

Payroll Software specification on Statutory Adoption Pay

INTRODUCTION

1. This specification covers Statutory Adoption Pay (SAP) where the employee is notified by the adoption agency that they have been matched with a child for adoption on or after 6 April 2003. Special arrangements will apply around the implementation date to cover cases where a child is matched before 6 April 2003, but is placed on or after 6 April 2003. Adoption leave and pay will be available in such circumstances but special notice arrangements will apply – employees will be required to give their employers 28 days notice of their absence. This will mean that these employees will not automatically be entitled to leave or pay from the date of placement itself.
2. **It does not currently provide for:**
 - **the calculation of average weekly earnings where weekly payments are mistimed**
 - **interruptions of work in the period used for the continuous employment test**
 - **NHS Trust employees to elect to have their contracts treated as one**
 - **changes of employer where the business is transferred as a going concern and employment is treated as continuous.**
 - **Employees who adopt a child from overseas**

The Inland Revenue plans to cover these circumstances in later versions of this specification.
3. **It assumes that:**
 - **the employee notifies their entitlement to SAP in time, or the employer accepts any delay**
 - **acceptable evidence of adoption is held**
 - **no other payments are offset against SAP liability.**
4. The routines described below make use of
 - Data supplied by IR. These usually apply to a whole year and will be supplied in the Notes for Payroll Software Developers. Please note that changes can be made during the year. Changes can also be made with effect from a specific date where the child is matched with the person adopting them or placed for adoption, or more rarely from a specific start date of an Adoption Pay Period. The system should keep a record of these variables and the year/dates to which they relate.
 - Data in respect of individual employees. The specification also includes validation checks for this data. Some data will not always be relevant to a particular employee.
 - Data derived by the payroll system. The specification also includes validation checks for this data. Some data will not always be relevant to a particular employee.
5. SAP is only payable to employees by their employers.
An "employee" is defined as a person whose earnings attract a liability for employers' Class 1 National Insurance Contributions, or would if they were high enough.
The "employer" is whoever is liable to pay the employer's share of Class 1 National Insurance Contributions.
People who would normally be treated as self-employed, such as agency workers, can be treated as an employee by regulations.

6. SAP can be paid to a man or a woman. Where a married couple are jointly adopting, one parent must elect to receive the SAP, and one parent must elect to receive Statutory Paternity Pay.

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1. Using the data the system will be able to calculate:
 - the amount of SAP that is due to be paid to an employee by their employer during the Adoption Pay Period (APP)
 - the amount of SAP and, if appropriate SAP compensation, that can be recovered by the employer
2. The system will also be able to keep the basic records required.

NB1 "Date" means the data must held be a date, for example in the format dd/mm/yyyy.

IR data			
	Description of data	Abbreviation used	Recommended Field size
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SAP to arise	LEL	£xxx.xx
A2	The number of weeks an employee needs to be continuously employed	Cont_Emp_weeks	Xx
A3	The number of weeks in the Adoption Pay Period (APP)	APP_weeks	Xx
A4	Standard rate of SAP	Standard_Rate	£xxx.xx
A5	Small Employer Threshold (field size set at 100 thousand just in case)	SER_Threshold	£xxx,xxx
A6	Small Employer Recovery Rate	SER_Recovery	xxx.xx%
A7	Small Employer Compensation rate	Comp	xx.xx%
A8	Standard Recovery rate	Standard_Recovery	xx.xx%

NB2 The system will need to be able to retain multiple entries for these variables associated with the relevant dates. A number of these data values are changed each year and normally apply for the whole year. However changes can be made during a year. Changes can also be made with effect from a specific date where the child is matched with the person adopting them or placed for adoption, or more rarely from a specific start date of an Adoption Pay Period.

NB3 These values will usually be the same as those for Statutory Maternity Pay.

Employee data			
	Description of data	Abbreviation used	Validation check
B1	Date when the adopter is notified of being matched with a child – as shown on the matching certificate.	Date_Match_Notified	Date.
B2	Date child expected to be placed for adoption (as shown on the matching certificate where known)	Child_Expected_Date	Date. May be blank if entry at Child_Placed_Date
B3	Date child actually placed for adoption, as notified	Child_Placed_Date	Date. May be blank

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Employee data			
	Description of data	Abbreviation used	Validation check
	by the employee		if entry at Notified_Leave_start .
B4	Start date of employment	Employment_start	Date
B5	End date of employment	Employment_end	Date. May be blank unless < MW_SUN
B6	Date employee notifies that they intend to start their adoption leave. Must be capable of being changed.	Notified_Leave_start	Date. May be blank if employee notifies intention to work up to placement. Cannot be < (Child_Expected_Date - 2 weeks) . Cannot be > Child_Placed_Date
B7	Date(s) employee worked during Adoption Pay Period. Must be capable of multiple entries. See NB5	APP_work	Cannot be < APP_Start_Week(n=1) or > APP_End_Week(n=APP_weeks)
B8	SAP entitlement stops on: <ul style="list-style-type: none"> ▫ APP_End_Week(n+1) after the employee dies ▫ APP_End_Week(n) after the employee is taken into legal custody 	SAP_stop	Date. May be blank.

NB4 Either value **Child_Placed_Date** OR **Notified_Leave_start** must be held. Both values can be held if desired.

NB5 **APP_work**. This is only one method of identifying the weeks during the APP when the employee worked. Some systems use flags, others derive the data from dates of absence. Providing that no SAP is paid for weeks during the APP when the employee worked any method of storing this data is acceptable.

System derived data			
	Data Definition	Abbreviation used	Validation check
C1	Sunday of the Matching Week (MW)	MW_SUN	Sunday Date
C2	Saturday of the MW	MW_SAT	Saturday Date
C3	Date of first pay day on or before MW_SAT	Payday_end_RP	Date Must be ≤ MW_SAT
C4	Date Eight weeks before Payday_end_RP	8_weeks_RP	Date
C5	Date of First pay day before 8_weeks_RP .	Payday_start_RP	Date
C6	Sum Gross NTable Earnings paid in relevant period	Earnings_RP	Must be ≥ £0

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C7	The employee's average weekly earnings. Must be held truncated to 5 decimal places	Average_Weekly_Earnings	Must be ≥ £0
C8	Number of days from Payday_start_RP (exclusive) to Payday_end_RP (inclusive)	Days_in_RP	Must be ≥ 56
C9	Rounded divisor used when calculating average weekly earnings for employee paid weekly or in multiples of a week Weekly_Divisor = Days_in_RP ÷ 7 rounded down to whole number	Weekly_Divisor	Must be ≥ 1
C10	Rounded divisor used when calculating average weekly earnings for employee paid calendar monthly or in multiples of a calendar month. Monthly_Divisor = number of whole calendar months in relevant period. If there are not a whole number of calendar months in the relevant period round to a whole number as follows <ul style="list-style-type: none"> □ 30 and 31 day months: 15 days or less round down, 16 days or more round up □ 28 and 29 day months: 14 days or less round down, 15 days or more round up. 	Monthly_Divisor	Must be ≥ 1
C11	Start of each week in the Adoption Pay Period (APP)	APP_Start_Week(n)	Date “n” must be ≥ 1 and ≤ APP_weeks
C12	Earnings-related rate. Rounded up to a whole penny	Earnings_rate	Must be ≥ £0
C13	End of each week in the Adoption Pay Period	APP_End_Week(n)	Date “n” must be ≥ 1 and ≤ APP_weeks
C14	The qualifying tax year to establish if the employer qualifies for Small Employers Relief	Qual_Year	Must be a tax year
C15	Gross Primary & Secondary Class 1 NIC liability for Qual_Year . Liability is net of any contracted-out rebate due for that tax year even if not actually claimed. Do not include Class 1A or Class 1B NICs	NIC_Qual_Year	Must be ≥ £0. May be blank
C16	Calculated amount of Class 1 NICs for SER purposes if employer was not liable for Class 1 NICs for the whole Qual_Year	Calc_NIC_Tax_Year	Must be ≥ £0. May be blank
C17	Calculated amount of Class 1 NICs for SER purposes if employer was not liable for Class 1 NICs in Qual_Year	Calc_NIC_Prev_Year	Must be ≥ £0. May be blank. Required if value at NIC_Prev_Year

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C18	Gross Primary & Secondary Class 1 NIC liability for tax year in which MW_SUN falls between start of liability for Class 1 NICs and tax month ending prior to MW_SUN (inclusive) if employer was not liable to Class 1 NICs in Qual_Year . Liability is net of any contracted-out rebate due for those tax months even if not actually claimed in those tax months. Do not include Class 1A or Class 1B NICs	NIC_Prev_Year	Must be ≥ £0. May be blank. Required if no value at NIC_Qual_Year
C19	Total SAP paid during a tax period. If payment of SAP spans more than one tax year a separate total is needed for each tax year.	SAP_Tax_Period	Must be ≥ £0.

Calculation routines:

1 Establish Matching Week (MW).

MW_SUN	If Date_Match_Notified = Sunday then MW_SUN = Date_Match_Notified if not, then MW_SUN = Sunday before Date_Match_Notified
MW_SAT	Saturday after MW_SUN

2 Calculate average weekly earnings

- a Establish relevant period. The relevant period runs from **Payday_start_RP** to **Payday_end_RP**. Exclude **Payday_start_RP** and include **Payday_end_RP**. **Payday_start_RP** is the first pay day before **8_weeks_RP**.
- b Calculate **Earnings_RP**. Sum gross earnings, liable for Class 1 NICs, paid in the relevant period
- c System must be able to recognise pay frequency, ie weekly, or multiples of a week, calendar monthly etc and Calculate **Average_Weekly_Earnings** – truncated to 5 decimal places:

Where the employee is paid:

weekly or in multiples of a week, eg fortnightly, or the last Friday of every month	Average_Weekly_Earnings = Earnings_RP ÷ Weekly_Divisor Weekly_Divisor = Days_in_RP ÷ 7 rounded down to a whole number of weeks
Calendar monthly, or in multiples of a calendar month, eg quarterly or annually	Average_Weekly_Earnings = Earnings_RP ÷ Monthly_Divisor x 12 ÷ 52 Monthly_Divisor = number of whole calendar months in relevant period. If there are not a whole number of calendar months in the relevant period round as follows <ul style="list-style-type: none"> □ 30 and 31 day months: 15 days or less round down, 16 days or more round up □ 28 and 29 day months: 14 days or less round down, 15 days or more round up.

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Irregularly	$\text{Average_Weekly_Earnings} = \frac{\text{Earnings_RP}}{\text{Days_in_RP} \times 7}$
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- NB6** **Earnings_RP** does not usually include any earnings liable to Class 1B National Insurance contributions. However if **Average_Weekly_Earnings** < **LEL** applying on **MW_SAT**, then **Earnings_RP** must be increased to include any payment made during the relevant period which would normally attract Class 1 NIC liability but was included in a PAYE settlement agreement and on which Class 1B NICs are due.
- NB7** If employee receives a back dated pay rise which retrospectively increases **Earnings_RP** AND **Earnings_RP** was < **Standard_Rate** then **Average_Weekly_Earnings**, **Earnings_rate** and **SAP_Tax_Period** MUST be recalculated and the additional SAP due paid to the employee, and the additional SAP and SAP compensation recovered. See 4d for how to calculate the additional SAP due.
- NB8** If employee receives a back dated pay rise which retrospectively increases **Earnings_RP** AND **Earnings_RP** was < **Standard_Rate** AND **Earnings_RP** had to be increased to include Class 1B earnings (as set out in NB6) then Class 1B earnings must be removed before back-dated payrise is applied. If revised **Average_Weekly_Earnings** (taking into account backdated payrise) < **LEL** applying on **QW_SAT**, then **Earnings_RP** must be recalculated again including the back-dated pay rise AND the Class 1B earnings.

3 Check if SAP entitlement conditions satisfied:

SAP NOT due if:

- **Average_Weekly_Earnings** < **LEL** at **MW_SAT**
- **Employment_start** > **MW_SAT** – **Cont_Emp_Weeks**
- **Employment_end** < **MW_SUN**

If SAP not due employer may be required to notify the employee in writing.

4 Paying SAP

- a Establish the start date of the Adoption Pay Period (APP) **APP_Start_Week(n=1)**
- If **Child_Placed_Date** is blank or \geq **Notified_Leave_Start** then **APP_Start_Week(n=1) = Notified_Leave_start**
 - If **Child_Placed_Date** < **Notified_Leave_start** or date at **Child_Placed_Date** and **Notified_Leave_start** is blank then **APP_Start_Week(n=1) = first whole day of absence from work on or after Child_Placed_Date**
- b Establish the **Earnings_rate = Average_weekly_earnings x 90%** (round up to 2 decimal places)
- c Establish **APP_End_Week(n)** and the SAP due in each week:
- If **APP_work** \leq **APP_End_Week(n)** and $>$ **APP_End_Week(n-1)** then no SAP due for that week

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- If **APP_work** > **APP_End_Week(n)** or ≤ **APP_End_Week(n-1)** then SAP due = **Standard_Rate** UNLESS **Standard_Rate** > **Earnings_rate** where SAP due = **Earnings_rate**

NB9 SAP due on each **APP_End_Week(n)** should normally be paid on the next payday, but if the employers pay practices mean that they would normally pay wages or other payments before that date then this is acceptable. An example of this would be where an employee is paid their salary for the month on the 15th of the month. However, if the employee's circumstances change the employer and employee should be aware that this may cause an overpayment and/or over-recovery of SAP that would need to be corrected. This is most likely to happen if the employee has to attend work unexpectedly or more unusually **SAP_stop** is triggered.

NB10 SAP can be paid in a lump sum at the start of the Adoption Pay Period. This could cause an overpayment if the employee's circumstances change, and the employer and the employee could also pay more in National Insurance Contributions. This could also cause an under-payment if the Adoption Pay Period spans a tax year and the new rate is not known at the time the payment is made.

- d Paying additional SAP as a result of a back dated pay rise which retrospectively increases **Earnings_RP**
 - If SAP paid before then extra SAP due is Σ SAP due each **APP_End_Week(n)** using lesser of **Standard_rate** OR new **Earnings_RP** - Σ SAP due each **APP_End_Week(n)** using old **Earnings_RP** subject to **Standard_Rate** limit
 - If no SAP paid before then
[DN relationship between SAP and whatever payment arrangements DoH put in place still to be decided]

5 Stopping paying SAP

SAP stops

- if **SAP_Stop** < **APP_End_Week(n=APP_weeks)**
- at **APP_End_Week(n=APP_weeks)**

If SAP ends other than at **APP_End_Week(n=APP_weeks)** employer may be required to notify employee in writing.

6 Recovering SAP

- a For each Adoption Pay Period establish whether SAP paid to that employee qualifies for Small Employers Relief or not by establishing **Qual_Year** and **NIC_Qual_Year**:
 - **Qual_Year** = tax year before **MW_SUN**
 - if the employer was not liable for Class 1 NICs for the whole of **Qual_Year** year then establish **Calc_NIC_Qual_Year**.
 - If employer was not liable to pay Class 1 NICs in the qualifying tax year then establish **Calc_NIC_Prev_Year**.

Calc_NIC_Qual_Year =	Σ NIC_Qual_Year ÷ number of months employer was liable for Class 1 NICs x 12
Calc_NIC_Prev_Year =	Σ NIC_Prev_Year ÷ number of months

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	between start of liability for Class 1 NICs and tax month ending prior to MW_SUN (inclusive) x 12
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NB11 The qualifying tax year could be two years before the tax year in which the SAP has been paid

NB12 Even though entitlement to Small Employers' Relief is established for the whole Adoption Pay Period, if payment of SAP spans a tax year separate calculations are needed for each year as compensation rates may vary.

- b If **NIC_Qual_Year, Calc_NIC_Qual_Year, OR Calc_NIC_Prev_Year** ≤ **SER_Threshold** then SAP recovery is **SAP_Tax_Period x SER_Recovery** AND SAP compensation is **SAP_Tax_Period x Comp** (rounded up to nearest penny)
- c If **NIC_Qual_Year, Calc_NIC_Qual_Year, OR Calc_NIC_Prev_Year** > **SER_Threshold** then SAP recovery is **SAP_Tax_Period x Standard_Recovery** (rounded up to nearest penny)

NB13 Where calculations are to be “rounded up to the nearest penny” first calculate the value truncated to 3 decimal places, then round up to the next penny above if the 3rd, 4th and 5th decimal place is not zero.

Records

System must be able to produce the following reports:

For each employee:

- The weeks and amounts of SAP paid in the tax year
- Any weeks in the Adoption Pay Period where SAP is not due and the reason why

Amount of SAP recovery and any SAP compensation due for a tax year. If a payment of SAP spans a tax year separate records are required for each year.

System should prompt user to keep evidence of adoption (matching certificate) provided by the employee.

System must also transfer required SAP details for required legislative returns:

- P11 or substitute - SAP paid on each payday during tax year
- P14 ∑ SAP paid during tax year
- P35 ∑ SAP recovered and ∑ SAP compensation recovered.