

**The Chancellor of the Exchequer's
Budget Proposals affecting PAYE**

In his Budget statement on 9 March 1999 the Chancellor of the Exchequer made the following proposals which affect you.

Income Tax rates

The Chancellor announced a new Starting Rate of income tax of 10p which replaces the 20p Lower Rate. The rates of tax and bandwidths effective from 6 April 1999 are

| | |
|---------------|---------------------|
| Starting Rate | 10% up to £1500 |
| Basic Rate | 23% £1501 to £28000 |
| Higher Rate | 40% over £28000. |

Some forms and leaflets may continue to refer to the 10p rate as the Lower Rate. This literature will be amended gradually.

New Tax Tables

Revised Taxable Pay Tables SR + B to D (May 1999 issue) are enclosed for use from 18 May 1999. They incorporate the new Starting Rate and the increased Basic Rate band width.

Codes to operate from 18 May 1999

The Chancellor announced that from 6 April 1999 there would be increases to certain allowances. The increases are to be given in revised codes to be operated from 18 May 1999.

Form P7X enclosed with this pack gives details of the codes to be increased. You should operate the new code numbers from Week 7.

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Major Changes to the Taxation of Company cars

The Chancellor announced a major reform of the taxation of company cars to help protect the environment. The announcement follows a review of how the company car tax regime might be altered to send better environmental signals.

From April 2002, the existing income tax charge based on 35 per cent of the car's price, subject to business mileage and age-related discounts are to be abolished. They will be replaced by a charge on a percentage of the car's price, graduated according to the level of the car's carbon dioxide emissions.

We will be undertaking further consultation on the precise details of the linkage between carbon dioxide (and possibly other) emissions and the tax charge, with a view to bringing forward legislation in the 2000 Finance Bill.

To pave the way for this reform, the Chancellor also announced reductions in the existing business mileage, age related and second car discounts to take effect from 6 April 1999.

The new tax charge from 6 April 1999

From 6 April 1999 the new tax charge on a company car is based on the following percentages of the price of the car for tax purposes

- 35% for annual business mileage less than 2500 miles
- 25% for annual business mileage between 2,500 and 17,999 miles (instead of the previous one third discount)
- 15% for annual business mileage of 18,000 miles or more (instead of the previous two thirds discount)

Older car discounts

For a car which will be 4 or more years' old at the end of the tax year, the tax charge after taking into account business miles will be further reduced by one quarter instead of one third.

Second car discounts

The tax charge on second cars will generally be 35% of the price of the car. Where exceptionally the second car is also used for at least 18,000 business miles in the year, the charge is 25% of the price of the car (instead of the previous one third discount).

How will this affect employers ?

The new rules for 1999-2000 will not result in changes to the quarterly reporting requirement on form P46(car). This form is not being updated as the base information for calculating the cash equivalent of a company car remains the same. You will need to apply the new method of calculation for the purposes of completing forms P11D and for calculating Class 1A NICs due on company car benefits for the year 1999-2000. Further guidance will be given in updated versions of CA33 'Employers Manual on Class 1A NICs on Cars and Fuel' and leaflet IR132 which will be available later this year.

Notifying employees of the changes

Employees with a tax code containing a company car benefit deduction will receive a leaflet with their revised PAYE coding notice giving details of the changes which take effect from 6 April 1999.

Tax reliefs for 'Green Transport'

The tax charge is being lifted on the following benefits which employers provide for employees to help them to get to and from work without using their own cars:

- employee-only large (i.e. 17+ seats) works buses
- general subsidies to public transport bus services used by employees, provided they pay the same fares as other members of the public
- use of bicycles and cycling safety equipment for commuting journeys
- workplace parking for bicycles and motor bikes.

In addition, an authorised tax free mileage rate, of 12p per mile, is being introduced for payments to employees who use their own bicycles on business journeys.

And an existing concession (ESC A66) is being extended to exempt from tax payments

which employers make to employees for the cost of their journey home, where, exceptionally, the employees' regular car sharing arrangements have unavoidably broken down. Exemption under the revised concession will be available for no more than 60 journeys in a tax year.

These reliefs take effect from 6 April 1999.

Benefits at (i) – (iv) and matters within ESC A66 do not need to be entered on the P11D form.

Employers will need to obtain a dispensation to be able to make tax-free payment to employees under the new business cycling mileage rate.

Car Fuel Scale Charges

The scale charges of taxable benefit on free fuel for private motoring in company cars are increased in line with the five year programme announced in last year's Budget. The new scale charges for 1999-2000 are as follows

Cars having a recognised cylinder capacity

| | Petrol £ | Diesel £ |
|--------------------|-------------|-------------|
| • 1400cc or less | 1210} | 1540 |
| • 1401cc to 2000cc | 1540} | |
| • more than 2000cc | 2270 | 2270 |

Cars not having a recognised cylinder capacity

| Petrol £ | Diesel £ |
|-------------|-------------|
| 2270 | 2270 |

Mobile Phones Benefit

From 6 April 1999 where an employer provides an employee with a mobile phone which is also used for making private calls, there is no longer a tax charge on the benefit.

Amended tax codes will be issued in May to remove the deduction for mobile phones. Employers and employees need take no action themselves.

Quarterly Payment Limit for PAYE

From 6 April 1999 the limit for making quarterly payments of PAYE and NICs is increased from £600 to £1000.

Payments will continue to remain due within 14 days following each quarter ending 5 July, 5 October, 5 January and 5 April.

Contractors in the construction industry can also choose to pay quarterly provided that their average monthly payments of PAYE and NICs and deductions from payments to subcontractors are within the same limit of £1000.

Increased Support for Small Businesses

The Chancellor has unveiled a package of measures to provide increased support for small businesses to help improve efficiency and cut red tape.

Better help and assistance

During the course of the year, we will roll out a range of improved guidance to small businesses and new employers to make it easier for businesses to understand what they need to do and encourage them to ask for help. There will be new, specially designed, guidance and support material, including a new business guide, business tax starter pack and new guidance for new employers focused on helping them with their first pay day. A new Helpline service for new employers will also give them a fast-track support.

The new guidance will be supported by a new nationwide network of Business Support Teams. These teams are dedicated solely to educating businesses through seminars and workshops. The teams will contact and discuss problems with any business seeking help within 48 hours and will guarantee to offer a range of options, including a half day visit. The teams will also support and build upon the Business Links network.

Payroll Software Initiative

To encourage the use of information technology by small businesses to reduce compliance costs the Government will publish a clear standard for payroll systems software for small employers by January 2000. This will

make it less time consuming and intimidating for small businesses to decide on the right software for them.

Consultation between Government, software producers, tax specialists and business organisations will start immediately.

Electronic communication

The Chancellor also announced that he plans to make it legally possible for the Inland Revenue and Customs and Excise to develop new electronic services that taxpayers can use as an alternative to the current legal requirement of paper communication. We are working towards being able to handle returns and payments via the Internet. The Government will offer a discount to small businesses who file tax returns via the Internet. A further announcement will be made in due course about the level of the discount and which returns it applies to.

The Chancellor also announced that the Revenue Departments will be helping to examine ways of making it easier for business to communicate with Government. We, along with other Government Departments are developing an Internet-based self service facility offering businesses one place to go to obtain or provide cross-Government information, tailored to their own circumstances. A pilot will be developed during 1999-2000. Building on this sort of initiative, the aim will be to work towards business having a single point of contact with Government.

Pension Scheme Earnings Cap

Since 1989 there has been a limit upon the level of earnings which may be pensionable under Tax Approved Pension Schemes. This limit, often called the "Pension Schemes Earnings Cap", will be increased annually in line with retail prices.

For the tax year 1999-2000 the Pension Schemes Earnings cap will be £90600.

The earnings cap applies to everyone who

- contributes to a personal pension scheme
- joined an occupational pension scheme set up since 14 March 1989, or
- joined any occupational scheme from 1 June 1989.

National Insurance changes

In his Budget Statement on 9 March 1999, the Chancellor of the Exchequer announced several changes to National Insurance Contributions (NICs). Included in the package announced were changes which affect the calculation of NICs for both employees and employers.

Changes affecting employees

- **with effect from 6 April 2000**, employees will start to pay NICs when their earnings exceed a threshold of £76.00 a week. Employee NICs will be payable therefore on the portion of earnings between this level, up to and including the weekly Upper Earnings Limit (UEL) of £535.00.
- **with effect from 6 April 2001**, employees will start to pay NICs when their earnings exceed a threshold which will be aligned to the Single Person's Tax Allowance and the threshold for employers' contributions. Employee NICs will be payable on the portion of earnings between this level, up to and including the weekly UEL of £575.00.

Changes affecting employers

- **with effect from 6 April 2000**, the extension of Class 1A NICs to cover, not just company cars, as at present, but other benefits in kind such as private medical insurance and cheap loans on which employees are already taxed.
- **with effect from 6 April 2001**, the rate at which employers will pay secondary contributions will be reduced to 11.7%.

Service Companies

Currently some individuals set up their own service companies so that they can exploit the financial advantages offered by a corporate structure. It is possible for someone to leave work as an employee on a Friday, only to return the following Monday to do exactly the same job but as an indirectly engaged 'consultant' paying substantially reduced tax and National Insurance. In his March Budget, the Chancellor announced that legislation will be introduced from April 2000 to ensure that these individuals are prevented from avoiding tax and National Insurance in the future.

We will be discussing the practical application of the new legislation with interested parties and will work closely with representative bodies on the production of guidance.

Computers lent to an employee

The employee benefit tax charge on computers lent by employers to employees is being removed for up to £2000 of computer equipment from 6 April 1999.

The normal taxing rules will continue to apply on the value of the benefit in excess of £2000.

A new all-employee share scheme

From April 2000, the Government has proposed that employees will be allowed to allocate part of their pre-tax salary to buy shares in their employer's company without paying income tax or NICs on these shares. If the shares are held for 3 years, the employee will be subject to income tax on the amount of salary allocated to those shares but any gains arising while they are in the scheme will be free of income tax, NICs and capital gains tax.

We will work closely with an advisory group of tax practitioners, business people with experience of share schemes and other experts to draw up the details of the scheme. Further details will be provided when available.

New Deal Programme

For the tax years 1997-98 and 1998-99 only there may have been some confusion about the tax treatment of wages paid by an employer to a New Deal participant. In order to achieve consistent treatment it has been decided to offer some repayment of tax to those New Deal participants whose total wages were taxed.

Clear guidance was given regarding the National Insurance Contributions (NICs) liability of wages paid to New Deal participants in subsidised jobs with a public or private sector employer and therefore there will be no refund of NICs.

If you have recently employed, or still employ, a New Deal participant in a waged job who has paid some tax on their earnings, could you please tell them that repayment of tax may be due and advise them to

- seek from their New Deal adviser written details of their involvement in New Deal
- send the New Deal details together with their form P60 to their Tax Office with a request for repayment of tax.

From 6 April 1999 correct tax and National Insurance guidance was provided in the *Employers' Annual Pack*, issued to employers in February 1999. Where an employee is in a waged job with a public or private sector employer, tax and NICs must be paid on the wages. The employee must also pay tax on wages received from a waged job in the voluntary sector or with an environmental task force.

Please contact your local Inland Revenue (National Insurance Contributions) Office or the Employers' Helpline for advice on whether NICs should be paid where your employee is in a waged job in the voluntary sector or with an environment task force.

To obtain a full copy of the 1999-2000 guidance please contact the Employers' Orderline Telephone 0845 7 646 646.

For further advice contact

- Your PAYE Tax Office; or
- The Employers' Helpline 0345 143 143.

NICs - Pay intervals other than weekly or monthly

Details about changes to the way NICs for employers are calculated, recorded and reported were contained in the *National Insurance Tables CA38* issued as part of the *Employers' Annual Pack* and are also contained in the *CWG1 Employer's Guide to PAYE and NICs (cards 2,8,11 and 12)*.

This guidance did not however specify how to calculate the new Earnings Threshold for employer NICs where an employee is paid in multiples of a Week or Month.

In these circumstances, the equivalent Earnings Threshold should be calculated by dividing the annual threshold figure by the number of Weeks/Months in the tax year, and multiplying the answer by the number of Weeks/Months in the pay interval. This figure should then be rounded up to the nearest whole pound.

Example

Where an employee is paid in 4 weekly intervals, the equivalent Earnings Threshold for employer's contributions would be calculated as follows:

$$(\pounds 4335 \div 52) \times 4 = \pounds 333.46$$

rounded up to $\pounds 334$

Because of the delay in issuing details about this calculation, the Inland Revenue National Insurance Contributions Office recognises that many employers may be unable to comply in time for the start of the 1999-2000 tax year, and will simply multiply the published weekly/monthly earnings threshold figures by the appropriate number of weeks/months in the pay interval. In the circumstances, such an approach is acceptable until the correct calculation can be incorporated into an employer's payroll system.

Correction to NIC Holiday information in manual CWG2

On page 51 of the 1999 edition of CWG2 *'The Employer's Further Guide to PAYE and NICs'* the final two sub paragraphs on the left-hand column contained a few errors for which we apologise. The correct text should read:

If the employee is in your Contracted-out Salary Related Scheme

- subtract the employee's contribution (as shown in column 1e of the employee's form P11) from the total of the employer's and employee's contributions (column 1d) and
- add to that figure 3% of the earnings on which the employee's contributions are payable at the contracted-out rate, or

If the employee is in your Contracted-out Money Purchase Scheme

- subtract the employee's contributions (as shown in column 1e of the employee's form P11) from the total of the employer's and employee's contributions (column 1d) and
- add to that figure 0.6% of the earnings on which the employee's contributions are payable at the contracted-out rate.

Correction to Class 1A information

There was an error in the section headed 'Change to Class 1A NICs on car and fuel benefits' on page 3 of Issue 1 of the Employers' Bulletin included in the *Employers' Annual Pack*.

The change to Class 1A NICs outlined in that section is effective from the 1998-99 tax year - not from 6 April 1999 as printed.

This means if the car was available for all of 1998-99 and a Class 1A liability existed for the whole year, Class 1A NICs will be payable in respect of the full 1998-99 liability on 19 July 1999, by the person who would have been liable to pay secondary Class 1 NICs on the benefit of the car, had Class 1 NICs actually been due. We apologise for any confusion this error has caused.

Full details are included in *CA33 Employers' Manual on Class 1A NICs on Cars and Fuel* which you can obtain from the Employers' Orderline.

Availability of the Employers' Orderline

As part of our continuing efforts to support employers we have decided that the Employers' Orderline will now remain open throughout the whole year and will **not** close on 31 July as indicated in the various items of literature issued as part of the *Employers' Annual Pack*.

Employer Electronic Communication - Correction to Issue 1 of the Bulletin

Unfortunately, an entry in Issue 1 of the Employers' Bulletin included in the *Employers' Annual Pack* may have given the impression that we can supply employers with payroll software. This is not the case and we apologise for any confusion caused.

If you would like information about the electronic transfer of information with the Inland Revenue, please call our Electronic Business Support Team on 01274 539634.

Year 2000

'The Year 2000 problem' or 'Millennium Bug'

Make sure your computer will be ready so that you

- know in good time what you need to pay
- pay by the normal due dates and avoid penalties, interest and surcharges.

The Inland Revenue will continue to pursue any failure to make payments or returns exactly as we do now.

Introduction

The following notes describe what employers will have to do when WFTC and DPTC begin to be paid through the payroll from April 2000. They reflect the proposals in the Tax Credits Bill which is currently before Parliament and the draft regulations which were published in February. The final details of the scheme cannot be confirmed until the necessary legislation has been enacted.

From October 1999 applicants for tax credits will apply to the Tax Credits Office (TCO) of the Inland Revenue. Successful applicants will be awarded a tax credit for a period of 26 weeks and from October 1999 to April 2000 all recipients will receive their award direct from the Inland Revenue.

After April 2000: the Inland Revenue's role

After April 2000 the TCO will continue to pay WFTC and DPTC awards direct to applicants who are not employees. Where the applicant is an employee the TCO will

- make initial tax credit payments direct to the employee until the start date for the employer to pay
- notify the employer when to start paying the tax credit, how much to pay and when to stop. The start notification will give the employer time to adjust the payroll and will show the daily rate of tax credit payments to be made.

Employers' role

The employer, in accordance with the start notification, will pay the tax credits with pay until the end of the 26-week award period, unless told by the TCO to stop sooner or unless the employee leaves the employment. The tax credit will have to be shown on the employee's payslip as an addition to net pay.

Employers will set off the tax credit payments against the PAYE tax, NICs and student loan repayments which they have deducted from employees' pay and is due to be paid to the Inland Revenue. If these amounts will be insufficient to cover the tax credits to be paid,

employers will be able to apply to the Inland Revenue for funding. A form will be provided for this purpose.

If an employee changes jobs or leaves employment altogether before the end of the award period, the employer will stop paying the tax credit and as quickly as possible give the employee a Certificate of Payments. This new form will be used to show the tax credits paid through the payroll up to the date the employee leaves, and the period they cover. The employee will have to send this to the Inland Revenue TCO so that direct payments to the recipient can resume.

At the end of the month or quarter employers will have to show on form P32 or P30BC the total tax, NICs and student loan repayments deducted from all employees' pay (reduced by the amount of tax credits paid to employees), and remit to the Revenue only the net tax, NIC and student loan repayments.

At the end of the tax year employers will enter the total tax credits paid on the P14 and P60 forms for each employee; and will enter the total tax credits for all employees in the year on the P35, together with the total amount of Inland Revenue funding received in the year.

Further information

An Inland Revenue booklet, *Working Families Tax Credit and Disabled Person's Tax Credit*, answers a number of questions which are of particular relevance to employers. Copies are available, free of charge, from the Employers' Orderline.

The Inland Revenue will be issuing further information and briefing in due course.

Please note that the Employers' Helpline will not be able to provide any more information than is in the booklet until later this year.

National Minimum Wage (NMW)

NMW became law on 1 April 1999. As indicated in the Employers' Bulletin (Issue 1) the Inland Revenue will be responsible for checking that employers are complying with the requirements of the NMW Act 1998. These checks will be outside the normal visits made to check on PAYE/NICs compliance.

We may undertake an enquiry to check that you are paying the minimum amount due if one of your workers has contacted us about this, or as part of our programme of visits to employers to make sure that you understand your obligations.

Usually, our first contact with you would be by telephone to establish the facts, although we may also need to make a follow-up visit.

To find out more about National Minimum Wage please contact the NMW information line on 0845 8450 360, or visit the Department of Trade and Industry website on www.dti.gov.uk/ir/nmw.

Receiving tax code notifications via Magnetic Media - new booklet MT1

An updated version of the booklet entitled "Specification for issue of changed code numbers on magnetic media", the MT1, is available from local tax offices. This latest version includes the technical specification for the new 'S' identifier which will be included in code numbers if a Scottish Variable Rate is introduced.

The updated version does not include details of the notifications for Student loans and Working Families Tax Credit. These notifications will be issued initially in paper format only.

Payroll Giving

Are you an Employer who provides a Payroll Giving scheme for your employees or an Employer who is thinking of doing so? Under Payroll Giving, an employee can authorise their employer to deduct charitable donations from their pay and get tax relief on amounts up to £1200 per year. The relief is given through PAYE, by deducting the donation from weekly or monthly pay before tax is calculated.

On Budget Day, the Government published a Consultation Document on a Review of Charity Tax which includes options for change to the Payroll Giving scheme. Those options include:

- removing the upper limit for relief
- allowing employers to distribute employees' donations directly to charities, without the need to use an agent
- promoting Payroll Giving to encourage greater take-up by employers and their employees, including a special Government top-up supplement on donations for a limited period.

We would particularly welcome your views on these options for change. A copy of the Consultation Document can be obtained from

Windy Kwok,
Inland Revenue,
Room 108,
New Wing, Somerset House,
Strand, London WC2R 1LB,

Tel: 0171 438 6742/7623.

The Consultation Document is also available on the Inland Revenue's Internet site at www.inlandrevenue.gov.uk.

If you are interested in starting a Payroll Giving scheme for your employees, you can get further information from the Inland Revenue's Financial and Intermediaries Claims Office (FICO), Tel: 0151 472 6035.

OPRA was set up by the Pensions Act 1995 to protect the interests of occupational pension scheme members. Where trustees of occupational pension schemes or employers do not meet the standards laid down by the Pensions Act, such as paying employee pension contributions on time, OPRA has the power to

- stop people continuing as trustees of schemes
- appoint new trustees and give those trustees special powers
- fine trustees or employers
- direct that schemes should be wound up
- direct that schemes take certain actions.

Paying contributions on time

Under the Pensions Act, contributions deducted from an employee's earnings must be paid into occupational pension scheme by the 19th day of the month following the end of the month in which the deduction was made. Any failure to pay by the 19th day is a criminal offence and OPRA may investigate and prosecute.

In a money purchase scheme, an employer who fails to pay contributions by the agreed due date may be subject to a civil sanction.

Why is it important that employers pay contributions on time?

Most occupational pension schemes are provided from a specific fund, or from the proceeds of an insurance policy. Both rely on returns from investment for growth. If payments are late, investment returns are lost and the fund or policy is worth less.

Further information

If you are unsure of your obligations under the Pensions Act you might wish to seek legal advice. You can also contact the OPRA helpdesk on 01273 627600.

Enclosed in the Employer's Budget Pack is a leaflet '*How to contact the Inland Revenue*' which gives contact information for the Inland Revenue following the merger with Contributions Agency.

The Employers Helpline

For the price of a local call, you can telephone one number to obtain expert guidance on all aspects of National Insurance including Statutory Sick Pay and Statutory Maternity Pay, general PAYE inclusive of P11D, and basic VAT registration.

Call now on 0345 143 143

The service is available Monday to Friday from 8.30 am to 5.00 pm.

Customers with hearing and/or speech difficulties, who have a textphone, can call on **0345 419 402**.

Occasionally calls are taped for training purposes. If you do not wish to have your call recorded, please inform the advisor at the beginning of the call.

These procedures comply with OFTEL regulations.