



Notes for Payroll Software Developers

SERIES 12 – NUMBER 1

July 2009

Due to the release of the revised PAYE Tax Table Routines Specification the HMRC Notes for Payroll Software Developers will now be published under Series Number 12.

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1. Future editions of Notes for Payroll Software Developers

In the May 2009 edition of the Notes for Payroll Software Developers (Series 11, Number 8), we outlined our plans, following customer research, to make the viewing of future editions of the Notes online as the main option for subscribers. We now have more information to give out on this change.

From September 2009, we will no longer send out paper copies for those who are subscribed to receive them, but instead we are recommending subscribers view the Notes online at <http://www.hmrc.gov.uk/comp/index.htm>. This will benefit current paper subscribers as they will have quicker access to information contained within the Notes.

At the same time as making viewing the Notes online the main option, we will no longer automatically issue a postcard notification when a new edition of the Notes is available. Instead we will replace the postcard option with an email alert providing you contact us with your email contact details. This way we can ensure you continue to receive these alerts.

Your organisation's email contact details and company name need to be sent to hmrcnotes@replyservice.co.uk. Please include the text 'change option' in the subject field. Alternatively you can send this information to:

Notes for Payroll Software Developers
PO Box 17289
Edinburgh
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If you currently receive email notification alerts when new editions of the Notes are available, you will continue to do so.

If you still need to receive paper copies of the Notes or postcard notification, please email your contact details and company name to hmrcnotes@replyservice.co.uk and include the text 'change option' in the subject field. Alternatively please write to us at the above address.

2. Income Tax and National Insurance changes affecting PAYE

2.1 Changes to Specification for PAYE Tax Table Routines

The current specification includes details about codes NT and prefix D codes being operated on a non-cumulative basis. We told you in previous editions of the Notes for Payroll Software Developers - September 2008 (Series 11, Number 6, para 1.2) and May 2009 (Series 11, Number 8, para 6.5) - that from 6 April 2010 codes NT and prefix D codes can be operated on either a cumulative or non-cumulative (Week 1/ Month 1) basis. Consequently in line with other code notifications, forms P6 or P9 will identify whether an employer must operate codes NT and prefix D codes on a cumulative or non-cumulative (Week 1/ Month 1) basis.

The Specification for PAYE Tax Table Routines has now been amended to include the operation of codes NT and prefix D codes on a cumulative basis.

A revised version of the specification (version 12) will be published (by 24 July 2009) on our website at http://www.hmrc.gov.uk/ebu/ebu_paye_ts.htm.

2.2 National Insurance contributions (NIC) changes for 2011-12

In his Pre-Budget Report on 24 November 2008 the Chancellor of the Exchequer announced that from the start of the 2011-12 tax year it was his intention to increase:

- the main rate of primary Class 1 NICs and secondary Class 1 NICs by 0.5% to 11.5% and 13.3% respectively
- the additional rate of the primary Class 1 and Class 4 NICs by 0.5% to 1.5%
- the main rate of Class 4 NICs by 0.5% to 8.5%

The Chancellor also announced his intention to re-align the NICs primary threshold with the weekly equivalent of the Income Tax Personal Allowance at the same time. This re-alignment would result in a difference in value between the primary and secondary thresholds.

When considering future amendments to programs for the 2011-12 tax year, software developers should recognise the possibility of a difference in value between the primary and secondary threshold.

There will be no change to the reporting of National Insurance earnings on End of Year Returns as a result of these changes. There will however be changes to HMRC's guidance in dealing with forms P11 and P14. The guidance will, for example, refer to the primary threshold rather than earnings threshold. The NICs changes for 2011-12 will require a change to primary legislation.

2.3 Changes in car benefit in 2011-12

We told you in the May 2009 Notes for Payroll Software Developers (Series 11, Number 8, para 3) that the following changes to car benefit were announced by the Chancellor of the Exchequer in his Budget statement on 22 April 2009, which will take effect from 2011-12:

- the lower threshold (the CO₂ emissions figure which sets the 15% rate) will be reduced to 125 g/km
- the £80,000 price cap for the price of the car will be abolished
- reductions for alternative fuels (hybrids, bi-fuels, E85 etc) will no longer apply
- the diesel supplement will apply to all diesel cars, including those approved to the Euro IV standard and first registered before 1 January 2006
- the 9% appropriate percentage for electric-only cars will be stated in primary legislation, allowing the secondary legislation which currently grants a 6% reduction from the primary figure of 15% to be revoked. This is purely a technical measure; the actual rate will remain at 9%.

This reduces the number of types of car from the current 8 to 3. We have decided to use the following letters for those 3 types:

- E – Electric only (current type E, so unchanged)
- D – Diesel cars of all kinds (includes current types D and L)
- A – All other kinds (current types P,B,C,H and G)

We used those letters because they are easy to distinguish from each other even if a hand-written form is poorly written, and because they can be said to stand for the opening letter of the above descriptions.

2.4 A new type of PAYE code for working students

In his Pre-Budget Report on 24 November 2008 the Chancellor of the Exchequer announced that PAYE arrangements for students would be simplified for both students and employers. A new student PAYE tax code will be introduced from 6 April 2011.

This will enable employers to make payments without deduction of tax to eligible students whose earnings in a tax year are not expected to exceed the PAYE threshold.

The current P38(S) process, that allows students to work in holiday periods without having tax deducted, doesn't fit well with the changing work patterns of students or the move towards electronic transfer of information by employers. The P38(S) and its associated processes will be abolished with effect from 6 April 2011.

The new code number will ensure that students whose total taxable income does not exceed their personal allowance in the year will not be taxed unnecessarily, and they will not have to reclaim tax overpaid. It will also end the distinction between holiday and term-time working and will reduce the administrative burdens for both employers and HMRC.

All working students over the age of 16 years and in full-time education will be eligible for the new tax code on completion of a new declaration on form P46. The employer's responsibilities will be the same as for the current P46 process. The student employee will have to confirm on form P46 that he or she expects to earn less than the personal allowance for the year, but there will be no need for the employer to validate it.

The operation of PAYE will then be similar to that for any employee. The new code will not deduct tax if total earnings in the employment are below the level of the personal allowance. Tax will be deducted once that level is exceeded. Students who do not sign the declaration will enter standard PAYE – as now.

There will be no change to payroll for students paid below the National Insurance Lower Earnings Limit. The new arrangements for students will not extend the scope of PAYE.

We are considering the best way to deal with changes of employment with student tax codes and to provide an avenue for individual students to be able to request such codes, for example on entering education while continuing with the same employer.

We are considering what changes are necessary to HMRC's IT products and systems as well as payroll software. They will need to recognise and handle a specific tax code for students in full-time education who is expected to earn below the tax personal allowance during the year. Specifically:

- Withdrawal of form P38(S).
- Addition of a student declaration on all versions of form P46.
- Identification and recognition of a student tax code in all HMRC and payroll products. This code will be within the currently permitted format. Our current thought is that it will include the numerical value of the personal allowance and a new suffix, for example "647D".
- New tax table routines to permit the operation of the student tax code. This in effect uses week 52/month 12 values each payday.
- Changes to HMRC outputs such as wording on coding notices (P2) and permitting Data Provisioning Service (DPS) to output the new tax code.

The Pre-Budget Report announcement determined the main changes for working students. We will consult employers, agents, payroll providers and their representatives about the finer detail, as well as about the way we implement and communicate these

changes. We have already begun to identify those who want to participate through existing consultation arrangements and forums. We will also involve students and their representatives.

Key dates

- Draft regulations and consultation by early 2010.
- Business Validation Rules and similar online requirements signed off March 2010 latest.
- Third Party commercial Internet and EDI software test service available October 2010.
- Updated employer guidance and payroll software ready in early 2011.
- PAYE Service to issue annual codes from January 2011. We have not yet determined if that will be in annual coding or in response to student/employer request.

Software developers requiring more information please contact HMRC Software Developers Support Team or any other readers who have any queries can email Steve Dodd, HMRC PAYE Process at steve.w.dodd@hmrc.gsi.gov.uk.

3. New PAYE Service

3.1 Introduction of the PAYE Service

Our plans to improve customer service and increase efficiency in HMRC include changing the way we process PAYE records. Central to these plans is the creation of a single customer record for all PAYE pay and tax details.

We have now completed the upgrades to our IT systems and have begun to make the new PAYE service available to our staff from 29 June. This will be completed by 20 July 2009.

HMRC has planned carefully to minimise the impacts on customers during this time and will endeavour to deliver normal service levels. Some customers may, however, experience delay in receiving a response to their enquiries and/or correspondence as HMRC brings itself back up to date over the summer.

We apologise for any inconvenience this may cause.

3.2 National Insurance and PAYE Service

As a result of the launch, we have created a new system called the National Insurance and PAYE Service (NPS). This brings together what used to be the National Insurance Recording System (NIRS) and the PAYE elements of Computerisation of PAYE (COP). National Insurance contributions and PAYE will still be deducted separately by employers and pension providers but HMRC will process these deductions using the NPS system. This change reflects the fact that the new system processes both NI as well as PAYE. Over time we will update our customer literature to reflect the new name.

3.3 Some specific issues for tax agents

We are aware of three specific issues that will affect agents as a result of the introduction of the new PAYE Service.

- A design feature of the new PAYE Service means that in some cases the correct format of some agents' reference numbers cannot be entered. Reference numbers produced automatically by the PAYE Service will be in upper case and without punctuation. This will be amended in due course. Until it is, we will be unable to change the format for agents' reference numbers, even when asked.

- A tax calculation will not be issued to an agent where there is also a person acting in some other capacity, for example with power of attorney. The calculation will be issued to the customer with a copy to the 'capacitor'. If a copy of the calculation is needed, agents should contact HMRC via the Agent Dedicated Helpline (ADL).
- There may also be cases where agents receive a copy of a notice of code number (P2) for a client, even where they have indicated that this service is not required. We are looking to fix this in the near future.

We apologise for any inconvenience this may cause.

4. PAYE Online Services

4.1 Penalties for not sending forms P45 and P46 online

In December 2009 we will start issuing penalty warning letters to those employers with 50 or more employees who are still not filing their PAYE starter and leaver forms online.

When these letters are issued, they will refer to paper submissions that employers made in the second (6 July 2009 to 5 October 2009) and third (6 October 2009 to 5 January 2010) quarters of the 2009-10 tax year.

We will not issue more than one warning letter per quarter to each employer. The letter will only refer to one paper form that is received in that quarter when it should have been sent online. It will not refer to any other paper forms sent subsequently. The letter will confirm the type of form (P45, P46 or P46(Pen)) and give details of the employee by stating their name and National Insurance number (NINO) or, where this is not available, their date of birth and gender.

From the start of the fourth quarter (6 January 2010) we will begin charging penalties to employers with 50 or more employees who do not send us their starter and leaver notifications online. Penalties will range from £100 to a maximum of £3000 depending on the number of paper forms received in the quarter. The first penalty notices will be sent to employers in April 2010.

It is important that employers, and those acting on their behalf, take action now to make sure payroll processes are working properly and that PAYE forms are being sent online so that they can avoid these penalties.

4.2 Employer Annual Returns online from 6 April 2010

Employers with 50 or more employees must already file their Employer Annual Return (P35 and P14s) online. Under published government proposals employers with fewer than 50 employees will have to file their 2009-10 Employer Annual Return online. This return must be filed by 19 May 2010. There will be very few exceptions to this.

There are still around 350,000 small employers who do not do PAYE business with us online and we will be contacting them to remind them of the requirements.

Filing online is fast, secure and convenient. As well as avoiding postal delays, it helps us to process the information sent to us more quickly. This means that employee records and tax codes are updated quickly.

Employers who do not file their Employer Annual Return (P35 and P14s) online may be charged a penalty. This will range from £100 to a maximum of £3000 depending on the number of P14s that are filed by the employer.

4.3 Improvements to the Employer CD-ROM

Employers can send us their Employer Annual Return online direct from our Employer CD-ROM if they:

- have used the P11 calculator on the 2009 CD-ROM to calculate pay and tax for all their employees
- were using the P11 calculator for nine employees or less at 5 April
- transfer 2009-10 P11 details onto the new or updated 2010 CD-ROM
- have registered to use HMRC online services.

From April 2010 we will also be enabling the Employer CD-ROM so that some small employers will be able to use it to send their PAYE starter and leaver forms (P45 and P46) to us online from that date. We are still working on this and will publish the details once they are finalised.

5. Online Filing: in-year - Changes to processing arrangements in the autumn

Later in the year we will be making some further changes to our processing arrangements in relation to:

- the way we make calculations in respect of Flat Rate Expenses (FREs). On receipt of a P45 Part 3 or P46 where the tax code in use is different to the tax code on the record, an automatic check will be done to establish what FREs are already included in the tax code to determine whether a revised tax code should be issued
- the circumstances in which P6s are issued where there is more than one starter notification. Where multiple starter forms are received for the same employment the code in use from the latest form will be compared to the code on the record and a further P6 will be issued where the code is different.

6. Online Filing: end of year

6.1 Change in the Quality Standard and Business Validation Specification from April 2009 – Error in Rule 28a

We have identified a specific set of circumstances where a submission may incorrectly produce a validation error when an employer attempts to file his Employer Annual Return (P14s and P35) online.

The specific rule in Quality Standard and Business Validation Specifications from April 2009 and from April 2010 which may trigger a validation error relates to employee P14 details, Rule 28a 'Earnings above the ET up to and including the Upper Accrual Point (UAP)'.

This can occur in the case of a Director who changes a National Insurance contribution (NIC) category letter during the course of the year or in an aggregation case, where the employee's main earnings reach the Upper Accrual Point (UAP) but do not reach the Upper Earnings Limit (UEL). In these circumstances, the earnings details from the secondary employment on the form P14 will correctly be shown as zero in column 1c 'Earnings above the ET up to and including the UAP'. They will be shown in the column 1d 'Earnings above the UAP up to and including the UEL' with corresponding NICs details shown in columns 1e and 1f. Unfortunately, this will currently incorrectly fail Rule 28a – sub rules 5 and 6.

For example, an employee earns £3,337 per month from Category D contracted-out employment and £300 per month from Category A employment and does not have an Appropriate Personal Pension (APP) or Appropriate Personal Pension Stakeholder Pension (APPSHP) arrangement. This will be posted correctly as:

Cat	Col 1a	Col 1b	Col 1c	Col 1d	Col1e	Col 1f
D	4944	768	34,332	0	6310.71	3214.92
A	0	0	0	3600	856.80	396.00

but will incorrectly fail Rule 28a – sub rules 5 and 6.

Steps are being taken to amend our validation checks behind Rule 28a and the footnote to Rule 28a will now read

“NB Rules 5, 6 and 7 will not apply in aggregation cases and in cases where there is more than one contribution line and an annual earnings period has been applied.

(See Appendix 4)”.

6.2 Quality Standard for 2010-2011 End of Year Returns

The Quality Standard and Business Validation specifications for the 2010-2011 Employer Annual Returns and End of Year Summary (P14, P35 and P38A) will be available (in July 2009) on our website at http://www.hmrc.gov.uk/ebu/qual_stand.htm.

7. Developer Test Services - New Payroll Standard and Pensioner Payroll Standard Requirements

Developers are reminded that:

Payroll Standard accredited products must achieve Recognition for the latest versions of the online P45(1), P45(3) and P46 **before 1 April 2010**.

Pensioner Payroll Standard accredited products must achieve Recognition for the latest versions of the online P45(1), P45(3) and P46(PEN) **before 1 April 2010**.

For more information about Recognition testing contact the HMRC Software Developers Support Team:

Tel: 01274 534666
Email: sdsteam@hmrc.gsi.gov.uk

8. Next issue of these Notes

The next edition of these Notes is scheduled for September 2009.

9. Contacts for enquiries

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

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

Email: helpdesk@ir-efile.gov.uk
Phone: **0845 60 55 999** (opening times - 8am to 8pm, 7 days a week)
Fax: **0845 366 7828**
Minicom: **0845 366 7805**

If you contact the Online Services Helpdesk by email please state 'Notes for Payroll Software Developers' in the subject field.

Note: The Online Services Helpdesk cannot deal with change of mailing address information; these should be directed to hmrnotes@replyservice.co.uk

Other useful contacts

Software Developers requiring help and advice about the development of payroll software for online submissions should contact the Software Developer Support Team (SDST) by email at: sdsteam@hmrc.gsi.gov.uk or phone **01274 534666**.

Employers requiring help and advice about general payroll matters should contact their local HM Revenue & Customs Office or phone the Employer Helpline on **0845 7 143 143**.