

# Payroll Software specification on Statutory Paternity Pay (adoption)

## INTRODUCTION

1. This specification covers Statutory Paternity Pay (SPP) where the adopter 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. Paternity 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 SPP in time, or the employer accepts any delay**
  - **acceptable self-certified evidence of entitlement is held**
  - **no other payments are offset against SPP 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. The system should keep a record of these variables and the year/dates to which they relate. 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 a Paternity 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. SPP 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. SPP can be paid to a man or a woman. Where a married couple are adopting jointly, one parent must elect to receive the Statutory Adoption Pay and one parent must elect to receive SPP.

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1. Using the data the system will be able to calculate:
  - the amount of SPP that is due to be paid to an employee by their employer during the Paternity Pay Period (PPP)
  - the amount of SPP and, if appropriate SPP 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.

<b>IR data</b>			
	<b>Description of data</b>	<b>Abbreviation used</b>	<b>Recommended Field size</b>
A1	The Lower Earnings Limit for National Insurance Contributions purposes which is also the minimum level of average weekly earnings for entitlement to SPP to arise	<b>LEL</b>	£xxx.xx
A2	The number of weeks an employee needs to be continuously employed	<b>Cont_Emp_weeks</b>	xx
A3	The number of weeks in the Paternity Pay Period (PPP)	<b>PPP_weeks</b>	xx
A4	Standard rate of SPP	<b>Standard_Rate</b>	£xxx.xx
A5	Small Employer Threshold (field size set at 100 thousand just in case)	<b>SER_Threshold</b>	£xxx,xxx
A6	Small Employer Recovery Rate	<b>SER_Recovery</b>	xxx.xx%
A7	Small Employer Compensation rate	<b>Comp</b>	xx.xx%
A8	Standard Recovery rate	<b>Standard_Recovery</b>	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 of where the child is matched with the person adopting them or placed for adoption, or more rarely from a specific start date of a Paternity Pay Period.

**NB3** values A1, A2, A4, A5, A6, A7 and A8 will usually be the same as those for Statutory Adoption Pay.

<b>Employee data</b>			
	<b>Description of data</b>	<b>Abbreviation used</b>	<b>Validation check</b>
B1	Date when a certificate matching the child is issued– as self-certified by the employee. No requirement or right for employer to see matching certificate.	<b>Date_Match_Notified</b>	Date.
B2	Date child expected to be placed for adoption – as self-certified by the employee where known)	<b>Child_Expected_Date</b>	Date. May be blank if entry at <b>Child Placed Date</b>
B3	Date child actually placed for adoption– as self-	<b>Child_Placed_Date</b>	Date.

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Employee data			
	Description of data	Abbreviation used	Validation check
	certified by the employee.		
B3	Start date of employment	<b>Employment_start</b>	Date
B4	End date of employment	<b>Employment_end</b>	Date. May be blank unless < <b>Child_Placed_Date</b>
B5	Date employee notifies that they intend to start their paternity leave. Must be capable of being changed. The employee does not have to notify a specific date, for example they can say that they want to work up to the placement or that they want to start their leave 10 days after placement. If this happens enter a date based on <b>Child_Expected_Date</b>	<b>Notified_Leave_start</b>	Date. May be blank if employee notifies intention to start leave immediately after placement. Cannot be < <b>Child_Expected_Date</b> or <b>Child_Placed_Date</b> or > ( <b>Child_Placed_Date</b> + 49 days )
B6	Date(s) employee worked during Paternity Pay Period. Must be capable of multiple entries. See NB 4	<b>PPP_work</b>	Cannot be < <b>PPP_Start_Week(n=1)</b> or > <b>PPP_End_Week(n=PPP_weeks)</b>
B7	SPP entitlement stops on: <ul style="list-style-type: none"> <li>□ <b>PPP_End_Week(n+1)</b> after the employee dies</li> <li>□ <b>PPP_End_Week(n)</b> after the employee is taken into legal custody</li> <li>□ <b>PPP_End_Week(n)</b> before <b>Child_Placed_Date</b> + 55 days</li> </ul>	<b>SPP_stop</b>	Date. May be blank.
B8	Date(s) employee was paid Statutory Sick Pay(SSP) for during Paternity Pay Period. Must be capable of multiple entries. Dates must be worked out and recorded even if employee paid occupational sick pay or other contractual payment instead of SSP. See NB4	<b>PPP_SSP</b>	Cannot be < <b>PPP_Start_Week(n=1)</b> or > <b>PPP_End_Week(n=PPP_weeks)</b>

**NB4 PPP\_work and PPP\_SSP.** This is only one method of identifying the weeks during the PPP when the employee worked. Some systems use flags, others derive the data from dates of absence. Providing that no SPP is paid for weeks during the PPP 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)	<b>MW_SUN</b>	Sunday Date
C2	Saturday of the MW	<b>MW_SAT</b>	Saturday Date
C3	Date of first pay day on or before <b>MW_SAT</b>	<b>Payday_end_RP</b>	Date Must be ≤ <b>MW_SAT</b>

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C4	Date Eight weeks before <b>Payday_end_RP</b>	<b>8_weeks_RP</b>	Date
C5	Date of First pay day before <b>8_weeks_RP</b> .	<b>Payday_start_RP</b>	Date
C6	Sum Gross Niable Earnings paid in relevant period	<b>Earnings_RP</b>	Must be ≥ £0
C7	The employee's average weekly earnings. Must be held truncated to 5 decimal places	<b>Average_Weekly_Earnings</b>	Must be ≥ £0
C8	Number of days from <b>Payday_start_RP</b> (exclusive) to <b>Payday_end_RP</b> (inclusive)	<b>Days_in_RP</b>	Must be ≥ 56
C9	Rounded divisor used when calculating average weekly earnings for employee paid weekly or in multiples of a week <b>Weekly_Divisor</b> = <b>Days_in_RP</b> ÷ 7 rounded down to whole number	<b>Weekly_Divisor</b>	Must be ≥ 1
C10	Rounded divisor used when calculating average weekly earnings for employee paid calendar monthly or in multiples of a calendar month. <b>Monthly_Divisor</b> = 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"> <li>□ 30 and 31 day months: 15 days or less round down, 16 days or more round up</li> <li>□ 28 and 29 day months: 14 days or less round down, 15 days or more round up.</li> </ul>	<b>Monthly_Divisor</b>	Must be ≥ 1
C11	Start of each week in the Paternity Pay Period (PPP)	<b>PPP_Start_Week(n)</b>	Date “n” must be ≥ 1 and ≤ <b>PPP_weeks</b>
C12	Earnings-related rate. Rounded up to whole penny	<b>Earnings_rate</b>	Must be ≥ £0
C13	End of each week in the Paternity Pay Period	<b>PPP_End_Week(n)</b>	Date “n” must be ≥ 1 and ≤ <b>PPP_weeks</b>
C14	The qualifying tax year to establish if the employer qualifies for Small Employers Relief	<b>Qual_Year</b>	Must be a tax year
C15	Gross Primary & Secondary Class 1 NIC liability for <b>Qual_Year</b> 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	<b>NIC_Qual_Year</b>	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 <b>Qual_Year</b>	<b>Calc_NIC_Tax_Year</b>	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 <b>Qual_Year</b>	<b>Calc_NIC_Prev_Year</b>	Must be ≥ £0. May be blank. Required if value at <b>NIC_Prev_Year</b>

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C18	Gross Primary & Secondary Class 1 NIC liability for tax year in which <b>MW_SUN</b> falls between start of liability for Class 1 NICs and tax month ending prior to <b>MW_SUN</b> (inclusive) if employer was not liable to Class 1 NICs in <b>Qual_Year</b> . 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	<b>NIC_Prev_Year</b>	Must be ≥ £0. May be blank. Required if no value at <b>NIC_Qual_Year</b>
C19	Total SPP paid during a tax period. If payment of SPP spans more than one tax year a separate total is needed for each tax year.	<b>SPP_Tax_Period</b>	Must be ≥ £0.

### Calculation routines:

#### 1 Establish Matching Week (MW).

<b>MW_SUN</b>	If <b>Date_Match_Notified</b> = Sunday then <b>MW_SUN</b> = <b>Date_Match_Notified</b> if not, then <b>MW_SUN</b> = Sunday before <b>Date_Match_Notified</b>
<b>MW_SAT</b>	Saturday after <b>MW_SUN</b>

#### 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	<b>Average_Weekly_Earnings</b> = <b>Earnings_RP</b> ÷ <b>Weekly_Divisor</b> <b>Weekly_Divisor</b> = <b>Days_in_RP</b> ÷ 7 rounded down to a whole number of weeks
Calendar monthly, or in multiples of a calendar month, eg quarterly or annually	<b>Average_Weekly_Earnings</b> = <b>Earnings_RP</b> ÷ <b>Monthly_Divisor</b> x 12 ÷ 52 <b>Monthly_Divisor</b> = 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"> <li>□ 30 and 31 day months: 15 days or less round down, 16 days or more round up</li> <li>□ 28 and 29 day months: 14 days or less round down, 15 days or more round up.</li> </ul>
Irregularly	<b>Average_Weekly_Earnings</b> = <b>Earnings_RP</b> ÷ <b>Days_in_RP</b> x 7

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**NB5** **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.

**NB6** 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 **SPP\_Tax\_Period** MUST be recalculated and the additional SPP due paid to the employee, and the additional SPP and SPP compensation recovered. See 4d for how to calculate the additional SPP due.

**NB7** 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 NB5) 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 re-calculated again including the back-dated pay rise AND the Class 1B earnings.

### 3 Check if SPP entitlement conditions satisfied:

SPP NOT due if:

- **Average\_Weekly\_Earnings** < **LEL** at **MW\_SAT**
- **Employment\_start** > **MW\_SAT** – **Cont\_Emp\_Weeks**
- **Employment\_End** < **Child\_Placed\_Date**

If SPP not due employer will be required to tell employee why

### 4 Paying SPP

a Establish the start date of the Paternity Pay Period (PPP) **PPP\_Start\_Week(n=1)**

- **PPP\_Start\_Week(n=1)** = **Notified\_Leave\_start**
- If **Notified\_Leave\_start** is blank then **PPP\_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 whole penny)

c Establish **PPP\_End\_Week(n)** and the SPP due in each week:

- If **PPP\_work** or **PPP\_SSP**. ≤ **PPP\_End\_Week(n)** and > **PPP\_End\_Week(n-1)** then no SPP due for that week
- If **PPP\_work** or **PPP\_SSP**. > **PPP\_End\_Week(n)** or ≤ **PPP\_End\_Week(n-1)** then SPP due = **Standard\_Rate** UNLESS **Standard\_Rate** > **Earnings\_rate** where SPP due = **Earnings\_rate**

**NB8** SPP due on each **PPP\_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 15<sup>th</sup> of the month. However, if the employee's

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circumstances change the employer and employee should be aware that this may cause an overpayment and/or over-recovery of SPP that would need to be corrected. This is most likely to happen if the employee has to attend work unexpectedly or more unusually **SPP\_stop** is triggered.

**NB9** SPP can be paid in a lump sum at the start of the Paternity 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.

- d Paying additional SPP as a result of a back dated pay rise which retrospectively increases **Earnings\_RP**. Recalculate **Average\_Weekly\_Earnings** and **Earnings\_rate**
  - If SPP paid before then extra SPP due is  $\Sigma$ SPP due each **PPP\_End\_Week(n)** using lesser of **Standard\_Rate** OR new **Earnings\_rate** -  $\Sigma$ SPP due each **PPP\_End\_Week(n)** using old **Earnings\_rate**
  - If no SPP paid before then SPP due is as step 4c

### 5 Stopping paying SPP

SPP stops

- if **SPP\_Stop** < **PPP\_End\_Week(n=PPP\_weeks)**
- at **PPP\_End\_Week(n=PPP\_weeks)**

If SPP ends other than at **PPP\_End\_Week(n=PPP\_weeks)** employer will be required to notify employee in writing.

### 6 Recovering SPP

- a For each Paternity Pay Period establish whether SPP 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**.

<b>Calc_NIC_Qual_Year</b> =	$\Sigma$ <b>NIC_Qual_Year</b> ÷ number of months employer was liable for Class 1 NICs x 12
<b>Calc_NIC_Prev_Year</b> =	$\Sigma$ <b>NIC_Prev_Year</b> ÷ number of months between start of liability for Class 1 NICs and tax month ending prior to <b>MW_SUN</b> (inclusive) x 12

**NB10** The qualifying tax year could be two years before the tax year in which the SPP has been paid

**NB11** Even though entitlement to Small Employers' Relief is established for the whole Paternity Pay Period, if payment of SPP spans a tax year separate calculations are needed for each year as compensation rates may vary.

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- b If **NIC\_Qual\_Year**, **Calc\_NIC\_Qual\_Year**, OR **Calc\_NIC\_Prev\_Year** ≤ **SER\_Threshold** then SPP recovery is **SPP\_Tax\_Period** x **SER\_Recovery** AND SPP compensation is **SPP\_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 SPP recovery is **SPP\_Tax\_Period** x **Standard\_Recovery** (rounded up to nearest penny)

**NB12** 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 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> decimal place is not zero.

### Records

System must be able to produce the following reports:

For each employee:

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

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

System should prompt user to keep self-certificate provided by the employee.

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

- P11 or substitute - SPP paid on each payday during tax year
- P14  $\Sigma$  SPP paid during tax year
- P35  $\Sigma$  SPP recovered and  $\Sigma$  SPP compensation recovered.