

April 2011



SAFE
OUTSOURCING

Crucial Payroll Facts

Employee & Employer Legislation

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Crucial Payroll Facts for April 2011

TAX

- ❖ 50% additional rate is here to stay

From April 2011

- ❖ D1 Tax Code (taxpayers who have 2nd job or extra income & are liable for 50% tax) back in place for 2nd jobbers earning over £150k
- ❖ Taper of allowance still in place post £100k – PAYE threshold drops off steadily
- ❖ Budget 2011 will look to simplify Tax offering small business tax reliefs, and *abolishing allowances & exemptions that are historic, complex or rarely used.*
- ❖ *Allowances:*

Age	2010/11	2011/12
Under 65	£6475	£7475
65-74	£9490	£9940
75 & over	£9640	£10,090

- ❖ *Tax Thresholds:*

2010/11	£	2011/12	£
20% Band	0-37,400	20% Band	0-35,000
40% Band	37,401-150,000	40% Band	35,001-150,000
50% Band	150,001 +	50% Band	150,001+

- ❖ Future Predictions

April 2012

- ❖ Further rise in personal allowance
- ❖ Higher rate threshold frozen

April 2013

- ❖ Basic rate limit (20% band plus personal allowance frozen) at 2012/12 value

April 2014

- ❖ Personal allowance planned to reach £10,000

NATIONAL INSURANCE & PAYE Service

What is it?

- ❖ New nationwide taxpayer-centric system (improving process & effectiveness)

Why should it be better

- ❖ All income and NICs (National Insurance Cont's) contributions on one record – viewable by all HMRC staff
- ❖ Should help combat the curse of the P800 (tax discrepancy form)
- ❖ 20% of those in PAYE are incorrect
- ❖ Most owe under 2k in tax – which is to be coded out in 2011/12

Students

- ❖ HMRC seeking employer views in the way in which the P46 is issued
- ❖ Raise the CSL (collecting student loans) threshold from 2012/13 to £21,000 and vary interest via RTI (real time information)
- ❖ Contacting HMRC – New central number 0845 300 0627 & new email address for P800's

P45 validation

- ❖ From April 2011 change to tax code that can be used with statement C (multiple jobs)

Payments after leaving

- ❖ Payments after P45 (basic code for details of people leaving work in UK) prepared to be taxed at OT/1 (zero tax-week1/month1 code items HMRC needs to review to ensure tax is correct) NOT BR/1 (basic rate take code 20%)
- ❖ Employers to check any compromise agreements that HR have in progress.

Online Filing

- ❖ Date for end of year returns – 19th May (32,000 late filers last year)
- ❖ New IT platform for validation from October 2010 called chRIS
- ❖ All employers submitting in-year forms online
- ❖ E-P60's permitted – P60's (proof of income certificate) produced and transmitted electronically

Bribery Act – During 2011

- ❖ All businesses must hold records of hospitality they receive or give
- ❖ E.g. Christmas gifts, hotels offered to clients for them to attend events

- ❖ Criminal offence in both public and private sector to offer, promise or give a bribe in UK or abroad
- ❖ Offence for commercial organisations that fail to prevent bribery by employees – need a policy
- ❖ Maximum 10 year prison sentence apart from failure to prevent which is an unlimited fine penalty

In-year filing penalties

- ❖ 2011/12 onwards threshold drops to 2 forms per quarter
- ❖ Make sure line managers know!
- ❖ Late payment penalty
- ❖ Late payment surcharge scrapped last April 2010
- ❖ All employers must pay PAYE in full and on time
- ❖ First warning letters re: late PAYE payments from April 2011
- ❖ The first default is ignored unless it is over six months late
- ❖ Total penalty is 14% of defaulted amount if no PAYE payment all year
- ❖ HMRC using private debt collectors

Late filing penalty

- ❖ CIS (construction industry scheme) penalty effective October 2011
- ❖ Initial £100 charge and £200 after 2 months & rapid increase
- ❖ Waiting on confirmation for P35/P14 (Employer Annual Return Forms)
- ❖ Initial £100 charge and an additional £10 per day for first 90 days

Salary sacrifice issues

- ❖ Bicycles - *Available to all, Values matrix, Repairs*
- ❖ Car parking - *No 'generally available' criterion/general rule*

Child care vouchers

- ❖ From April 2011 for new joiners
- ❖ Assess amount of tax relief
- ❖ Estimate level of basic earnings (ignoring potential bonus and overtime payments) but including other known taxable benefits

- ❖ £55 p.w. relief for basic rate taxpayers
- ❖ £28 p.w. for higher rate taxpayers
- ❖ £22 p.w. for additional rate taxpayers
- ❖ Excess relief Class 1 NICs (Nic's payable in July), tax via P11D – if earning over £8500pa must details expenses and benefits to HMRC

Pensions

April 2011

- ❖ state pension to rise by 4.6% to £102.15 last (Retail Price Inflation) RPI rise
- ❖ S2P (state 2nd pension – for those not eligible for basic pension) and other state benefits increased by CPI (consumer price index)
- ❖ Move to CPI instead of RPI for pension scheme increases but only after member consultation
- ❖ Consulting on allowing early access to pension saving i.e. Pre-age 55 and the trivial commutation rules
- ❖ State pension age will rise to 66 beginning in 2018 and complete by 2020, Government consulting on the timetable for the rise to 68 (currently 2046)
- ❖ *Timetable for changes to state pension*

for women from 2010 to 2018				pension age	transitional years
born before	6 April 1950			60	
born between	6 April 1950	and	5 April 1953	60 - 63	2010-2016
born between	6 April 1953	and	5 Dec 1953	63 - 65	2016-2018
for women and men from 2018					
born between	6 Dec 1953	and	5 April 1960	65 - 66	2019-2020
born between	6 April 1960	and	5 April 1969	66 - 67	2034-2036
born between	6 April 1969	and	5 April 1977	67	
born between	6 April 1977	and	5 April 1978	67 - 68	2044-2046
born after	5 April 1978			68	

Pensions tax relief

- ❖ Repeal (removal or reversal of a law) planned changes from April 2011
- ❖ April 2011 reduce annual allowance to £50K from £255K

- ❖ £50K will not change until 2016 at earliest, then worth £44K
- ❖ No exemption in final year of service apart from ill-health

Tax year 2011/12	Tax year 2012/13
Salary £80,000	Salary £100,000
Service 15 years	Service 16 years
Accrued pension £20,000	Accrued pension £26,700

- ❖ No charge under HIERC (high income excess relief change) as salary less than £130K

Employment Rights

As of February 2011

- ❖ Guarantee pay £22.20
- ❖ Value of week's pay for redundancy £400 / Maximum £12,000
- ❖ Unfair dismissal – non discrimination cases - Minimum £5,000 / Maximum £68,400

Default Retirement Age

- ❖ To be scrapped 1 October 2011
- ❖ No more 'request to stay on' notices from 31st March 2011
- ❖ Enforced retirees April – October must have been notified pre-April
- ❖ Post October DRA (default retirement age) must be objectively justified
- ❖ Employers need to consider what to do about pensions' offer post-65
- ❖ Exemption for group risk insured benefits e.g. medical insurance so can discriminate on the grounds of age
- ❖ Acas guide <http://www.acas.org.uk/CHttpHandler.ashx?id=2976&p=0>

Right to request time off to train

- ❖ Due to be extended April 2011 to all employers
- ❖ Government consulting on – Repeal, Retain for large employers, Extend as planned
- ❖ Likely small firms with under 50 employees will be exempted

Agency workers and payroll (AWD)

- ❖ Self Employed & Outsourced arrangements not affected

- ❖ Those working as of 01/10/11 will qualify w/c 25/12/2011
- ❖ Umbrella companies will be classed as agencies
- ❖ Only certain T&C's will be equalised
- ❖ Pay equalisation after 12 week= basic, performance based bonus, commission & holiday pay
- ❖ No contractual pay e.g. sick, maternity, pensions and other non cash benefits
- ❖ Clock only re starts if new role or more than 6 week break
- ❖ £5k penalty split between agency & hirer plus cost to reimburse worker

EU review of working time directive

- ❖ Second consultation on review of Working Time Directive launched in December to look at
- ❖ *On-call time*
- ❖ *The length of minimum rest periods*
- ❖ *Tackling excessive working hours*
- ❖ *Improving work-life balance*
- ❖ *Clarifying legislative uncertainty*
- ❖ Legislation will be proposed late 2011 for Council and Parliament to consider

Statutory Payments

- ❖ SMP - Statutory Maternity Pay, SAP - Statutory Adoption Pay, OSPP - Ordinary Statutory paternity pay, ASP - additional statutory paternity pay all £128.73 from 3rd April 2011
- ❖ Small Employers Relief on statutory payments drops to 103% from 104.5%
- ❖ SSP - Statutory sick pay £81.60 from 6th April 2011

Shared parenting and flexible working

- ❖ Shared parenting to be encouraged from early pregnancy
- ❖ This year's change to be seen as an interim measure only
- ❖ From April 2011 extend flexible working request to those employees with children under 18 (17 at present)

Additional Paternity Leave

- ❖ Most employees will take effect from September 2011 at the earliest

- ❖ From week 20 after birth/adoption 'Dad' can take:
- ❖ 2-26 weeks leave of which a maximum 19 weeks can be paid but only to end of Mum's MPP (self certification endorsed by mother who is receiving SAP)
- ❖ 10 KIT (keep in touch) days
- ❖ 'Dad' must give:
- ❖ *8 weeks' initial notice*
- ❖ *6 weeks' to change his mind*
- ❖ *Mum must give 8 weeks' notice to return early*
- ❖ Mum must be -
- ❖ *Be employed or self-employed*
- ❖ *Qualify for SMP, SAP or Maternity Allowance, and*
- ❖ *Have at least two weeks unused SMP, SAP or Maternity Allowance*
- ❖ *26 weeks' continuous service by 15th week before EWC*
- ❖ *Stayed in same job from 15th week up until the additional leave is due to start*
- ❖ *To get pay must have high enough average earnings too*
- ❖ *Self-certified: parents provide data and declaration of parental responsibility – specific forms*
- ❖ Employers can check but not obliged

Employment Rights

- ❖ Non-cash benefits to be provided throughout additional leave
- ❖ No salary sacrifice deductions from statutory pay
- ❖ Pensions – *accrual of service and payment of contributions until the end of paid leave*
- ❖ Priority for suitable vacancy whilst on APL – additional paternity leave if made redundant
- ❖ Former job must be held open
- ❖ No detriment for exercising right to leave

Contractual paternity pay

- ❖ Government's view is that deciding not to equalise contractual maternity and paternity pay is not discrimination

- ❖ *Why?*
- ❖ The law allows for women to be treated differently to protect them following pregnancy or childbirth

APL Action points

- ❖ Amend policies and procedures
- ❖ Decide on substitute forms or HMRC provided ones
- ❖ Decide on contractual paternity pay approach
- ❖ Train managers on employment rights, salary sacrifice impact and redundancy priority for men on APL

PAYE Review – 2011/2012

Background

- ❖ PAYE Improvement Group & VOVA (Bacs) consulting with the HMRC for 5 years on how to improve
- ❖ New Software specs in place March 2011 & regulations enforced Autumn 2011
- ❖ PAYE was introduced in 1944 & has remained largely unchanged
- ❖ Employment has though inc. Multiple jobs, monthly cash credit & benefits in kind
- ❖ Universal Credit Benefit Reform in place for 2013
- ❖ Phase 1 - What will change & when
- ❖ Real Time Information (RTI) phased from April 2012-October 2013
- ❖ This will coincide with the Universal Credit
- ❖ Electronic Data Interchange (EDI) Old payments format to transfer information to HMRC for P14/P35s etc (annual return forms)
- ❖ Why is it changing?
- ❖ Improve in-year accuracy of PAYE as jobs & earnings change
- ❖ Reduce the £2.2bn tax credit overpayments
- ❖ Cut £3bn benefit fraud through household checks
- ❖ Improve student loan collections
- ❖ Establish tax/NICs owed immediately for compliance action not just end of year
- ❖ Take people out of SA (Self Assessment)

- ❖ Better Government data sharing
- ❖ Apparently save employers £360m by having no start/leaver and year end processes
- ❖ Phasing

When?	Who?
April 2012 – October 2012	Volunteers go live – small, medium and large employers
October 2012 – January 2013	Amend system for lessons learned from volunteers i.e. rewrite!
January 2013	Large employers 250+ live
April 2013	Medium employers 50+ live
August 2013	Small employers -50 go live
October 2013	Migration complete

How will it work?

- ❖ Payroll software will create additional files of data
- ❖ *One each time a payment file is generated*
- ❖ *One each time a remittance is generated*
- ❖ Common standard will be negotiated with the banks and BACSTEL-IP suppliers
- ❖ 50+ employers required to use BACS
- ❖ Under 50 employers can use internet via PAYE tools and Gateway until 2018 for RTI
- ❖ HMRC may mandate e-payment for all

Current Process

- ❖ Starters and leavers - P45/P46 process scrapped – when employer is live on system & NEW final tax/pay statement on leaving ,if payslip not detailed
- ❖ NEW NINO (national insurance no.) checking service online
- ❖ End of year online
- ❖ No P14s or P35s, Probably 2014/15 tax year once all are live
- ❖ P60s will remain
- ❖ Benefits in Kind - Still P11Ds for now, but pay rolling still on the agenda, Where pay rolling already in use information will be sent by RTI

- ❖ Receipt of P6s (people aged 65-74), SL1s and SL2s (student loans) – EDI scrapped

The Payroll Run File

- ❖ When BACS file is created, second payroll file
- ❖ Payroll file contains in addition to those on BACS file
- ❖ 73 possible data items
- ❖ Non-BACS individuals e.g. cash paid, cheques, overseas CHAPS
- ❖ Negative net pay
- ❖ Zero net pay
- ❖ Additional data e.g. hours, holidays

The Remittance File

- ❖ 29 possible data items
- ❖ Including current P35 questions
- ❖ Tax, NICs, CIS
- ❖ SSP (statutory sick pay) recovery – *Percentage threshold scheme*
- ❖ Small Employers' relief – *SMP, SAP, OSPP, ASPP*

Phase 1 – Employer Issues

- ❖ Developers
- ❖ *Timescale normal 18 month protocol*
- ❖ *Legacy systems*
- ❖ *Phasing*
- ❖ *Developing under 50 and over 50 solutions*
- ❖ *Competing resource*
- ❖ *Auto-enrolment*
- ❖ Cost implications for licence
- ❖ Processing overheads
- ❖ Manual payments outside payroll

Phase 2—Employer Issues

- ❖ Not before April 2015
- ❖ Centralised deductions
- ❖ Software re-engineered to stop at build up to gross
- ❖ Send gross pay and total net pay deduction information to BACS (not clear how for non-BACS users)
- ❖ HMRC give BACS deduction rules
- ❖ BACS calculate net and pass to:
 - ❖ *Employee accounts*
 - ❖ *HMRC*
 - ❖ *Deduct from employer*
 - ❖ *Employee accesses tax account online for details*
- ❖ Tax and employee NICs paid at current due date

Legislation & change 2011/2012

NICS Bill – why we need one?

- ❖ To amend rates and introduce NICs (national insurance contributions) holiday
- ❖ Rise in rates to raise £9bn – partially offset by threshold change

NICs Holiday – Payment Holiday

- ❖ New business from 22nd June 2010
- ❖ Regionally based so must apply first
- ❖ Legislation retrospective
- ❖ Up to £5k NICs for 1st ten employees in first 52 weeks of service
- ❖ Ends 5th September 2013

Royal Wedding

- ❖ Extra Bank Holiday
- ❖ No increase to statutory holiday
- ❖ Be the same next year with Queens Diamond Jubilee.

National Insurance – 2011/2012

- ❖ April 2011
- ❖ Employee (primary rate) goes up to 12%
- ❖ Employer (secondary rate) goes up to 13.8%
- ❖ Class 1A (taxable benefits inc. Car & fuel benefits) and Class 1B (tax payable by the employer under the PAYE settlement agreement – voluntary agreement to pay certain rates to the HMRC) rate goes up to 13.8%
- ❖ *Salary sacrifice more attractive*
- ❖ Additional rate over the UEL goes up to 2% but UEL comes down
- ❖ Employee and employer NICs thresholds will rise so those earning under £20,000 will be unaffected
- ❖ *Employees £139 per week*
- ❖ *Employers £136 per week*
- ❖ *Actual figures based on September CPI of 3.1% except LEL (lower earnings limit) £102*
- ❖ *Employee Thresholds 2011/2012*

2010/11	Earnings Band (p.w.)	Rate	2011/12	Earnings Band (p.w.)	Rate
LEL (lower earnings limit)	Up to £97	Nil	LEL	Up to £102	Nil
LEL - PT (Primary Threshold)	£97.01 - £110	0%	LEL - PT	£102 - £139	0%
PT – UEL (upper earning limit)	£110.01 - £844	11%	PT - UEL	£139.01 - £817	12%
UEL and above	£844.01 and above	1%	UEL and above	£817.01 and above	2%

2010/11	Earnings Band (p.w.)	Rate	2011/12	Earnings Band (p.w.)	Rate
LEL	Up to £97	Nil	LEL	Up to £102	Nil
LEL – ST (Secondary Threshold)	£97.01 - £110	0%	LEL - ST	£102.01 - £136	0%
ST and above	£110.01 upwards	12.8%	ST and above	£136.01 and above	13.8 %

Employee Thresholds 2011/2012

- ❖ April 2011
- ❖ LEL (lower earnings limit) based on RPI (Retail Price Index) for last time
- ❖ ET (Earnings Threshold) becomes PT (Primary Threshold)
- ❖ UAP (upper accrual point – replacing upper earnings limit in state pensions) still £770

Immigration

- ❖ Expired passports now acceptable
- ❖ New UK passport design from October 2010 – more secure
- ❖ Employer guidance updated - UK Border Agency website
- ❖ New quotas to control number of foreign nationals from April 2011
- ❖ Identity Documents Act
- ❖ *Made two of three ID cards obsolete – now only use Nationals Identity Card / Biometric Residence Permit From 21st January 2011*

National Minimum Wage

❖ Age 16 or 17	❖ £3.64
❖ Age 18 – 20	❖ £4.92
❖ Age 21 and over	❖ £5.93
❖ Apprentices in first year or under 19	❖ £2.50
❖ Accommodation offset	❖ £4.61 ❖ £32.27

Vetting & Barring

- ❖ England & Wales scheme to be scaled down by 2012
- ❖ CRB (criminal records bureau) and ISA (Independent Safeguard Authority) to merge
- ❖ Portable CRB checks to be introduced – raise fees to be self-financing
- ❖ Online portal to see updates to CRB status
- ❖ Only those who may have regular or close contact with vulnerable groups will be barred
- ❖ Registration scrapped, no ongoing monitoring

Workplace pension reform

- ❖ Only 35% of employees in a workplace pension* *ASHE survey 2009*
- ❖ 2/3 youngsters say state pension £10K
- ❖ Serious under saving and longer life-expectancy mean...
- ❖ *Up to 8m employees to be auto-enrolled*
- ❖ *First time employers will have to contribute to a worker's pension*
- ❖ *It must be a qualifying pension*
- ❖ *People will be able to leave a scheme at any time*
- ❖ *They will be re-enrolled every three years*

Background

- ❖ Auto-enrolment will apply to
- ❖ *All those on the payroll and*
- ❖ *All employers with one or more worker*
- ❖ Coalition initiated review of regulations which is now complete
- ❖ New Pension Bill going through to make legislative changes
- ❖ Draft software specification produced in December for payroll software developers by Pension Regulator

When

- ❖ Phased in from October 2012 to July 2016
- ❖ All employers have a staging date based on either:
- ❖ *Size*
- ❖ *For employers with less than 50 employees by PAYE reference*
- ❖ See www.dwp.gov.uk/docs/staging-dates-by-employer.pdf
- ❖ Registration is two months ahead of this

Key Players

- ❖ DWP
- ❖ *Legislation and policy*
- ❖ The Pension Regulator (TPR)
- ❖ *Compliance and software specs*
- ❖ NEST Corporation (National Employment Savings Trust)
- ❖ *Independent pension provider created by the Government*

Choosing a scheme

- ❖ Use a current scheme if it qualifies
- ❖ Amend an existing scheme
- ❖ Set up a new contract or trust based scheme
- ❖ Use NEST the scheme that has been created to support the reforms, or
- ❖ Use a combination of all the above for different employee groups

NEST – National Employment Savings Trust

- ❖ Trust based – trustees who will be employers
- ❖ Launches April 2011 to test system
- ❖ Multi-employer
- ❖ *Any employer must be accepted*
- ❖ Any individual
- ❖ *Self-employed can join or employees wanting extra pension vehicle*
- ❖ Best suited to low earners
- ❖ *Low charges and maximum £3600 annual contributions*
- ❖ Offers tax relief at source
- ❖ No compulsion to use NEST it is simply an option

Qualifying Scheme

- ❖ All employees age 22
- ❖ At least 3% employer, 8% total contributions
- ❖ Employees not required to make investment choice

The three employee groupings

- ❖ Eligible Jobholders
- ❖ Non-eligible jobholders
- ❖ Workers
- ❖ Employees include temps, fixed term contracts, foreign nationals based in the UK and directors

Auto-enrolment process

- ❖ Identify who and when eligible each pay period
- ❖ *Age*
- ❖ *Earnings*
- ❖ *Start date*
- ❖ Auto-enrol within one month
- ❖ Personalised info from scheme via employer

- ❖ One-month to opt out or cessation/stop
- ❖ Arrange refund

Re-enrolment

- ❖ Every 35-37 months
- ❖ All eligible jobholders who are not members, except
- ❖ *Those opted out in last 12 months*
- ❖ Same process/deadlines as auto-enrolment

Document Source: Kate Upcraft FCIPP AMBC— ISIS Support Services Ltd

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Safe Outsourcing

