

Inland Revenue Notes for Payroll Software Developers

SERIES 10 – NUMBER 7

November 2001

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1. Income Tax and National Insurance changes from 6 April 2002

1.1 Income Tax changes

In his Pre Budget report on 27 November 2001, the Chancellor of the Exchequer announced that the income tax personal allowance would be increased in line with indexation to £4,615 from 6 April 2002. 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 2002. Income tax rates and bandwidths will be announced in the Budget in the usual way.

1.2 National Insurance changes

The Chancellor of the Exchequer also announced the new earnings limits, threshold and rates for National Insurance that will take effect from 6 April 2002.

The main changes are:

- The Lower Earnings Limit will be raised to £75.00 per week;
- The aligned Primary and Secondary Earnings Thresholds are set at £89.00 per week.
- The Upper Earnings Limit will be raised to £585.00 per week.

In addition to this, there is a 0.1% reduction in the employer's rate of NI. This is to recycle the revenues that will be raised through the introduction of the aggregate levy announced in the Budget on 21 March 2000. The reduction applies to all employers.

There is no change to the rates for employees.

The revised rates will be:

Employee	Employer	
10%	11.8%	Not Contracted-out
8.4%	8.3%	Contracted-out Salary Related
8.4%	10.8%	Contracted-out Money Purchase (COMP) or COMP Stakeholder pension

From 6 April 2002 the employer's contracted out rebate for occupational pension schemes has been increased. There is no change to the employee's contracted-out rebate. The new rates are:

3.5%	Contracted-out Salary Related
1.0%	Contracted-out Money Purchase or COMP stakeholder

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 2002-2003.

1.3 Summary of changes from 6 April 2002

- **the Income Tax Personal Allowance is increased to £4,615**
- **age related allowances are increased**
- **Both employees and employers earnings threshold for NICs are increased to £89 per week (£385 per month)**

1.4 Effecting the changes

Employers should continue to use Taxable Pay tables SR + B to D (May 2001).

There will be a general uplift of codes with suffix "A", "H", and "L". Full instructions will be issued to employers on form P9X (2002) which will be issued as part of the Employer's 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 2002-2003 codes as follows:

"A" suffix code – **increase by 8** e.g. code 572A becomes 580A

"H" suffix code – **increase by 8** e.g. code 690H becomes 698H

"L" suffix code – **increase by 8** e.g. code 453L becomes 461L.

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 2002 is increased to £89 per week (£385 per month).

The code for emergency use with effect from 6 April 2002 is 461L

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 Planned treatment of mileage expenses for NIC purposes

The following information is in addition to that set out in the *Notes* number 5, issued in March 2001.

The arrangements set out below take account of the recent consultation exercise, to which a formal response will be issued shortly.

From 6 April 2002 the arrangements for dealing with NICs on motor expenses paid to employees who use their own cars for business purposes will change. From that date a new statutory system will be introduced for working out whether NICs are due on any payments of motoring expenses made to employees.

The new rules apply to all types of motoring expenses, including mileage allowances based on a set rate per mile, lump sum business car use allowances, and payments for fuel purchased for business use. The rules also apply to employees who use their own vans, motor cycles or bicycles. Full details of the new rules will be included in the 2002 issue of booklet, Employers Further Guide to Tax and NICs, CWG2.

Under the new rules there will be a statutory amount which can be paid without attracting a NICs liability. The amount which can be disregarded from NICs will be calculated by reference to the approved mileage rates set out for income tax purposes and shown above. Amounts paid in excess of the statutory NIC free amounts will continue to be added to any other earnings received by the employee in the earnings period in which the motoring expense is paid. Class 1 NICs will be calculated on the total earnings.

For privately owned cars and vans, the rate used will be the one which applies to the first 10,000 business miles, irrespective of the number of miles actually travelled. In working out whether NICs are due, all business miles travelled by the employee must be used in the calculation of the NICs free amount, even if the employee is not reimbursed for all of his business mileage. For employees who use their own motor cycles and bicycles for business travel, or who carry passengers, use the approved rates shown above.

The rules for:

- paying the new passenger rate and
 - what counts as business travel
- are the same for both tax and NICs, see above.

From 6 April 2002 specific and distinct business mileage expenses can no longer be excluded from earnings.

Further guidance on the new rules for NICs, including examples of how NICs are calculated on mileage allowance payments, will be included in booklet 490, Employee Travel – A Tax and NICs Guide for Employers.

At the time this publication was printed the legislation introducing this change was subject to parliamentary approval. Should approval not be obtained, the Inland Revenue will provide further information about any changes to the above guidance.

2.2 Transitional arrangements for existing dispensations

In the September (Series 10 Number 6) edition of the notes we told you about the changes to the tax treatment of payments for business travel by employees in their own cars from April 2002. Paragraph 3.4 explained that existing dispensations in relation to such payments will cease to be valid from April 2002.

There is, however, a limited special arrangement to extend existing dispensations to cover payments made in 2002-03 for 2001-02 business travel. This is intended to cover **just one special set of circumstances**. Some employers will change the mileage rates that they pay to ensure that they are no higher than the new statutory rates from 6/4/2002. However, they may be tied in to paying at 2001-02 rates for business mileage travelled up to 5/4/02 – even if payment is not made until early in 2002-03.

This could result in there being tax and NICs liability for the 2001-02 payments made early in 2002-03, but no tax and NICs liability for payments made during 2001-02, or for payments at the new 2002-03 rates for business miles travelled in 2002-03.

The Revenue has agreed that in this particular set of circumstances – and no others - the dispensation that was in place in 2001-02 can be treated as covering the payments made in arrears early in the 2002-03 tax year. This special arrangement applies for both tax and NICs purposes. **All** of the following conditions must be satisfied:

- The employer has a dispensation for 2001-02 to cover mileage expenses payments made at rates that do not exceed the Inland Revenue’s authorised mileage rates for 2001-02
- The employer adjusts its mileage expenses reimbursement scheme for all business travel carried out in 2002-03, and the new rates of payment are set at levels that will be free of tax and NICs under the new rules on mileage allowance payments.
- The employer has agreed with employees that reimbursements for business travel carried out in 2001-02 will be paid at the reimbursement rates that were in force in 2001- 02 for that employer, even where the payments are made after 5 April 2002.
- Payments for business travel carried out in 2001-02 must be made by 31 May 2002.

Business miles covered by the extended dispensation should be excluded when working out the number of business miles that count towards the 10,000 business miles limit in 2002-03.

2.3 Advisory fuel rates for company cars

By popular demand we have published guidelines on **fuel only** mileage rates for company cars. We have based the figures on the cost per mile for the 20 most popular fleet cars. The publication of these figures will make it easier when employers are negotiating dispensations.

The advisory rates will be just that and will not be binding where an employer can make a good case for paying higher rates, perhaps where employees need to use particular types of car such as 4x4s to cover rough terrain. We have looked at car performance figures and settled on the figures in the table below.

	PETROL			DIESEL	
1400cc or less	1401 to 2000cc	Over 2000cc		Up to 2000cc	Over 2000cc
10p	12p	14p		9p	12p

2.4 Form P35(2001) Employer’s Annual Return

This form has now been finalised and an illustration (in PDF format) can be found at: www.inlandrevenue.gov.uk/ebu/pnforms.htm

This version will be sent to employers’ for their 2001-02 Employers Annual Returns.

2.5 Paying Tax and NIC electronically

Increasing numbers of our customers are paying us electronically by BACS (Direct Credit) or by using the bank's own Internet or Telephone banking facilities. A significant number do not provide an accurate reference number. This causes us problems because the payments are rejected into a suspense account. It can then take several days and a considerable amount of effort to allocate the payment to the payers account.

The delay and effort can be avoided if the payer follows a few simple rules. And you can help our mutual clients get things right by providing some straightforward guidance about our reference numbers.

Reference numbers

We have a variety of reference numbers. However the majority of our payers are Employers or are individuals with a Self Assessment liability and their reference numbers are described below:

Employer reference:

1. The reference number is 14 characters long with no spaces.
2. Employers have to make two payments, one for tax (PAYE) and another for NIC.
3. The first character is either a 'P' to indicate a PAYE payment or an 'N' to indicate NIC.
4. The remaining 13 characters are the first 13 characters (starting from the left) on the payslip codeline.
5. These thirteen characters are in the format 999PA99999999 (where 9 = numeric, A = Alpha, P is constant).

For example an employer might use: *P473PG00037465 for PAYE, and
N473PG00037465 for NIC*

Self Assessment reference:

1. The reference number is 11 characters long with no spaces.
2. The format of the reference is 9999999999K (where 9 = numeric, K is constant).
3. Only the 11 character reference is acceptable (10 digits + letter K).
4. A National Insurance Number which starts with two alphas, will fail to process correctly.

Example of an SA reference number: 4835379823K

Other payment references:

For all other types of payment please ask the taxpayer to use the reference printed in the payslip codeline. And if that is blank or shows '000000' the payer can find the reference in the body of the payslip.

Bank Account Details

You may also be asked for Inland Revenue bank account details. Payments are transmitted to one of two Accounts Offices, either Shipley or Cumbernauld. The account details for these two offices are:

<i>Bank Details</i>	<i>Shipley</i>	<i>Cumbernauld</i>
<i>Sort Code</i>	10 50 41	10 51 67
<i>Account Number</i>	23456000	23444401
<i>Account Name</i>	AO Shipley	AO Cumbernauld

Information and Help

For more information and help with arranging electronic payment, please contact:

Accounts Office Shipley
Shipley
Bradford
BD98 8AA

Telephone 01274 539579

Accounts Office Cumbernauld
St Mungo's Road
Cumbernauld
Glasgow
G70 5TR

Telephone: 01236 783 717

2.6 PAYE Internet Services

In addition to those forms already available to file over the Internet, it is intended that the following additional forms will also be available:

January 2002

Outgoing forms – P6, P6(b), P9 and P35 Notification
Incoming – Enrolment Notification.

April 2002

Outgoing forms – P11D(b) Notification, AR1N, AR1MN, AR2N, AR2MN, AR6, SL1, SL2, P7X and P9X
Incoming forms – P12, P37, P38(S), P9D, and P46(Car).

2.7 2001/2002 Expenses and Benefits Returns on Magnetic Media (EEC1 booklet)

Significant text changes, technical changes and additions have been made to the EEC1 booklet for the year 2001/2002.

It is vitally important that before any submissions are made for 2001/2002 your software follows the latest specification – version October 2001.

Changes can be found in the booklet at sub records: -

2A, 2Q, 2B, 2R, 2F, 2L, 2S, 2N, 2T and 2O.

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 the following address www.inlandrevenue.gov.uk.

2.8 EB5 (PAYE) Message Implementation Guidelines

This specification has also been updated and now includes the changes relating to forms P14, P35 and P11D for the year 2001/2002.

The EB5 also includes the technical specifications of the new forms that will be available for submission via EDI from April 2002. These include:-

- P11D(b) - Return of Class 1A National Insurance Contributions, Return of expenses and benefits - Employer's declaration.
- P38(S) - Student's declaration
- P46(Car) - Car provided for the private use of an employee or a director
- SL1 & SL2 - Student Loan deductions - start notifications and stop notifications

The EB5 is available to download from our Website at the following address: www.inlandrevenue.gov.uk

2.9 Updates to existing Technical Specifications

Since the issue of technical specifications, EB5 PAYE MIG and EEC1, several minor updates are needed. Details of these are shown in the Change Documents found in the 'User Guides/Technical Specifications' area of our website:

www.inlandrevenue.gov.uk/ebu/ebu_paye_ts.htm

2.10 Statutory Sick Pay and Statutory Maternity Pay

The Secretary of State for Work and Pensions said that the Statutory Sick Pay (SSP) rate will increase from April 2002. The Chancellor had already said in his April 2001 Budget that the Statutory Maternity Pay (SMP) rate will also increase from April 2002, and the Small Employer's Relief (SER) Threshold will double.

- The SSP rate will increase to £63.25 per week for days of incapacity for work from 6 April 2002. This is payable to those in receipt of SSP on this date and to those employees who become sick on or after 6 April 2002 with average weekly earnings at or above £75.
- The lower rate for SMP will increase to £75 per week for payments of SMP for week ending Saturday 13 April 2002. If 90% of the employee's average weekly earnings (the higher rate that an employee usually receives for the first 6 weeks of payment) is less than £75, the employee is entitled to £75 a week throughout the Maternity Pay Period (MPP)

- The SMP compensation rate will decrease to 4.5% for SMP payments made on or after 6 April 2002
- The SER Threshold will increase to £40,000 for SMP payments made on or after 6 April 2002

This means that if an employer is already paying SMP to an employee who started her MPP before 6 April 2002, but they did not then qualify as a small employer, they need to check whether they qualify as a small employer from 6 April 2002 for any continuing SMP payments they make after that date.

If they qualify from 6 April 2002 but not before that date (i.e. because their Class 1 NI contributions bill for their employee's qualifying year was between £20,001 and £40,000), they can recover 100%, plus NIC compensation of 4.5%, of payments they make on, or after, 6 April 2002. Payments made before 6 April 2002 to the same employee for the same MPP can be recovered at the normal rate of 92%.

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	LEL	£75 from 06/04/02
A3	The weekly rate of SSP payable	Weekly_Rate	£63.25 from 06/04/02

2.11 New Tax Credits (NTC) – The Working Tax Credit and the Child Tax Credit

Background

Two new tax credits, the Working Tax Credit and the Child Tax Credit are to be introduced from 2003, at which point the present payable tax credits, Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC), will cease to exist.

The key objectives of the new tax credits are to support families, to make work pay and to tackle poverty. The Child Tax Credit will draw together all the existing income-related strands of support for families with children – the child elements in Income Support, income-based Jobseeker's Allowance, WFTC and DPTC, as well as the Children's Tax Credit – to create a secure means of support which spans both welfare and work. This tax credit will be paid to families direct.

The Working Tax Credit will provide more financial help to workers in low-income households, whether or not they have children. It will replace the adult-related elements of WFTC, DPTC and the New Deal 50+ Employment Credit and will also provide working families with assistance to meet the costs of childcare. The Working Tax Credit will normally be paid to employees through the payroll.

General

We thought it might be helpful if we gave an overview of the system for paying the Working Tax Credit through the payroll:

- with effect from 2003 Working Tax Credit due to employees will be paid by employers through the pay packet. Where one partner in a couple does not work and the other is employed, the tax credit will be paid through the pay packet of the employed partner. Should both work for employers, then the couple can choose which one of them will receive the tax credit through their pay packet.
- where one partner in a couple is self employed and the other employed they can choose which one of them will receive the tax credit. Where one partner is self employed and the other is unemployed, the tax credit will be paid direct to the self employed partner;
- unlike, for example, the P9 coding notifications, employers will not receive a bulk issue of Start Notices. The notices will arrive on a piecemeal basis throughout the year, although the main peak will appear over a few months at the beginning of each tax year;
- the tax credit will be paid on normal pay days so that employers will not need to make any special pay runs;
- the tax credit will be added to the net pay, PAYE tax codes will **not** be used.

Although the majority of employees will receive their tax credit through the payroll, there will be some situations when employers will not have to pay the tax credit due to their employee(s). Employers will not be expected to pay tax credit where:

- they are not the largest employer of an employee who has more than one job (largest in this case will usually be the employer for whom the employee works the most hours). The employer will not necessarily know this, but it will be evident to the Inland Revenue from the tax credit application form;
- the employee is not due to receive a pay packet in a particular pay period;
- there is not enough time for the employer to make at least three consecutive payments before the end of the employee's employment contract;
- the value of the tax credit falls below a de-minimis limit. The Inland Revenue will make a direct payment in this situation.

Start Notice

Employers will be given 42 calendar days notice for all employees before starting to pay the tax credit. The Start Notice will contain the following:

- employee's name;
- employee's NINO;
- employee's works/payroll number (where provided by the employee);
- the start date when the employer becomes responsible for payments;
- the daily rate to be paid;
- a table showing the daily rate of payment in multiples of 1 to 31.

Security reference for funding requests

When the IR sends out a Start Notice to a small employer for the first time, an additional form will also be issued to the employer. This will tell the employer how to apply for Revenue funding if he does not have enough PAYE tax, NICs and student loan deductions to fund the tax credit payments he has been told to make. (N.B. Although the funding form will not be automatically issued to larger employers they can still approach IR for funding if they think it is needed.) Whenever an employer makes an application for funding, the Collection Reference Number must be quoted. Any additional funding required by the employer during the tax year (for example, because the employer is told to pay more tax credit) will be calculated by the Inland Revenue (see section below entitled *Employers who need funding*).

Employers who need funding

Employers must use tax, NIC and student loan deductions to fund the tax credit payments, but where an employer has insufficient deductions from which to fund tax credits, that employer can apply to the Inland Revenue for funding. The funding application:

- must be made to the appropriate Accounts Office;
- may be
 - by phone (with documentary back up on a special form, which will be provided);
 - by fax on the provided form; or
 - electronically (registered employers will be able to apply for funding via the Internet)
- must contain
 - employer details
 - bank account details where possible – if these are not provided, payment will be by Inland Revenue payable order;
 - amount of normal/average payover
- will be verified by the IR to ensure that it is reasonable.

Note: the employer will not need to calculate the amount of funding required: the Revenue will do that in the light of the amount of tax credit the employer has been told to pay.

When IR have processed the application they will:

- notify the employer of the outcome;
- ensure that funds are available to be drawn on by the employer on 6th of the month provided the employer's application was made in good time i.e. at least 9 working days before 6th of the month if funds are to be transferred by BACS, or at least 21 working days if a Payable Order is to be sent.

An employer will have to re-apply for funding at the beginning of each tax year. The IR will adjust funding automatically in-year to reflect any change in the tax credits due to be paid. However, employers will need to inform the IR if changes in their normal payover amount mean that they wish to adjust the amount of funding they receive.

Employers in receipt of funding will automatically receive a partially completed renewal funding application form for completion and return at the start of each tax year.

In-year procedures

During the year the employer will be required to:

- calculate the tax credit due by multiplying the daily rate by the number of calendar days for which they are responsible in that pay period.
- vary the amount of tax credit paid if told to do so by an Amendment Notice(s) – see *Amendment Notice* section below;
- pay the tax credit to the employee with the salary/wages and show it separately as a tax credit on the employee's payslip;
- enter that amount in the appropriate column on the P11 Working Sheet (or equivalent);
- show on the P32 or P30BC, at the end of the month or quarter, the usual details and the tax credit information i.e.:
 - total tax including any deductions from payments to subcontractors minus any refunds of tax plus
 - the amount, if any, of student loan deductions recovered less
 - total tax credits paid
 - total NICs less
 - the amount, if any, of the SSP recoverable
 - the amount of SMP recoverable and, if appropriate, the amount of compensation for the employer's NIC on the SMP paid
 - the total of NIC holiday and NIC rebates claimed
 - total funding received for tax credits
 - the net income tax and NICs
- pay over to the appropriate Accounts Office the net amount due using the P30B payslip. Where there is no tax and NICs to pay over, a nil payslip should still be sent.

Amendment Notice

If the amount of tax credit due to an employee changes in-year, we will issue the employer with an Amendment Notice. This will be similar to the start notice and will show the new daily rate and the date this applies from.

It will also contain a new daily rate table. Employers will have the same 42 calendar days' notice in which to amend the payroll. Until the date on which the amendment takes effect, the employer should continue to pay at the old daily rate. As change(s) may occur during a pay period, there may be a need to calculate and pay tax credit on more than one daily rate within one pay period.

Stop Notice

On occasion the Inland Revenue will have to issue Stop Notices to employers instructing them to stop paying the tax credit. The payroll system/employer will need to stop paying from the stated date. Employers will have 42 calendar days notice before having to implement a Stop Notice.

End of Year Procedures

At the End of Year employers will need to do the following:

- enter the total amount of tax credit paid to the individual in the year on the P14, (where an employee has been in receipt of, for example, two tax credit awards in the year, the employer should record on the P14 **one** total which covers the amount paid out for both awards). This should feed through to the P60 so that the recipient has their own record;
- enter on the P35
 - the total amount of tax credit paid to all their employees in the year; and
 - the total amount of funding for tax credits received from the Inland Revenue in the year.

2.12 Set-off of CIS deductions for companies

Following representations the Government has decided to change the way deductions suffered by CIS 4 holding companies under the Construction Industry Scheme (CIS) provisions, are used against liabilities that the company is due to pay.

Under the CIS contractors must make deductions from the payments they make to subcontractor if those subcontractors do not hold a certificate. At the moment the deductions suffered by CIS 4 holders are made on account of tax and Class 4 National Insurance where the subcontractor is an individual or a partner in a firm; and on account of the corporation tax liability if the subcontractor is a company.

From April 2002 we will be changing the way that deductions suffered by **companies** are used. (Nothing will change for individuals and partnerships). The deductions suffered on or after 6April 2002 will no longer be used against corporation tax. Instead they will be used to settle the company's liabilities as an employer - NIC, PAYE, and CIS deductions made (i.e. any CIS deductions that the company may have made against CIS 4 holders they employ).

The CIS deductions suffered will be able to be set against these liabilities during the year. Companies will not however be able to claim a repayment of CIS deductions suffered in year and they will have to pay any employer liabilities not covered by the deductions suffered on the normal monthly or quarterly date. At the end of the year, (the first year being 2002/03) the details of NIC, PAYE etc. will be accounted for on the P35 in the normal way.

However a new box will be added to the P35 for entry of the total amount of CIS deductions suffered and used to set against these employer liabilities during the year. There will be no change to the form P14 or the details entered on it. Any repayment due to the company will be made following receipt of the P35.

The Corporation Tax Return Form CT600 will continue to provide for CIS deductions as it will be used for Accounting Periods ending both before and after the change. The Company Tax Return Guide accompanying the Form will be amended during 2002, in the light of the change.

Further information about this change will be sent to CIS companies in the New Year and posted on the IR website. The format of the 2002/03 form P35 will also be published on the website.

3. Next issue of these notes

The next issue of these notes is scheduled for March 2002 following the Chancellor's Budget announcement.

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

5. Receiving future editions of these Notes by email

If you would prefer to receive future editions of the IR Notes for Payroll Software Developers by email, instead of a paper copy, please request this by email to the address below.

Please make your request to: irnotes@reply.co.uk, remembering to include your email address and company name and address.

You can also request this in writing to:

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

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.

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 Earnings Limits and Thresholds and NICs Rates from April 2001

Class 1 Not Contracted-out contribution rates

Category Letters A (Standard rate), B (Married Woman's Reduced Rate) & C (Employer's 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 £75.00 weekly, Below £325.00 monthly, Below £3900.00 yearly	Nil	Nil	Nil	Nil
£75.00 to £89.00 weekly, or £325.00 to £385.00 monthly, or £3900.00 to £4615.00 yearly	0%	0%	Nil	0%
£89.01 to £585.00 weekly, or £385.01 to £2535.00 monthly, or £4615.01 to £30420.00 yearly	10% on earnings above the Earnings Threshold	3.85% on earnings above the Earnings Threshold	Nil	11.8% on earnings above the Earnings Threshold
Over £585.00 weekly, Or over £2535.00 monthly, or over £30420.00 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	11.8% on all earnings above the Earnings Threshold

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

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 £75.00 weekly, Below £325.00 monthly, Below £3900.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£75.00 to £89.00 weekly, or £325.00 to £385.00 monthly, or £3900.00 to £4615.00 yearly	0%	0%	Nil	0%	1.6% on earnings from £75.01 , up to and including £89.00 (or monthly or annual equivalents)	3.5% on earnings from £75.01 , up to and including £89.00 (or monthly or annual equivalents)
£89.01 to £585.00 weekly, or £385.01 to £2535.00 monthly, or £4615.01 to £30,420.00 yearly	8.4% on earnings above the Earnings Threshold	3.85% on earnings above the Earnings Threshold	Nil	8.3% on earnings above the Earnings Threshold		
Over £585.00 weekly, Or over £2535.00 monthly, Or over £30,420.00 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	8.3% on earnings above the Earnings Threshold, up to and including the UEL, then 11.8% 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 £75.00 weekly, Below £325.00 monthly, Below £3900.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£75.00 to £89.00 weekly, or £325.00 to £385.00monthly, or £3900.00 to £4615.00yearly	0%	0%	Nil	0%	1.6% on earnings from £75.01 , up to and including £89.00 (or monthly or annual equivalents)	1.0% on earnings from £75.01 , up to and including £89.00 (or monthly or annual equivalents)
£89.01 to £585.00 weekly, or £385.01 to £2535.00monthly, or £4615.01 to £30,420.00 yearly	8.4% on earnings above the Earnings Threshold	3.85% on earnings above the Earnings Threshold	Nil	10.8% on earnings above the Earnings Threshold		
Over £585.00 weekly, Or over £2535.00 monthly, Or over £30,420.00 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	10.8% on earnings above the Earnings Threshold, up to and including the UEL, then 11.8% on all earnings above the UEL		

Examples of NIC calculations for employers and employees

The examples reproduced below use the earnings limits and threshold for 2002-2003. Please note that the examples are calculated using the exact percentage method.

Example 1

Weekly earnings of £75.00		
Employee NICs due	=	NIL
Employer NICs due	=	NIL

Example 2

Weekly earnings of £89.00		
Employee NICs due	=	NIL
Employer NICs due	=	NIL

Example 3

Weekly earnings of £91.00			
£91.00 - £89.00	=	£2.00	
Employee NICs due	=	£2.00 x 10%	= £0.20
Employer NICs due	=	£2.00 x 11.8%	= £0.24
Total contributions due	=	£0.20 + £0.24	= £0.44

Example 4

Weekly earnings of £110.00			
£110.00 - £89.00	=	£21.00	
Employee NICs due	=	£21.00 x 10%	= £2.10
Employer NICs due	=	£21.00 x 11.8%	= £2.48
Total NICs due	=	£2.10 + £2.48	= £4.58

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.

The percentage rates for calculation of the NIC Rebate are:

Employers

- 3.5% for Contracted-out Salary Related schemes (11.8% less 8.3%)
- 1.0% for Contracted-out Money Purchase schemes (11.8% less 10.8%)

Employees

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

For example:

Employer operating a Contracted-out Salary Related Scheme

Example 5

Weekly earnings of £86.00

£86.00 - £75.00 = £11.00

Employee NICs due = NIL

Employer NICs due = NIL

Employee NIC Rebate = £11.00 x 1.6% = £0.18

Employer NIC Rebate due = £11.00 x 3.5% = £0.38

Total NIC rebate due = £0.18 + £0.38 = £0.56

Complete P11 as follows:

1a	1b	1c	1d	1e	1f	1g
75	11		00.00	00.00	0.00	0.56

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 £91.00

£91.00 - £89.00 = £2.00

Employee NICs due = £2.00 x 8.4% = £0.17

Employer NICs due = £2.00 x 8.3% = £0.17

Total NICs due = £0.17 + £0.17 = £0.34

£89.00 - £75.00 = £14.00

Employee NIC Rebate due = £14.00 x 1.6% = £0.22

Employer NIC Rebate due = £14.00 x 3.5% = £0.49

Total NIC rebate due = £0.22 + £0.49 = £0.71

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 = £0.22

Balance of Employee NIC Rebate available to employer = £0.05

Total NIC Rebate available to employer = £0.05 + £0.49 = £0.54

Complete P11 as follows:

1a	1b	1c	1d	1e	1f	1g
75	14	2	0.34	0.17	0.17	0.54

Example 7

Weekly earnings of £110.00

£110.00 - £89.00	= £21.00	
Employee NICs due	= £21.00 x 8.4%	= £1.76
Employer NICs due	= £21.00 x 8.3%	= £1.74
Total NICs due	= £1.76 + £1.74	= £3.50

£89.00 - £75.00	= £14.00	
Employee NIC Rebate	= £14.00 x 1.6%	= £0.22
Employer NIC Rebate	= £14.00 x 3.5%	= £0.49
Total NIC Rebate due	= £0.22 + £0.49	= £0.71

Where the full amount of employee NIC Rebate is used to reduce the employee NICs due the employee will pay £1.76 - £0.22 = £1.54

Complete P11 as follows:

1a	1b	1c	1d	1e	1f	1g
75	14	21	3.50	1.76	0.22	0.49

Technical Specification for paying tax credits from 2003

1. This specification covers tax credit awards from 2003. Employers will not be told which elements of the tax credit their employee is receiving. They will just be informed that the employee is entitled to a tax credit.
2. The routines described below make use of two distinct classes of variables:
 - variables supplied by the IR (shown in bold). The IR variables will be supplied by the IR on each Start Notice, Amendment Notice and Stop Notice if appropriate. These will then need to be entered into the payroll system/software by the employer/payroll section; and
 - variables derived from them by the payroll run (shown in Italics).

N.B. It should be noted that IR variables will probably be different for each employee who is entitled to a tax credit. The daily rate could change for each employee during the period of the award. There could be more than one daily rate during a pay period where an amendment notice is received.

2. The tax credit **cannot** be used to fund deductions of any kind, and so must be added to the net pay figure after all the other steps in the payroll calculation have been performed.
4. **IR variable definition**

		Symbol
Definition 1 -	Start date of employer responsibility for tax credit payment	Db
Definition 2 -	Stop date for tax credit payment when it is stopped during the award by the Inland Revenue (as per Stop Notice)	Ds
Definition 3 -	Date from which the amended daily rate applies	Da
Definition 4	The normal daily rate of tax credits	Wd1
Definition 5 -	Amended daily rate of tax credits	Wd2

5. **IR variable field size.**

The practical maximum field sizes recommended for these are

D - dd/mm/yyyy
Wd - 999.99

6. **Payroll variable definition.**

		<i>Symbol</i>
Definition 1	End date of pay period in which the first tax credit is paid by the employer	<i>db</i>
Definition 2	End date of previous pay period in which the tax credit is paid by the employer	<i>dl</i>
Definition 3	Last date for which the employer takes responsibility for paying the tax credit, when employment is ceased (including on death of an employee)	<i>dt</i>
Definition 4	End date of pay period in which the tax credit paid is amended following an amendment notice.	<i>dc</i>
Definition 5	Number of days in the first tax credit payment period	$Nb = (db - Db) + 1$
Definition 6	Number of days from end date of the previous pay period to the date of stopping shown on the stop notice	$Ns = (Ds - dl)$
Definition 7	Number of days from end date of the previous pay period to the date the employment is ceased (including on death of an employee)	$Nt = (dt - dl)$
Definition 8	Number of days from end date of the previous pay period to the date of amended daily rate as shown on the amendment notice.	$Nc = (Da - dl)$
Definition 9	Number of days from the date of amendment of daily rate to the end date of the pay period.	$Nd = (dc - Da)$

Note that, apart from the first and last payments of tax credit, the values of the various N_n will usually be fixed at 7 for weekly paid employees and will vary between 28 and 31 for monthly payment cycles. However, there may be some occasions when N_n will be completely different e.g. if employee is to receive tax credit with advance holiday pay. Also some employees may for example be paid quarterly.

The recommended field size for N is 999

7. **Calculation of tax credit due**

Formula 1 Amount of first tax credit payment $Wb = Nb \times Wd1$

Formula 2 Amount of normal tax credit payment between first and last/amended payments $Wn = Nn \times Wd1$

Formula 3 Amount of last tax credit payment when stopped during award by the Inland Revenue $Ws = Ns \times Wd1$

Formula 4 Amount of last tax credit payment when employment is ceased (including on death of an employee) $Wt = Nt \times Wd1$

Formula 5 Amount of tax credit payment during period when there is more than one daily rate following amendment notice(s) $Wu = (Nc \times Wd1) + (Nd \times Wd2)$

The tax credit due should then be added to the net pay figure for that pay period.

8. Ongoing use of amended daily rate

Where an amended daily rate of employment tax credit has been received this needs to be adopted for future payments. Once it has been used as the amended daily rate it will need to become the normal daily rate in readiness for any future amendments, which may occur within the same pay period.

Formula 1 Adopt amended rate as normal rate $Wd1 = Wd2$

Formula 2 Zeroise amended rate $Wd2 = 0$

Glossary of Symbols

D and d	Relate to the dates associated with the tax credit
Db	Start date of employer responsibility for tax credit payment
Ds	Stop date for tax credit payment when it is stopped during the award by the Inland Revenue (as per Stop Notice)
Da	Date from which the amended daily rate applies
<i>db</i>	End date of pay period in which the first tax credit is paid by the employer
<i>dl</i>	End date of previous pay period in which the tax credit is paid by the employer
<i>dt</i>	Last date for which the employer takes responsibility for paying the tax credit, when employment is ceased (including on death of an employee)
<i>dc</i>	End date of pay period in which the tax credit paid is amended following an amendment notice
<i>N</i>	Relates to the number of days to pay
<i>Nb</i>	Number of days in the first tax credit payment period
<i>Nc</i>	Number of days from end date of the previous pay period to the date of amended daily rate as shown on the amendment notice
<i>Nd</i>	Number of days from the date of amendment of daily rate to the end date of the pay period.
<i>Nn</i>	Number of days from previous pay date to this pay date
<i>Ns</i>	Number of days from end date of the previous pay period to the date of stopping shown on the stop notice
<i>Nt</i>	Number of days from end date of the previous pay period to the date the employment is ceased (including on death of an employee)
<i>W</i>	Relates to the amount of tax credit
<i>Wb</i>	Amount of first tax credit payment
<i>Wn</i>	Amount of normal tax credit payment.
<i>Ws</i>	Amount of last tax credit payment when stopped during the award by the Inland Revenue
<i>Wt</i>	Amount of last tax credit payment when employment is ceased (including on death of an employee)
<i>Wu</i>	Amount of tax credit payment during period when there is more than one daily rate following amendment notice(s)
Wd1	The normal daily rate of tax credits
Wd2	Amended daily rate of tax credits