings is the 19th day of the month following the month in which the deduction from earnings was made. The deduction from earnings must be received by the pension scheme by the 19th day. For example a deduction from earnings made at any time in March will have to reach the pension scheme by 19th April.

- **Employers** – The employer can choose the ***due date*** for his/her contribution, but once agreed, the employer will have to stick to that date. For pragmatic reasons it may be simpler to choose the same due date as is used for employee contributions.

2.4 Records Employers need to keep

Record keeping is a key part of the deduction arrangements. Records must be kept up to date and must include amounts and dates of contributions from employees and employer in order for scheme providers to monitor that correct payments have been made and have been made on time.

There is no pre-defined method of providing information relating to the payments. A satisfactory method of achieving this can be agreed mutually between employer and provider.

A list of details, which should be included, are as follows:

- Employer’s name
- Scheme contracted out number (if COMP scheme or an applicable reference number given to the employee by the stakeholder scheme)
- Employee’s name(s)
- Employee’s National Insurance Number
- Dates when the contribution is to be deducted from the employee’s pay
- **Amount of contribution by the employee**
- **Due date for employee’s contribution**
- **Amount of employer contribution (if appropriate) - this should be shown separately**
- **Due date for employer’s contribution**

The items in bold are used as a ***record*** of the direct payment arrangements and the employer will have to keep it up to date.

For payroll software the main changes required by these new rules are the need to relate employer payments to their relevant due dates, and to be able to output this information in a form understandable to the stakeholder pension scheme.

Building some form of output from payroll packages may be an option, but the recording arrangements should be confirmed with scheme providers on how they wish to receive this information. Scheme providers may accept these returns on paper or via EDI (or Internet if available). The employer must first agree with the scheme provider the method by which the scheme provider wants to receive this information.

3. Further Information

Full regulations are available on the HMSO web-site: www.legislation.hmso.gov.uk there is also a DSS Guide “Stakeholder Pensions – A Guide for Employers PME1”. Copies of this guide can be obtained from the ‘Inland Revenue Employer’s Orderline’ on **0845 7 646 646** or you can see it on the Internet www.dss.gov.uk

For further information, Scheme Providers and Software Developers should ring the Inland Revenue National Insurance Contribution Office Helpline on **0845 9 150 150**.

Employer queries can be directed to the ‘Employer’s Helpline
on **0845 7 143 143**

For further Information on Stakeholder Pensions you can visit the following websites

Occupational Pensions Regulatory Authority OPRA www.stakeholder.opra.gov.uk
Inland Revenue Pension Schemes Office (PSO) www.inlandrevenue.gov.uk/pso
or Inland Revenue www.inlandrevenue.gov.uk/stakepension

Appendix A - Calculations

1. Percentage of pay deductions

		Yes	No
Step 1	Is Stakeholder contribution based on a percentage of current Gross Pay (GP)?	Go to step 3	Continue Step 2
Step 2	Is Stakeholder contribution based on a percentage of current Basic Pay (BP)?	Go to step 4	End
Step 3	SHp := GP, then go to step 5		
Step 4	SHp := BP		
Step 5	SHc := SHp x SHy		
Step 6	SHnet := GP-CDs		
Step 7	Is SHc ≥ SHnet?	Apply negative net rules[1]	Go to step 8
Step 8	SHRp := SHnet -SHc		
Step 9	Is there a tax credit to be added to Remaining pay?	Go to step 10	Go to step 11
Step 10	SHRp + TC = final take home pay	Continue step 11	
Step 11	Is Employer making a contribution to Stakeholder?	Go to step 12	End of calculation
Step 12	Is Employer making a percentage of pay contribution?	Go to step 14	Go to step 13
Step 13	Is Employer making a flat rate deduction?	Go to.'2 Flat rate deduction step 11'	End of calculation
Step 14	SHe := SHp x SHz		
End of Calculation			

1. Flat Rate deductions

		Yes	No
Step 1	Is Stakeholder contribution a flat rate?	Continue steps 2-5	End
Step 2	SHnet := GP-CDs		
Step 3	SHc := SHf		
Step 4	Is SHc ≥ SHnet?	Apply negative net rules[2]	Continue Step 5
Step 5	SHRp := SHnet -SHc		
Step 6	Is there a tax credit to be added to Remaining pay?	Go to step 7	Go to step 8

[1] Applying negative net rules- there are 3 choices to take when applying negative net rules these are 1. Do not take the pension deduction; 2. Take the full amount and subsidise employees net pay; or 3 Take as much as is available as mentioned in paragraph 2.2.1 italics

Step 7	SHRp + TC = final take home pay	Continue step 8	
Step 8	Is Employer making a contribution to Stakeholder?	Go to step 9	End of calculation
Step 9	Is Employer making a flat rate deduction?	Go to step 11	Continue step 10
Step 10	Is Employer making a percentage of pay contribution?	Go to ‘1 Percentage of pay step 14’	
Step 11	SHe := SHg		
End of calculation			