Employer's Bulletin
Issue 3 – September 1999

Tax Credits and other payroll news

With Working Families' Tax Credit and Disabled Person's Tax Credit to be paid with wages from next April, the Inland Revenue launches a nationwide help and education programme
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Comments on the Employer's Bulletin are welcome but neither the Managing Editor nor any of the contributors will be able to reply to specific enquiries.

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Helpline numbers for Tax and National Insurance contributions are on page 12

Welcome to the new-look Bulletin. Since the first couple of issues, we have been getting feedback about the sort of Bulletin you want to see. As a result, we've made this one shorter and sharper, with more news and fewer instructions. A lot of the detail has gone but, when necessary, we tell you where to find it. There are some updates on items like the Scottish Variable Rate of income tax. And there are some pointers and reminders on subjects where calls to the Employers' Helpline suggest you might welcome a bit of extra advice.

We plan to issue the next Bulletin with your Annual Pack early in February 2000. Between now and then National Opinion Polls will be sounding out more employers about our standards of customer service. And we'll look at the results of the NOP survey before we start work on Bulletin number 4.

Robert Tomlinson – Managing Editor

A message from Nick Montagu, Chairman of the Board of Inland Revenue

I'm delighted that we're putting out this Bulletin. It was high time that we had some form of regular communication to keep payroll people, on whom we depend so much, abreast with what's new in tax.

And what's new is, of course, a great deal at the moment. For us it's exciting and important being at the forefront of implementing the new Labour Government's policy agenda. But change means uncertainty and a whole lot of new areas of work to master, for both you and us. The Working Families' and Disabled Person's Tax Credits are only the most obvious examples. Wherever I look, there are important new initiatives, the success of which will depend critically on our partnership with employers and the people who do payroll.

I want you to know how much we appreciate that partnership and what you put into it. We're not always good at saying so, but I really do regard payrollers as unsung heroes. You rise to the challenge of rapid change - just as the Revenue does - and the apparent smoothness of the operation conceals a whole lot of effort.

I'm particularly aware (and research that we ourselves commissioned confirmed) that the burdens on small employers and their payrollers are disproportionately heavy. That's why we're particularly keen to give what help we can to support our business partnership. The New Employers Support Initiative, with the Business Support Teams covering the country, is one example.

We're also moving to make it much easier to do business with us by 'phone fax or e-mail. We've deliberately set ourselves more stretching targets than those in the recent Modernising Government White Paper to enable people to deal with us electronically. Plus we're setting up new Helplines all the time.

Of course the merger with the Contributions Agency last April helps. Partly because it means you now deal with one body instead of two. (We're also working to cut bureaucratic divisions with Customs.) And partly because we've brought together the skills and expertise of two highly professional organisations, and are working to make sure we capture the best from both in the new merged Revenue.

So my message is - thanks for all you do. We in turn will do all we can to support the partnership between us and to make your lives easier. One thing is certain - change is here to stay, and the way to manage it successfully is by strengthening the partnership.

Somerset House
London
August 1999

Nick Montagu

WFTC and DPTC

Working Families' Tax Credit and Disabled Person's Tax Credit

The Government expects that almost three quarters of a million people will have Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) paid by their employers, with their wages, from April 2000.

Learn all about it

With large numbers of employers expected, at some point, to handle payments of the new tax credits, our Business Support Teams will be running seminars around the UK explaining the impact on payrolls. Starting in November, these will include employer's responsibilities and an introduction to the new Inland Revenue forms.

The new-style credits start this October and, until next year, will be paid to all recipients by the Inland Revenue's Tax Credit Office. But you should not delay checking that your payroll is geared up for the changes.

WFTC Seminars – to book a place use the card with this Employer's Bulletin. Last date for bookings 15 October

Come next April, you will be paying the tax credits out of the money you take off for PAYE tax, student loan repayments and National Insurance contributions. This could mean that you lose the benefit of the time lag between making these deductions and sending the money to the Accounts Office. So, in the run up to the new system, you may want to look at your cash flow arrangements.

Payroll changes for next year

Computerised payrolls – check

- with your IT department or software supplier that you will be able to process tax credits from April 2000 and
- how much you might have to do by hand.

Manual payrolls – Check your stationery – if you are not using Inland Revenue forms you will need space on payslips for entering 'tax credit' and on your deductions working sheet for recording the payments.

Timetable

1999	October	New-style credits start – payments made by Inland Revenue.
	November	Introductory seminars start throughout the UK.
		Working Families' Tax Credit and Disabled Person's Tax Credit – Updated booklet available from the Employer's Orderline.
2000	January	Advertisements in the trade press – remember to check your payroll.
	February	Employer's Annual Pack arrives including • detailed guidance and • sample forms.
		Launch of the WFTC/DPTC Helpline.

The December 1998 booklet *Working Families' Tax Credit and Disabled Person's Tax Credit* is still available from the Employer's Orderline and on the Inland Revenue website **www.inlandrevenue.gov.uk**

An updated version will be available in November from the Employer's Orderline 0845 7 646 646

Electronic Business

As more and more businesses are using technology to handle their 'paperwork' we have launched our own Electronic Business Unit (EBU). Based in Shipley, West Yorkshire, the Unit will play a vital part in shaping the Inland Revenue's e-business services in the next millennium. Head of Unit, Joan Wood, tells the Bulletin: 'By 2002 we aim to have systems in place that will allow people to handle a quarter of their contact with the Inland Revenue electronically. But the real challenge is to be open for 100% electronic business by 2008.'

Challenge 2008

Some employers already do business with us electronically through 'magnetic media'. This includes exchanging end of year and annual tax coding details on things like data cartridges and floppy disks. And we won't be changing these arrangements. However, for large employers, with a high turnover of Inland Revenue forms like P45s and P46s, EBU are rolling out more sophisticated Electronic Data Interchange (EDI) services.

Talk electric

Joan explains: 'If an employer's computer system can exchange information directly with our computer system it speeds up processing and cuts out paper altogether.' EDI can bring benefits for employees too. So, for example, if an employer sends us a P45 or P46 using EDI, the new tax code number (on an electronic P6) can be in their system and ready to use within a matter hours. 'We have to make sure that the employer's system is electronically compatible so that they can get in through our 'gateway', but basically all they need is a computer payroll and the right software.'

> '.... it speeds up processing and cuts out paper altogether.'

Internet space

From next year, 2000-2001, the Inland Revenue will be introducing internet filing services. Joan says: 'In time anyone with access to a computer connected to the internet will be able to send us information electronically. People who fill in Self Assessment Tax Returns are likely to be first but employers will follow close behind.' No details yet. But the message from Joan is 'watch this space!'

Forms to go electric this year

P45, P46, P160, P9, P6, P11D and P14

And for contractors

CIS23, CIS25 vouchers and CIS36 end of year summary

Contact the Electronic Business Unit for

- the detail on Electronic Data Interchange
- a list of software suppliers
- *e-business Newsletter* - mailing list

Phone 01274 534555
Fax 01274 534514
Minicom 01274 534600
e-mail ebu.ops.ir@gtnet.gov.uk

National Insurance contributions (NICs) – changes this year and next year.

Changes to Class 1A NICs from April 1999

The reform of the taxation of company cars announced by the Chancellor in this year's Budget will affect the calculation of Class 1A NICs. The major part of the reform will be introduced from April 2002, but interim measures paving the way for the reform took effect from 6 April 1999.

NICs go 'green' this year

The first payment of Class 1A NICs affected by these changes is 1999–2000, due in July 2000. A supplement explaining details of the new arrangements has already been sent to any employer who has a copy of the book *Cars and Fuel* (CA33).

Outstanding payments of Class 1A for 1998–99 or earlier years should be worked out using the old method.

Extra copies of the 1999-2000 CA33 supplement are available from the Employer's Orderline on 0845 7 646 646.

STOP PRESS

March 1999 Budget announcement – all taxable benefits in kind to be liable to Class 1A from April 2000. No news on this yet, but we will let you know as soon as we have the details.

Changes to Class 1 NICs from April 2000

From next April an employee's earnings threshold will be introduced at a level between the Lower Earnings Limit (LEL) and the employer's earnings threshold. This is the second stage of the Government's plans to fully align the thresholds for PAYE and National Insurance contributions.

The third and final stage, in April 2001, will see the employee's and employer's thresholds aligned with the income tax Personal Allowance.

NIC rebate – The April 2000 changes will also introduce an employee's NIC rebate for those employees who are members of their employer's contracted-out occupational pension scheme. The rebate will be a percentage of the earnings between the LEL and the employee's earnings threshold. This NIC rebate will be deducted from payments in the same way as the employer's NIC rebate is currently.

Sample of the new Deductions Working Sheet (P11) out early next year

The changes will mean a new look for the deductions working sheet (P11) and the 2000-2001 end of year return (P14). The main differences are that earnings will be recorded using four columns rather than the current three. And there will be an additional column for recording any NIC rebate. Where an employee's earnings reach or exceed the LEL but do not exceed the employee's earnings threshold, earnings will still have to be recorded on the P11 and reported on the P14.

Your Annual Pack, due out in February, will include a sample of the P11 as well as new National Insurance tables and all the information you need to help you with the new-style form.

Fair summing up

Statutory Sick Pay – New employees

A new way of working out average weekly earnings

Where an employee has not had 8 weeks earnings before they are sick, previous instructions were to divide the employee's earnings by the number of weeks in the relevant period. The new method, which aims to give a fairer average, is to divide the earnings by the same number of weeks as payments.

Here's how it works
Employee A starts work on 27 October 1999 and works Tuesday and Wednesday each week. A is paid 1 week in arrears on Fridays. A works one day in the first week and two days in each of the following weeks.

A is paid as follows	5 November	£35
	12 November	£70
	19 November	£70
		£175

On 22 November 1999 A goes sick.

The relevant period runs from the date the employee started, to the date of the last payment before they went sick.

Using the old method average weekly earnings are
£175 ÷ 24 days x 7 days = £51.04

Using the new method average weekly earnings are
£175 ÷ 2.5 weeks = £70

With NICs in mind

Points to remember

The effect of the NIC rebate on SSP/SMP

Calculations for contracted-out employers

Please remember to take the NIC rebate off your NIC liability when you work out
• Small Employer's Relief when recovering SMP, **or**
• SSP recovery under the Percentage Threshold Scheme each month.

Payments to the Accounts Office – You do not have to deduct the NIC rebate from your monthly payments. You can still do this at the end of the year.

Here's how it works for SMP and Small Employer's Relief (SER)
1999-2000

Contracted-out employer's NICs liability	£20,250
less a contracted-out rebate of	£270
NICs balance to be paid	£19,980

The employee's baby is due (Expected Week of Confinement) 9 April 2000 so 1999-2000 is the qualifying tax year for (SER).

As the final NICs figure for the year is less than £20,000 the employer
• is entitled to SER, and
• can recover 100% of the SMP and compensation.

For more about Small Employer's Relief look at *Statutory Maternity Pay Manual for Employers* (CA29)

See over for SSP example

NIC rebate – contracted-out employers

For more about the Percentage Threshold Scheme look at *Statutory Sick Pay Manual for Employers* (CA30)

Here's how it works for SSP and the Percentage Threshold Scheme

May 1999		
Contracted-out employer pays SSP with		£79.40
NIC liability		£500.00
Contracted-out rebate		£22.50
SSP recovery is	£79.40	
minus 13% of (500 – 22.5)	£62.07	
	£17.33	

Keep it down

Percentage Threshold Scheme (PTS) rounding

Round **down** – do not round **up** when you work out the 13% of your NIC liability for the PTS and SSP recovery.

Here's how it works for SSP

An employer pays SSP of		£40.00
with NICs liability of	£236.40	
SSP recovery is		
13% of £236.40	£30.732	
rounded down		£30.73
		£9.27

Statutory non-payers

Change in starting point for NICs – effect on SSP/SMP

Employees are entitled to SSP or SMP if their average weekly earnings are at least £66. That is, **at** or above the Lower Earnings Limit (LEL).

But this year NICs start at £66.01. That is, **above** the LEL. This means that employees can be entitled to SSP or SMP whether or not they have paid NICs.

Out of court

Decriminalisation of most NICs offences

The Social Security Act (SSA) 1998, part of the Government's modernisation of the welfare state, contained a number of changes aimed at decriminalising most National Insurance contribution offences. SSA 1998 also introduced new civil monetary penalties to replace the existing criminal ones. This means that employers will no longer appear in a Magistrates Court and run the risk of a summary conviction and fine.

Inland Revenue starts to collect the fines

From 6 April 1999, any breach of regulations may result in the imposition of a civil monetary penalty under Section 60 of the SSA 1998.

Similarly, Section 57 of SSA 1998 provides for civil monetary penalties and interest charges to be imposed on those employers who elect to pay their Class 1A NICs by the Alternative Payment Method (APM) but fail to make either a timeous or correct return. This penalty took effect from 19 July 1999, which was the due date for 1998-99 Class 1A payments by the APM.

Rate of exchange

National Insurance contributions on non-cash vouchers

Since the 6 April employers have had to collect National Insurance contributions on some non-cash vouchers given to employees. The general principle being that if tax has to be paid on the sort of vouchers that count as earnings then National Insurance contributions should also be paid. This is to make sure that people do not short change themselves in their entitlement to benefits.

The detail was published in the booklet *Employers further guide to PAYE and NICs* – the 1999 CWG2. But queries coming in to the Employer's Helpline suggest that there are still some difficulties in deciding whether to collect or not to collect.

As a result, the team at the National Insurance Contributions Office in Newcastle upon Tyne have put together a *Non-cash Vouchers Information Sheet* that should answer the most common questions and sort out some of the problems. But their advice is – if it doesn't solve the particular problem employers should call the Helpline.

For a copy of the *Non-cash Vouchers Information Sheet* (NCV1) call the Employer's Orderline on 0845 7 646 646

‘S’ codes switch

Scottish Variable Rate

The Scottish Parliament has said that it doesn’t intend to introduce a Scottish rate of income tax during the life of this first parliament. But you need to be organised just in case.

Manual payrolls There’s nothing for you to do immediately. We’ll be in touch as and when.

Computerised payrolls When the time comes, there will be a switch to Scottish Tax Tables, incorporating the new ‘variable rate’, and new Scottish ‘S’ tax code numbers will be introduced. But we may not be able to give you much in the way of advance warning that this is going to happen. So your payroll must be capable of making the switch when the time comes. Please check with your software supplier to make sure that your program has been upgraded to accommodate the Scottish rate of income tax.

Education pays

Collection of Student Loans

The Student Loan Company (SLC) expects about 40,000 new graduate employees to start repaying their higher education loans from next April. Initially only a tiny part of the working population, the numbers will increase over the next few years as more and more students, with the new-style loans, graduate.

You will not have to ask employees about their loan status. We will let you know if you must collect any repayments along with their PAYE tax and National Insurance contributions. We will then pass them on to the SLC. Details will be in next year’s Employer’s Annual Pack.

How are *your* bugs?

Year 2000

Our final round of testing for year 2000 glitches finished just as this Bulletin went to press, but we are not expecting any problems with our Magnetic Media or Electronic Data Interchange (EDI) systems. And you don’t need to do any testing at your end. Those employers who send us payroll data electronically will see the dawn of the new millennium without a hangover.

Inland Revenue Chairman Nick Montagu said earlier this year: ‘Meeting the challenge of the millennium date change has been a major one for us. So I’m delighted that the majority of our systems are now corrected and our customer service standards have not been jeopardised.’

If you haven’t checked that your payroll systems and programs can cope with the change-over please talk to your software supplier. We will not be accepting millennium bugs as an excuse if you are late with your payments or returns.

No reminders

Quarterly payments by employers

Don't forget to tell your Accounts Office if you decide to pay your PAYE and NICs quarterly. They'll stop the computer driving you mad with reminders for monthly payments.

You can pay quarterly if your monthly amounts of PAYE + NIC (+ if you are a contractor, your deductions from subcontractors) average out to £1000 or less.

Payment dates are

5 July	Payment must be in the
5 October	Accounts Office within 14 days.
5 January	So the April payment has to be
5 April	with them no later than 19 April.

Fair shares

Employee share scheme

The Government has been talking to companies and focus groups about the structure of the scheme and how it should work. Their comments and recommendations are still being considered but we will let employers know as soon as the details of the scheme have been finalised. There is a publicity campaign for employees planned for the end of the year.

Due for launch in April 2000, the scheme will enhance existing schemes and offer tax incentives to encourage both employers and employees to join.

An outline of the proposed scheme is available on the IR website at www.inlandrevenue.gov.uk

Query	New Employer	Employer	Self Employed	Employees, pensioners and others
Tax (PAYE)	0845 60 70 143 Mon – Fri 8am – 8pm	0345 143143 Mon – Fri 8.30am – 5pm	Contact your own Inland Revenue office	Contact your own Inland Revenue office
NICs Class 2	0845 60 70 143 Mon – Fri 8am – 8pm	0345 143143 Mon – Fri 8.30am – 5pm	0645 154655 Mon – Fri 8am – 8pm	Contact your local NIC office
Any other NICs enquiries	0845 60 70 143 Mon – Fri 8am – 8pm	0345 143143 Mon – Fri 8am – 8pm	Contact your local NIC office	Contact your local NIC office
CIS Contractor	0345 335588 Mon – Fri 8.30am – 5pm	0345 335588 Mon – Fri 8.30am – 5pm		

In addition you might want to call one of the following helplines –

The Contracted–out Employments Group (COEG) Helpdesk – 0645 150 150

This deals with enquiries relating to all aspects of contracting–out.

International Services Helpline – (0044 if phoning from abroad) 0191 225 4811

This deals with enquiries about NICs from UK based employers posting employees abroad.

The Employer's Bulletin is produced by Inland Revenue Business & Management Services Division Forms Unit in Melbourne House London