

The Essentials of UK Payroll Processing

Course book



...market leaders for payroll training

Course book

This document contains the text of the PowerPoint displays that are used during the presentation of the course

The Essentials of UK Payroll Processing

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Session 1: Background

Background

Payroll software has automated payroll processing so why do we still need to know how the system works?

- To check the software is working properly!
- To calculate an interim payment when an error or omission has been made
- To check a P45
- To explain a payslip entry to an employee

The basics

- Each year tax rates and thresholds are set in a Finance Act (there can be more than one)
- Tax can be deducted cumulatively or non-cumulatively
 - There are lots more non-cumulative codes since July 2017
- National Insurance Contributions (NICs) is deducted non-cumulatively
- Employers set up a PAYE scheme(s)
- Employee records are stored on HMRC's *National Insurance and PAYE Service (NPS)*



The basics

- The correct level of NI is determined by
 - Age
 - Earnings
 - Status
- Employers and employees each pay NI
- Changes to NI have to be made via a National Insurance Act
 - One is going through parliament now to take effect in April 2022
 - To introduce two new NI reliefs
 - Exemption from employer's NI for veterans from April 2021
 - Exemption from employer's NI for Freeport employees from April 2022

Guidance – usually year specific

- Employer further guide to PAYE and NICs (CWG2) bit.ly/3sT7ubl
- NI Tables
 - CA38 NI letters A, H, J, M & Z - bit.ly/3bjH3md
 - CA41 NI letters B & C - bit.ly/3hSW9BG
 - CA44 Director's - bit.ly/3hVjWRi
- NI calculator - bit.ly/34Z04JE
- Tax tables
 - Pay Adjustment Tables: Tables A - bit.ly/3bs1SMs
 - Manual tax tables B-D - bit.ly/3zn3j9P
 - PAYE calculator - bit.ly/2Z09IYt
- Email alerts for Employer Bulletin - bit.ly/31N6Z60



Tax codes and NI Numbers

- What is your tax code and why?
- When did it last change?
- Why do NI numbers matter?
 - How do you track them down?
 - Employer using a NINO verification request (NVR) or employee via personal tax account
- What NI table letter applies to you?

Gross pay

- Why do HMRC call it employment income?
- Is there a difference between gross pay, gross taxable pay and gross Ni-able pay?
 - We don't have to tell employees what gross pay we've calculated?
 - The definition of earnings is very wide and is not just cash



A day's pay

- Whilst a month or week's pay is easy to derive by dividing by 12/52
- A day's pay can be calculated in a variety of ways and will be set down in the employer's Ts and Cs
 - Calendar days (365/366)
 - Working days (260/261)
- We must be consistent when calculating part pay periods for starters and leavers
- We must also know what hours they are 'working' each pay period to assess compliance with National Minimum Wage

What about benefits and expenses?

- Aren't they taxable?
 - Yes, but via the P11D at year end usually, or
 - Via payroll and HMRC want us to do this since April 2016
- Some are subject to NICs via the payroll e.g. vouchers
- Some are subject to employer only NICs (Class 1A) after year end via the P11D and paid over via the P11D(b)
- Expenses and benefits guidance: bit.ly/2QOS19K
- Travel and subsistence guidance: bit.ly/2YMhNk6



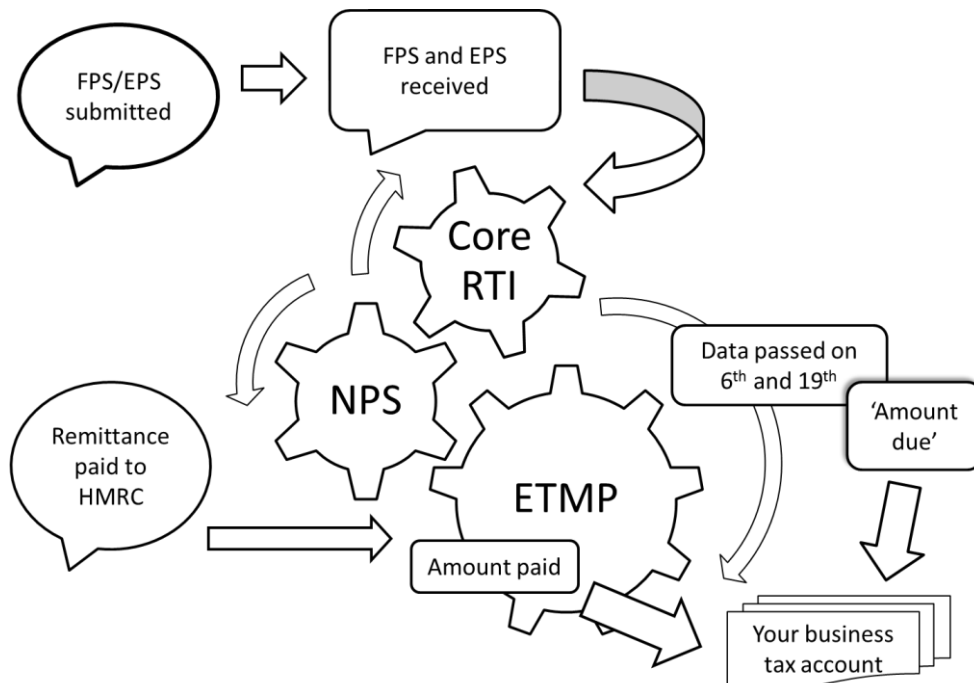
The annual payroll cycle

- 6th April tax year start
 - 22nd April settlement date for previous tax year liabilities and then monthly by 22nd for each prior month if paying electronically
 - Full Payment Submission (FPS) ‘on or before’ date of payment
 - Employer Payment Summary (EPS) by 19th of month following relevant tax month
 - 19th April final FPS for the tax year
 - 3rd May P46 (car) forms for January to April quarter unless payroll rolling
 - 31st May P60s to employees for previous tax year
 - 6th July P11D/P11D(b) expenses and benefit returns unless payroll rolling
 - 2nd August P46 (car) forms for May to July quarter
 - 19th October Class 1B NICs due on PAYE Settlement Agreements (PSA)
 - 2nd November P46 (car) forms for August to October quarter
 - 2nd February P46 (car) forms for November to January quarter
 - YTD FPS from 20th April to correct previous tax year
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Real Time Information (RTI) files

- At least one FPS or Nil EPS must be sent each tax month
- Full Payment Submission (FPS)
 - A record for each employee paid or if personal details have changed
 - Payment date attached to all records even if non-financial
- Employer Payment Summary (EPS)
 - Used to recover statutory payments
 - Inform HMRC no payment to be made in future or in tax month just ended
 - Claim the employment allowance
 - Report the apprenticeship levy
 - Report CIS deductions the business has had taken from invoices



ETMP = Enterprise Tax Management Platform
NPS = National Insurance and PAYE Service



Payment date in the FPS?

- Must be the **contractual** pay date
 - That may not be the same as actual if contractual falls at weekend, bank holiday or is brought forward at Xmas
- To avoid a penalty we must **file** before midnight on the payment date in Field 43 attached to each employee record
- If we get this wrong it can mess up an employee's Universal Credit
 - DWP should be able to move the payment but if not the employee can make a formal request
- See February 2016 Employer Bulletin – www.uktraining.com/21erb

Business Tax Account (BTA)

An employer's view of data from

- The National Insurance and PAYE Service (NPS), and
- The Enterprise Tax Management Platform (ETMP)
- HMRC cannot see the Business Tax Account and often the data is different as compared to NPS and ETMP!
- Agents have recently been given access for the first time
 - But don't rely on that, it's an employer's job!



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HM Revenue & Customs

HMRC services: sign in or register

- [Self Assessment](#)
- [PAYE for employers](#)
- [Tax credits](#)
- [National Insurance](#)
- [Income Tax](#)
- [VAT](#)
- [Child Benefit](#)
- [Paying HMRC](#)
- [Tax agents and advisers](#)

[All HMRC services and information](#)

GOV.UK

HM Revenue & Customs

Sign in

Enter your Government Gateway credentials to sign in. You received these when you created your HMRC online account.

User ID

Password

[Sign in](#)

Problems signing in

- [Trying to file Self Assessment using GOV.UK Verify?](#)
- [Don't have a Government Gateway account](#)
- [Forgotten user ID](#)
- [Forgotten password](#)

HM Revenue & Customs

Enter your access code

We just sent a 6 digit access code by text to: *****478
It may take a few minutes to arrive.

Access code

[Continue](#)



PAYE for employers

Employer PAYE reference 475/HA79012
Accounts Office reference 475PM00401295

Coronavirus schemes for employers
Start using the [Coronavirus Statutory Sick Pay Rebate Scheme](#) if you need to claim back employees' coronavirus-related Statutory Sick Pay (SSP).

! You must continue to submit your FPSs and EPSs and pay PAYE bills to HMRC as normal. PAYE bills are not being deferred.

[Make a claim for wages through the Coronavirus Job Retention Scheme \(opens in new tab\)](#). You can claim for employees on full or flexible furlough.

Your upcoming payments
You have no upcoming bills or charges to pay. You can still [make a payment on account](#) for an upcoming tax month.

Your overdue payments
You have no overdue payments.

[Annual statements and payment record](#)
[View tax codes or notices and set up alerts](#)



PAYE for employers: annual statements

Current tax year

How long does it take for a [submission or payment to appear?](#)

► [What this table shows](#)

| Tax period | Charges | Credits | Payments | Owed |
|--|----------------|----------------|----------------|--------------|
| 6 Jul to 5 Aug (month 4) | £205.56 | £175.56 | £30.00 | £0.00 |
| 6 Jun to 5 Jul (month 3) | £30.00 | £0.00 | £30.00 | £0.00 |
| 6 May to 5 Jun (month 2) | £72.78 | £42.78 | £30.00 | £0.00 |
| 6 Apr to 5 May (month 1) | £72.78 | £42.78 | £30.00 | £0.00 |
| Total PAYE charges | £381.12 | £261.12 | £120.00 | £0.00 |

Previous years statements

Previous years statements are available for up to 6 years

► [View your previous years statements](#)

Your payments

[View payments history](#)





PAYE statement (month 4)

Period: 6 Jul to 5 Aug 2021

Quarterly payer

| | |
|--|----------------|
| Charges | £205.56 |
| ▼ See breakdown | |
| Full Payment Submission (FPS) | |
| Employer's NICs | £175.56 |
| Employees' NI deductions | £30.00 |
| | £205.56 |
| <hr/> | |
| Credits | £175.56 |
| ▼ See breakdown | |
| Employer Payment Summary (EPS) | |
| Employment Allowance for month 4, 2021 to 2022 | £175.56 |
| | £175.56 |
| <hr/> | |
| Payments | £30.00 |
| ▼ See breakdown | |
| 15 Jul 2021 | £30.00 |
| | £30.00 |
| <hr/> | |

This bill has been covered by your payments and credits



Record of your PAYE payments

Current tax year

Payments you make to HMRC are credited to your account as soon as HMRC receives them, but it can take up to 7 days to update this page.

| Date received | Allocation | Amount |
|---------------------------|--|----------------|
| 15 Jul 2021 | 6 Jul 2021 to 5 Aug 2021 (month 4) | £30.00 |
| 21 Jun 2021 | 6 Jun 2021 to 5 Jul 2021 (month 3) | £30.00 |
| 13 May 2021 | 6 May 2021 to 5 Jun 2021 (month 2) | £30.00 |
| 23 Apr 2021 | 6 Apr 2021 to 5 May 2021 (month 1) | £30.00 |
| Total paid to date | | £120.00 |

Previous years payments
Previous years statements are available for up to 6 years

[▶ View your previous years statements](#)



Gross pay

- We discussed a day's pay for calculating Basic Pay
- Ts and Cs will determine other pay entitlements and their eligibility, frequency and formula for calculation
- In total these form Gross Pay BUT that isn't the same as gross taxable pay...

Gross pay v Gross taxable pay

So can we (legally!) reduce gross pay?

- Yes, we can deduct
 - Pension contributions for some types of scheme
 - Exempt payroll giving (GAYE)
 - Share Incentive Plan contributions
 - An amount related to our personal allowance if our code allows us any!
- But we need these in writing to authorise us
- Any other deductions will be from net pay
- What about OpRAs (optional remuneration arrangements) or salary sacrifice/exchange?



Optional Remuneration Arrangements (OpRAs)

- All called Salary Sacrifice or Exchange until April 2017
- Now Type A and Type B OpRAs apart from few benefits left untouched by new rules such as pensions, childcare and bicycles
- Type A: employee gives up right, or future right, to cash and receives a benefit in kind instead (traditional 'salary sacrifice')
- Type B: employee chooses a benefit in kind rather than a future cash allowance
- Examples
 - Type A: pensions or childcare
 - Type B: cars or living accommodation

Gross NI-able pay

Is it the same as Gross Pay?

- Yes, unless you have a specific type of share scheme called a Share Incentive Plan otherwise we pay NICs on all our income
 - Apart from those on pension payrolls and those over state pension age who don't pay NICs however much they earn/receive as a pension... until April 2023!



Net pay deductions/additions

- Deductions four lawful types
 - By a court of law: 17 types of court order
 - By law: pension contributions
 - By contract: medical insurance
 - By prior employee authorisation: repaying a loan
- Additions post-tax
 - Business expenses
 - “wholly, necessarily and exclusively” in the performance of the duties of the employment
 - HMRC Booklets 480 bit.ly/2QOS19K and 490 bit.ly/2YMhNk6

Summary...

- Gross Pay v Gross Taxable Pay v Gross Ni'able Pay
- A day's pay
- Payroll Cycle
- The payment date
- RTI files and Business Tax Account (BTA)
- Benefits & expenses and OpRAs



Session 2: National Insurance

Why is it separate?

- Supposed to fund
 - NHS
 - In-work benefits
 - State pension
- Political problem of joining up – we can see that next year!
- We only buy eligibility with our NICs it is not our pot of money
- £110bn NI contributions went into the NI funds in year to March 2020

Why is it different to tax?

- Always non-cumulative – apart from Directors
- Normally weekly or monthly but there can be other frequencies
- Only starts on first pay day after 16th birthday
- Deduction based on age, status and earnings
- Primary contributors and secondary contributors
 - Primary = employee, secondary = employer
 - Secondary contributor is responsible for any errors in primary contributions



Lower Earnings Limit (LEL)

- All employees must have their earnings details recorded on the payroll – for benefit entitlement
- Earnings at LEL preserve the right to contributory state and in-work benefits e.g. SSP even if no NICs paid
- £120 p.w. (2021/22)
- NICs is not paid on earnings between the LEL and the Primary Threshold (PT) but it is 'deemed' to be paid

NICs Earnings Thresholds

- The primary threshold (PT) is for employees and the secondary threshold (ST) is for employers
 - The PT is £184 p.w. (2021/22)
 - The ST is £170 p.w. (2021/22)
 - Both parties start to pay NICs when they **exceed** the threshold
- From April 2020, the employer will also pay a Real Time Class 1A National Insurance contribution on termination payments in excess of £30,000
 - And on Sporting Testimonial payments above £100,000
- 13.8% will be calculated on any excess, processed through the payroll, submitted via RTI and paid with the HMRC remittance



Employment Allowance

- Employers can claim the Employment Allowance and not pay over first £4,000 p.a. of employer's NI
 - Claim is made via the Employer Payment Summary (EPS) in April
- In connected companies/charities only one PAYE scheme can claim
- Exclusions
 - Director only businesses
 - Public sector except schools & universities, and
 - From April 2020 any business with employer's NI £100K or more in the previous tax year, and those employers who have exceeded their sectoral de-minimis state aid threshold

Employment Allowance 2020/2021

- Must have 'headroom' in your de minimis state aid/domestic subsidy allowance for this year and previous two tax years to accommodate the £4,000 (see bit.ly/38hudEa)
 - Road freight €100,000
 - Agriculture €20,000
 - Fisheries €30,000
 - All other sectors €200,000
- De minimis state aid is 'unauthorised' state aid
 - Any government grant or support
 - Paid in sterling
- There is an exchange rate to convert it to euros published end of March each year:
bit.ly/3mAWXAb



Upper Earnings Limit (UEL)

- The UEL is the maximum earnings on which an employee pays standard rate NI, usually 12%
- UEL = £967 p.w. (2021/22)
- If earnings exceed UEL, employee pays 2% on earnings above UEL
- There is no UEL for employers so they pay the standard rate of 13.8% on all earnings

Upper Secondary Threshold (UST)

- Introduced for 2015/16
- It caps the 'free band' of earnings on which employers pay no NICs for the under 21s who are on the payroll
- It is the same as the UEL at £967 p.w. (2021/22)

Apprentice Upper Secondary Threshold (AUST)

- Introduced for 2016/17
- It caps the 'free band' of earnings on which employers pay no NICs for under 25 year old apprentices
- It is the same as the UEL at £967 p.w. (2021/22)



Veterans Upper Secondary Threshold (UST)

- Claims can be made for employing a veteran in their first 12 months of working in civilian roles for 2021/22, but this will not be via an NI Category Letter in payroll
- It will be claimed via payroll from April 2022 – new table letter V
- Scheme will be reviewed in 2024

Classes of National Insurance

| Classes of NI | Paid by |
|---------------|--|
| Class 1 | Employees & Employers: earnings-related |
| Class 1A | Employer only on benefits-in-kind/termination payments from April 2020 |
| Class 1B | Employer only on PAYE Settlement Agreements (PSAs) |
| Class 2/4 | Self Employed Rate |
| Class 3 | Voluntary Contributions paid by individuals |



NI table letters 2021/22

| | Employees aged 21 – state pension age | Under 21 and not an apprentice | Apprentices aged under 25 | State pension age and upwards |
|---------------------|--|---------------------------------------|----------------------------------|--------------------------------------|
| Standard | A | M | H | Employer only: C |
| Reduced | B | N/A | N/A | N/A |
| Deferred | J | Z | N/A | N/A |
| No liability | X | X | X | N/A |

NI 2022/23 and 2023/24

NI table letters 2022/23

| | Employees aged 21- state pension age | Under 21 and not an apprentice | Freeport employees Under 21 | Apprentices aged under 25 |
|---------------------|---|---------------------------------------|------------------------------------|----------------------------------|
| Standard | A | M | L | H |
| Reduced | B | N/A | N/A | N/A |
| Deferred | J | Z | N/A | N/A |
| No liability | X | X | X | X |

| | State pension age and upwards | Veterans in 1st year of civilian employment | Freeport employees | Freeport employees over state pension age |
|---------------------|--------------------------------------|---|---------------------------|--|
| Standard | Employer only: C | V | F | Employer only: S |
| Reduced | N/A | N/A | N/A | N/A |
| Deferred | N/A | N/A | N/A | N/A |
| No liability | N/A | X | X | X |



Rates 2022/23

- Employees: 13.25% and over UEL 3.25%, Employers: 15.05%
- Thresholds frozen until 2026 but LEL not mentioned
- Employment Allowance unchanged
- Class 1A in real time on terminations over £30K 15.05%
- Class 1A on benefits in kind 15.05%
- Class 1B on PAYE Settlement Agreements 15.05%
- Payslip message

2023/24

- Health & Social care levy (HSCL) 1.25%
- Employers: 13.8%
- Employment Allowance?
- Class 1A in real time on terminations over £30K 13.8%, HSCL on terminations?
- Class 1A on benefits in kind 13.8%, HSCL on benefits in kind 1.25%
- Class 1B on PAYE Settlement Agreements 13.8%, HSCL on PSA 1.25%
- Payslip message



NICs exemptions

- Age
 - Under 16 – employee and employer exempt
 - 16-20 – employer exempt up to UST (Upper secondary threshold)
 - Over state pension age – employee exempt **UNTIL 2024**
 - Use an Age Exception Certificate/passport/birth certificate to support this decision
- Status
 - Apprentices aged under 25 from April 2016
 - Marital status: reduced rate women – many over state pension age now
 - Veterans in first year of civilian employment
- No liability
 - Under 16
 - At or under the Primary Threshold (but still record earnings at or over the LEL)
 - Not subject to UK NI
- Deferment
 - Maximum NI paid elsewhere so just pay 2% in this role
 - Need CA7200 certificate renewed annually
 - To apply: bit.do/frbly

Summary

- Terminology: LEL, Thresholds, UEL, UST, AUST
- Employment Allowance
- Classes of NI
- Looking ahead to 2022 and 2023
- NI Table letters
- NI exemptions



Class 1 NICs thresholds 2021/22 and 2020/21

| Pay Frequency | 2021/22 | | | | | 2020/21 | | | | |
|---------------|---------|--------|--------|---------|----------|---------|--------|--------|---------|----------|
| | LEL | PT | ST | UEL | UST/AUST | LEL | PT | ST | UEL | UST/AUST |
| Weekly | £120 | £184 | £170 | £967 | £967 | £120 | £183 | £169 | £962 | £962 |
| Fortnightly | £240 | £368 | £340 | £1,934 | £1,934 | £240 | £366 | £338 | £1,924 | £1,924 |
| Four-weekly | £480 | £736 | £680 | £3,868 | £3,868 | £480 | £732 | £676 | £3,847 | £3,847 |
| Monthly | £520 | £797 | £737 | £4,189 | £4,189 | £520 | £792 | £732 | £4,167 | £4,167 |
| Yearly | £6,240 | £9,568 | £8,840 | £50,270 | £50,270 | £6,240 | £9,500 | £8,788 | £50,000 | £50,000 |

Employees 2021/22

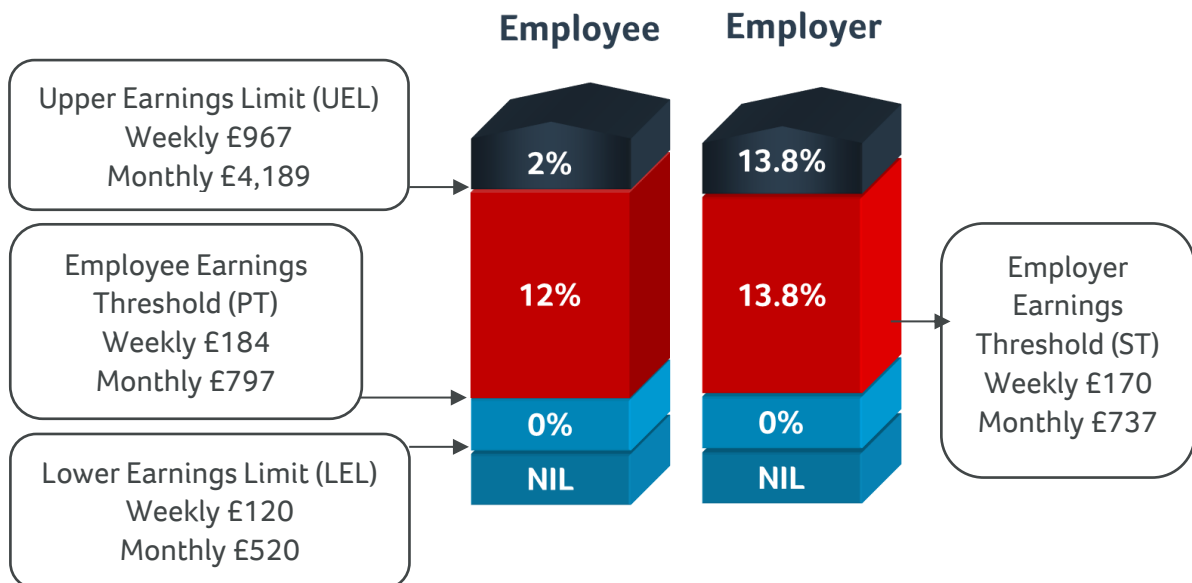
| Table letter | A, M, H | B | C | J, Z |
|--------------|---------|-------|-----|------|
| Below LEL | Nil | Nil | Nil | Nil |
| LEL – PT | 0% | 0% | 0% | 0% |
| PT – UEL | 12% | 5.85% | 0% | 2% |
| Above UEL | 2% | 2% | 0% | 2% |



Employers 2021/22

| Table letter | A, B, C, J, Z | M, H |
|--------------------|---------------|-------|
| Below LEL | Nil | Nil |
| LEL - ST | 0% | 0% |
| ST - UEL/UST/AUST | 13.8% | 0% |
| Above UEL/UST/AUST | 13.8% | 13.8% |

Category letter A





Directors' NIC

- Different to normal NI
- Annual earnings i.e. cumulative not non-cumulative
 - Annual LEL £6,240
 - Annual PT £9,568
 - Annual UEL £50,270
- Easement during year to treat like all other employees BUT
 - Must have an agreement with the director in case any underpayment occurs
 - If leave or at year end whichever is first, must recalculate

| | Employee - A | Director - A |
|--|------------------|------------------|
| £3,000 salary (/12 for director = £250) | 264.36 | Nil |
| £3,000 salary (£6,000/12 = £500) | 264.36 | Nil |
| £3,000 salary £22,000 bonus (£31,000/12 = £2,583.33) | 823.26 | 2571.84 |
| £3,000 salary (£34,000/12 = £2,833.33) | 264.36 | 360.00 |
| £3,000 salary (£37,000/12 = £3,083.33) | 264.36 | 360.00 |
| TOTAL | £1,880.70 | £3,291.84 |



Calculating NICs

Two ways to calculate NICs

- Exact percentage and table method
- Which does your payroll system use?
- Stick with one system
- Basic PAYE Tools & HMRC website has percentage method
- Tables remove pence so round down to nearest lower value even if it is 99p
 - For weekly paid this means 50p more is NI'd than the value being looked up
 - For monthly paid this means £2 more is NI'd than value being looked up
- We'll learn percentage method

NICs underpayments

- Why do they happen?
 - Employer makes a mistake
 - A 'payment' is made on which NICs is due but there is no cash to deduct NICs from
 - E.g. Shares or securities
- The law defines four specific scenarios, each with different rules
 - Current employee – employer error
 - Current employee – shares or third party payment
 - Current or ex-employee - insufficient cash
 - Ex-employee - securities



Employer errors

- 'Good faith' – there was a process but it went wrong
- Deliberate i.e. not good faith, there was no process or the situation was ignored
- Examples of good faith... this only applies to current employees
 - Expats still liable to NICs but not tax
 - NICs due as a tax or NICs avoidance scheme has been declared illegal

An example of 'good faith' - employer error?

- Employee no longer entitled to reduced rate so should go on to A rate, she tells her line manager who doesn't tell payroll even though that's the process
 - It's month 10
 - The under deduction is £600
 - She normally pays £60 NICs per month
- How much can be repaid in months 11 and 12?
 - Only double the normal deduction
 - The remainder can be recovered the next year from the employee by turning it into a loan
 - But the employer must report and pay over the correct NICs in month 11



What isn't 'good faith'?

- An employee didn't renew their deferral certificate so lost the right to pay deferred rate but didn't tell the employer
 - Either deliberately, or
 - Because the employer has no procedure to alert employees to do this
- Using previous example
 - Only £120 can be recovered in months 11 and 12
 - The employer has to bear the rest of the underpayment
 - Cannot recover it from the employee

Putting it right

| Reason | Current or former employee | Which tax year for recovery | How much? |
|---|----------------------------|--------------------------------------|--|
| 'Good faith' | Current | This tax year and following tax year | Double the normal deduction due each pay period |
| Expat | Current | | |
| Retro NICs on tax/NICs avoidance | Current | | |
| Deliberate | Current | This tax year | |
| Insufficient cash earnings – employer benefit | Current and former | | |
| 3 rd party sells shares/securities on which NICs are due, but there are insufficient cash earnings | Current | This tax year and following tax year | No limit |
| Share or securities | Former | This tax year | No limit if written mandate to sell shares to recover NICs due |



Putting it right – the big BUT!

BUT... The employer has to correct the payroll immediately so that on the next FPS the correct NICs YTD is shown **and** paid over by the employer even if it hasn't all yet been recovered!

Doing it the hard way!

A rate weekly employee NICs 2021/22

| Earnings | % applied | Calculation | + Additional 'ees NICs for up to UEL |
|---------------------------------|-----------|-------------------------------------|--------------------------------------|
| Up to £184 | Nil | | |
| £184.01 - £967 | 12% | Earnings minus £184 x 12% and round | Nil |
| £967.01 and upwards (above UEL) | 2% | Earnings minus £967 x 2% | £93.96 and round |



A rate monthly employee NICs 2021/22

| Earnings | % applied | Calculation | + Additional 'ees NICs for up to UEL |
|-----------------------------------|-----------|----------------------------|--------------------------------------|
| Up to £797 | Nil | | |
| £797.01 - £4,189 | 12% | Earnings minus £797 x 12% | Nil |
| £4,189.01 and upwards (above UEL) | 2% | Earnings minus £4,189 x 2% | Add £407.04 and round |

Examples - employee NICs A rate

NB round up second decimal if third decimal is six or more

| Earnings | Frequency | Calculation | X 12% or 2% | Rounded | Add in 'up to UEL 'ees NICs' | 'ees NICs |
|----------|-----------|---------------------------|-------------|---------|------------------------------|-----------|
| 186.00 | W | $186.00 - 184 = 2.00$ | 0.24 | 0.24 | Nil | 0.24 |
| 1712.98 | M | $1712.98 - 797 = 915.98$ | 109.9176 | 109.92 | Nil | 109.92 |
| 1005.64 | W | $1005.64 - 967 = 38.64$ | 0.7728 | 0.77 | 93.96 | 94.73 |
| 4372.52 | M | $4372.52 - 4189 = 183.52$ | 3.6704 | 3.67 | 407.04 | 410.71 |



A rate weekly employer NICs 2021/22

| Earnings | % applied | Calculation | + Additional 'ees NICs for up to UEL |
|---------------------------------|-----------|---------------------------------------|--------------------------------------|
| Up to £170 | Nil | | |
| £170.01 - £967 | 13.8% | Earnings minus £170 x 13.8% and round | Nil |
| £967.01 and upwards (above UEL) | 13.8% | Earnings minus £967 x 13.8% | Add £109.99 and round |

A rate monthly employer NICs 2021/22

| Earnings | % applied | Calculation | + Additional 'ees NICs for up to UEL |
|-----------------------------------|-----------|---------------------------------------|--------------------------------------|
| Up to £737 | Nil | | |
| £737.01 - £4,189 | 13.8% | Earnings minus £737 x 13.8% and round | Nil |
| £4,189.01 and upwards (above UEL) | 13.8% | Earnings minus £4,189 x 13.8% | Add £476.38 and round |



Examples – employer NICs A rate

NB second decimal is not rounded up if third decimal is five or less

| Earnings | Frequency | Calculation | X 13.8% | Rounded | Add on 'up to UEL 'ers NICs' | 'ers NICs |
|----------|-----------|---------------------------|----------|---------|---------------------------------------|--------------|
| 173.01 | W | $173.01 - 170 = 3.01$ | 0.4153 | 0.41 | Nil | 0.41 |
| 1652.98 | M | $1652.98 - 737 = 915.98$ | 126.4052 | 126.40 | Nil | 126.40 |
| 1075.64 | W | $1075.64 - 967 = 108.64$ | 14.9923 | 14.99 | 109.99 | 124.98 |
| 4369.32 | M | $4369.32 - 4189 = 180.32$ | 24.8841 | 24.88 | 476.38 | 501.26 |



Session 3: Tax

Background

- How does PAYE work?
 - Well if you have just one job with no benefits
 - Not so well if you have multiple income sources plus benefits in kind
- Why?
 - Until 2009 HMRC could not look at your tax affairs in the round
 - NPS has improved this
- What is NPS?

NPS – National Insurance and PAYE Service

- What is it?
 - One combined tax and NICs record for each taxpayer rather than 12 regional databases sorted by PAYE reference
 - 54m records became 43.6m combined records
 - Receives data from core RTI database that HMRC updates after each FPS/EPS
 - Issues tax codes
- From July 2017 uses multiple information sources to amend tax codes in near real-time and send a prompt to the taxpayer to check their personal tax account if they have one



PAYE is flexible

- It copes with changes in rates, allowances (and earnings!)
- If taxing cumulatively would be detrimental HMRC can suspend this temporarily and issue a non-cumulative code
 - From July 2017 ‘detrimental’ means that the next pay period tax would go up by more than £15

| | This month | Year to date |
|-------------------------|-------------------|---------------------|
| JUNE | | |
| Taxable pay | £1,500 | £4,500 |
| Tax @ 20% | <u>£300</u> | £900 |
| Tax paid to date | | |
| April - £1,500 @ 20% | £300 | |
| May - £1,500 @ 20% | <u>£300</u> | <u>£600</u> |
| Tax due for June | | <u>£300</u> |



Cumulative tax code

| | | Month 1 | Month 2 | Month 3 | Month 4 |
|---|--|---------|---------|---------|---------|
| Gross taxable pay | | £1,000 | £750 | £100 | £1,000 |
| Year-to-date taxable pay | | £1,000 | £1,750 | £1,850 | £2,850 |
| Pay adjustment (not K code) | | £100 | £200 | £300 | £400 |
| Net taxable pay after adjustment (year-to-date) | | £900 | £200 | £1,550 | £2,450 |

Non-cumulative tax code

| | | Month 1 | Month 2 | Month 3 | Month 4 |
|---|--|-------------------|-------------------|-------------------|-------------------|
| Gross taxable pay | | £1,000 | £750 | £100 | £1,000 |
| Year-to-date taxable pay | | £1,000 | £1,750 | £1,850 | £2,850 |
| Pay adjustment (not K code) | | £100 | £100 | £100 | £100 |
| Net taxable pay (year-to-date) | | £900 | £650 | £0 | £900 |



But what if tax went up to 22% in July?

| | This month | Year to date |
|--------------------------------|-------------------|---------------------|
| JULY | | |
| Taxable pay | £1,500 | £6,000 |
| Tax @ 22% | <u>£420</u> | £1,320 |
| Why? - Tax paid to date | | |
| April - £1,500 @ 20% | £300 | |
| May - £1,500 @ 20% | £300 | |
| June - £1,500 @ 20% | <u>£300</u> | <u>£900</u> |
| Tax due for July to 'catch up' | | <u>£420</u> |

Is it just that simple?

Not quite

- Many employees are allowed to earn some income before they pay tax
- HMRC tell us what to allow via their tax code
- The most we can earn tax-free in 2021/22 is £12,570 if we have no other allowances



How does tax allowance/adjustment pay work?

- Like the Lower Earnings Limit but it's cumulative so we get a fraction each pay period to 'smooth' income
 - For monthly earners it is divided by 12
 - For weekly earners it is divided by 52
- So you need to know
 - What the allowance/adjustment is for the year, and
 - Where you are in the tax year
 - When payday is (not when the payroll was run or the pay was earned)
 - That's why payroll software has to have payroll parameters built in that tell it which week/month you are processing

Tax allowances: Whole of UK

| Allowance 2021/22 – 2025/2026 | Income limit | Allowance 2020/21 |
|--------------------------------------|---------------------|------------------------------------|
| £12,570 Emergency code 1257L | £100,000 | £12,500 Emergency code 1250L |



Tax rates and earnings bands 2021/22 & 2020/21 England & Northern Ireland

| 2021/22 Earnings band | Rate | 2020/21 Earnings band | Rate |
|----------------------------------|-------------|----------------------------------|-------------|
| £1 - £37,700 | 20% | £1 - £37,500 | 20% |
| £37,701 - £150,000 | 40% | £37,501 - £150,000 | 40% |
| Over £150,000 | 45% | Over £150,000 | 45% |

| Weekly tax threshold 2021/22 | Monthly tax threshold 2021/22 |
|---|--|
| £241 | £1048 |

Welsh tax bands 2021/22 & 2020/21

| 2021/22 Earnings band | Rate | 2020/21 Earnings band | Rate |
|----------------------------------|-------------|----------------------------------|-------------|
| £1 - £37,700 | 20% | £1 - £37,500 | 20% |
| £37,701 - £150,000 | 40% | £37,501 - £150,000 | 40% |
| Over £150,000 | 45% | Over £150,000 | 45% |

| Weekly tax threshold 2021/22 | Monthly tax threshold 2021/22 |
|---|--|
| £241 | £1048 |



Scottish tax bands 2021/22

| 2021/22 Earnings band | Name of rate/band | Rate |
|-------------------------|-------------------|------|
| Over £12,570 – £14,667 | Starter rate | 19% |
| Over £14,667 – £25,296 | Basic rate | 20% |
| Over £25,296 – £43,662 | Intermediate rate | 21% |
| Over £43,662 – £150,000 | Higher rate | 41% |
| Above £150,000 | Top rate | 46% |

Working out the tax calendar

- Remember what we said about 6th April?
- There are 52 tax weeks in a tax year
 - 6 April to 12 April.....Week 1
 - 13 April to 19 April.....Week 2
 - and so on, until...
 - 29 March to 4 AprilWeek 52
 - 52 paydays
 - BUT a 53rd if 5 April is the last payday of the tax year, or
 - Or 4th or 5th in a leap year
 - For four weekly employees every 22 years or so there are 14 4-weekly paydays i.e. a week 56



So what happens in week 53/56?

- Employees get an extra week's free/adjusted pay as all codes have to operate on a week 1 basis
- Employees get an underpayment demand!
- For week 56 (4-weekly), payments are treated as at week 4
- For week 54 (fortnightly), payments are treated as at week 2

Summary

- Cumulative v non-cumulative codes
- Personal allowance
- Income Limit
- Tax rates and bands
- The tax calendar and week 53/56



Tax codes

- Unlike NICs letters, employers can't automatically work out the right tax code
- HMRC provide the code as they know all the employee's circumstances - in theory!
- We get it from
 - A recent P45 when someone joins us
 - A P6 or P9 once they are employed
- But what if we don't get a P45?
 - Then we have to make an informed decision – more later

Types of code

- Suffix
 - They end in a letter that denotes the type and amount of allowance the person is entitled to or how their code is managed by HMRC if they have special circumstances

| 2021/22 | £ | Suffix |
|--|---------|--------|
| Standard personal allowance | £12,570 | L |
| Recipient of marriage allowance transfer | £13,830 | M |
| Transferor of marriage allowance | £11,310 | N |



Types of code

- Prefix code
 - This is the opposite of a suffix code
 - Instead of having tax-free pay the employee's circumstances mean that they need to have an extra amount added to their earnings to collect the tax that is due
 - So it's a negative tax code
 - This is shown with a K in front of the code

Special codes

NT, OT, BR, D0 and D1 and Scottish equivalents can all be cumulative or non-cumulative

There are also codes that are used in special circumstances to try to make PAYE work as accurately as possible.

| Code | What it does |
|---|---|
| Emergency code 1257L or 1257L/1 for 2021/22 | Gives an employee the full personal allowance temporarily in the absence of further information |
| T | Temporary, typically HMRC are reviewing the individual's tax affairs |
| NT | No Tax , typically used for expats |
| OT (zero temporary) | No allowances, but earnings are taxed at 20%, then 40% and then 45% |
| BR (basic rate), CBR or SBR | No allowances, but earnings are only taxed at 20% |
| D0, CD0 or SD0 | No allowances, but earnings are taxed only at 40%/21% in Scotland |
| D1, CD1 or SD1 | No allowances, but earnings are taxed only at 45%/41% in Scotland |
| SD2 (Scotland only) | No allowances, but earnings are taxed only at 46% |



How a standard code is made up

- Step 1 standard personal allowance
- Step 2 add any additional allowances
 - Age-related married couple's allowance or marriage allowance
 - Blind person's allowance
 - Additional reliefs such as pension tax relief or laundry allowance
- Step 3 deduct
 - Taxable value of expenses and benefits from previous year's P11D
 - State pension where applicable
 - Taxable income for last year outside PAYE
 - Unpaid tax from previous years
 - Marriage allowance transfer
- Step 4, is the answer from Step 2 minus Step 3 positive?
 - Yes, allocate suffix code
 - No, allocate prefix code

Example

- Bob has tax on private medical insurance to pay of £130 and owes tax on rental income of £450
- His code for 2021/22 is:

| | | |
|---------------------------|--|--------------------------|
| Personal allowance | £12,570 | |
| Minus | £130 medical benefit £450 rental income £510 | |
| Allowance | £11,990 | Remove last digit |
| Code | 1199L | Add single person suffix |



The missing digit!

- Knocking off the last number gives the same pay adjustment for
 - £11,990 - £11,999
- So the last digit is always deemed to be a nine in employer payroll systems except for K codes
- In practice some people get a maximum of 9 pounds more free pay in a year
- So 1257L actually gives £12,579 tax-free pay not £12,570
- HMRC use the exact figure when they reconcile

K codes

- Introduced in 1993
- Benefits started to outweigh allowances so how to collect the tax due through PAYE?
- As the code leads to extra pay being added there had to be a way of leaving the employee with some net pay!
 - Only 50% of taxable pay can be deducted
 - Known as the regulatory limit (now applies to all tax codes)
 - Tax in excess is carried forward to next period unless it is a month 1 code when it is ignored at the next calculation



Benefits and income, No K code

- Bill has a personal allowance of £12,570 and benefits in kind worth £13,270
- So benefits exceed allowance by £700
- His salary is £80,000 per year
- Let's give him OT tax code so we remove all his £12,570 allowance

| Taxable income using OT code | Tax via payroll | Actual gross taxable income | Tax due |
|------------------------------|-----------------|-----------------------------|---------|
| £80,000 | £24,460 | £80,700 | £24,740 |
| | | Tax underpaid | £280 |

Benefits and income, K code

- Personal allowance £12,570
- Less benefits -£13,270
- Negative allowance £700
- Less last digit minus 1 = 69
- Tax code K69 (HMRC assume negative allowance is £699)

| Taxable income | Tax adjustment | Taxable income through payroll | Tax through payroll |
|----------------|----------------|--------------------------------|---|
| £80,000 | £699 | £80,699 | £24,779.60 |
| | | Tax underpaid | £0.40 (40% of + £9 - £10 extra in code) |

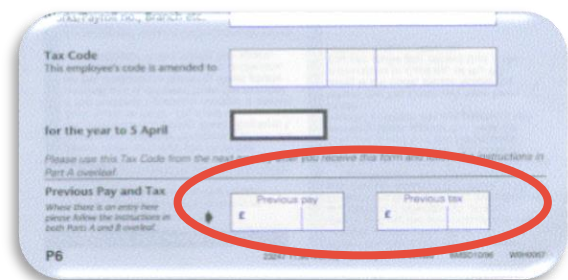


How and when do codes change?

- HMRC issue a new tax code when they receive updated information on an individual's circumstances, this can be
 - When they start a new job
 - When they are notified of a new benefit, source of income or change of 'estimated pay' by the taxpayer
 - When they process a P11D or P46 (car)
 - When they process a Self Assessment return
 - When DWP tell them about a state pension, or
 - When the government changes the rates or allowances

How do employers get told?

- During the tax year
 - Via a P6 (online or on paper), P2 to employee or email alert
- At start of tax year
 - Via a P9 or P6(b)
 - Via a P9X or P7X global uplift notice, when month 1 codes are dropped too
- NB A P6 may also have new pay and tax figures that HMRC want the employer to add to the employee's payroll record – make sure you spot these or you could end up with a Regulation 80 demand that makes the employer liable for any underpayment





Personal Tax Account (PTA)

Your tax-free amount for 6 April 2021 to 5 April 2022

Your tax code is worked out from your tax-free amount. Your tax-free amount is the income you can have before paying tax and any additions or deductions

Your annual tax-free amount is

£12,630

It can be:

- increased if you qualify for certain allowances or tax reliefs
- decreased to collect tax due for company benefits or income from other sources

Understand your tax

[Check your tax codes](#)

[Check your Income Tax estimate](#)

[Return to your Income Tax summary](#)

How your tax-free amount is calculated

| | |
|-----------------------------------|--------------------------------------|
| Personal Allowance | £12,570 |
| Additions | |
| Job expenses | £60 Update or remove |
| Total additions | £60 |
| Deductions | |
| You do not have any deductions | £0 |
| Your total tax-free amount | £12,630 |

This person has some additional allowances

Something missing?

[+ Add a missing allowance or tax relief](#)



Allocating the right code

- If a P45 is presented we can consider using the tax code on it if
 - The leaving date is not earlier than the start of the previous tax year i.e. before 6.4.2019 if not the form is out of date, and
 - The suffix or prefix is showing for a number code
- But if the employee has a suffix code (L, M or N) and left last tax year
 - And it is now between 6 April – 24 May we need to add the new year uplift for that suffix, or
 - If it is now after 24 May instead of the code shown we use the emergency code on a month 1 basis
- If the code is BR, OT or has a D prefix then use the code if they left in the current or prior tax year

Using the previous pay and tax

- We only use the pay and tax on the P45 for someone who left in this tax year and then only if it's correct!
 - There will be no pay and tax for a month 1 code
- To check the tax on a P45...



Checking the tax on a P45

- Step 1: Are the earnings and tax fields completed by the old employer the same on part 2 and part 3?
 - No, ring the Employer Helpline
 - Yes, step 2
- Step 2: Is the tax shown correct for the earnings and the date of leaving? Use the PAYE calculator: bit.ly/36aBB1r
 - No
 - The calculated figure must be used on the payroll
 - Any under or over amount must be input in your payroll system as an adjustment for the next payroll run
 - Unless it's a K code, when you use the lower of the value on the P45 or the calculated figure

Summary

- Tax codes
 - Suffix (tax-free pay) v Prefix ('extra' or adjusted pay)
 - Special codes: NT, BR etc
 - Make-up of codes
 - Notification: employer & employees
 - Allocating the correct code
 - Using previous pay and tax figures on a P45



New starters

- Employers do not need a paper form to be completed as new starters are sent online to HMRC
- BUT all new starters, even those with a P45 must be asked to complete the starter checklist for student loans if there is a 'Yes' in the student loan box & ideally to check the personal details on the P45
- You must have
 - Information about the employee and their circumstances
 - Surname, forename, DOB, gender and NINO or 2 lines of address
 - An audit trail of passport, birth certificate etc to confirm that information
- So what are the options?
 - Emailed form
 - Form attached to offer letter
 - Starter checklist: bit.ly/2UUX5ze
 - New one from April 2021 when Plan 4 for student loans given in Scotland were introduced

Completing the starter checklist – allocating the code

| Statement ticked | Circumstances | Code allocated | 2021/22 |
|------------------|---|--|---------------------|
| A | First job and no taxable benefits since tax year start | Emergency code on cumulative basis | 1257L |
| B | Only job now but have worked this tax year or received taxable state benefits | Emergency code on non-cumulative basis | 1257L/1 (1257LX) |
| C | Second job or state or occupational pension | Basic rate cumulative | BR |



What if a P45/starter checklist arrives late

- **P45:** Check if there is a student loan marker!
 - Compare it to starter checklist, if there is a Y in box 5
 - Default to Plan 1 if no starter checklist completed
- Have you already received a tax code/previous earnings in response to the employer-declared starter declaration?
 - Yes, only use any new student loan information
 - No, add the pay and tax to the earnings to date if the leaving date is 6.4.21 or later, and amend code on payroll – HMRC will get it on next FPS
- **Starter checklist:** check if student loan section ticked and add plan number/PGL if so for next pay run

New starter process – 2021/22 – not the same next year!

| Date of leaving | Start date | Code on P45 | Starter declaration | Tax code to use |
|-----------------|------------------|--------------------------|---------------------|---|
| 6.4.20 – 5.4.21 | 6.4.21 – 24.5.21 | Not BR, OT, D0, D1 or D2 | B | Code from P45 including any S or C prefix Drop month 1 Add 7 points to L, 8 to M and 6 to N codes |
| 6.4.20 – 5.4.21 | 25.5.21 onwards | Not BR, OT, D0, D1 or D2 | B | 1257L/1 |
| 6.4.20 – 5.4.21 | 6.4.21 onwards | BR, OT, D0, D1 or D2 | C | Code from P45 including any S or C prefix |
| 6.4.20 – 5.4.21 | 6.4.21 – 24.5.21 | Not BR, OT, D0, D1 or D2 | B | Code from P45 including any S or C prefix Drop month 1 Add 7 points to L, 8 to M and 6 to N codes |



New starter process – 2021/22

| Date of leaving | Start date | Code on P45 | Starter declaration | Tax code to use |
|--|--------------------|-------------|--|---|
| P45 dated before 6.4.20 ie out of date P45 | On or after 6.4.21 | Ignore P45 | Use statement A, B or C as indicated or C if not completed | A – 1257L B- 1257L/1 C – completed by employee BR |
| Starter checklist only | On or after 6.4.21 | N/A | | C – completed by employer OT/1 |

Calculating tax

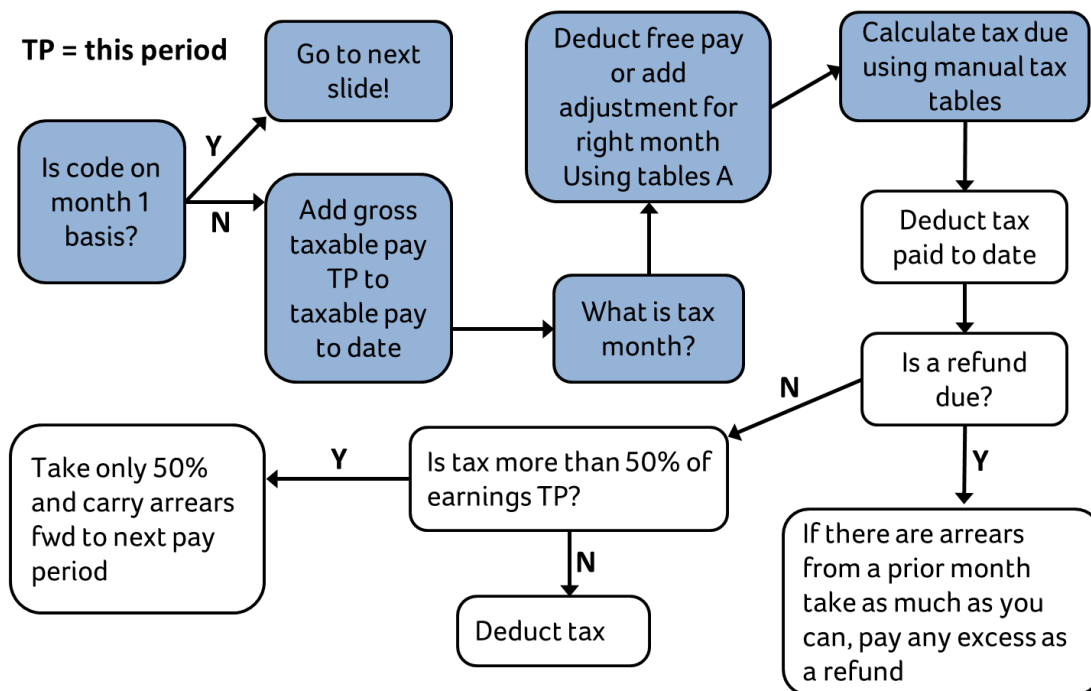
- Step 1
 - Calculate the tax-free/adjusted pay using Tables A pay adjustment tables
 - Adjusted pay for K codes as it's added in not deducted
 - Let's look at Tables A and the layout
- Step 2
 - Adjust taxable pay with result from Step 1
 - Calculate the tax on the adjusted taxable pay figure using Taxable pay tables: manual method
 - Let's look at the B-D tables....



2 methods same answer!

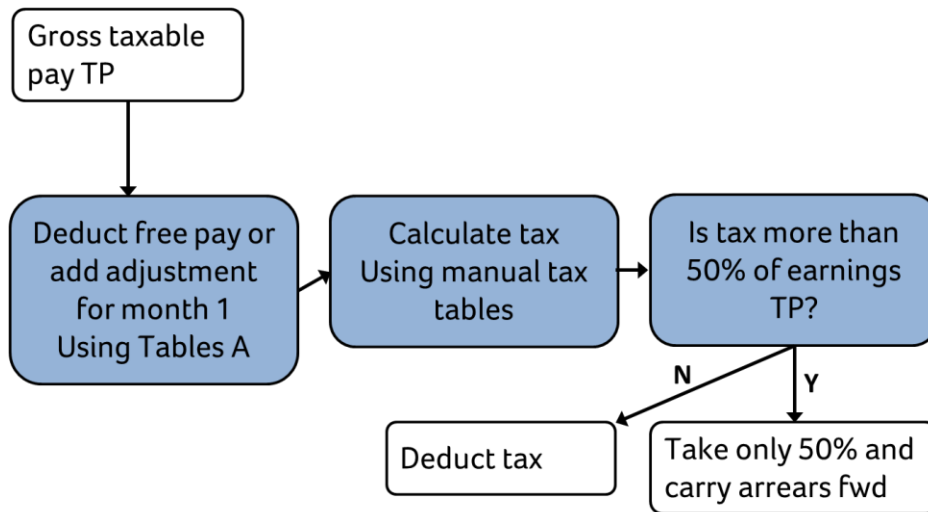
- Unlike NICs it doesn't matter if you calculate tax via payroll software or using tax tables
- We'll learn the tables method – HMRC's manual tables
- Remember why?
 - To check the software is working properly!
 - To calculate an interim payment when an error or omission has been made
 - To check a P45
 - To explain a payslip entry to an employee

PAYE flowchart cumulative prefix or suffix code





PAYE flowchart Month 1 prefix or suffix code



So we need to know gross taxable pay

- Remember it's not the same as
 - Gross pay or
 - o Gross Ni-able pay
 - Why?
 - Because we can deduct
 - o Charitable contributions
 - o Some types of employee pension contributions
 - o Shares from a share incentive plan, and
 - o Whatever the tax code allows if it's a suffix code
 - If it's a prefix (K) code we will be adding to gross pay to get gross taxable pay



Then the type of code

- Cumulative
 - We will work on values to date for pay and tax
- Non-cumulative
 - Only this period values matter
- Remember for OT, BR/SBR/CBR, D0/SDO/CD0, D1/SD1/CD1 and SD2 there is no allowance or adjustment and they can be cumulative or non-cumulative

Using Tables A Pay Adjustment tables

- Still dated 1993 – that is right!
- Be careful to select
 - Weekly or monthly
 - Only one figure from body of table
 - The right figure for **a code over 500**, only take one entry from table
 - So for code 1500, use one 500 from table and two 500s from box
 - Add the adjustment if it's a K, CK or SK code!
- Let's look up 810L at month 5 (this means £8,109 tax free pay per year)
 - 810 minus 500 = 310
 - For 310 figure *in table* is £1,295.45
 - For 500 figure *in box* is £2,083.35
 - Add £1,295.45 + £2,083.35
 - Total = £3,378.80

| | 345 | 347.50 | 350 | 352.50 | 355 | 357.50 | 360 | 362.50 | 365 | 367.50 | 370 |
|-----|-----|---------|-----|---------|-----|---------|-----|---------|-----|--------|-----|
| 1.0 | 350 | 1462.10 | 400 | 1670.45 | 450 | 1878.75 | 500 | 2087.10 | | | |

Code more than 500

1 Where the code is in the range 501 to 1000 inclusive:

a. Subtract 500 from the code and use the balance of the code to obtain a pay adjustment figure from the table above.

b. Add this pay adjustment figure to the figure given in the box alongside to obtain the figure of total pay adjustment to date * **2083.35**

2 Where the code exceeds 1000 follow the instructions on page 3.



Summary

- New starters:
 - Who and how?
 - Statements A, B and C
 - Late P45s and starter checklists
 - Starters at tax year start
- Tax calculations
 - Step 1: calculating the pay adjustment
 - Layout of Tables A
 - Step 2: calculating the tax on the net taxable pay
 - Layout of Tables B - D

Calculating tax examples

Using the manual tax tables let's work through these
NB always round down to nearest pound first

Step 1 which is looking up the tax free/adjusted pay has already happened and this is the resulting taxable pay to date!

| Taxable pay to date | Tax period | Tax due to date |
|---------------------|------------|-----------------|
| £384.24 | Week 12 | £76.80 |
| £2,756.21 | Month 2 | £551.20 |

Let's do these together...



Calculating tax

- Example 1: £384
 - Turn to page 4 of manual tax tables
 - Is £384 below the maximum earnings for a 20% taxpayer at week 12 of £8,700? YES
 - Follow instructions and turn to pages 6 and 7 (Table B 20% ready reckoner), look up £300 + £84 i.e. £60 + £16.80 = £76.80
 - Sense check: $£384 \times 20\% = £76.80$
- Example 2: £2,756
 - Turn to page 4 of manual tables
 - Is £2,756 below the maximum earnings for a 20% taxpayer at Month 2 of £6,284? YES
 - Follow instructions and turn to pages 6 and 7 (Table B 20% ready reckoner), look up £2,700 + £56 i.e. £540 + £11.20 = £551.20
 - Sense check $£2,756 \times 20\% = £551.20$

Tax and leavers

- Payments after leaving
 - OT/1 or SOT/1 or COT/1 after date of leaving sent to HMRC
 - Normal tax code if date of leaving not yet sent to HMRC
- Never provide a second P45 only a statement of earnings



Session 4: The Apprenticeship Levy – a training tax

Apprenticeship levy: paying

- Applies to all employers (public and private sector) from April 2017
- With gross pay liable to employer's NI predicted for 2021/22 of £3m
 - So ignores payrolled benefits
 - Not reduced by pension contributions and charitable giving (GAYE)
 - Reduced thanks to (OpRAs) salary sacrifice - the ones that still exist!
- It's a different definition of NI-able pay than for national insurance and is cumulative
- Apprenticeship levy manual: bit.ly/3gW6hbs - guidance on gov.uk: bit.ly/3gEAI8H

- Calculated as
 - 0.5% of gross pay liable to NI YTD each tax month minus YTD levy allowance
- Reported via RTI – on the Employer Payment Summary (EPS)
- Paid over with tax, NI & student loans as one payment
- Connected companies/charities rule like employment allowance
 - One amount of £15,000 available to connected companies/charities and those with multiple PAYE schemes and groups, but it can be split unlike the Employment Allowance
 - Apportionment via the April EPS each year



Example

- Zeph's café has pay liable to NI of £200,000 in April 2021 and a levy allowance of £1,250. Their levy is calculated as $£200,000 \times 0.5\% = £1,000$
 - There is no levy to pay
- In May 2021 their pay liable to NI is only £150,000 but $£350,000 \text{ YTD} \times 0.5\% = £1,750$ but as their cumulative levy allowance is now £2,500
 - No levy is payable for May either



Session 5: Statutory payments – SSP and SMP

Guidance and forms: SSP

- Statutory payments' guidance - paternity, maternity, adoption parental bereavement and shared parental pay, use the HMRC manual: go to bit.ly/2W76hy9
- Gov.uk has basic guidance and linking tables: bit.ly/2UTvk0n
- SSP1 is the exclusion/changeover form: bit.ly/2WxCZv6
- Linking letter: allows employees to return to state benefits in preference to SSP for first 12 weeks of employment – ESA220
 - Ask all new starters
- SC2 self-certification for first 7 (10) days of absence: bit.ly/2Ww43Lf

SSP: Why is it different?

- Because it's actually national minimum sick pay
 - A base level of company sick pay that is fully funded by all employers since 2014
 - Payable for up to 28 weeks in a sickness period, or linked sickness period, subject to eligibility
- Unlike the family-related payments it hasn't changed really since 1983
- Although the 1982 regulations that brought in SSP are replicated in Northern Ireland, social security is a devolved matter so they don't have to follow GB



SSP: Why is it different?

- Guidance was originally called 'On the 4th day' as that is what is key for SSP
- Any sickness absence for up to three days can be unpaid, these are called 'waiting days' apart from in respect to Covid-19 absence currently
- Not everyone qualifies
 - Those not entitled, or excluded, may be entitled to Employment & Support Allowance (ESA) which will become Universal Credit (UC)

Definitions

- Period of Incapacity for work (PIW) – SSP can only ever be payable for PIWs of 4 days or more
 - When I can't perform the employment duties, so
 - Not when I'm off because of someone else in the family
 - It needn't be a working day
 - Even a minute's work means it's not a day of absence
- Deemed incapacity
 - I came to work and got sent home before I did any work
 - For precautionary reason?
 - Convalescing
 - Contagious (notifiable) disease
 - BUT NOT, compassionate or medical appointments



Linking periods

- Where a PIW is separated from a previous PIW by 56 days or less it is one linked PIW
 - You count the days after the last day of absence and before the first day of the new absence
 - Linking tables: bit.ly/2WtRUXk
- It doesn't have to be the same reason for absence
- It matters because your eligibility at the start of the first linked PIW continues through all the linked PIWs
 - E.g. earnings high enough in PIW 1 but then drop, SSP entitlement remains
- You can link as many PIWs as you like, but...
on the third anniversary of the first qualifying day, SSP entitlement is over for that linked PIW even if not 28 weeks' SSP paid
- ...You then need a 56-day gap after the end of that PIW to start SSP again

Qualifying days and waiting days

- SSP is only payable for Qualifying days (QD) which are usually the employee's normal working days
- The employer sets the QDs – some employers will have 7 days as they have complex shift patterns
- Every week must have one QD and if not agreed it is deemed to be a Wednesday
- SSP is not payable for the first three qualifying days in a PIW
- Once you have served three waiting days that is it for any linked PIWs



Reporting is key

| | | | | | SICK | | | | | | | | | |
|-----|-----|------|-----|-----|------|-----|-----|-----|------|-----|-----|-----|-----|-----|
| SUN | MON | TUES | WED | THU | FRI | SAT | SUN | MON | TUES | WED | THU | FRI | SAT | SUN |
| | | | | | ← | | | | | | | | | → |
| | | | | | QD | | | QD | QD | QD | QD | QD | | |
| | | | | | WD | | | WD | WD | WD | SSP | SSP | | |

Failing to report weekends

$$2 \text{ days} \times \text{£}19.27 = \text{£}38.54$$

| | | | | | SICK | | | | | | | | | |
|-----|-----|------|-----|-----|------|------|------|-----|------|-----|-----|-----|------|------|
| SUN | MON | TUES | WED | THU | FRI | SAT | SUN | MON | TUES | WED | THU | FRI | SAT | SUN |
| | | | | | ← | | | | | | | | | → |
| | | | | | QD | SICK | SICK | QD | QD | QD | QD | QD | SICK | SICK |
| | | | | | WD | | | WD | WD | SSP | SSP | SSP | | |

Where weekend links to previous Friday SSP starts one day earlier

$$3 \text{ days} \times \text{£}19.27 = \text{£}57.81$$



Withholding SSP

- You can't withhold SSP if people don't follow your notification procedures only contractual sick pay
- For SSP you CAN'T
 - Ask them to report in person if that's not reasonable
 - Notify earlier than the first qualifying day e.g. over a weekend
 - By a set time
 - More than once a week
 - Using a specified form
- If you have no rules it's OK for any representative of your employee to tell you within 7 days of the first day of absence
- BUT if they fail to follow these rules you can withhold SSP for each QD they don't follow the reporting rules

Evidence

- Notice isn't evidence, it needs to be accompanied by an SC2 then a Fit Note or evidence from an AHP (Allied Health Professional)
 - You can design your own SC2
- You can't demand an SC2 until day 4
- If you request a certificate earlier the Dr may charge
 - Reimbursing that cost needs to go through payroll
- Remember there is a difference between evidence for SSP – only SC2 - and evidence for your occupational sick pay
- You can ask HMRC for a ruling if you think the SC2/Fit Note isn't genuine
 - National Insurance contributions and Employers Office
HM Revenue and Customs, BX9 1AN



Eligibility conditions

1. There must be a PIW
2. Average earnings must be above the Lower Earnings Limit (£120 p.w. 2021/22)
3. The employee isn't excluded for any reason

So, we know how to check the PIW or linked PIW... what about earnings:

All Ni-able earnings between date 1 (last payday before start of PIW) and date 2 (the day after the payday 8 weeks before date 1)



Weekly paid

| 30.7 | 6.8 | 13.8 | 20.8 | 27.8 | 3.9 | 10.9 | 17.9 | Date 2 Friday 30 th July | Date 1 Friday 17 th September | PIW start Tuesday 21 st September |
|-----------------|------|------|------|------|------|------|------|--|--|--|
| UNPAID LEAVE | £121 | £121 | £121 | £121 | £121 | £121 | £121 | Total Pay = £847 / 8 = £105.87 NO SSP DUE EVEN THOUGH NORMAL PAY ABOVE LEL | | |

Monthly paid

| 30 th July | 31 st August | Date 2 Friday 30 th July | Date 1 Tuesday 31 st August | PIW start Tuesday 21 st September |
|-----------------------|----------------------------|---|---|---|
| £534 | £602 | Total pay $£1,136/2 \times 12 / 52 = £131.08$ QUALIFIES FOR SSP | | |

Short service

An employee starts a new job on a Tuesday and is paid a week in arrears on the following Friday for the first four days, then on the next Monday falls sick. So far she's had 4/5ths of a week's pay

| First pay Friday 24 th September | Weekly average is | |
|---|----------------------------|--------------------------|
| £97 | $£97/4 \times 5 = £121.25$ | QUALIFIES FOR SSP |



Exclusions: why and when

- Why?
 - Average earnings too low/not liable to UK NI
 - 28 weeks paid/absence lasted 3 years even if not 28 weeks
 - Legal custody/on strike
 - Within 4 weeks of 'week baby due' date to end of maternity leave
- If so provide SSP1 exclusion form (separate N. Ireland version)
 - Within 7 days if immediately excluded or during PIW e.g. going on maternity leave
 - At 23 weeks if SSP being paid and 28 weeks is likely to be paid
- AND return all the fit notes/Linking letters

SSP daily rate table 2021/22: it always starts on the 6th April

| Unrounded daily rates | Number of QDs in week | Number of days to pay | | | | | | |
|-----------------------|-----------------------|-----------------------|-------|-------|-------|-------|-------|-------|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| £13.7642 | 7 | 13.77 | 27.53 | 41.30 | 55.06 | 68.83 | 82.59 | 96.35 |
| £16.0583 | 6 | 16.06 | 32.12 | 48.18 | 64.24 | 80.30 | 96.35 | |
| £19.2700 | 5 | 19.27 | 38.54 | 57.81 | 77.08 | 96.35 | | |
| £24.0875 | 4 | 24.09 | 48.18 | 72.27 | 96.35 | | | |
| £32.1166 | 3 | 32.12 | 64.24 | 96.35 | | | | |
| £48.1750 | 2 | 48.18 | 96.35 | | | | | |
| £96.35 | 1 | 96.35 | | | | | | |



Tips and traps

- Covid-related SSP: go to bit.ly/32UH1NE
 - Up to 2 weeks' SSP reclaimable if you have less than 250 employees
 - No waiting days
- Fit for Work tax exemption; £500 per person p.a. if off for 4 week and can return in 3 months
- Working reduced hours/days breaks up a PIW and SSP is not due
- Non-cash benefits can stop under salary sacrifice or can be recovered afterwards when contractual pay restarts

Summary

- Terminology: waiting days, qualifying days, Linking Periods
- Evidence: SC2, Fit Note or AHP report
- Eligibility: earnings and PIW
- Entitlement: 28 weeks over 3 years
- Exclusions:
 - Immediate or during absence
 - SSP1 at week 23 or within 7 days if not eligible/entitlement ends



Maternity pay and leave

Guidance and forms

- Statutory payment guidance on .Gov & calculator tools: bit.ly/38geR2S
- Statutory Payments Manual: bit.ly/3ktD77h
- MATB1 (MB1 in Northern Ireland): maternity certificate completed by Dr or Midwife to confirm EWC
- Use HMRC's key date tables: bit.ly/38gr5Zx
- SMP1: exclusion form 'why I cannot pay you SMP': bit.ly/2XRMwhl
- Employers can develop their own versions of all forms apart from the MATB1

Maternity leave

- Maternity leave is a day one right, pay is not
- *Ordinary Leave*: the first 26 weeks of maternity leave and can start any day of the week, *Maternity pay period* starts on same day as ordinary leave
- *Additional Leave*: the second 26 weeks of maternity leave running continuously from end of ordinary leave
- *Compulsory leave* is the first two or four weeks (factory workers) of maternity leave when no work can be carried out (not even at home)
- *Rolling weeks* - maternity pay and leave can start on any day of the week



Definitions: pay and leave

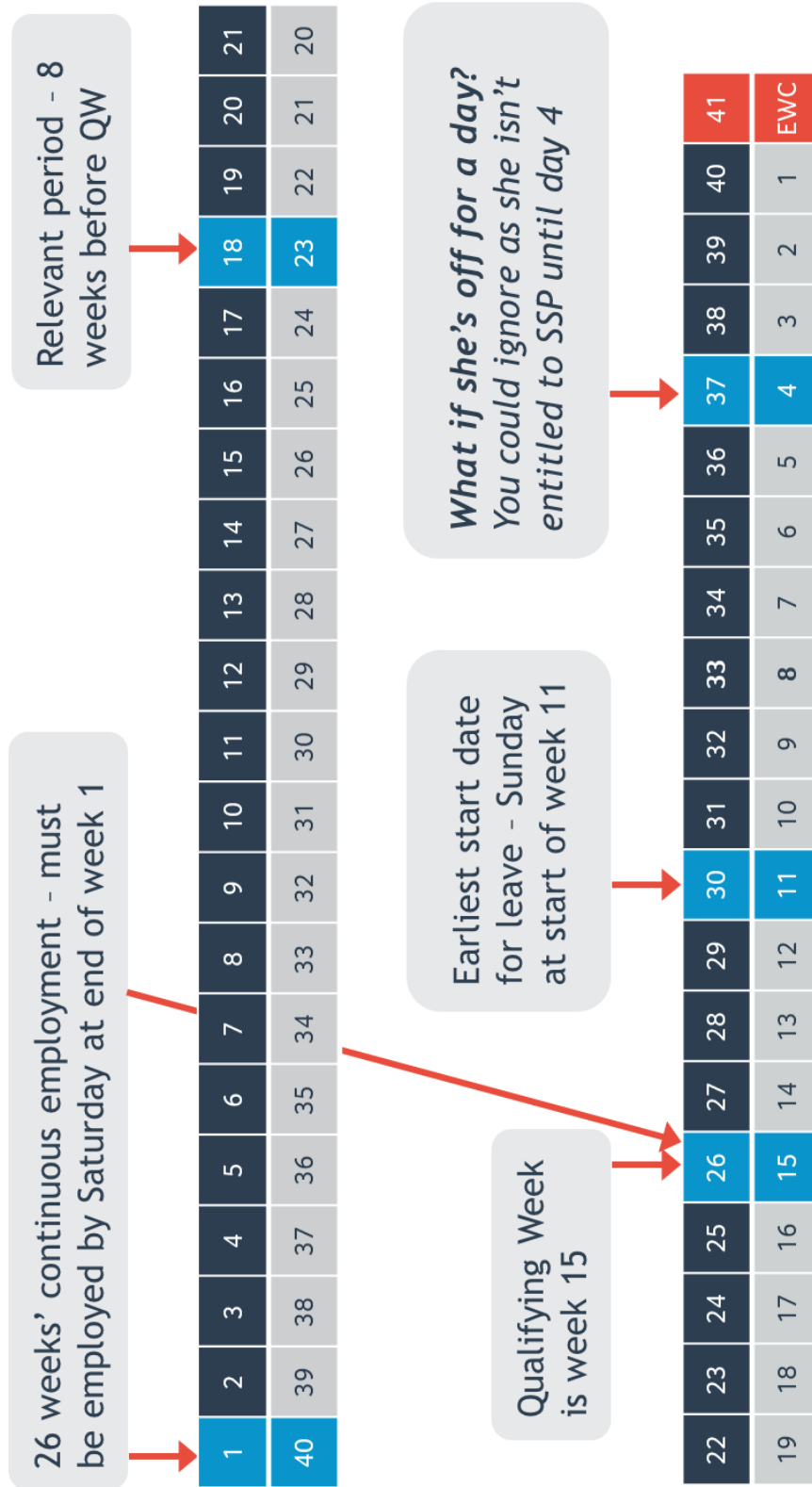
- The legislation uses the term EWC (Expected week of Confinement) which dates back to medieval times. Most employers refer to EWC as 'Expected week of childbirth' or 'Week WBD baby due': Weeks run from Sunday to Saturday.
 - *Qualifying week (QW)* – the week starting on the Sunday that is 15 weeks earlier than the Sunday of the EWC/WBD
 - *Continuous employment* – 26 weeks up to and including QW
 - *Relevant period* – 8 weeks before the QW
-
-
-
-

Qualifying for and starting maternity leave/pay

- No earlier than 20 weeks before the WBD the Dr or midwife provides a MatB1/MB1 – you have to prove pregnancy to get maternity pay & leave
 - Stillbirth at week 24 and onwards still qualifies
 - New entitlement to statutory parental bereavement pay
 - 26 weeks' continuous employment up to and into QW
 - Average Weekly Earnings at least the value of the Lower earnings limit (LEL) £120 p.w. 2021/22
 - In the relevant period
 - 8 weeks before Saturday at start of QW
 - COVID-19 change from 25.4.20 onwards
 - Must cease working!
 - Earliest start date for leave is 11 weeks before the 'Week Baby Due' WBD
 - Premature births: the day after the birth
 - Multiple births: the date of birth is the date on which the first of the children is delivered
 - Pregnancy-related absences
 - Automatically starts maternity pay period at the 4th week before the WBD
-
-
-
-
-



Maternity dates





The relevant period: The period over which average earnings (AWE) are measured

- The Relevant Period
 - Date 1 – the last pay day before the end of the QW
 - Date 2 – the day after the pay day 8 weeks before date 1
- Total all NI’able earnings between the dates
- Convert to a weekly value, always rounded up to the nearest penny, and compare to the weekly value of the lower earnings limit (LEL)
 - £120 p.w. 2021/22
- 6 weeks @ 90% of AWE, 33 weeks at standard rate
- If the average is below the standard rate, then 90% of the average is paid for the full 39 weeks, not the standard rate – the standard rate for 2021/22 is £151.97 p.w.

Calculating AWE & SMP

Baby is due 28 April 2021, employment began in 2018, monthly paid on 25th

| Week Baby Due | | Qualifying week | | Last start date for employment with you | Start of 11 th week before the week the baby is due | Start of 4 th week before the week the baby is due |
|---------------|----------|-----------------|----------|---|--|---|
| Sunday | Saturday | Sunday | Saturday | Saturday | | |
| 04/04/21 | 10/04/21 | 20/12/20 | 26/12/20 | 04/07/20 | 17/01/21 | 07/03/21 |
| 11/04/21 | 17/04/21 | 27/12/20 | 02/01/21 | 11/07/20 | 24/01/21 | 14/03/21 |
| 18/04/21 | 24/04/21 | 03/01/21 | 09/01/21 | 18/07/20 | 31/01/21 | 21/03/21 |
| 25/04/21 | 01/05/21 | 10/01/21 | 16/01/21 | 25/07/20 | 07/02/21 | 28/03/21 |

| January 2021 | December 2020 | November 2020 |
|--------------|---------------|---------------|
| £1,400 | £1,350 | £1,300 |

$£1,300 + £1,350 / 2 \times 12 / 52 = £305.769 = £305.77$, the first six weeks SMP will be paid at $£275.193 = £275.20$ as we round up and the next 33 weeks at the flat rate for 2021/22 of £151.97



Two landmark court cases

- 1996 *Gillespie* ruling: if pay rise backdated then AWE must be recalculated and additional SMP paid
- 2004 *Alabaster* ruling: SMP must reflect any pay rise awarded between the start of the relevant period and the end of the employee's maternity leave (up to 17 months) There can be more than one pay rise!
 - This includes increase in NMW
 - As above AWE must be recalculated

Keeping-in-touch (KIT) days

- An employee is entitled to work for up to 10 days during her maternity leave without bringing leave to an end
- Working on day 11 does cause the leave to end but not the SMP but a week's worth of SMP is lost. An hour or less counts as a day
- Pay is at the employer's discretion but must be not lower than NMW, which a day's worth of SMP wouldn't be
- Returning to work does not end MPP so if employee returns to work with 5 or more unused KIT days



Exclusions from SMP

- Not employed long enough
 - Average weekly earnings (AWE) below the lower earnings limit (LEL)
 - No, or late, notification of pregnancy
 - No medical evidence of pregnancy
 - In legal custody
 - Working after birth for another employer & not employed by them at the QW
 - Issue SMP1 exclusion form: Maternity Allowance from DWP
-
-
-
-
-

Employment rights

- Paid ante-natal appointments and risk assessment
 - Right to return to old job after ordinary leave, suitable & appropriate from start of additional leave – 8 weeks' notice if earlier than week 52
 - An employee's contract continues during any statutory leave period
 - She continues to benefit from all contractual benefits including holiday pay BUT not remuneration unless the contract provides for it
 - That includes non-cash benefits via salary sacrifice for up to 52 weeks at the employer's cost, SMP must not be reduced
 - Remuneration does not include ie must be paid
 - Any statutory payments
 - Payment for any period outside of statutory leave
 - Bonuses due in respect of the compulsory maternity leave period
 - Benefits in kind (on top of salary or via salary sacrifice)
 - Bonuses related to personal performance can be withheld/ prorated but bonuses related to company performance may not
-
-
-
-
-



Employment rights

- Employer pension contributions continue based on pre-leave pay
 - For up to 26 weeks if the employee is not entitled to SMP
 - Until any pay has ceased, at the earliest therefore week 39 for those eligible for SMP
- If a redundancy situation occurs during maternity leave the employee must be given first refusal for another job role/redundancy, even if they're not the best candidate

Recovery of SMP

- Via the Employer Payment Summary (EPS), either
- 92% of payment
- 100% + 3% NICs compensation on the SMP
 - If the employer is a 'small employer'
 - £45,000 or less NIC in previous year
- Employer reduces their other HMRC payments or can claim advanced funding if they don't have enough tax/NI to offset SMP



Summary

- Leave is day one right
- Pay requires service and earnings' eligibility
- Pay is calculate as 'average' (or 'normal') over 8 weeks prior to QW
 - 6 weeks @ 90% of average, 33 weeks standard
 - Pay rises
- Keeping-in-touch days
- Employment rights



Session 6: Student loans

Student loans

5 ways to repay the loan:

- Deducted through the payroll by employer
- Payment to HMRC through Self Assessment
- Borrowers living and working abroad pay Student Loan Company direct
- Anyone can make voluntary payments to pay off their loan at any time
- Direct debit offered in last two years of loan period to stop over deduction

- Employers are instructed to deduct the loan in three ways:
 - Start Notice SL1 or PGL1 – bulk new repayers issued in February for April starts
 - Form P45 box 5
 - Starter checklist
- Deductions are paid over to HMRC alongside tax, NI and apprenticeship levy



Student loans

- For undergraduates the SL1 Start Notice is issued by HMRC
- Employers begin deductions from next available pay day after issue date
- Postgraduate Loans are recovered in England and Wales
- Referred to as PGL loans
- The PGL1 Start Notice is issued by HMRC
- Can pay at same time as Plan 1, 2 or 4 so total 15% deduction
 - If both shown as separate payslip, FPS entry and P60
- Deduction begins for either or both when NI-able pay (not taxable) exceeds threshold, which for 2021/22 are...

Student loan repayment thresholds 2021/22

| Plan 1 | Plan 2 (England & Wales post-2012) | Plan 4 (Scotland) | PGL (England & Wales) NO CHANGE |
|-----------------------|--|-----------------------|---------------------------------------|
| £19,895 annual | £27,295 annual | £25,000 annual | £21,000 annual |
| £1,657.91 monthly | £2,274.58 monthly | £2,083.33 monthly | £1,750 monthly |
| £382.59 weekly | £524.90 weekly | £480.76 weekly | £403.84 weekly |
| £765.19 2-weekly | £1,049.80 2-weekly | £961.53 2-weekly | £807.69 2-weekly |
| £1,530.38 4-weekly | £2,099.61 4-weekly | £1,923.07 4-weekly | £1,615.38 4-weekly |



Multiple plan types 2021/22: what to do

NB postgraduate loan should be set up as well as Plans 1, 2 or 4 if selected

| Plan selected | Plan type |
|---|-----------|
| P45 ticked but no starter checklist supplied | 1 |
| P45 ticked even though Qn 9 said YES ie 'no loan' | 1 |
| No plan selected on starter checklist but Qn 9 said 'NO' ie 'I have a loan' | 1 |
| Plans 1 and 2 selected | 1 |
| Plans 1, 2 and 4 selected | 1 |
| Plans 2 and 4 selected | 4 |

Student loans - two methods of calculation

- Two methods of calculation
 - Table method – SL3 tables: bit.ly/3kxFmX9
 - Percentage method: Plan 1, 2 and 4 is 9% over threshold
 - PGL is 6% over the threshold
- When calculating by % knock off pence after calculation not before, only show round pounds on payslip and P60
- Non-cumulative - Use all NI-able pay – no UEL



Student loans and court orders

- Complex interaction between student loans and court orders
- Rules depend on whether it is an English/Welsh order or Scottish order, in Scotland only a DEO and loan can operate, once another order is received the loan is blocked
- Council tax orders/ISDNs block loans completely until order is paid off
- Priority orders (Child support, fines) take precedence over loans
- Loans take precedence over non-priority orders (maintenance)
- PGL takes priority over a Student Loan

Stop notice

- HMRC send Stop Notice SL2 or PGL2 when loan deduction should cease
- Employers must stop deducting the loan
 - From next available pay day after receipt
- If loan over deducted and not employer's fault refund will be paid direct into repayer's bank account by Student Loan Company



Session 7: Court orders

Background

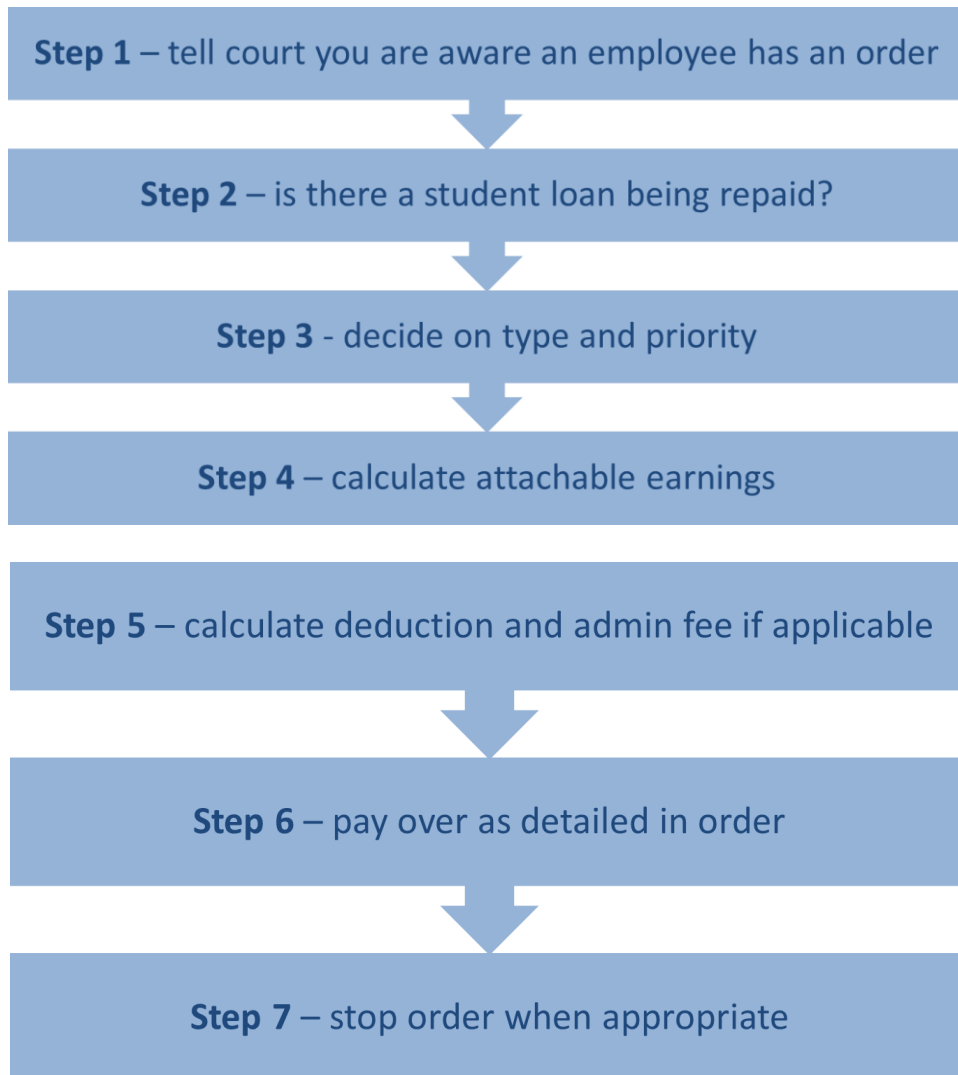
- 17 different types of court orders
- 'Court orders' is a generic term all have different names and rules
- Rules differ in each part of the UK
- Employers must comply or face a penalty including imprisonment or paying the order themselves
- Protected earnings (PE) where shown are what employee must be left to live on
- Either a normal deduction or % as per table supplied
- Software will have the rules on attachable earnings (basically net pay) embedded in them

Types of order – England & Wales

- Child support (DEO)
 - 3 types: pre-March 2003, post-March 2003 and 2012
 - Apply in Scotland and Northern Ireland too
- Direct Earnings Attachments
- Council tax (CTAEO)
- Fines
- 1971 Act priority
 - Unpaid Spousal maintenance
- 1971 Act non-priority
 - Unpaid HP agreements



Court orders flowchart



Priorities between orders

- Select the correct order type and let your payroll software do the rest!



Appendix 1: Payroll Glossary

| Term | Description |
|---|---|
| Age Exception Certificate | Issued by DWP to confirm an individual has reached state pension age so employee NI can cease |
| Allied Health Professional (AHP) | A medical professional authorised to provide evidence of incapacity for work. The different professions classed as AHPs vary in each part of the United Kingdom |
| Apprenticeship Levy | A training tax paid by certain employers based on pay subject to employer's NI |
| Apprentice Upper Secondary Threshold (AUST) | Caps the 'free band' of earnings on which employers pay no NICs for under 25-year-old apprentices |
| AWE | Average weekly earnings for sick, paternity, adoption, shared parental or maternity pay – calculated over the 8 weeks prior to the sickness/qualifying week NB from 25.4.20 new legislation substitutes normal weekly earnings in calculating average so furlough weeks are discounted and AWE are not reduced. |
| BACS | Bankers Automated Clearing System, how most wages are credited to employee bank accounts |
| Basic PAYE Tools (BPT) | Simple reporting software offered by HMRC to employers with less than 10 employees |
| Business Tax Account (BTA) | An online display of a PAYE scheme's liabilities and payments for the current and previous tax years |
| Class 1 NI | Employees and employers earnings-related NI |
| Class 1A NI | Employer-only NI on benefits in kind |
| Class 1B | Employer-only NI on PAYE Settlement Agreements (PSAs) |
| Class 2/4 | Self-employed NI |
| Class 3 | Voluntary NI contributions paid by individuals to buy missing qualifying years for NI purposes: https://www.gov.uk/pay-voluntary-class-3-national-insurance |
| Cumulative/ Non-cumulative | Tax is collected cumulatively where employers consider the YTD earnings and tax paid when assessing the next pay period's tax, where asked to calculate tax non-cumulatively each period stands alone, which is how employee NI works |
| Deferral certificate | CA72A certificate that proves the individual is paying maximum NI at another employment so is only due to pay 2% NI in this employment |
| DEO | Deduction from Earnings Order – a court order instructing an employer to deduct money from an employee's pay |
| DEA | Direct Earnings Attachment – issued by DWP on behalf of them or HMRC to collect overpaid state benefits or tax credits NB A higher rate DEA relates to a conviction for benefit fraud! |
| Director's NI | NI that is operated on cumulative earnings for directors |
| Employment Allowance | Certain employers do not have to pay over the first £4,000 per tax year of employer's NI |



| | |
|--|--|
| Employer Bulletin | A bi-monthly online newsletter for employers from HMRC |
| Emergency tax code | Gives an employee the full personal allowance temporarily in the absence of further information |
| Employment and Support Allowance (ESA) | A working age state benefit |
| EPS | Employer Payment Summary – a reconciliation file sent when required by an employer to notify HMRC of certain payroll activities or claim employer-level credits and allowances |
| EYU | Earlier Year Update, a file submitted by an employer amending figures for the previous six tax years (abolished April 2021 in respect to 2020/21 and later amendments) |
| Finance Act | The annual primary legislation that allows income tax to be collected and introduces/amends other tax related issues |
| Fit Note | A certificate of incapacity for work provided by a medical practitioner |
| FPS | Full Payment Submission – a return of employee/worker payments and personal detail changes sent every time an employee is paid |
| GAYE | Give as You Earn – tax-exempt charitable giving deducted through payroll |
| Good faith error | A mistake in NI calculations due to human error or process failure – not deliberate |
| Gross Ni'able Pay | Total pay subject to NI which may be lower than Gross Pay if the employee is participating in a Share Incentive Plan (SIP) |
| Gross Taxable Pay | Total pay subject to tax which may be lower than gross pay if any allowances or reliefs are due |
| Gross Pay | Total pay due under the employee's contract |
| HMRC | Her Majesty's Revenue & Customs – the UK's tax authority |
| K tax code | A code that requires extra income to be added to taxable pay, rather than a tax-free allowance |
| KIT day | Keeping-in-touch day, up to ten days can be worked by an employee during maternity/adoption leave in agreement with the employer with no impact on Statutory Maternity (SMP) or Adoption Pay (SAP) |
| Linking period | A Period of Incapacity for Work (PIW) is considered 'linked' if there are less than 56 days between the end of the last PIW and the first day of the new absence |
| Linking letter | A letter issued by DWP that confirms that an employee has just left a state benefit to return to work and if they fall sick in the first 12 weeks of the new employment they can return to that state benefit in preference to Statutory Sick Pay (SSP) |
| Lower Earnings Limit (LEL) | The level of earnings above which an employee is deemed to have paid NI even though it is not actually deducted until earnings reach the primary threshold, so it acts as a safety net for employees in entitlement to state benefits and statutory payments |
| Manual tax tables B-D | Ready reckoner tables, updated annually by HMRC to allow employers to manually calculate tax |
| Marriage allowance | 10% of the year's personal allowance that can be transferred to a spouse or civil partner if both parties are 20% taxpayers |



| | |
|---------------------------------|--|
| MatB1 (MB1 In Northern Ireland) | Maternity certificate from a midwife or GP that confirms the baby's due date and that must be retained by the employer |
| Maternity Allowance (MA) | An amount equal to the flat rate of Statutory Maternity Pay (SMP) for that tax year paid for up to 39 weeks by the state to those who do not qualify for SMP |
| MPP | Maternity Pay Period |
| New starter checklist | A form provided by HMRC to collect information to set an employee up on the payroll |
| NI | National Insurance |
| NICs | National Insurance Contributions |
| NINO | National Insurance number – a unique identifier for each UK taxpayer |
| Non-cash vouchers | Vouchers that can be exchanged for goods and services eg retail vouchers |
| NPS | National Insurance and PAYE system – HMRC's tax and NI database |
| NVR | National Insurance number verification request – a file that can be submitted to HMRC to verify an employer's NINOs are accurate |
| OSP | Occupational or contractual sick pay |
| OpRA | Optional Remuneration Arrangements – giving up salary, or future salary, in exchange for a benefit in kind |
| PAYE | Pay As You Earn – how tax is collected on employment income in the UK |
| PAYE scheme | A grouping of employees created by an employer, often based on financial accounting liabilities, that then stores them in that grouping within employer and HMRC systems |
| PAYE Settlement Agreement (PSA) | An agreement between an employer and HMRC to pay tax liabilities of employees, rather than report them on a P11D |
| Payrolled benefit | Adding an amount of notional pay to taxable pay each pay period to tax a benefit in kind though the payroll |
| Personal Allowance | An amount that can be earned tax free by a taxpayer each tax year before tax begins to be deducted |
| PGL1 | Postgraduate loan start notice sent to an employer by HMRC |
| PGL2 | Postgraduate loan stop notice sent to an employer by HMRC |
| PIW | Period of Incapacity for Work, occurs on the fourth day of sickness |
| Primary contributor | Term used to describe an employee's payment of NI |
| Primary Threshold | The level of earnings above which NI is due from the employee |
| Protected earnings | An amount that the employee must still receive, so a court order cannot reduce pay below this amount |
| P6/P9 | A tax code notification for HMRC to an employer, can be sent online or by post as the employer wishes |
| P11D | A year end return sent by 6 th July annually detailing any benefits in kind that an employee or director has received in the tax year |
| P11D(b) | An PAYE scheme level return of employer national insurance due on all benefits in kind provided to employees in a tax year and sent by 6 th July annually |
| P45 | A statement given to an employee when they leave a job indicating the pay earned and tax paid in that tax year |
| P46(car) | 1/4ly return of cars given to/removed from employees, in effect a partial interim P11D |



| | |
|---------------------------------|---|
| P60 | Employee's end of year pay statement from the employer due by 31 st May after year end for all those employed on 5 th April |
| QW | Qualifying week, 15 weeks before the baby's due date |
| Remittance | An amount paid to HMRC each month by 22 nd relating to the previous tax month in settlement of employee and employer liabilities |
| Secondary contributor | Term used to describe an employer's payment of NI |
| Secondary Threshold | The level of earnings above which NI is due from the employer |
| Self-Assessment return | An annual return of income from a taxpayer to HMRC |
| Share Incentive Plan | A tax and NI relieved deduction from gross pay to purchase shares in the employer's business |
| SL1 | Student loan start/switch notice sent to an employer by HMRC |
| SL2 | Student loan stop notice sent to an employer by HMRC |
| SPLIT day | Shared parental leave in-touch day, up to twenty days can be worked by each employee during shared parental leave in agreement with the employer with no impact on Statutory shared parental pay (ShPP) |
| Statutory payments | Maternity, paternity, shared parental, adoption, parental bereavement and sick pay |
| Student loans | Loans can be recovered through payroll based on exceeding a level of pay subject to national insurance set by legislation |
| Student Loan Company (SLC) | The body responsible for maintaining student loan accounts and who receive earnings' information from HMRC |
| Tables A pay adjustment tables | A ready reckoner provided by HMRC to calculate tax-free pay or adjusted pay based on an employee's tax code |
| Upper Earnings Limit (UEL) | The maximum earnings on which an employee pays standard rate NI, usually 12% |
| Upper Secondary Threshold (UST) | Caps the 'free band' of earnings on which employers pay no NICs for employees under 21 |
| Universal Credit (UC) | A state benefit that varies each month based on earnings reported by employers |
| Waiting days | The first three days of absence when statutory sick pay (SSP) is not due (apart from temporarily in 2020 and 2021 due to COVID-19) |



Appendix 2: P60

| P60 End of Year Certificate | | Employee's details | | | | | | | | | | | | | | | | |
|--|--|---|---|---|--------------|--|----------|----------|---------------------------|--|--|----------------------|--|--|----------------|--|--|--|
| Tax year to 5 April 2021 | | Surname <input style="width: 100%;" type="text"/> | Forenames or initials <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | | |
| <p>To the employee:</p> <p>Please keep this certificate in a safe place as you will need it if you have to fill in a tax return. You also need it to make a claim for tax credits and Universal Credit or to renew your claim.</p> <p>It also helps you check that your employer is using the correct National Insurance number and deducting the right rate of National Insurance contributions.</p> <p>By law you are required to tell HM Revenue and Customs about any income that is not fully taxed, even if you are not sent a tax return.</p> <p style="text-align: right; font-size: small;">HM Revenue and Customs</p> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-top: 10px;"> The figures marked ★ should be used for your tax return, if you get one </div> | | National Insurance number <input style="width: 100%;" type="text"/> | Works/payroll number <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | | |
| | | Pay and Income Tax details | | | | | | | | | | | | | | | | |
| <p>HM Revenue and Customs</p> | | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="text-align: center; border-bottom: 1px solid black;">Pay</th> <th style="text-align: center; border-bottom: 1px solid black;">Tax deducted</th> </tr> <tr> <th></th> <th style="text-align: center; font-size: small;">£ p</th> <th style="text-align: center; font-size: small;">£ p</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;">In previous employment(s)</td> <td style="border: 1px solid black; width: 100px;"></td> <td style="border: 1px solid black; width: 100px;"></td> </tr> <tr> <td style="padding: 2px;">In this employment ★</td> <td style="border: 2px solid black; width: 100px;"></td> <td style="border: 2px solid black; width: 100px;"></td> </tr> <tr> <td style="padding: 2px;">Total for year</td> <td style="border: 1px solid black; width: 100px;"></td> <td style="border: 1px solid black; width: 100px;"></td> </tr> </tbody> </table> | | Pay | Tax deducted | | £ p | £ p | In previous employment(s) | | | In this employment ★ | | | Total for year | | | <p style="text-align: right; font-size: small;">if refund mark 'R'</p> <p style="padding: 5px;">Final tax code <input style="width: 100%;" type="text"/></p> |
| | | | Pay | Tax deducted | | | | | | | | | | | | | | |
| | | | £ p | £ p | | | | | | | | | | | | | | |
| | | In previous employment(s) | | | | | | | | | | | | | | | | |
| In this employment ★ | | | | | | | | | | | | | | | | | | |
| Total for year | | | | | | | | | | | | | | | | | | |
| National Insurance contributions in this employment | | | | | | | | | | | | | | | | | | |
| NIC table letter | Earnings at the Lower Earnings Limit (LEL) (where earnings are equal to or exceed the LEL) | Earnings above the LEL, up to and including the Primary Threshold (PT) | Earnings above the PT, up to and including the Upper Earnings Limit (UEL) | Employee's contributions due on all earnings above the PT | | | | | | | | | | | | | | |
| | £ | £ | £ | £ p | | | | | | | | | | | | | | |
| <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | |
| | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | |
| | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | |
| | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | |
| Statutory payments included in the pay 'In this employment' figure above | | | | | | | | | | | | | | | | | | |
| Statutory Maternity Pay | £ p | Statutory Paternity Pay | £ p | Statutory Shared Parental Pay | | | | | | | | | | | | | | |
| <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | |
| Statutory Adoption Pay | £ p | Statutory Parental Bereavement Pay | £ p | | | | | | | | | | | | | | | |
| <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | | |
| Other details | | Your employer's full name and address (including postcode) | | | | | | | | | | | | | | | | |
| Student Loan deductions in this employment (whole £s only) | £ | <input style="width: 100%; height: 40px;" type="text"/> | | | | | | | | | | | | | | | | |
| <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | | | | |
| Postgraduate Loan deductions in this employment (whole £s only) | £ | <input style="width: 100%; height: 40px;" type="text"/> | | | | | | | | | | | | | | | | |
| <input style="width: 100%;" type="text"/> | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | | | | |
| To employee | <input style="width: 100%; height: 40px;" type="text"/> | | | | | | | | | | | | | | | | | |
| | | Employer PAYE reference | <input style="width: 100%;" type="text"/> | | | | | | | | | | | | | | | |
| | | <p>Certificate by Employer/Paying Office:</p> <p>This form shows your total pay for Income Tax purposes in this employment for the year.</p> <p>Any overtime, bonus, commission etc, Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Shared Parental Pay, Statutory Parental Bereavement Pay or Statutory Adoption Pay is included.</p> | | | | | | | | | | | | | | | | |

P60(Single sheet)(2020 to 2021)

Do not destroy

HMRC 12/19



Appendix 3: Expat Starter Checklist



Starter checklist for employees seconded to work in the UK by an overseas employer

About this form

Fill in this form if you're either an employee, or an employer with a new employee who has been seconded to work in the UK.

A seconded employee includes:

- individuals working wholly or partly in the UK for a UK resident employer on assignment whilst remaining employed by an overseas employer
- individuals assigned to work wholly or partly in the UK at a recognised branch of their own employer's business
- all individuals included by an employer within a dedicated expatriate scheme or within an expatriate modified Pay As You Earn (PAYE) scheme

Instructions for employers

If an employee from abroad comes to work for you temporarily in the UK, but still has a contract with their overseas employer, this form can be used to gather information about your new employee. You can use the information on this form to help fill in your first Full Payment Submission (FPS) for this employee.

HMRC use the information they receive to set up tax records for employees, so it's important that the details you give them are both correct and consistent. Wherever possible, you should check the employee details you collect from an official source, such as their birth certificate or passport.

Please be careful, as some official documents show their last name or family name first and also the month before the day, for example, MM DD YYYY rather than DD MM YYYY.

Make sure that HMRC are notified of any future changes to the information provided.

You need to keep the information recorded on the Starter Checklist for the current and previous 3 tax years.

Instructions for employees

As a new employee your UK employer needs the information on this form before your first payday to tell HMRC about you and help them use the correct tax code. Any delays in completing this form may result in too much tax being deducted. HMRC use the information you provide to set up your tax records so it's important that the details you give are correct.

The 'Employer details' should have already been filled in by your employer. Go to 'Employee's personal details' and fill in the rest of the form.

Do not send this form to HMRC.

Employer details

Employers should fill in this section and then send it to their employee

| | |
|---|---|
| <p>1 PAYE reference</p> <p><input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> / <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/></p> | <p>3 Code number operated</p> <p>When the employee fills in 'Employee statement', you can then decide which code you should operate.</p> <p><input type="text"/></p> |
| <p>2 Is this an EPM6 (Modified) PAYE scheme?</p> <p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> | <p>4 Staff or works number (if you have one)</p> <p><input type="text"/></p> |
| | <p>5 Date employee started to work for you DD MM YYYY</p> <p><input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/></p> |



Employee's personal details

| | | | | | | | | | | | | | | | | | |
|---|--|--|--|--|--|----------|---------|--|--|--|--|--|--|--|--|--|--|
| <p>6 Last name or family name Enter the English format of your last name or family name from your passport that you used to enter the UK.</p> <input type="text"/> | <p>11 Passport number (if known) Enter the passport number you presented or will present on entering the UK.</p> <input type="text"/> | | | | | | | | | | | | | | | | |
| <p>7 First name or given name Do not enter initials or shortened names for example, Jim for James or Liz for Elizabeth.</p> <input type="text"/> | <p>12 Correspondence address</p> <table border="1" style="width: 100%;"><tr><td style="height: 20px;"> </td></tr><tr><td style="height: 20px;"> </td></tr><tr><td style="height: 20px;"> </td></tr><tr><td style="height: 20px;"> </td></tr><tr><td style="font-size: small;">Postcode</td></tr><tr><td style="font-size: small;">Country</td></tr></table> | | | | | Postcode | Country | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| Postcode | | | | | | | | | | | | | | | | | |
| Country | | | | | | | | | | | | | | | | | |
| <p>8 Middle name(s) (if you have one)</p> <input type="text"/> | <p>13 Are you an European Economic Area (EEA) citizen?</p> <p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> | | | | | | | | | | | | | | | | |
| <p>9 Date of birth DD MM YYYY</p> <table border="1" style="width: 100%;"><tr><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td></tr></table> | | | | | | | | | <p>14 National Insurance number (if known)</p> <table border="1" style="width: 100%;"><tr><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td><td style="width: 25px;"> </td></tr></table> | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| <p>10 What is your gender?</p> <input type="text"/> | | | | | | | | | | | | | | | | | |

Employee statement

15 You need to select only one of the following statements **A**, **B** or **C**

A I intend to live in the UK for 183 days or more

B I intend to live in the UK for less than 183 days

C I'll be working for the employer both inside and outside the UK but will be living abroad



Student Loan

For more guidance about repaying go to www.gov.uk/repaying-your-student-loan

16 Do you have one of the Student Loan Plans described below which is not fully repaid?

Yes If Yes, go to question 17

No If No, go to question 20

17 Did you complete or leave your studies before 6th April?

Yes If Yes, go to question 18

No If No, go to question 20

18 Are you repaying your Student Loan directly to the Student Loans Company by direct debit?

Yes If Yes, go to question 20

No If No, go to question 19

19 What type of Student Loan do you have?

Plan 1 Plan 2 Both

Student Loan Plans

You'll have a Plan 1 Student Loan if:

- you lived in Scotland or Northern Ireland when you started your course (undergraduate or postgraduate)
- you lived in England or Wales and started your undergraduate course before 1 September 2012

You'll have a Plan 2 Student Loan if:

- you lived in England or Wales and started your undergraduate course on or after 1 September 2012
- your loan is a Part Time Maintenance Loan
- your loan is an Advanced Learner Loan
- your loan is a Postgraduate Healthcare Loan

Postgraduate Loan

For more guidance about funding and repaying go to www.gov.uk/funding-for-postgraduate-study

For more guidance for employers go to www.gov.uk/guidance/special-rules-for-student-loans

20 Do you have a Postgraduate Loan which is not fully repaid?

Yes If Yes, go to question 21

No If No, go to the Declaration

You'll have a Postgraduate Loan if:

- you lived in England and started your Postgraduate Master's course on or after 1 August 2016
- you lived in Wales and started your Postgraduate Master's course on or after 1 August 2017
- you lived in England or Wales and started your Postgraduate Doctoral course on or after 1 August 2018

21 Did you complete or leave your Postgraduate studies before 6th April?

Yes If Yes, go to question 22

No If No, go to the Declaration

22 Are you repaying your Postgraduate Loan direct to the Student Loans Company by direct debit?

Yes

No

Go to the Declaration

Declaration

The information you've given on this form will help your new employer operate the correct tax code and make correct tax deductions.

Tick the checkbox to confirm your agreement.

I confirm that the information I've given on this form is correct

Full name

Signature

Date DD MM YYYY

What to do now

Give this form to your employer or email it to them.

Do not send this form to HMRC.



Appendix 4: IR35/Off-payroll working

- Currently the public sector cannot use single director limited companies or partnerships without considering the employment status of the consultant, this will roll out to some of the private sector in April 2021
- From April 2021 small private sector businesses can carry on using single director limited companies or partnerships and pay them gross
- A small incorporated business is defined as one that, for two successive accounting periods has two out of three of the following
 - Turnover not more than £10.2m
 - Balance sheet not more than £5.1m
 - Average number of employees not more than 50
- A small unincorporated organisation is defined as one that at the end of a financial year that ends at least 9 months before the tax year start, has
 - Turnover of not more than £10.2m
- When an incorporated business is no longer small for two successive accounting periods the rules kick in from the start of the next tax year that starts at least 9 months after the end of their accounting period. An incorporated business has to be small again for two years to be outside the rules from the start of the next tax year. An unincorporated business whose turnover exceeds £10.2m is no longer small for the next tax year that starts at least 9 months after their financial year end.
- All affected businesses must assess whether if they stripped away the limited company or partnership the consultant/freelancer/contractor would have the same hallmarks as an employee
 - If Yes, they must issue a Status Determination Statement (SDS) before payment of the first invoice with reason why the rules apply to the consultant
 - Add the consultant to the payroll (agency's payroll if an agency is paying the consultant)
 - Deduct tax, NI, and apprenticeship levy from the invoiced fee
 - Pay this over to HMRC with actual employee deductions
 - Pay the net amount and any VAT to the consultant
 - 'Resign' the deemed employee (consultant) from the payroll at the end of the contract
 - DO NOT auto-enrol the consultant or offer any statutory payments or pay national minimum wage
 - If No, the business can choose whether to issue an SDS but if they don't and HMRC later decide they had made the wrong decision they will be liable for all the tax, NI and apprenticeship levy, not the contractor so it is best practice to issue Yes and No SDSs
- On receipt of the SDS the consultant or the fee-payer (agency) can appeal, and the business has 45 days to respond and uphold the decision or withdraw it, in the meantime withholding continues ie the deemed employee remains on the payroll. If an SDS is overturned the payroll will have to be reversed ie setting the YTD values to zero and setting



the start and leave date as the same date. This will effectively nullify the record as it can't be deleted though RTI

- The business has 45 days to respond if the contractor asks them to confirm their size

Guidance

Employment Status manual

| | |
|---|--|
| Off-payroll working from April 2021 contents of Employment Status Manual: | www.gov.uk/hmrc-internal-manuals/employment-status-manual/esm10000 |
| How to use CEST | www.gov.uk/hmrc-internal-manuals/employment-status-manual/esm11000 |

Factsheet

| | |
|-----------------|---|
| For contractors | https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/929570/Changes_to_off-payroll_working_rules_factsheet_for_contractors.pdf |
|-----------------|---|

CEST

| |
|--|
| www.gov.uk/guidance/check-employment-status-for-tax |
|--|

| | |
|--|--|
| April 2021 changes to off-payroll working for clients | www.gov.uk/guidance/april-2020-changes-to-off-payroll-working-for-clients |
| April 2021 changes to off-payroll working for intermediaries | www.gov.uk/guidance/april-2020-changes-to-off-payroll-working-for-intermediaries |
| Off-payroll working for agencies | www.gov.uk/guidance/off-payroll-working-for-agencies |
| Fee-payer responsibilities under the off-payroll working rules | www.gov.uk/guidance/fee-payer-responsibilities-under-the-off-payroll-working-rules |

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