

Notes for Payroll Software Developers

SERIES 10 – NUMBER 24

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1. **Online filing**

1.1 **2004-05 Employer's Annual Returns**

While we cannot give a full analysis yet, we believe that, after allowing for duplicate submissions, we have had 935,000 2004-05 Returns online. And of the 11,000 employers with 250 or more employees who had to file online, well over 90% met that commitment.

Letters telling employers with fewer than 50 employees that they have qualified for the tax-free payment for filing online have started to go out, where we have processed their complete Return.

We will not issue late or online filing penalty notices for 2004-05 until we have made further progress with processing Returns.

Common errors

The most common 2004-05 errors for online filing were as follows.

- Authentication failure error code 1046. Reasons for this error code include incorrect completion of the Employer's PAYE Reference field (in some cases PAYE Account Office references are being entered instead of EMREF) and failure to activate the service.
- Some Electronic Data Interchange (EDI) submission failures were due to the use of invalid characters in the tax code field.
- Other EDI submission failures were down to the use of invalid NINO formats.
- Part submissions:
 - P14s incorrectly sent with a P35. This has already been mentioned in the May 2005 edition of these Notes (Series 10 Number 23 para 1.7)
 - P35s showing the wrong number of parts being sent. This meant our IT systems were looking for the missing parts and could not process the Return. It would be helpful if you could check your support guidance material or on-screen help information to ensure that it is clear that the number of parts reflects the number of batches of P14s. It must not include the P35 in the number of parts, nor should it reflect the total number of P14s being sent.
- Duplicate Returns sent on paper when a Return had already been sent online.
- Users pressing 'submit' again while waiting for an acceptance message (this was particularly common during the early submission period when acceptance messages were slow) and lead to a number of duplicate submissions.

We are amending our guidance for next year to reflect these issues.

1.2 **2005-06 Employer's Annual Returns**

We are currently investigating the acceptance and validation routines for the 2005-06 Returns, submitted at the end of this financial year and hope to provide full details in the next issue of Notes for Payroll Software Developers.

1.3 2005-06 Test Service

The Third Party Validation Service (TPVS) is currently capable of testing 2005-06 vendor software in live. To keep your EDI transmission costs (and our translation costs) to a minimum we suggest that, where your payroll software allows, you restrict the size of a test file to no less than 100 and no more than 1,000 P14s.

1.4 Amended P35 Returns using Online Return & Forms – PAYE

When sending an amended P35 using Online Return & Forms – PAYE the questions on the Amended P35 - Checklist screen should show the same answers as the original P35 unless they are specifically affected by the reason for the amendment.

On the Amended P35 - Declaration screen the P14 box should be "checked" and only P14s that have changed as a result of the amendment should be included with the amendment. If no P14s have changed the box should still be "checked".

The P38A and P11D questions should show the same answers as the original P35. If the original P35 had the P11D radio button "will be sent later" checked then the amended P35 should show the same even if the amendment has been made after the P11Ds have been sent.

1.5 Quality Standard 2006-07

The Quality Standard for 2006-07 is now available on our website. A full list of changes from the previous 2005-06 Quality Standard can be found at Appendix 4 of the document.

The 2006-07 version of the Quality Standard, as well as previous years, can be found at www.hmrc.gov.uk/ebu/qual_stand.htm

1.6 Notice to file online (snapshot mailing) 2006-07

We will be undertaking our count of the number of employees in each PAYE scheme on 30 October 2005. We will mail the notice to file letters (snapshot letters) during November, issuing those to large and medium-sized employers first.

This count will determine the size of the PAYE scheme for 2006-07 submission purposes. We will publish sample copies of the letters on HMRC's website at the end of October.

1.7 Greater take up of online in-year transactions

We want to encourage employers to do more business with us online during the tax year, for example to send in-year forms such as P46s and P45s online. Business Support Teams will be able to help those small employers who want to expand on their use of our PAYE Online services. At the same time, Online Business Recruiters will promote the benefits of doing in-year business online, when contacting large employers who did not file online in April and medium sized employers who must file online for 2005-06.

It is therefore likely that employers, bureaux or agents will seek to establish the range of services their product will support and may approach providers of third-party software for more information. Any provider wanting more information about doing in-year business

online should go to the 'Practitioner Zone' on the HMRC website and select 'Software Developers' from the 'Quick Links' or email sdsteam@hmrc.gsi.gov.uk

1.8 Tax-free incentive payments where IR35 applies

A Return is due by 19 May, but by an arrangement announced by HMRC, the Returns can contain provisional figures in respect of the 'deemed payment' for IR35. Amendments to the Return to correct provisional figures must be made by the following 31 January to avoid a penalty for an incorrect Return.

Returns sent where IR35 applies qualify for the online filing tax-free payment as long as the original Return was sent online (even with provisional figures) and the employer had fewer than 50 employees. Amendments to the Return do not change whether the tax-free payment is due, as it is based on the original Return. So amendments can be made online or by paper.

Amendments sent by 31 January showing the actual figures must be sent using a P14 and P35, but can be sent online or on paper.

2. Form changes

2.1 2005-06 P11D Working Sheet 3 (P11D WS3)

The legislation for company vans available for private use has changed from 2005-06. The P11D WS3 for 2005-06 will therefore change significantly so in order to help you re-program software we have published a draft version, a copy of which is attached to these notes at **Annex A**. The final version will be published in the September 2005 edition of these 'Notes'.

For more information about company vans go to www.hmrc.gov.uk/vans/employer-guidance.htm

2.2 2006-07 P35 – 'Summary of payments' section

From the 2006-07 tax year payment via employer (PVE) will be replaced and HM Revenue & Customs will make direct payment instead. As a result of this change both the 'Tax Credits paid' and 'Tax Credits funding' boxes have been removed from the 2006-07 version of the P35.

The other change is the re-positioning of the 'Deductions made from subcontractors' box. From 2006-07 the form CIS36 Contractor's Annual Return will be replaced by CIS Monthly Returns. Whilst there is no longer a requirement to enter the amount of 'Deductions made from subcontractors' on the charge section of the P35, the box has been moved and retained to enable contractors to reconcile their payment position at the year end.

A pdf is attached at **Annex B** of the 2006-07 'Summary of payments for the year' section and a pdf of the final version of the 2006-07 P35 will be provided in the next issue of these notes.

2.3 P46: Employee without a form P45

We have designed an improved form P46 in partnership with employer representatives. We believe the changes made will significantly improve accurate completion of the form, and that the new Statements A, B and C will better facilitate the allocation of Emergency code numbers and allow more first time employees in the tax year to indicate that a cumulative code should be applied.

A new box has also been added (Statement D) to enable former students to advise their new employer (where appropriate) to make Student Loan Deductions. The proposed change will improve the Student Loan recovery process.

A copy of the redesigned form P46 can be found in Annex C of these notes. We do not anticipate further change and plan to lay the underpinning regulations in September 2005 with the revised form P46 coming into force from 06 April 2006.

The new business rules in relation to Statements A, B and C can be summarised as follows.

- The Statements are mutually exclusive and only one Statement can be ticked.
- Box A ticked – the Emergency Code should be operated on a cumulative basis.
- Box B ticked – the Emergency Code should be operated on a non-cumulative. Week 1 / Month 1 basis.
- Box C ticked – code BR should be operated.
- No box ticked – code BR should be operated.
- Form not signed – code BR should be operated.

In addition Statement D should be completed where Student Loan Deductions are to be made by the employer.

3. Other Information

3.1 Employee address field on P14

The P14 requires that the employer provide the employee's private address where it is known. This requirement remains unchanged.

However, it is acceptable for the employer to choose 'show the business address' on the P60 only where this is necessary to aid the internal distribution of P60s.

3.2 Statutory Maternity Pay (SMP) - The 'Alabaster' Judgement and SMP paid for past periods.

Following the European Court of Justice decision in the case of Alabaster, the Statutory Maternity Pay (General) Regulations 1986 were amended from 6 April 2005.

This means that the SMP average weekly earnings calculation must now take account of pay rises awarded, or which would have been awarded to a woman had she not been on maternity leave, if:

- the pay rise falls between the start of the 8 week set period for calculating SMP and the end of her statutory maternity leave (this is her ordinary maternity leave and any additional maternity leave applicable in her case).

Legal advice has now been obtained by DWP on the time limits that will operate in respect of a claim for the re-calculation of SMP paid for past periods as a result of the 'Alabaster' judgement.

A woman may ask her employer to recalculate SMP paid where she believes that a relevant pay increase should have been taken into account when calculating the amount paid.

The time limit for bringing any claim is six months after the last day a woman was employed in the employment in respect of which the claim is made. Where such a claim is made the limitation on any arrears (whether the woman is still employed or has left employment but is within time to claim) is six years from the date the claim is made.

This means employers are advised to consider a claim for SMP arrears on the following basis:

- For former employees: a claim must have been made within 6 months of their leaving employment.
- For current employees: a claim can be made in relation to SMP payments made up to 6 years before the claim is made.

However, if the six-year point falls within a woman's Maternity Pay Period, the woman will also be entitled to a recalculation (provided she can substantiate her claim). But in these cases she will only be entitled to receive any enhanced payments for those weeks within the Maternity Pay Period which fall within the period of six years of the date of her claim.

Employers are of course only obliged to keep SMP records for 3 years after the end of the tax year to which they refer. Therefore if a woman makes a claim in respect of a period before her employer is likely to have the necessary records, we believe it is reasonable for employers to ask the woman to provide sufficient evidence to substantiate her claim in order to allow her employer to re-calculate any SMP due.

Employers are of course entitled to recover any arrears of SMP paid on the basis of such requests in the normal way.

3.3 Phasing out payment of Working Tax Credit via employers (PVE)

As mentioned in the April 2005 edition of the *Notes*, PVE will be phased out between November 2005 and April 2006 and replaced by direct payment from HMRC.

From 7 November 2005 HMRC will not send employers any further start, restart or amendment notices. And from that date all new Working Tax Credit claimants will be paid direct by HMRC.

Employers operating PVE at 7 November 2005 will continue to pay the tax credit through the payroll. Between 7 November 2005 and 18 February 2006 HMRC will send employers a final stop notice for each employee to whom they pay Working Tax Credit and will switch those employees to direct payment. By 31 March 2006 no employer should still be operating PVE.

A mailshot will be issued to employers in September 2005 explaining the process and telling them what they need to do. Employers will be required to write to their employees before 7 November 2005 with details of the phasing out process. This letter will reinforce a letter that HMRC will be sending to all affected employees.

From the 2006-07 tax year the forms P11, P14, P35 and P60 will not include boxes for tax credits paid. If for any reason employers pay tax credit after 31 March 2006, they will have to phone the Employer's Helpline on **0845 7 143 143** to discuss reimbursement.

3.4 Retention of records

Regulation 97 of the PAYE Regulations SI 2003 No.2682 requires PAYE records to be kept for 3 years after the end of the tax year to which they relate, unless those records have already been sent to HMRC. The 3 year rule applies both to paper records and electronic records. This 3 year rule relates to forms such as the P6/P9, and P46, as these are records created solely for PAYE.

However some records which are relevant to PAYE are really business records, even though they may be looked at during a PAYE inspection, for example records relating to employees' travel and expenses claims. For those records the time limits for retention of business records apply. We have published guidance in relation to retention of business records in Tax Bulletin issues 37 and 58.

3.5 Magnetic Media Submitters

Anyone submitting on Magnetic Media should note the following points:

i) HMRC will no longer contact remaining magnetic media customers to confirm their intentions to submit end of year returns. Customers who wish to continue submitting magnetic media can obtain a media despatch note by contacting Magnetic Media Handling at NICO on **0191 2255903**.

ii) The Magnetic Media Technical specification - CA51-52 - will no longer be issued in paper format. From 2006-2007 it will be available on the HMRC Internet site only. A notice will be posted on the site when it becomes available.

3.6 Attachment to Earnings Orders

The Courts Act 2003 included provision for the wider use of Attachment to Earnings Orders (AEO) to enforce fines. Along with other aspects of the fines collection scheme set up by the Act the new approach the AEOs was piloted in 2004-05. Before laying regulations to set up the scheme in its final form the Department for Constitutional Affairs (DCA) evaluated the results of the pilots and consulted with employers' representatives. As a result two major clarifications to the AEO regulations were made.

'Attachable earnings' are now officially defined as per the 1971 Attachment to Earnings Act. The Council Tax Regulations (SI 1992/0613) were made the explicit model for complicated calculations, such as for holiday pay. However, fines take precedence over Student Loans, whereas Council Tax does not.

The new type of 1971 Act AEOs are only for the collection of fines imposed by Magistrates Courts in England and Wales. The old rules still apply to other 1971 Act AEOs, such as those for spousal maintenance and civil debt.

All of this new information will be contained in the revised AEO handbook to be issued by DCA in the near future, which will cover all aspects of AEOs generated and will include worked examples. This will be available for download on Her Majesty's Courts Service website at www.hmcourts-service.gov.uk

3.7 Correction to March 2005 notes

We published the following question in the March 2005 edition of these Notes (Series 10 Number 22.1 para 3.10 - Q4):

Are there any plans to allow online reporting of information where an employee receives further payment of salary when an employee leaves the employment and has already been given form P45(1)?

The answer given was incorrect and we apologise for any confusion cause. The correct answer is:

We have no plans to develop an amendment/further P45 (1) function. Page 15 of the CWG 2(2005) says that employers must use code BR when a 'standard' payment, like salary, is made after the original P45 has been issued. It goes on to say that employers must include the additional amount on the P14, but do not need to send a further P45 (1) or notify us in any way.

4. Next issue of these Notes

The next issue of these notes is scheduled for September 2005.

5. Mailing lists for these Notes

The mailing options for these notes are:

- advance notification by email
- advance notification by post
- 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 hmrnotes@replyservice.co.uk

Or you can write to:

Notes for Payroll Software Developers
PO Box 17289
Edinburgh
EH12 1WY

If you wish to be removed from the mailing list please send your request, including details of your company name and address, by email to hmrnotes@replyservice.co.uk stating 'unsubscribe' in the subject field or write to the address shown above.

6. **Contacts for enquiries**

Where helpline numbers are shown for a specific topic within the notes please ring the number quoted for more information.

General payroll enquiries should be directed to your local HM Revenue & Customs Office or to the Employer's Helpline on **0845 7 143 143**.

Any other queries about the contents of the notes should be made to the Online Services Helpdesk:

Email **helpdesk@ir-efile.gov.uk**

Telephone **0845 60 55 999**

Fax **01274 841288**

Minicom **01274 841278**

Please note, the Online Services Helpdesk cannot deal with change of mailing address information, these should be directed to hmrnotes@replyservice.co.uk

Note to employer

You do not have to use this form but you may find it a useful way to calculate the cash equivalent if you provided a van which was available for private use by a director or employee who earned at a rate of £8,500 a year or more during the year 2005-06 (that is 6 April 2005 to 5 April 2006). This form has been redesigned for the new van benefit rules from 6 April 2005.

Read the *P11D(Guide)* before you complete this form.

DRAFT

If you use this form you must also fill in forms *P11D* and *P11D(b)*, 'Return of Class 1A National Insurance contributions'. You are advised to keep a copy of each completed working sheet as it could help you to deal with enquiries. You do not have to give a copy of the completed working sheet to the director or employee, or to your HM Revenue & Customs office.

The term employee is used to cover both directors and employees throughout the rest of this form and includes any member of their family or household.

Employer's details

Employer's name

Employer's PAYE reference

Employee's details

Employee's name

Works number or department

National Insurance number

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
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The van

If the van is used mainly for business travel and the only other use is for ordinary commuting, there is no benefit charge and you need not complete this form.

Registration number

Date the van was first registered

 / /

Was this the only van made available to the employee?

 Yes

 No

If 'No' please make sure that working sheets are completed for each van made available to the employee in 2005-06.

If more than one working sheet 3 is completed for this employee, enter the number of sheets here

VAN BENEFIT CHARGE**DRAFT****1****Determine the charge for the whole year**When was the van first registered? *Tick the appropriate box*After 5 April 2002 enter **500** at Aon or before 5 April 2002 enter **350** at A

Van benefit charge for the whole of 2005-06

 A £
2**Make any reductions for days when the van was unavailable**

If the van was not available to the employee for the whole of the tax year, state the dates between which it was available, then calculate the number of days for which it was unavailable and enter this at box B

 from / / to / / days unavailable **B**

If there were any other periods of at least 30 continuous days for which the van was not available to the employee, complete the boxes below (periods may span two tax years but only days in each tax year affect liability for that year). Complete box E in all cases

 from / / to / / days unavailable **C**

 from / / to / / days unavailable **D**

Total days for which the van was unavailable

 B + C + D
E
Reduction for unavailability *round up to next whole number*
 (A × E)/365
F £

Van benefit charge after reduction for unavailability

 A minus F
G £
DRAFT

Amount brought forward from page 1

G £

3 Make any reduction for sharing of this van

If the van was shared by at least one other employee during the period when it was available to this employee, the benefit charge on this employee is reduced on a just and reasonable basis. Note that:

1. use by all sharing employees is taken into account, even if some were in excluded employment (they earn at a rate of less than £8,500 pa) and so were not personally chargeable
2. except that if any sharing employee in excluded employment is a member of this employee's family or household, their use is disregarded when making the sharing reduction for this employee
3. in the majority of cases where vans are shared, the whole amount at box A will be chargeable but the charge will be allocated between two or more employees

Percentage reduction **H** % Reduction for sharing *round up to next whole number*

G x H
J £

Explanation of basis for sharing reduction

Van benefit charge after reduction for sharing

G minus J
K £

4 Make any reduction for payments for private use of this van

Enter any payments the employee was required to, and did, make for private use of this van in the year

L £

VAN BENEFIT CHARGE FOR THIS VAN IN 2005-06

K minus L
M £

Enter the figure at box M in box 1.18 in section G of form P11D.

If the employee had more than one van available in the year, add together all the figures at box M on each working sheet, then transfer the total to box 1.18 in section G of form P11D.

5 VAN FUEL BENEFIT CHARGE

This has no practical impact in 2005-06 or 2006-07 and the form for those years therefore excludes it.

The form will be redesigned for the 2007-08 tax year to include both the revised van benefit charge, which will no longer be related to the age of the van, and the van fuel benefit charge.

Part 2 Summary of payments for the year

Total NICs 1 + 2 **3** £

see Note 2

Total Tax 4 + 5 **6** £

see Note 2

Advance received from Inland Revenue to refund tax **7** £

Total Tax 6 + 7 **8** £

Combined amounts

Total NICs and Tax 3 + 8 **9** £

Total Student Loan deductions **10** £

see Note 3

9 + 10 **11** £

Statutory payments recovered

see Note 4

Statutory Sick Pay (SSP) recovered **12** £

Statutory Maternity Pay (SMP) recovered **13** £

NIC compensation on SMP **14** £

Statutory Paternity Pay (SPP) recovered **15** £

NIC compensation on SPP **16** £

Statutory Adoption Pay (SAP) recovered **17** £

NIC compensation on SAP **18** £

Total of boxes 12 to 18 **19** £

Funding received from Inland Revenue to pay SSP/SMP/SPP/SAP **20** £

19 minus 20 **21** £

11 minus 21 **22** £

see Note 5

Deductions made from subcontractors **23** £

see Note 6

Amount payable for the year 22 + 23 **24** £

NICs and Tax paid already **25** £

Tax-free Incentive payment received during the year **26** £

see Note 7

NOW PAYABLE 24 minus 25 and 26 **27** £

Do not include a payment with this form. If immediately. See page 1 for notes on how to

Fill in boxes 28 and 29 only if you are a **limited company** that has had CIS deductions made from payments received for work in the construction industry. CIS deductions suffered **28** £

Total of col E on form CIS132

Revised amount now payable 27 minus 28 **29** £

Section one To be completed by the employee

Please complete Section one and then hand back the form to your present employer. If you later receive a form P45 from your previous employer, please hand it to your present employer.

YOUR DETAILS PLEASE USE CAPITALS

National Insurance number - this is very important in getting your tax and benefits right

Grid for National Insurance number: 9 boxes

Name

Title - Mr, Mrs, Miss, Ms, other

Grid for Title: 4 boxes

Surname or family name

Grid for Surname: 12 boxes

Grid for Surname: 12 boxes

Grid for Surname: 8 boxes

First or given name(s)

Grid for First name: 12 boxes

Grid for First name: 12 boxes

Grid for First name: 8 boxes

Male or Female

Date of birth

Grid for Date of birth: DDMMYYYY

Address

Postcode

Grid for Postcode: 7 boxes

House or flat number

Grid for House number: 6 boxes

Rest of address, including house name or flat name

Grid for Rest of address: 16 boxes

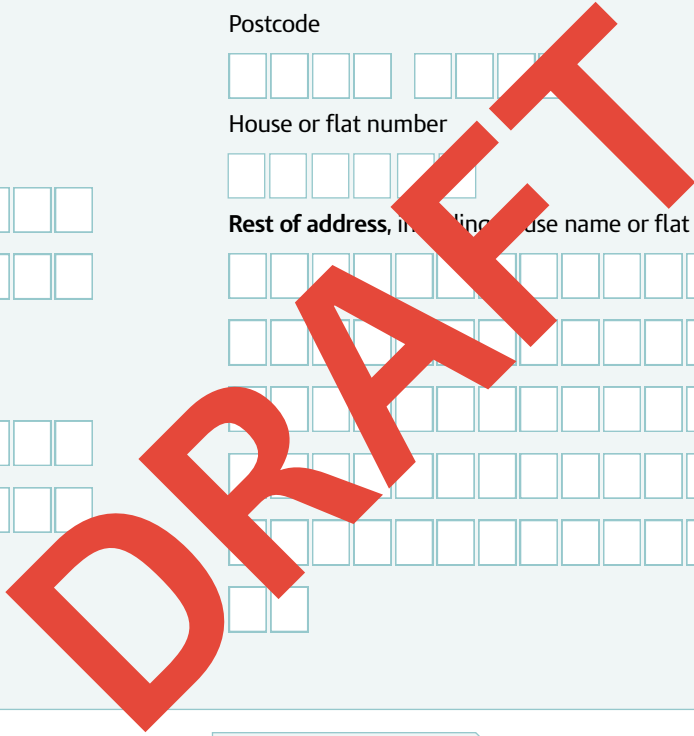
Grid for Rest of address: 16 boxes

Grid for Rest of address: 16 boxes

Grid for Rest of address: 16 boxes

Grid for Rest of address: 16 boxes

Grid for Rest of address: 4 boxes



YOUR PRESENT CIRCUMSTANCES

Please read all the following statements carefully and tick the one that applies to you.

A - This is my first job since last 6 April and I have not been receiving taxable Jobseeker's Allowance or taxable Incapacity Benefit or a state or occupational pension.

Radio button A

OR

B - This is now my only job, but since last 6 April I have had another job, or have received taxable Jobseeker's Allowance or Incapacity Benefit. I do not receive a state or occupational pension.

Radio button B

OR

C - I have another job or receive a state or occupational pension.

Radio button C

STUDENT LOANS

If you left a course of Higher Education before last 6 April and received your first Student Loan instalment on or after 1 September 1998 and you have not fully repaid your student loan, please tick box D.

Radio button D

SIGNATURE AND DATE

I confirm that this information is correct

Signature

Large empty box for signature

Date

Grid for Date: DDMMYYYY

Now please hand the signed form to your present employer

