



Employer's Further Guide to PAYE and NICs

Use from 6 April 2005

Help

We can help you

By telephone

(Calls may be recorded for quality and training purposes.)

- New employers (*less than 3 years*) **0845 60 70 143**
open Mon – Fri, 8am-8pm and Sat – Sun,
8am-5pm.
- More experienced employers **0845 7 143 143**
open Mon – Fri, 8am-8pm and Sat – Sun,
8am-5pm.
- Deaf or hard of hearing employers *Textphone* **0845 602 1380**

For a list of helplines and opening hours, see your *Employer's Bulletin*.

In person

We have specially trained Business Support Teams covering all parts of the country to help you understand

- what records to keep
- what returns to make
- when to send us information.

The Business Support Team offers a range of workshops on many of the topics relevant to employers. These workshops are available at locations nationwide.

For more information on these workshops and other ways in which the Business Support Team can help either

- log on to our website at **www.inlandrevenue.gov.uk/bst** or
- call the New Employer's Helpline on **0845 60 70 143** and ask for details of your local Business Support Team.

At your local Inland Revenue office

Your local Inland Revenue office can also help you. To contact them, look under 'Inland Revenue' in your phone book. Write the telephone number below for future use.

Please tell us your reference, which you can find on all correspondence from your Inland Revenue office.

If your enquiry is about one of your employees, please also tell us their National Insurance number.

By Internet

Log on to the employer's website at **www.inlandrevenue.gov.uk/employers**

Further guidance

Employer's Help Books

There are a number of Employer's Help Books designed to help you operate straight forward PAYE, NICs and other payroll related matters.

The Help Books are for guidance only.

They are not comprehensive and have no legal force.

We also have a number of other booklets that give further guidance, for example

- CWG5(2005) *Class 1A NICs on benefits in kind*
- 480(2005) *Expenses and Benefits – A tax guide*

You can view the full range of these booklets, and other forms and guidance on

- the Internet at **www.inlandrevenue.gov.uk/employers**
- the Employer's CD-ROM*.

or you can

- download them from the Internet **www.inlandrevenue.gov.uk/employers**
- print them from the CD-ROM*.
- get copies from the Employer's Orderline **www.inlandrevenue.gov.uk/employers**

Fax **0870 2 406 406**

Phone **0845 7 646 646**

Check the Order Form in your *Employer's Pack* for a full list of what is available and how to order.

Forms and guidance in Braille, large print or audio

We have a range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask at your local Inland Revenue office or Enquiry Centre.

Yr Iaith Gymraeg

Ffoniwch **0845 302 1489** i dderbyn fersiynau Cymraeg o ffurflenni a chanllawiau.

**The CD-ROM contains forms you can complete on screen, such as P11D, a Learning Zone and a New Employer's Section.*

It also has built-in calculators to help speed up your calculations of

- *Pay Adjustment and PAYE*
- *NICs contracted-out and not contracted-out*
- *Car benefit and Car Fuel benefit*
- *Student Loans*
- *Statutory Sick Pay*
- *Statutory Maternity Pay*

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About this guide

Welcome to *The Employer's Further Guide to PAYE and NICs*. Throughout this guide PAYE means Pay As You Earn and NICs stands for National Insurance contributions.

For information about the day-to-day tasks in operating PAYE and paying NICs please see the Employer's Help Books.

This guide gives more detailed information and covers some less common situations. New or amended material is sidelined in green.

Please remember that you may be asked to produce evidence of how you have worked out NICs and PAYE. It is important that you keep records either in paper form or on a computer. In either case, these records must be made available to the Inland Revenue on request.

This guide is not comprehensive and has no legal force.

The operation of PAYE is based on the Income Tax (Pay As You Earn) Regulations 2003 and the paying of National Insurance contributions is based on the

- Social Security Contributions and Benefits Act 1992
- Social Security Administration Act 1992
- Social Security (Contributions) Regulations 2001, as amended
- Social Security (Categorisation of Earners) Regulations 1978, as amended.

You can buy copies of these from TSO bookshops, most booksellers or the Inland Revenue website at www.inlandrevenue.gov.uk

If you cannot find the information you need you can get help from

- your Inland Revenue office or an Inland Revenue Tax Enquiry Centre (quoting your Employer's PAYE reference) for PAYE matters
- the Inland Revenue National Insurance Contributions Office through your nearest Jobcentre, Jobcentre Plus or Social Security office for National Insurance matters
- the Employer's Helpline by phoning **0845 7 143 143**. Calls are charged at the local rate.

Employers in Northern Ireland

When reading this guide please note that references to

- Department for Work and Pensions should be read as Department for Social Development.

If you cannot find the information you need in this guide you can get help from

- your Inland Revenue office or an Inland Revenue Tax Enquiry Centre (quoting your Employer's PAYE reference) for PAYE matters
- your nearest Inland Revenue (National Insurance Contributions) office for National Insurance matters
- the Employer's Helpline by phoning **0845 7 143 143**. Calls are charged at the local rate.

The operation of PAYE is based on the Income Tax (Pay As You Earn) Regulations 2003 and the paying of National Insurance contributions is based on the

- Social Security Contributions and Benefits (Northern Ireland) Act 1992
- Social Security Administration (Northern Ireland) Act 1992
- Social Security (Categorisation of Earners) Regulations (Northern Ireland) 1978, as amended.

You can buy copies of these from TSO bookshops and most booksellers.

If you are unhappy with our service

If you are unhappy with any aspect of the service you get, please tell us.

Contact the Customer Relations Manager at your Inland Revenue office or ask for leaflet COP1 *Putting things right when we make mistakes*.

Terms used in this guide

Form P11

Throughout this guide the term 'form P11' means both the official form and any substitute deductions working sheet used to record National Insurance contributions and tax deducted from an individual employee. Form P11 can be a computer record as well as a paper one.

Gross pay

The amount the employee is due to receive before any deductions are made. What counts as gross pay for PAYE and NICs purposes is defined in more detail in Chapter 5.

Income tax year (tax year)

A tax year is a period starting on 6 April in one year and ending on 5 April in the following year. For example, the 2005–06 tax year starts on 6 April 2005 and ends on 5 April 2006.

Income tax weeks (tax weeks)

Tax weeks are periods of seven days which follow on from each other starting on 6 April each year. The first tax week is 6 – 12 April inclusive, the second tax week 13 – 19 April inclusive, and so on.

The odd day or days at the end of the last complete tax week in the year, (5 April or in leap years 4 and 5 April) are treated as a whole tax week, that is tax week 53.

Income tax months (tax months)

Income tax months are periods following on from each other in an income tax year. They start on the 6th of one month and finish on the 5th of the following month. The first income tax month is 6 April – 5 May inclusive, the second income tax month is 6 May – 5 June inclusive, and so on.

For details of relevant dates within a tax year, see the Employer's Help Book E13 *Day-to-day payroll*.

Pay interval

The period of time between one payment and the next. Pay intervals can be

- 'regular', that is every week, month and so on, or
- 'irregular', that is with no fixed period of time between. For example, an employee is paid after working for 10 days, then again after a further 25 days and again after a further 40 days.

Other publications and forms

Throughout the guide references are made to other publications. The publication identifier is shown first followed by the title in italics. For example, CA44 *National Insurance for Company Directors*.

When ordering copies of these publications please give the title and the identifier.

Forms are referred to by using the word 'form' in front of the form letter/number. Please use the full letter/number when ordering.

Online Services

Using online services speeds up processing, provides a secure method of transmission and can cut out paper.

Online filing does not include using magnetic media.

Online filing of end of year returns

All employers will be required to file their end of year PAYE returns, forms P14 and P35, online by 2010 either directly or through an intermediary.

The online filing date depends on the number of employees you have. The filing dates are

- 250 or more employees from 2004–05 by 19 May 2005
- Between 50-249 employees from 2005–06 by 19 May 2006
- Fewer than 50 employees from 2009–10 by 19 May 2010.

Small employers with fewer than 50 employees can get up to £825 tax-free over five years for taking up online filing early.

For more information about online filing and the tax-free payments offered visit our website at www.inlandrevenue.gov.uk/payeonline

PAYE Online for Employers

PAYE Online for Employers offers two options to send and receive forms and file returns online. The options are

- Internet – suitable for all employers
- Electronic Data Interchange (EDI) – this option is more suitable for larger employers with a high number of employees typically in the thousands or for those who already have EDI capability.

An agent or payroll bureau that administers PAYE on the employer's behalf can also file online using PAYE Online for Agents.

Internet

Forms and returns that can be **sent** over the Internet are

P35 – *Employer's Annual Return*

P14 – *End of Year Summary*

P38A – *Employer's Supplementary Return*

P11D – *Return of expenses, payments and benefits*

P11D(b) – *Return of Class 1A National Insurance Contributions, Return of expenses and benefits: Employer's declaration*

P46 – *Employee starting work (with no P45)*

P46(Car)(New) – *Notification of car provided for private use*

P45(1) – *Employee leaving details*

P45(3) – *New Employee starting details*

PENNOT – *Pension Notifications*

WNU – *Works Number Update*

P9D – *Requests for particulars of expenses, etc payments*

P12 – *Employer's Annual Deduction Card*

P37 – *Employer's Annual Return*

Forms and notices you can **receive** over the Internet are

P6 – *Employer's coding notification*

P6(B) – *Employer's coding notification (budget)*

P9 – *Annual coding notification*

SL1 – *Student Loan start notice*

SL2 – *Student Loan stop notice*

P11D(b) *Notification*

P35 *Notification*

P37 *Notification*

TC700 Series – *Tax Credit Payment Via Employer Notices (PVE)*

Reminders AR1N, AR1MN, AR2N, AR2MN and AR6.

EDI

Forms and returns that can be exchanged online using EDI are

- P45, P46, *Starter/leaver details*
- WNU, *Works Number Update*
- P6/P9/P6B, *Coding*
- P11Ds, *Expenses and benefit returns*
- P11D(b), *Return of Class 1A National Insurance contributions, Return of expenses and benefits: Employer's declaration*
- P14, *End of Year Summary*
- P35/P38A, *Employer's Annual Return and supplementary statement*
- P46(Car)(New) *Employee's use of company car*
- SL1/SL2, *Collection of Student Loans - start/stop notices*
- TC700 series, *Tax Credit Payment Via Employer Notices (PVE).*

Companies involved in the Construction Industry Scheme can send the following vouchers and returns using EDI

- CIS25 (*Tax Payment Voucher*)
- CIS23 (*Construction Gross Payment Voucher*)
- CIS36 (CS) (*Contractor Annual Return Continuation Sheets*)

Introduction

How to find out more

For more information about online filing and the online services we provide for employers and contractors

- visit our website at www.inlandrevenue.gov.uk or
- contact our Online Services Helpdesk

Email **helpdesk@ir-efile.gov.uk**

Phone **0845 60 55 999**

Open Weekdays 8am-10pm
Weekends &
Bank Holidays 10am-6pm

Closed Christmas Day, Boxing Day and
New Year's Day

Minicom **01274 841278**

Fax **01274 841288**

Commercially available or privately produced payrolls

The notes below tell you how to get information to enable you to use and run a computerised payroll.

Commercially produced programs

We work closely with 3rd party software developers to help them create products and services suitable for use with the Inland Revenue Online Services.

We provide free test data for software developers to use as part of their own internal testing routines.

Also available are specifications for the new Quality Standard.

Software products that have been tested and have met Inland Revenue recognition for the **Internet**, including our own free Online Return and Forms – PAYE product, can be viewed on our website at www.inlandrevenue.gov.uk/payrollsoftware

A list of **EDI enabled** software products can also be viewed at www.inlandrevenue.gov.uk/ebu/edi/edi-software.htm

Privately produced programs

If you design and operate your own computer program there are special notes to help you. The Inland Revenue Notes for Payroll Software Developers are published on a regular basis throughout the year and contain information to help you keep your computerised payroll systems up to date with changing Legislation. The Notes are available on our website at www.inlandrevenue.gov.uk/comp

If you would like to receive advance notification about future release of the notes to our website, or a paper copy, please send your request, including your name and address details, by email to irnotes@replyservice.co.uk

Or you can write to

Inland Revenue
Notes for Payroll Software Developers
PO Box 17289
Edinburgh
EH12 1WY

Payroll Standard

If a payroll software product bears the Inland Revenue Payroll Standard logo it means that the product has met the relevant sections of the Inland Revenue Quality Standard for filing end of year returns (P14 and P35) online.

The logo helps employers identify payroll software products which have the essential features necessary to calculate PAYE, NICs, Statutory Payments and perform a range of other payroll functions.

You can view a list of accredited software suppliers and their products at www.inlandrevenue.gov.uk/ebu/acclist.htm or call our Payroll Standard Helpline on **0845 9 159 146** (Mon-Fri 9am-5pm).

The Inland Revenue can only tell you whether or not a payroll software product has met the Payroll Standard. If you need further help in choosing a payroll software product, information is available from leading professional bodies within the payroll and computing industries. Alternatively, your accountant or financial adviser may be able to help you.

Software Developers can download payroll test data and find out more about the Payroll Standard and our FREE accreditation service at www.inlandrevenue.gov.uk/ebu/psu.htm or call our Payroll Standard Helpline on **0845 9 159 146** (Mon-Fri 9am-5pm).

Substitute end of year forms P14 and P60

All substitute end of year forms P14 or P60 must be approved by the Inland Revenue before you use them.

Substitute forms P14 and P60 provided by a supplier of business stationery or by a computer bureau will normally have been approved by the Inland Revenue for general use and bear a unique imprint agreed between the Inland Revenue and the supplier or manufacturer.

To obtain agreement to use a commercially available form, send a specimen to your Inland Revenue office.

Employers wishing to design their own forms P14 or P60 must follow the RD1 *Specification for Employer's PAYE End of Year Substitute Forms P14 and P60*

You can obtain this booklet from

Inland Revenue
Business Services Forms
1st Floor
New Wing
Somerset House
Strand
London
WC2R 1LB

To obtain approval to use a substitute form of your own design send a draft or proof to Business Services Forms.

Form P45 for use on computer printers

The Inland Revenue supply four versions of form P45 for use on computer printers.

The P45 versions are

- form P45 (Continuous) – suitable for completion by impact printer
- form P45 (Continuous)(EDI) – suitable for completion by impact printer. For use by employers who have registered to submit Part 1 of form P45 by EDI
- form P45 (Laser-Continuous) – suitable for completion by high speed laser printers
- form P45 (Laser-Sheet) – suitable for completion by cut-sheet laser printers.

The forms can be obtained from the Employer's Orderline on **0845 7 646 646**. Calls are charged at the local rate.

Who is an 'employee' for the purposes of PAYE and Class 1 NICs?

In this guide, 'employee' means anyone who is gainfully employed in the UK and is

- engaged under a 'contract of service'. Where you pay somebody to work for you, that arrangement will normally amount to either a contract of service (employment) or a contract for services (self-employment). Almost everyone who works for an employer will be employed under a contract of service, including full-time, part-time, casual or temporary employment. A contract need not be written, but can be a verbal or implied working agreement, or
- an office holder with earnings chargeable to tax. An office holder is someone appointed to hold a titled office (including an elective office), for example a company director, or
- engaged through an agency or some other third party. For further information, see 'Workers supplied by agencies' on page 62.

For PAYE purposes

In addition 'employee' includes, for most PAYE purposes, many pensioners and others who get PAYE income (for example, ex-employees).

Similarly 'employer' includes, for most PAYE purposes, agencies, pension-payers and others who make payments of PAYE income.

For NICs purposes

In addition to the above, if certain conditions are met, a person in any of the following occupations is treated as being an employee. The conditions are set out in the Social Security (Categorisation of Earners) Regulations 1978, as amended. The occupations are

- lecturers, teachers or instructors
- office cleaners
- ministers of religion
- people employed by their husband or wife for the purpose of his or her employment
- entertainers (that is, actors, singers, musicians or similar).

If you are not sure if someone is an 'employee' or if you are an 'employer' for PAYE or NICs purposes you can contact

- for NICs, your local Inland Revenue office and ask for the Status Officer
- for PAYE, your Inland Revenue office.

National Insurance numbers

1 What is a National Insurance number ?

A National Insurance number is the unique reference number used by the Inland Revenue and the Department for Work and Pensions to identify an individual's National Insurance contribution record. It ensures that contributions paid by, and credited to, an individual are put on the right record so that whenever a claim to benefit is made, the correct amount can be paid.

You are required to record an employee's National Insurance number on form P11 *Deductions Working Sheet* and form P14 *End of Year Summary*. It is important, therefore, that you ask employees for their National Insurance number as soon as possible after they start working for you.

Your employees are required by law to give their National Insurance number to you.

To assist the Inland Revenue National Insurance Contributions Office it would be helpful if, for each employee, you could

- record their date of birth and address including postcode, on form P14
- arrange for them to let you know of any change of name and/or address.

Temporary National Insurance numbers

With effect from 6 April 2004 the Inland Revenue no longer accept on end of year returns 'temporary' National Insurance numbers based on the employee's date of birth and gender (for example TN220157M for a male born on 22 January 1957). This applies no matter which method you use to submit your returns (for example paper, online) so in all cases you should try to obtain the National Insurance number and enter it on the P14.

If you are unable to obtain the National Insurance number you **must**

- leave the National Insurance number box on the P14 empty, **and**
- enter the date of birth and gender in the appropriate boxes.

Where you have been unable to obtain the National Insurance number or date of birth you **must**

- leave the National Insurance number box on the P14 empty, **and**
- enter the default date of 01/01/1901 in the date of birth box.

2 When the National Insurance number used by the Inland Revenue differs from the one you already hold

If the National Insurance number used by the Inland Revenue for an employee differs from the one you

already hold, ask the Inland Revenue National Insurance Contributions Office or Social Security office to check the number for you.

You can do this by using form CA6855 available from the Employer's Orderline, your Employer's CD-ROM, any local office of the Department for Work and Pensions or Inland Revenue office or the Inland Revenue website at

www.inlandrevenue.gov.uk/employers

3 National Insurance number and identity

The National Insurance number card is a permanent durable reminder of a person's National Insurance number but should not be accepted by anyone as proof of identity. The fact that a person has a National Insurance number does not mean that the person has the right to work or live in the UK. It is not a passport to employment. Enquiries regarding a person's right to work in the UK should be directed to the Home Office on **0845 0106677** or www.homeoffice.gov.uk

4 How to get an employee's National Insurance number

For details on how to get an employee's National Insurance number see the Employer's Help Book E13 *Day-to-day payroll*.

When to work out NICs and PAYE

As a general rule both NICs and PAYE are operated when a payment of earnings is made to an employee.

For PAYE purposes

If the employee is **not** a director, operate PAYE on the **earlier** of

- when you actually make the payment
- when the employee is entitled to be paid, even if the pay is not drawn until later.

If the employee is a director, operate PAYE on the **earlier** of

- when you actually make the payment
- when the director becomes entitled to be paid
- when the payment is credited in the company accounts or records, even if
 - the director cannot draw the money straightaway because there is a block on the right to payment
 - the credit is not specifically in an account in the director's name
- when the remuneration is fixed or determined
 - if the amount for a particular accounting period is determined before the end of that period, take the date as being when the period ends

- if the amount is determined after the period ends, take the date as being when the amount is determined.

For NICs purposes

The point of payment is that at which the earnings are placed unreservedly at the disposal of the employee.

If the employee is a director, see CA44 *National Insurance for Company Directors*.

You can seek advice on what to do for PAYE and NICs purposes by calling the Employer's Helpline on **0845 7 143 143**. Calls are charged at the local rate.

Late notification of marginal items of pay

Occasionally, employers' payroll sections don't get to know about certain marginal items of pay, for example expenses, until some time after they have been paid. So some calculate the NICs due on these payments in a later earnings period because it is time consuming to have to revisit the correct earnings period and recalculate the NICs due. We accept that it is sensible to allow employers to use the later earnings period to calculate the NICs due.

Similarly, we accept that on the very rare occasion when such payments are notified so late that the most convenient earnings period falls within the next tax year, it is sensible to allow employers to use the later earnings period to calculate the NICs due.

Our employer compliance officers will only ask the employer to recalculate the Class 1 NICs and allocate the payment to the correct earnings period where

- it appears to the employer compliance officer that the employer is deferring the calculation in order to avoid or reduce NICs
- the deferred calculation has had a material effect on an individual's benefit entitlement. So employers should take particular care to ensure payments to employees earning around the Lower Earnings Limit or to employees with variable earnings are assessed for Class 1 NICs as soon as possible.

Class 1A NICs on taxable benefits

Class 1A NICs are due on most taxable benefits in kind. Details of when liability for Class 1A NICs arises and how they are calculated, reported and paid are included in CWG5(2005) *Class 1A National Insurance contributions on benefits in kind*.

You should also read CA33 *Class 1A National Insurance contributions on Cars and Fuel benefits* if you provide cars and fuel benefits in addition to other benefits.

How to work out NICs and PAYE for various pay intervals

The following charts will help you work out NICs and PAYE for most pay intervals. If you are not sure what to do contact the Employer's Helpline by calling **0845 7 143 143**. Calls are charged at the local rate.

Pay intervals	To work out NICs
Weekly	<p>Earnings period is weekly Use either the appropriate weekly table or the exact percentage method to calculate NICs.</p>
Fortnightly	<p>Earnings period is two weekly Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables</p> <ul style="list-style-type: none"> • divide the earnings on which NICs are payable by 2 • look this figure up in the appropriate weekly table • multiply the NICs shown in the table by 2. This is the amount of NICs due.
Four weekly	<p>Earnings period is four weekly Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables</p> <ul style="list-style-type: none"> • divide the earnings on which NICs are payable by 4 • look this figure up in the appropriate weekly table • multiply the NICs shown in the table by 4. This is the amount of NICs due.
Monthly	<p>Earnings period is monthly Use either the appropriate monthly table or the exact percentage method to calculate NICs.</p>
Quarterly	<p>Earnings period is quarterly Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables</p> <ul style="list-style-type: none"> • divide the earnings on which NICs are payable by 3 • look this figure up in the appropriate monthly table • multiply the NICs shown in the table by 3. This is the amount of NICs due.
Half yearly	<p>Earnings period is half yearly Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables</p> <ul style="list-style-type: none"> • divide the earnings on which NICs are payable by 6 • look this figure up in the appropriate monthly table • multiply the NICs shown in the table by 6. This is the amount of NICs due.
Yearly	<p>Earnings period is yearly Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables</p> <ul style="list-style-type: none"> • divide the earnings on which NICs are payable by 12 • look this figure up in the appropriate monthly table • multiply the NICs shown in the table by 12. This is the amount of NICs due.

Please see Employer's Help Book E13 *Day-to-day payroll* for examples of how to calculate NICs using the exact percentage method.

Working out PAYE using Tax Tables A – The Pay Adjustment Tables

Using a code on a cumulative basis

Use the table for the tax week that includes the date of payment. If a pay day is in week 53, use the table for week 1 again on a non-cumulative basis.

Use the table for week 2 for the first payment after 5 April, even if the payment is made in the first week of the tax year. Use the table for week 4 for the second payment and so on up to week 52. If there is a 27th pay day in the tax year use the table for week 2 again on a non-cumulative basis.

Use the table for week 4 for the first payment after 5 April, even if the payment is made in the first, second or third week of the tax year. Use the table for week 8 for the second payment and so on up to week 52. If there is a 14th pay day in the tax year use the table for week 4 again on a non-cumulative basis.

Use the table for the month that includes the date of payment.

Use the table for month 3 for the first payment after 5 April, even if the payment is made in an earlier month. Use the table for month 6 for the second payment and so on.

Use the table for month 6 for the first payment in the tax year, and the table for month 12 for the second payment.

Use the table for month 12.

Using a code on Week 1/Month 1 basis

Use the table for week 1 on each pay day.

Use the table for week 2 on each pay day.

Use the table for week 4 on each pay day.

Use the table for month 1 on each pay day.

Use the table for month 3 on each pay day.

Use the table for month 6 on each pay day.

Use the table for month 12.

Pay intervals	To work out NICs
Intervals of less than a week	<p>Earnings period is one week Add together all the payments made in an income tax week and if the total goes over the weekly lower earnings limit and the earnings threshold, NICs are due.</p> <p>Use either the appropriate weekly table or the exact percentage method to calculate NICs.</p>
Intervals of more than a week but not multiples of weeks or months	<p>Earnings period is the interval the payment covers You must use the exact percentage method to work out the NICs due.</p> <p>To do this</p> <ul style="list-style-type: none">• work out the daily lower and upper earnings limits by dividing the weekly limits by 7• multiply the answers for the earnings limits by the number of calendar days in the period which the payment covers• work out the daily earnings threshold by dividing the annual threshold by 365• multiply the answers for the earnings threshold by the number of calendar days in the period which the payment covers and round up to the nearest whole pound. <p>NICs are due on earnings in each interval if the earnings exceed the earnings threshold.</p>
Employees paid once only	<p>Earnings period is the length of time you employ them or one week whichever is longer Follow whichever rule above applies.</p>

Working out PAYE using Tax Tables A – The Pay Adjustment Tables

Using a code on a cumulative basis

Use the table for the tax week that includes the date of payment. If a payment is in week 53, use the table for week 52 again.

Using a code on Week 1/Month 1 basis

Use the table for week 1 for each payment.
Add to each payment any payments made earlier in the same income tax week when working out the tax to be deducted.

Use the table for the week that includes the date of the payment. If a payment is made in week 53, use the table for week 52, unless you are given written instructions by the Inland Revenue office.

Use the table for the week that includes the date of payment. (Where employment started after 5 April, deduct from that the number at the date of commencement.) After that, take into account the time elapsed between payments to the employee to work out the correct basis to use.

For example, if the first payment is in week 4, use the table for week 4. If the next payment is made in week 10, use the table for week 6 (10 minus 4), or

If the next payment is in week 10 but the employment started in week 6, use the table for week 4 (10 minus 6). If the next payment is made in week 16, use the table for week 6 (16 minus 10).

If you employ them for less than a week follow the rule in the first row above for intervals of less than a week.

If you employ them for more than a week use the table for the week the employment ends.

Use the table for the week the employment ends if the employment started before the start of the tax year.

If the employment started after the end of the tax year use the table for the length of the employment.

For example, if the employment starts in week 5 and ends in week 9 use the table for week 4 (9 minus 5).

Change of pay interval to a shorter interval

If the interval between the payment of an employee's earnings changes to a shorter interval, for example, monthly paid to weekly paid, take the following action.

For NICs purposes

Work out NICs from the first payment after the change based on the new earnings period. Do this even if the first weekly pay day falls within the same tax month as the previous monthly pay day.

Example

A monthly paid employee changes to being weekly paid on the first day of the month, after receiving a monthly salary the day before. The first weekly pay day is the 5th. Although this payment is in the same tax month as the monthly salary, treat it completely separately and work out NICs on the payment using a weekly earnings period.

For PAYE purposes

Work out PAYE using the weekly table on the first payment after the change if you **have not already paid** the employee in the month.

If you have already paid the employee in the month of change, use the same monthly table for the rest of that month and then use the weekly table from the beginning of the next tax month.

For both PAYE and NICs purposes use the same form P11 as before.

Change of pay interval to a longer interval

If the interval between the payment of an employee's earnings changes to a longer interval, for example, weekly paid to monthly paid, take the following action.

For NICs purposes

Work out NICs from the first payment after the change based on the new earnings period.

If you have already made a payment using the old shorter earnings period in the first of the new longer periods, the payment you have made, and NICs worked out on it, should be taken into account when working out NICs for the new period as a whole.

Example 1

A weekly paid employee changes on 11 July 2005 to being monthly paid, the last two weekly payments having already been made on the 1st and 8th of the month.

The new earnings period is a month and runs from the first Monday in each month (that is 4 July). The first new pay day is the 29 July 2005.

Work out NICs due on the first monthly pay using the monthly NIC rates and limits, but taking into account the earnings and NICs already correctly worked out on the payment made on the 8th.

The total NICs payable for that month must not exceed that which would have been payable had the two payments been added together and NICs worked out on the total using the new monthly rates and limits.

The form P11 must be amended to show this.

The weekly payment made on the 1st is not in the new earnings period and is therefore not included in the calculation.

However, where, at the time of the change of pay interval, the employee also joins your contracted-out occupational pension scheme and is covered by your contracting-out certificate, NICs are payable at the new appropriate contracted-out rate and limits on the total payments made in the new earnings period.

Example 2

Using the same dates as in *Example 1*, add the weekly earnings paid on the 8 July to the monthly earnings paid 29 July and work out NICs on the total at the appropriate contracted-out rate, using the new monthly NIC thresholds.

Deduct the NICs previously paid on the 8th to determine the amount of NICs now due on the 29th. Amend the form P11 to reflect the changes to the NIC category letter and NIC thresholds.

In both examples, where, exceptionally, it is not practicable for you to aggregate the earnings in the first new earnings period, calculate the NICs due on payments made before and after the change separately, in the normal way. This means that, where the date of change coincides with the date on which your employee joins the company pension scheme, you should leave the weekly not contracted-out NICs unchanged and work out NICs at the contracted-out rate, using the new monthly thresholds, only on those payments made after the date of change.

For PAYE purposes

Work out PAYE using the appropriate monthly table on the first payment after the change.

For both PAYE and NICs purposes use the same form P11 as before.

Employees' pay day changed but same pay interval kept

Take the following action if you change your employees' pay day but keep the same pay interval. For example, you change from making monthly salary payments on the 15th of the month to the 1st of the month.

For PAYE purposes

To find out the correct tax week/month look up the table in Part 4 of the Employer's Help Book E13 *Day-to-day payroll*.

If the month or week number

- follows on from the tax month or week of the previous payment, complete form P11 and operate PAYE in the normal way
- is the same as the tax month or week of the previous payment
 - treat the first 'new date' payment as an extra payment for the month or week
 - as only one amount of free pay can be given in a pay period, the free pay due is the figure used when the previous payment was made.

For pay days after the first 'new date' payment, complete form P11 and operate PAYE in the normal way.

For NICs purposes

Work out NICs using the normal earnings period on each of the pay days.

Extra payments made on a separate pay day from normal pay

Where you make extra payments (such as overtime, commission, bonuses, and so on) on a **separate** pay day from other pay, take the following action.

For NICs purposes

Treat extra payments as part of the total pay at the time they are paid, no matter when they were earned.

If you have paid an employee and then make another payment to them in the same earnings period, NICs have to be worked out again on the total payment.

Example

An employee who is normally paid on a Friday receives a payment of £120 on Sunday 8 May 2005 and NICs have been worked out on that sum.

On Friday 13 May 2005 the employee is paid a normal weekly wage of £265 making a total of £385 paid in that week.

NICs must be re-calculated based on £385.

If the form P11 for that employee has already been completed

- write in the extra amount of pay in column 2 and bracket the two amounts together to the left of the column
- draw a line through the figures already entered in columns 1a – 1e, so that they can still be read
- put in the right figures.

For PAYE purposes

It is important to remember that only one amount of free pay can be given (or in a K code case one amount of additional pay can be added) in any pay period.

If PAYE was operated in the normal way at the time any additional payment is made it could result in an employee receiving a tax refund and then (in effect) repaying that refund on the normal pay day.

To prevent this, there are special rules if you

- normally pay an employee weekly or at longer regular intervals, and
- make an extra payment before the normal pay for the week, month or other pay period, and
- use the employee's code on the cumulative basis
- **for suffix codes**
 - enter the extra payment, on form P11, in the 'pay for the week or month' column next to the week in which you pay it

- calculate the tax in the usual way using the tables you would use for the next normal payment
 - if there is tax to be deducted, then deduct it from the payment as usual, but
 - if there is tax to be repaid
 - do not repay it when you make the extra payment (and cross out the figure in col 7 of the deductions working sheet)
 - add the repayment to the total tax due (in col 6 on the deductions working sheet) and use that figure as your starting point when you next pay the employee.
- **for K codes**
 - enter the extra payment in the ‘pay for the week or month’ column of form P11 next to the week in which you pay it
 - the ‘additional pay’ should be added and tax worked out on this payment, taking account of the Regulatory limit for the payment if necessary
 - when you pay the employee the normal main pay do not add the ‘additional pay’ for the week or month. Add the normal pay to the total taxable pay you used when the previous payment was made and enter that amount in column 5 of form P11. Work out the tax on this amount using Calculator Tables or Tables SR+B to D and complete form P11 in the normal way.
- If the K code is being operated on a week 1/month 1 basis you should subtract the tax already deducted on the extra payment from the figure you have just entered in column 6a.

Payments made in week 53

Where you pay an employee weekly, fortnightly or four weekly, there will be some tax years when you have either 53 weekly pay days, 27 fortnightly pay days, or 14 four weekly pay days instead of the usual 52, 26 or 13. This extra pay day is called

- Week 53 for weekly paid employees
- Week 54 for fortnightly paid employees, or
- Week 56 for four weekly paid employees.

When completing a paper form P14 for an employee who has been paid a week 53, 54, or 56 payment, in the box headed ‘Payment in Week 53’ enter

- ‘53’ if there were 53 weekly pay days in the year
- ‘54’ if there were 27 fortnightly pay days in the year
- ‘56’ if there were 14 four weekly pay days in the year.

5 Week 53 and suffix codes

For employees on a Week 1 coding, simply treat the extra pay day as another Week 1 payment.

For employees on a cumulative code, take the following action.

If the total free pay to date at week 52 is

- equal to or more than the total pay for the year (that is the week 52 total plus the extra pay day amount)
 - do not deduct any PAYE from the payment to the employee
- less than the total pay for the year
 - work out how much PAYE to deduct by reference to the pay for week 53, 54 or 56 less the amount of pay adjustment (that is, free pay) shown in Tax Tables A using the table for
 - Week 1 if the employee is weekly paid
 - Week 2 if the employee is fortnightly paid
 - Week 4 if the employee is four weekly paid.

On the form P11, fill in the figure of PAYE due in column 7, add it to the figure in column 6 for week 52 and then fill in the total in column 6.

6 Week 53 and K codes

Work out how much tax to deduct by reference to the pay for week 53, 54 or 56 plus the amount of pay adjustment (that is ‘additional pay’) shown in Tax Tables A using the table for

- Week 1 if the employee is weekly paid
- Week 2 if the employee is fortnightly paid
- Week 4 if the employee is four-weekly paid.

On the form P11, fill in the figure of tax due in column 6a and make the appropriate entries in columns 6b to 8. Add up the figures in column 7 and enter the total tax paid in the year in the totals box below column 6 (as directed on the deductions working sheet).

Standard payments made when, or after, an employee leaves

For the purposes of this guidance, 'standard' payments mean such items as the final payment of salary or wages, holiday pay, week in hand payments, bonuses, arrears of pay and so on. It does not mean additional one-off payments such as retirement, redundancy, lump sums and so on – these payments are dealt with on page 88.

PAYE and NICs are due in the normal way on any standard payments you make to employees when they leave or after they have left. The payments should be recorded as normal on the employee's form P11.

If the payment is made in a later tax year to the one in which the employee left, make out a new form P11 for the employee and record the payments accordingly.

For PAYE purposes

If you have already given an employee a form P45 you should deduct PAYE at the basic rate (non-cumulatively) at the time you make the payment. Write code 'BR' as the amended code on form P11 and enter details of the payment and PAYE deducted.

In such cases, you should provide the employee with a letter giving the following details

- the date of the payment(s)
- the gross amount of each payment
- the amount of PAYE deducted from each payment.

You must not give the employee another form P45.

You do not need to notify the Inland Revenue office when making the extra payment, although you must ensure that the payment is recorded on form P14 at the end of the tax year.

For NICs purposes

Payment made when an employee leaves

If the payment is made when the employee leaves, work out NICs using

- the usual earnings period
- the contribution rates and limits current at the time of payment
- the usual contribution Table letter.

Payment made after an employee leaves

If the payment is made after the employee has left, that is after their contract has ended, the earnings period to use is dependent on whether the payment is

- a final payment of salary or wage, or
- an irregular sum, such as

- accrued holiday pay
- an unexpected bonus
- arrears of pay following a backdated pay award.

If the payment is the final payment of salary or wage, work out NICs using

- the usual earnings period
- the contributions rates and limits current at the time of payment
- the usual contribution Table letter.

Example

The final salary to a monthly paid employee leaving in the middle of the month is paid at the usual time at the end of the month. Work out NICs using a monthly earnings period even though the payment is only for part of the month.

If the payment is an irregular sum, work out NICs using

- a weekly earnings period
- the contributions rates and limits current at the time of payment
- the usual contribution Table letter.

In either situation, if the employee was in contracted-out employment and the payment is made more than six weeks after they left, work out NICs using the equivalent not contracted-out rate.

Example

If during the employment NICs were due under contribution Table letter D, use contribution Table letter A to work out NICs.

Two or more payments together

If an employee gets two or more payments together after leaving, the earnings period is dependent on what those payments are.

If all the payments are salary or wages (including one which may be a 'week in hand' payment) work out NICs on each payment separately using the usual earnings period.

If some payments are salary and others are irregular sums, add the payments together and work out NICs on the total using the usual earnings period for the payment of salary.

If all payments are irregular sums, add them together and work out NICs using a weekly earnings period.

Payments made in respect of an employee who has died

For NICs purposes

No NICs are due on the earnings of an employee who dies before payment is made.

For PAYE purposes

7 Death of employee

When you learn of the death of an employee you should

- complete a form P45 as usual
- write 'D' in the box at the bottom of the form
- Send all four parts of the form to your Inland Revenue office.

PAYE should be deducted using code BR (non-cumulatively) from any payments of earnings made to the personal representative of the deceased employee after you have completed form P45. Record details of the payments on the employee's form P11.

If such payments are made in a later tax year to the one in which the employee died, deduct PAYE using code BR (non-cumulatively) and record details on a new form P11 in the name of the deceased employee.

8 Death of pensioner

When you learn of the death of a pensioner you should

- complete a form P45 as usual
- write 'D' in the box at the bottom of the form
- send all four parts of the form to your Inland Revenue office.

PAYE should be deducted using the pensioner's code from any payments made to the personal representative of the deceased pensioner after you have completed form P45 if they are made in the tax year the pensioner died. Record details of the payments on the pensioner's form P11.

If such payments are made in a later tax year to the one in which the pensioner died, and after completion of form P45, deduct PAYE using code BR (non-cumulatively) and record details on a new form P11 in the name of the deceased pensioner.

Joint wages to a husband and wife

Where you pay a joint wage to a husband and wife, you should

- prepare separate forms P11 for the husband and wife
- divide the wage between them for both PAYE and NICs purposes
- ask the Inland Revenue office to let you have individual tax codes.

Mistake in the amount of NICs or PAYE deducted

9 Mistake discovered after the tax year has ended

If, after the tax year has ended, you discover that a mistake has been made in the amount of NICs or PAYE deducted and you need advice, contact the Employer's Helpline by calling **0845 7 143 143**. Calls are charged at the local rate.

10 Mistake discovered during the tax year

If, during the tax year, you discover that a mistake has been made in the amount of NICs or PAYE deducted, take the following action.

- Try to correct the mistake in the week or month you discover it.
- Where you have wrongly recorded the payment made in the week or month, draw a line through the wrong figure (but so it can still be read) and put in the right figure.
- Do not change any of the original figures, but instead put a mark beside them to show that a mistake has been discovered and put right at a later week.

Any overpayment of PAYE or employee's share of NICs should be refunded to the employee on the next pay day.

If an under deduction of PAYE or NICs arises

- seek advice from your Inland Revenue office at once over any large under deduction of tax
- note the guidance below about recovering underpayments.

11 Recovering underpayments from your employees

The position on recovering underpayments from your employees is as follows.

For NICs purposes

As a general rule, you as the employer have to pay any underpayment of NICs arising from a mistake in deduction. For the tax year in which the mistake was made you must

- correct any wrong entries on the employee's Deductions Working Sheet (form P11 or equivalent)
- record on form P14, End of Year Summary, the contributions that were **actually due**, not those wrongly deducted
- pay the amount actually due.

You can however recover an underpayment of employee's contributions from an employee during the tax year in which the mistake arose. This is done by making extra deductions from any further payments you make to the employee during the year. The extra deduction you can make from any further payment, however, can be no greater than the employee's contributions due on that further payment.

Example

If the employee's share of NICs on a further payment is £20, the maximum extra deduction you can make from that payment towards a previous underdeduction is an additional £20, making a total deduction of £40. If you are unable to recover the full amount by the end of the tax year, you have to pay the balance.

Where the underdeduction arose from an error made in good faith and you have been unable to recover the full amount in the tax year in which it arose, you can continue to recover the amount underdeducted by making further deductions from any payments you make to the employee in the following tax year (the second tax year). The amount you can deduct remains the same i.e. the extra deduction you can make from any further payment can be no greater than the employee's contributions due on that further payment.

If, at the end of this second tax year you have been unable to recover the full amount underdeducted, then you may not recover any more from the employee and must bear the loss yourself.

Further information and an example can be found on the Inland Revenue website at www.inlandrevenue.gov.uk/employers/recovery.htm

For PAYE purposes

As a general rule, you as the employer have to pay any underpayment of PAYE arising from a mistake in deductions. However, a direction can be made for your employee to pay an underpayment if the Inland Revenue is satisfied that you took reasonable care and that the underpayment arose from an error made in good faith.

12 Deliberate deduction failures

In certain circumstances where the Inland Revenue considers an employee has received pay knowing that the employer has deliberately failed to deduct tax from the pay, a direction can be made for the employee to pay the underpayment. Where the Inland Revenue also believes that an employee received pay knowing that the primary contributions had not been deducted or paid over, a decision can be made for the employee to pay those contributions.

Unintentional overpayment of salary/pension

If, by mistake, you pay an employee too much and are unsure how to rectify the NICs/PAYE position, contact your Inland Revenue office for advice.

Different Employer's PAYE references for separate groups of your employees

You may choose to have different Employer's PAYE references for separate groups of your employees, for example, for wages and salaries or for separate branches of your organisation. To do this you make an election which

- has to be made in writing
- can be made at any time before the beginning of the tax year, for example, election received May 2005 to take effect from 6 April 2006.

Making the election results in each Employer's PAYE reference being treated separately for all PAYE/NICs purposes with separate forms P35/P14 being required. But, when you are calculating your NICs liability for recovery of Statutory Sick Pay, Statutory Maternity Pay, Statutory Adoption Pay or Statutory Paternity Pay purposes, you must add together your total gross NICs liability for all of your separate Employer's PAYE references.

If you wish to make an election ask your Inland Revenue office for a form P350 which gives further information and incorporates an election for you to complete.

Making an amended Employer's Annual Return

13 Making amendments

You must make a full and complete Employer's Annual Return consisting of the P14s and one P35 for a single PAYE reference either in a complete submission or in parts. Exceptionally, you may need to send us extra or amended information because, for example

- you have updated your payroll information for 2004–05
- from April 2005, we ask you to send an amendment because we have found errors in your paper or magnetic media returns.

From April 2005, we will only accept this information on a P14 and P35. We will not accept it in any other format.

You must show us only the amount of any amendment. For example, if your original P14 showed £100 too much tax, your amended P14 must

show – (minus) £100. If you amend any P14s you must send an amended P35. If you only need to change the P35 details you must send an amended P35 only but again you must only show the amount of the amendment and not revised totals.

You must give your employee details of the amendment. You can give them a letter showing the amendment or a new P60 marked 'REPLACEMENT'.

You must send a complete and accurate Return of a single P35 and all the P14s for a single PAYE reference, by 19 May. You will avoid the penalties for late filing and for non-online filing if you send your Return online by 19 May. But you will be liable to a penalty under Section 98A(4)TMA for an incorrect Return if you have only sent part of your Return and any omissions were made fraudulently or negligently.

14 Sending amendments

From 2004–05 you can make amendments online either from your software, if it will allow you to, or by using the Inland Revenue's Online Returns and Forms – PAYE product. Alternatively you may send amendments on paper using approved stationery, but you must also send a letter explaining the reason for the amendment. Employers that must file online from 2004–05 will not attract the non-filing penalty if an amendment is sent on paper.

15 Sending amendments for part returns

From April 2005 you can send your Employer's Annual Return in parts. A part can be made up of a batch of P14s or just the P35. Parts can be sent online, on paper and by magnetic media and can be sent from different sources. For example a payroll bureau could send the P14s online by Electronic Data Interchange, whilst you send the P35 online over the Internet, or on paper. Whoever sends the P35 must indicate how many P14 parts are being sent.

Returns sent in parts are held until the complete return, including the P35, has been sent. We will not say that a Return has been accepted until the complete Return has met all of our quality checks. You can replace any part that has been sent up to that point. Any changes made once we have accepted the Return must be made as an amendment.

For 2004–05 only, Returns that contain paper or magnetic media parts will not be checked in detail until after 19 May 2005. To avoid the possibility of amended paper or magnetic media information overwriting stored P14s and P35, we recommend that you do not send any amendments before 19 May 2005.

See the *Do it online: Online filing and electronic payment handbook* at www.inlandrevenue.gov.uk or on the Employer's CD-ROM for more on sending your Return in parts.

16 – 19 not used - reserved for future use

Pension contributions

You may apply to have a pension scheme authorised by the Inland Revenue. Authorisation allows you to use what is known as a 'net pay arrangement' to give your employees tax relief on their pension contributions. Tax relief is due on any contributions an employee makes to an authorised scheme (including any additional voluntary contributions) up to a maximum of 15% of the employee's gross pay.

If you wish to know more about obtaining authorisation, contact

Inland Revenue
Savings, Pensions, Share Schemes
Yorke House
Castle Meadow Road
Nottingham
NG2 1BG
Phone **0115 974 1600**

If you are taking part in an existing group or 'centralised' scheme, you can provisionally use the net pay arrangement while you are waiting for authorisation from the Savings, Pensions, Share Schemes (SPSS). In all other circumstances you must **not** use the net pay arrangement until you are told to do so.

Where you hold an authorisation from the SPSS remember that an employee is entitled only to tax relief, not relief from NICs.

When completing form P11

- for PAYE purposes deduct the pension contributions from the employee's gross pay
- for NICs purposes do **not** deduct the pension contributions from the employee's gross pay.

When you receive authorisation from the SPSS for a new scheme, take the following action for each employee who is in the scheme

- deduct the figure of the total of pension contributions paid in the tax year to date from the employee's gross pay figure on the first pay day after authorisation is received to work out the PAYE due
- if pension contributions have been paid in a previous tax year, send your Inland Revenue office a list showing the names of the employees and the contributions each employee has paid.

Occupational pension scheme contributions deducted from employees' pay must be with the pension scheme within 19 days of the end of the month that the deductions were made. *Failure to meet this deadline could lead to civil proceedings by OPRA, the Occupational Pensions Regulatory Authority.*

Pension payments

Pension payments, either to former employees or dependants of deceased employees, are

- usually included in gross pay for PAYE purposes
- not included in gross pay for NICs purposes.

Pension payments that may be wholly or partly exempt from tax are payments which

- have been awarded or enhanced on retirement because of an employee's disability arising from either injury at work or from a work related illness, such as asbestosis or pneumoconiosis, **and**
- are **not** paid out of an Inland Revenue approved pension scheme.

Contact your local Inland Revenue office before you make any such payments.

Where all or part of a pension is commuted into a lump sum the payment may be made tax-free if it is made under, or out of, any of the following

- a statutory pension scheme
- a company pension fund
- a scheme approved by the SPSS.

Lump sum commutation payments under, or out of, an **unapproved** pension scheme should be taxed in full.

20 Procedures for employer of either an employee retiring or a deceased employee whose dependant is entitled to a pension

Pension to be paid by you as the employer

If you are to pay the pension to a retiring employee

- do not treat the employee as leaving your employment
- do not complete a form P45
- fill in form P160, send it to the Inland Revenue office within 14 days of the employee retiring and give the employee a copy of the form. If you prefer you can send a letter to the Inland Revenue office instead and give the employee a copy, but you must include all the information required by form P160.

When you start to pay the pension, use the employee's existing tax code on a Week 1/Month 1 basis until you hear from your Inland Revenue office. If the Inland Revenue office have not contacted you by 5 April, (or the employee retires so late in the tax year that the first pension payment is made after 5 April) carry forward the existing tax code to the new tax year but use it on a cumulative basis.

Chapter 2

If you are to pay the pension to a dependant of a deceased employee, follow the procedures under 'Pensioner does not give you form P45' in paragraph 21 below.

Pension to be paid by the trustees of a pension fund

As the employer, take the following action:

- Treat the employee as leaving your employment.
- Complete form P45 and enter 'Pensioner' at the top of part 1.
- Do not complete form P160.

21 Procedures for pension payers

Pensioner gives you form P45

- Use the code on the P45 on a Week 1/Month 1 basis until you hear from your Inland Revenue office.
- Complete Part 3 of form P45 and write 'Pensioner – Week 1 (or Month 1) basis applied' on the top of Part 3 before you send it to the Inland Revenue office.
- If your Inland Revenue office has not contacted you by 5 April (or the first pension payment is to be made after 5 April), carry forward the existing code to the new tax year but use it on a cumulative basis.
- If the pensioner gives you form P45 after the pension has started and after you have received a code from the Inland Revenue you must destroy the P45.

Pensioner does not give you form P45

In all cases

- write 'Pensioner' at the top of form P46
- complete *your* parts of form P46 and send the form straight to the Inland Revenue office
- **DO NOT** give the form to the pensioner or recipient of the pension. This is particularly important where the pension is paid to a widow or widower following the death of their spouse
- prepare a form P11 for PAYE purposes only
- use the emergency code on a Week 1 or Month 1 basis.

Sickness, Maternity, Paternity and Adoption

Employers are responsible for paying employees who satisfy the qualifying conditions:

- Statutory Sick Pay (SSP) for up to 28 weeks absence in any one period of incapacity for work or in any series of linked periods of incapacity for work.

- Statutory Maternity Pay (SMP) for up to 26 weeks if they are not at work because of pregnancy.
- Statutory Adoption Pay (SAP) for up to 26 weeks if they are not at work because they are adopting a child.
- Statutory Paternity Pay (SPP) for 1 or 2 weeks if they take time off to care for a new-born or adopted child and/or support the mother or adoptive parent.

For details on the operation of the SSP, SMP, SAP and SPP Schemes see

- Employer's Help Books (and their Supplements) E14 *What to do if your employee is sick*, or E15 *Pay and time off work for parents*, or E16 *Pay and time off work for adoptive parents*.

22 Payments of SSP, SMP, SAP and SPP

For both PAYE and NICs purposes

SSP, SMP, SAP and SPP must be included in gross pay at the time it is paid. PAYE and NICs are then worked out in the normal way.

23 Payments of SMP, SAP or SPP to an employee after their contract of service has ended

For NICs purposes

If you pay SMP, SAP or SPP to an employee after their contract of service has ended and you pay it

- **in a lump sum**
work out NICs using a weekly earnings period unless the lump sum is paid with the last regular payment of earnings. In that case, add the two payments together and work out NICs using the earnings period used before the employee left
- **at the same interval as regular earnings**
work out NICs using the earnings period used before the employee left
- **at different intervals from regular earnings**
work out NICs using the interval between payments.

For PAYE purposes

Strictly speaking if the employee is dismissed or has decided not to exercise their right to return to work you should give them form P45 when they stop working for you and deduct PAYE at the basic rate from the SMP, SAP or SPP you pay.

However, provided the employee does not request form P45, you can deduct PAYE from the payments of SMP, SAP or SPP using their normal tax code number and delay preparation of form P45 until you have made the final payment. If you do this, enter as the date of leaving on the form P45 the date on which you make the final payment.

If an employee requests form P45, you should enter as the date of leaving the date on which you last made a payment of SMP, SAP or SPP prior to the request and deduct PAYE at basic rate from all future payments you make.

If the employee has not been dismissed or has not told you that they do not intend to return to work, they remain your employee even after you make the final payment of SMP, SAP or SPP until either

- they formally cease to be employed by you, or
- they fail to return to work on the appointed day

at which time you should complete form P45.

Remember that some employees will be entitled to additional maternity or adoption leave of 26 weeks after the end of the SMP or SAP period.

Payments paid 'free of tax or NICs'

24 All of an employee's earnings paid 'free of tax'

If you enter into an arrangement with an employee that all of his or her earnings are to be paid 'free of tax', you should note that

- it is your responsibility to make sure that your employee understands and agrees with the terms under which the payment is made free of tax
- payments made free of tax can increase your costs
- there are extra PAYE duties involved. For example, the tax due is worked out by reference to the 'true gross pay', not the amount your employee is actually paid. It is your responsibility to work out the 'true gross pay' figure.

Where you have such an arrangement with any employee(s), contact your local Inland Revenue office to obtain a package containing

- forms P11 (FOT)
- special 'free of tax' (FOT) Tax Tables, *Tables G*
- a leaflet FOT1 which will help you work out the 'true gross pay' figure and show you how to complete form P11 (FOT).

25 All of an employee's earnings paid 'free of tax and NICs'

If you enter into an arrangement with an employee that all of his or her earnings are to be paid 'free of tax and NICs', you should contact your local Inland Revenue office for advice.

26 Part of an employee's earnings paid 'free of tax'

If you enter into an agreement with an employee that only part of his or her earnings are to be paid 'free of tax', the figure to enter on form P11 to calculate the PAYE and NICs due is the **total** of

- the 'true gross pay' of the 'free of tax' element of the earnings, **and**
- the actual gross pay not within the 'free of tax' agreement.

To work out the 'true gross pay' of the 'free of tax' element, you should use the following formula

'Free of Tax' element of pay x 100

(100 - employee's tax rate figure)*

* The tax rate figure depends on which tax table you use for the employee. If you use

- Table SR the figure is 10 - starting rate
- Table B the figure is 22 - basic rate
- Table D the figure is 40 - higher rate

Example

You enter into an agreement to pay an employee a wage of £150 and £20 'free of tax' towards travelling expenses. The employee is a Table B employee.

The figure to use to calculate the PAYE and NICs due is the total of

the 'true gross pay' of the 'free of tax' element

$$\frac{£20 \times 100}{(100 - 22)} = £ 25.64$$

the actual gross pay not within the 'free of tax' agreement = £150.00

Figure to be entered on form P11 to calculate PAYE and NICs **£175.64**

27 Part of an employee's earnings paid 'free of tax and NICs'

If you enter into an agreement with an employee that only part of his or her earnings are to be paid 'free of tax and NICs', you should contact your local Inland Revenue office for advice on how to work out the amount of PAYE and NICs due.

28 Agreement to pay an employee's share of NICs

You should contact your local Inland Revenue office if you decide to pay the employee's share of NICs on his or her behalf. That is, you agree to pay the employee's contributions yourself rather than deduct them from the employee's pay.

Payroll giving – An easy way to give

Offering a Payroll Giving scheme is an easy way for employers to enable their employees to give to charity and get tax relief. Employers who currently offer the scheme say they find it easy to run and valuable for promoting good employee and community relations.

To find out more you can

- call **0845 3 02 02 03** for an Employer's Information Pack which will tell you all you need to know to get started
- visit the Payroll Giving pages on the Inland Revenue website, **or**
- call Inland Revenue Charities
St John's House
Merton Road
Bootle
Merseyside
L69 9BB
Phone **0845 3 02 02 03**

You can get tax relief for the costs of administering the scheme. Agencies usually recover their costs by making a deduction from the donations they handle but, if you choose to fund any of the agency's costs, or match your employees' donations, you can get relief for that as well.

If you already offer Payroll Giving, remember that employees are entitled only to tax relief, not relief from NICs. When completing form P11 therefore, you

- deduct the amount of the authorised donation from the employee's gross pay for PAYE purposes
- do **not** deduct the amount of the authorised donation from the employee's gross pay for NICs purposes.

Incentive Awards

Employees may receive incentive awards from you the employer, or a third party.

Awards may be made in cash, goods, holidays, prizes and so on, or vouchers exchangeable for them.

An example of a third party making awards is where in the course of a sales promotion, the manufacturer of the product gives awards to salespersons whose direct employer is actually selling the product in question.

29 Cash awards and awards made by voucher which can be exchanged for cash

If you provide an award, the value of that award must be included in the employee's gross pay and PAYE and NICs worked out on it in the normal way.

If a third party provides an award, the third party is responsible for deducting PAYE from the award and should seek advice on what to do from their Inland Revenue office. The value of that award must also be reported to you to enable you to account for the NICs due.

You can seek advice on what to do for PAYE and NICs purposes from the Employer's Helpline by calling **0845 7 143 143**. Calls are charged at the local rate.

30 Non-cash awards and vouchers which cannot be exchanged for cash

For PAYE purposes

If you provide the award, you can **either**

- fill in the gross value of the award on form P9D or P11D, **or**
- account for the tax by
 - entering into a Taxed Award Scheme (see paragraph 35) to account for tax on the value of the award grossed at the basic or higher rate of tax, or
 - entering into a PAYE settlement agreement (see page 83) to pay in a lump sum the tax on the value of the award grossed up by reference to the employee's rate of tax.

If a third party provides the award they can only account for the tax by entering into a Taxed Award Scheme.

Promoters who sell incentive schemes or operate them for others cannot account for tax on awards except those made for their own employees.

*For NICs purposes**Non-cash awards other than non-cash vouchers*

Some non-cash awards attract Class 1 NICs and others Class 1A NICs. See under 'What to include as gross pay on form P11' in Chapter 5, page 73 for details. You the employer are liable for any Class 1 NICs even if a third party provides the awards to your employees. But, where the award attracts a Class 1A NICs liability, the third party is liable unless you arrange the award. They can account for the Class 1A NICs by entering into a Taxed Award Scheme. For further advice see CWG5(2005), Part 6, 'Third Party benefits' or call the Employer's Helpline on **0845 7 143 143**.

Non-cash vouchers

Payments made by way of non-cash vouchers, with certain exemptions (see below), attract liability for NICs. Unless exempt, a payment which is derived from the employee's employment, made by you or by a third party under arrangement with you, must be included in gross pay and NICs accounted for in the normal way. That is, you must add the cost to you in providing those non-cash vouchers to any other earnings paid in the earnings period and work out NICs on the total.

Most non-cash vouchers provided by third parties where the direct employer does not arrange the provision are excluded from Class 1 NICs and so do not need to be included as gross pay on form P11. They are liable to Class 1A NICs which is payable by the third party. (See booklet CWG5(2005) *Class 1A National Insurance Contributions on Benefits in Kind*, for details.) However, vouchers provided by third parties in connection with the provision of readily convertible assets – see pages 94-97 – always attract Class 1 liability and the direct employer is responsible for the NICs.

Employer pays an employee's tax

If in addition to making an award you pay all or part of an employee's tax due on that award, the tax paid must also be included in the employee's gross pay when calculating NICs. This is the case regardless of whether the tax is accounted for via a Taxed Award Scheme. You must include the amount of tax paid in the employee's gross pay at the time the tax is paid over to Inland Revenue Accounts Office.

Third Party pays an employee's tax

You should also include tax paid on an employee's behalf by a third party where the tax is in relation to cash payments, cash vouchers or benefits in kind subject to Class 1 NICs which the third party has provided to your employees. Where the tax is in relation to benefits in kind, which are subject to Class 1A NICs, the third party will be responsible for

paying Class 1A NICs on the amount of tax paid. The third party will also have to account for that payment through a Taxed Award Scheme.

PAYE Settlement Agreements

It is acceptable for PAYE Settlement Agreements to include non-cash voucher awards you give to your employees as long as they are 'minor' or 'irregular'. In that event Class 1B NICs rather than Class 1 or Class 1A NICs will be due. If you have such an agreement and are in any doubt as to whether you are complying with the terms of it, get in touch with your Inland Revenue office.

For further information about liability for NICs on items included in PAYE Settlement Agreements, see page 83.

Apportionment

If an award is made for the benefit of more than one employee, see paragraph 33 for details of how to apportion the award between those employees for NICs purposes.

31 Valuing cash vouchers for NICs purposes

Cash vouchers are vouchers that can be exchanged for an amount of money which is not much less than the expense the employer or third party incurs in providing them. The amount to include in gross pay is the surrender value of the voucher.

32 Valuing non-cash vouchers for NICs purposes

The 'value' of a non-cash voucher is, apart from two exceptions, the cost to you in providing it. If a third party is providing it, then it is the cost to that third party. The cost in providing a non-cash voucher is not normally the face value unless, exceptionally, the cost in providing it and its face value are the same.

The exceptions are luncheon vouchers and childcare vouchers for which the 'value' is the face value of the voucher.

The 'cost' in providing a non-cash voucher includes the cost of

- buying the goods or providing the services
- selecting and testing those goods or services
- storing, distributing and installing the goods or services
- servicing and other 'after sales' expenses.

As such, a non-cash voucher is valued for NICs purposes in the same way as for tax.

33 Apportioning the value of vouchers between employees for NICs purposes

If you provide a voucher which attracts a NICs liability for the benefit of more than one employee, the value of the voucher must be apportioned between those employees. You must include in each employee's gross pay the proportionate amount of the total value each employee enjoys.

If you are unable to determine the correct proportionate amounts, you must split the total value equally and include that amount in each employee's gross pay.

Example 1

An employer buys a retail voucher at a cost of £300. It provides the voucher to three employees with the intention that

- employee A will receive 50% of the voucher's value
- employee B will receive 30%; and
- employee C will receive 20%

The amount of earnings to be included in each employee's gross pay is

- employee A – $£300 \times 50\% = £150$
- employee B – $£300 \times 30\% = £90$
- employee C – $£300 \times 20\% = £60$.

Example 2

An employer buys a retail voucher at a cost of £300. It provides the voucher to three employees with the intention each employee will receive an equal amount of the voucher's value.

The amount of earnings to be included in each employee's gross pay is:
 $£300 \div 3 = £100$ each.

34 Non-cash vouchers exempt from NICs

The following types of non-cash voucher, provided to an employee, are exempt from NICs liability

- provided to an employee of a passenger transport undertaking so long as
 - arrangements for the provision were in operation on 25 March 1982, and
 - the employee is earning at a rate of less than £8,500, and
 - the voucher enables the employee to obtain transport
- for leave travel facilities for members of Her Majesty's forces
- for use to obtain fuel for a company car where a car fuel tax charge arises on that provision
- for motoring expenses for a van provided for private use where a tax charge arises on that provision
- for sports and recreational facilities so long as those facilities are available generally to all employees
- long service awards so long as
 - the length of service is not less than 20 years, and
 - the cost of providing the voucher is not more than £50 for each year of service, and
 - the employee concerned has not received another long service award within the preceding 10 years
- social functions, such as a Christmas party, so long as
 - the function is open to all employees, and
 - the cost of providing the voucher is not more than £150 a head
- for travel by any means between home and work by an employee who is disabled
- for the hiring of a cycle or cyclist's safety equipment so long as
 - the facility is available to all employees; and
 - the cycle or equipment is used mainly for journeys from home to work
- the first £50 a week of childcare vouchers provided to cover all or part of the cost and expenses of childcare where all conditions are met
 - the childcare is for a child or children up to 1 September after their 15th birthday (or 1 September after their 16th birthday if the child is disabled)
 - the childcare is for a child of the employee or a child who lives with the employee for whom they have responsibility
 - the childcare is registered or approved childcare
 - the childcare vouchers are provided as part of a scheme available to all of your employees or all of your employees at a location where the scheme is offered
- for meals provided on your premises or canteen so long as
 - the meals are provided on a reasonable scale, and
 - are available to all employees
- luncheon vouchers up to 15 pence a day and a maximum of £1.05 a week
- for a car, motorcycle or bicycle parking space at or near an employee's place of work

- to obtain goods or services in connection with a car provided for private use and on which a tax charge arises
 - for travel between home and work on a work's bus so long as
 - the bus service is available to all employees, and
 - the main use of the service is for home to work or between workplaces, and
 - the service must largely be used by the employees or their children, and
 - the service must be provided by a bus with a seating capacity of 12, or a minibus with a seating capacity of nine or more
 - for use in connection with additional travelling and subsistence costs incurred as a result of disrupted public transport
 - for use by an employee for any necessary travel and accommodation costs in connection with the transfer between the mainland and an offshore oil or gas rig, or platform
 - for late night journeys between home and work so long as
 - the employee is occasionally required to work late, and
 - by the time they can go home, public transport has stopped or it is unreasonable to expect them to use it
 - for use where normal car sharing arrangements have broken down due to unforeseen or exceptional circumstances
 - as an award under a suggestion scheme so long as the conditions for exemption from tax are satisfied. Ask your Inland Revenue office for details
 - for incidental overnight expenses so long as
 - the amount does not exceed prescribed limits
 - £5 a night for an overnight stay in the UK or £10 a night outside of the UK, and
 - other conditions are satisfied
- For further details, see booklets, 480 *Expenses and benefits - A tax guide*, and CWG5(2005) *Class 1A National Insurance contributions on benefits in kind – A guide for employers*
- to obtain gifts (but not cash) so long as
 - the voucher is provided by a third party who is not connected to you, and
 - you have not directly or indirectly procured the voucher, and
 - the voucher is not being provided in recognition of the employee's past or future performance, and
 - the amount does not exceed £250

- provided by a third party where that provision has not been arranged or facilitated by you. But a Class 1A NICs liability will arise in such circumstances, which liability is that of the third party. For further details, see CWG5(2005) *Class 1A National Insurance contributions on benefits in kind - A guide for employers*.

35 Taxed Award Schemes

Providers of awards who wish to enter into a Taxed Award Scheme should contact

Inland Revenue
 Incentive Award Unit
 Chapel Wharf Area
 4th Floor
 Trinity Bridge House
 2 Dearmans Place
 Salford M3 5BH

Phone **0161 261 3269**

Fax **0161 261 3354**

E-mail **chapelwharf/iau@gtnet.gov.uk**

An information pack is available from Chapel Wharf Area.

Under a Taxed Award Scheme (TAS), providers will have to

- agree in advance how the awards are to be valued
- sign a contract with the Inland Revenue under which they have to account for tax on the value of the awards grossed up at the appropriate rate
- make returns of the awards. Please note that the returns differ for basic rate and higher rate schemes. Less information is needed for higher rate schemes
- give to each employee receiving an award under a higher rate scheme a certificate showing the value of the award and the amount of tax paid on it. For basic rate schemes certificates need only be given to employees who request them.

Employers who use the TAS arrangements for incentive awards, and third parties who provide such awards, can report liability for Class 1A NICs and account for the NICs through the TAS arrangements. See CWG5(2005) and the explanatory notes in the TAS information pack.

Holiday pay

This section describes the special rules for working out NICs and deducting PAYE on certain types of holiday payments.

36 Holiday pay in the construction industry and similar schemes

The following information relates to schemes for holiday pay in the construction industry or similar schemes when a group of employers contribute to a central, independently managed holiday pay fund (such as electrical contracting, heating, ventilation and domestic engineering industries).

For PAYE purposes

Include in gross pay

- all holiday pay that is paid by **you**
- the cost of holiday pay stamps or credits from an **unapproved** scheme. These must be treated as pay at the time when they are allocated to the employee (for example by sticking stamps on a card).

Do not include in gross pay

- the cost of holiday pay stamps or credits which are issued under a scheme approved by the Inland Revenue
- any holiday pay that is paid under an approved scheme by the fund itself. In these cases the fund will deduct tax on this at the basic rate and give the employee a Certificate of Tax Deducted.

For NICs purposes

Do not include in gross pay

- the amount spent on the special stamps or credits used in these schemes
- the holiday pay – whether paid directly by the fund or through you.

If you take part in one of these schemes but give holiday pay to some of your employees which does not come from the scheme's funds, include these amounts in gross pay.

37 Holiday pay from money set aside during the year

For holiday pay made up of amounts voluntarily set aside from your employees' pay during the year to be paid at a certain time, for example, Christmas or their annual holiday, **for both PAYE and NICs purposes** include the amount set aside in gross pay at the time it is set aside.

38 Holiday pay from a holiday credit scheme

For holiday pay from a holiday credit scheme when money is set aside each pay day to be paid in a lump sum when your employees take their holidays, **for both PAYE and NICs purposes**, include these amounts in gross pay

- at the time they are set aside if your employees have a right to be paid the money at any time, **or**
- when the payment is actually made if your employees can only have the money when they take their holiday.

39 Working out PAYE on holiday pay

You should normally work out PAYE using the tax tables for the week in which the holiday pay is paid and record it on the employee's form P11.

However, if the effect of the holiday pay is that the employee gets two or more weeks' pay in one week and no pay in the following week(s) then, unless week 53 is involved, work out and record PAYE in the last pay week for which the employee gets no pay, or the last day in the tax year if this is earlier.

Where PAYE is being worked out on a Week 1 or Month 1 basis, split the pay equally between the full weeks of the holiday and work out and record PAYE on each amount separately for each week. The total amount of PAYE due for these weeks is the amount you should deduct from the total holiday pay.

If the holiday overlaps into the next tax year, and the holiday pay is being paid in week 52, and if there would normally be

- 52 pay days in the tax year, all holiday pay paid in week 52 must be subject to PAYE in week 52
- 53 pay days in the tax year, and the holiday pay paid in week 52 includes the pay which would normally be paid in week 53, the amount that relates to week 53 should be subject to PAYE as a week 53 payment. The rest should be regarded as a week 52 payment. See page 14 for guidance about week 53 payments.

You must not use this system if

- the employee gets normal pay during the holiday period
- you know that the employee is leaving or retiring immediately after this holiday.

40 Working out NICs on holiday pay

If weekly paid employees receive a payment which covers more than one week and it is, or includes, holiday pay, you can work out NICs using one of two methods.

Method A

Split the sum up and work out NICs on the payment for each week separately.

Example

On the last pay day before their holiday, you pay employees their ordinary weekly wage plus two weeks' holiday pay.

Work out NICs on each week's pay separately and record them in the corresponding weeks on the employees' forms P11.

Method B

Work out NICs on the whole sum based on the number of weeks it represents. Round up parts of a week.

Example

On the last pay day before their holiday, you pay employees their ordinary weekly wage plus two weeks' holiday pay.

NI Tables used to work out NICs

Work out NICs on a three week basis by dividing the total earnings on which NICs are payable by 3, looking up this figure in the appropriate weekly table and multiplying the NICs shown in the table by 3.

Exact percentage method used to work out NICs

Any of the following methods for calculating NICs is acceptable

1. apply the 3-weekly lower and upper earnings limits and earnings threshold to the total payment and round the resulting NICs figures to the nearest penny, rounding down exact amounts of £0.005, in the normal way, or
2. divide the total payment by 3 to establish the average weekly earnings, work out the weekly NICs figures, round to the nearest penny, rounding down exact amounts of £0.005, then multiply the answers by 3 to get the total NICs due, or
3. divide the total payment by 3 to establish the average weekly earnings, work out the weekly NICs figures, multiply the answers by 3, then round to the nearest penny, rounding down exact amounts of £0.005, to get the total NICs due.

Method B can also be used

- for employees who are paid at intervals which are multiples of a week, for example fortnightly or four weekly, *but if you use the exact percentage method to work out NICs you must use method 1 above*
- even if the employee does not take the holiday but carries on working.

Method B cannot be used

- for monthly paid employees
- if holiday pay is from a holiday pay scheme in the construction industry or similar scheme.

If you do not calculate holiday pay based on the length of the holiday but in some other way, for example, according to an employee's length of service, treat the amount of holiday pay as spread evenly over the period of the paid holiday.

Holiday pay paid in advance and the employee stays at work

If an employee stays at work instead of taking their holiday and you have already worked out NICs on the holiday pay, the additional NICs due on their wages for working is dependent on how the NICs on the holiday pay were calculated.

If Method A was used

- add together the pay now due and the holiday pay already paid for that week and work out NICs on the total amount
- subtract from the amount of NICs calculated the NICs already paid on the holiday pay for that week to get the amount of NICs now due
- amend the employee's form P11 to reflect the new figures.

If Method B was used

- do not add the holiday pay to the pay due for working but
- work out and record NICs separately on the pay due for working in the normal way.

Holidays taken some time after the holiday pay is received

If weekly paid employees do not take their holiday until some time after receiving the pay for it, for example, a security guard who receives their holiday pay before the employer's annual close down but stays on duty and takes the holiday later, work out and record NICs on the holiday pay at the time it is actually paid.

Holiday pay in advance or arrears

If holiday pay is paid in advance or arrears and the actual date of payment and the usual pay day are in different tax years and you are using Method A, see page 35 under 'Working out NICs for employees not paid on their usual pay day'.

41 NICs on payments due to be paid during a holiday period

If payments are due to be paid during a holiday period, the NICs due on the payment is dependent on how NICs were worked out on the holiday pay for the week in which payment is due to be made. For example, an employee is due to be paid for overtime worked but because of the payroll arrangements the overtime does not become payable until the employee is on holiday.

If Method A was used to work out NICs on the holiday pay, regardless of the week in which the payment is actually made

- treat the payment as belonging to the week in which it would normally have been made (had the employee not been on holiday)
- add the payment to the holiday pay due for that week
- work out NICs on the total
- take into account the NICs already paid on the holiday pay for that week
- adjust the employee's form P11 to reflect the correct NICs figures.

However, if the payment is actually made in a different tax year to the one in which it was due to be made, work out NICs separately on the payment based on the contribution rates and limits current at the time of payment.

If Method B was used to work out NICs on the holiday pay, and

- **if payment is actually made in the week in which it was due to be made**
treat it separately from the holiday pay due for that week and work out NICs on it in the normal way
- **if payment is made at a later date**
for example, when the employee returns to work, add it to the payment due for that period and work out NICs on the total.

Examples

These examples are based on 2005–06 contribution rates and limits for an employee paying NICs under contribution Table letter A. NICs are worked out using the exact percentage method.

On 5 August the employee is paid	£
Basic wages for working 1 – 5 August	200
plus	
Holiday pay for 6 – 12 August	150
plus	
Holiday pay for 13 – 19 August	<u>150</u>
Total	500

On 26 August the employee is paid
Basic wages for working 22 – 26 August 200

The employee worked overtime during the week 1 – 5 August and was due to receive the overtime payment of £80 on 12 August.

Example 1 Method A

Based on the employee being paid the overtime payment on 26 August

On pay day of 5 August NICs are due

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)	25.23	11.66
£150 (holiday pay)	13.33	6.16
£150 (holiday pay)	13.33	6.16
Total	51.89	23.98

On 26 August the employee is paid the overtime of £80. As the employee was due to receive this on 12 August, the £80 has to be added to the holiday pay for the week 6 – 12 August and NICs worked out again.

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)	25.23	11.66
£150 (holiday pay)		
+ £80 (overtime) =		
£230	32.37	14.96
£150 (holiday pay)	13.33	6.16
Total	70.93	32.78

On the pay day of 26 August, as the overtime payment has already been accounted for, NICs are only due on the wages for that week as follows

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)	25.23	11.66

Example 2 Method B

Based on the employee being paid the overtime payment on 12 August

On pay day of 5 August NICs are due

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)		
£150 (holiday pay)		
£150 (holiday pay)	-	
£500 ÷ 3 =		
£166.66 per week	17.29	7.99
	<u>x3</u>	<u>x3</u>
Totals	51.87	23.97

On 12 August, the employee is paid the overtime of £80. NICs must be worked out on this separately from the holiday pay payment of £150 for that week and therefore the NICs due are

Earnings	Total Contribution	Employee's Contribution
	£	£
£80 (overtime)	NIL	NIL

Example 3 Method B

Based on the employee being paid the overtime payment on 26 August

On pay day of 5 August NICs are due

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)		
£150 (holiday pay)		
£150 (holiday pay)	-	
£500 ÷ 3 =		
£166.66 per week	17.29	7.99
	<u>x3</u>	<u>x3</u>
Totals	51.87	23.97

On 26 August, the employee is paid the overtime of £80 in addition to the wages due for that week. Add the overtime payment to the wages and work out NICs on the total. NICs due are therefore

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)		
+ £80 (overtime)		
= £280	44.27	20.46

Youth Training (YT)**42 Young person taken on as an employee**

If you take on a young person under the YT arrangements as an employee everything the young person receives (that is the YT allowance and any top-up payment you make) is included as gross pay for both PAYE and NICs purposes.

Where you pay a top-up allowance to such a young person and do not pay the YT allowance directly to the employee, you should

- work out the PAYE and NICs due on the total of the top-up and YT allowance amounts
- when you have worked out the employee's net pay, deduct the amount of the YT allowance to find out how much you should hand to the employee.

43 Young person taken on as a trainee and not as an employee

If you take on a young person under the YT arrangements as a trainee and not as an employee and the young person receives only the YT allowance, the allowance does not count as pay for either PAYE or NICs purposes.

Where you take on such a young person and consider making payments to the trainee, either to top-up the allowance or as a payment for work done over and above the normal working week, you should contact the Employer's Helpline by calling **0845 7 143 143**. Calls are charged at the local rate.

New Deal (ND)

If you take on someone under the ND, the tax and NICs treatment of payments made to the ND participant depends on the method of payment to the ND participant.

44 Payments to a ND participant

Paying a wage

If you are an employer or ND placement provider and you pay the ND participant a wage, the wage will be subject to PAYE and NICs. This applies if you are

- an employer, and you employ a ND participant in respect of whom you receive a subsidy, or
- a New Deal Environment Task Force (ETF) Option placement provider offering wage based placements, or
- a New Deal Voluntary Sector (VS) Option placement provider offering wage based placements.

Chapter 2

Training allowance

If you take someone on under a Full-Time Education and Training placement, or on an allowance based ETF or VS placement, the ND participant will receive a training allowance from the Employment Service. You do not pay the participant a wage. No PAYE or NICs are due on this allowance.

New Deal 50 plus

There is no tax or NICs liability on employment credits to employees aged 50 or over under New Deal 50 plus.

To find out more about New Deal

- contact your local Jobcentre
- call **0845 606 2626**
- visit **www.newdeal.gov.uk**

Tips, gratuities, service charges and tronc

A tip or gratuity is an uncalled for and spontaneous payment offered by a customer either in cash, as part of a cheque payment, or as a specific gratuity on a credit/debit card slip.

A service charge is an amount added to a customer's bill before it is presented to the customer. If it is made clear to the customer that the charge is a purely discretionary amount and that there is no obligation to pay, the payment is a voluntary service charge. Where that is not the case, the payment is a mandatory service charge.

To establish the correct PAYE and NICs treatment of the payments described above, you must identify both the nature of the payment and the arrangements under which it is paid.

A tronc is a special pay arrangement used to distribute tips, gratuities and service charges.

You must notify your Inland Revenue office when you first become aware of the existence of a tronc and give the troncmaster's name, if known.

For PAYE purposes

If a scheme is operated for the sharing of tips/gratuities or service charges between your employees, please inform your Inland Revenue office of the arrangements adopted to pay the money.

If as an employer you operate a scheme that pays your employees a share of tips/gratuities (including cash tips received by employees and handed to you by the employees for sharing) or service charges (whether voluntary or mandatory) you must include the amount paid to each employee in their gross pay and deduct PAYE accordingly.

If separate organised arrangements exist for sharing tips/gratuities and service charges, for example,

employees are paid out of a tronc, then the troncmaster is responsible for operating PAYE on all payments made from the tronc, including any share of cash tips. The word 'tronc' should be written in the space for the works number on the employee's form P11, End Of Year Summary and any forms P46 or P45 (Part 3) which the troncmaster should prepare.

PAYE is not applicable only where cash tips are received directly from a customer by employees and are retained by the employees, so that the monies never pass through your hands. Such tips are however taxable directly on the employees.

For NICs purposes

If you impose a mandatory service charge and the money is paid out to your employees, NICs are due on the payments no matter what arrangements are in place to share out the money.

If your employees receive tips/gratuities/voluntary service charges you should use the flowchart on the following page to decide if NICs are due.

Where NICs are due, the responsibility for working out and recording the NICs will always be yours, as the employer.

If a troncmaster makes a payment to your employees on which NICs are due, make sure you

- know the amount being paid and the date(s) of payment, **and**
- include the payments in gross pay when working out NICs, **and**
- show these payments on the employees' forms P11.

The troncmaster should record the amounts on which NICs are due separately from any tips or gratuities on which NICs are not payable.

If you are not satisfied with the arrangements, it may be advisable to

- share out the payments yourself, **or**
- get the formula for sharing out the payments put into the job contract.

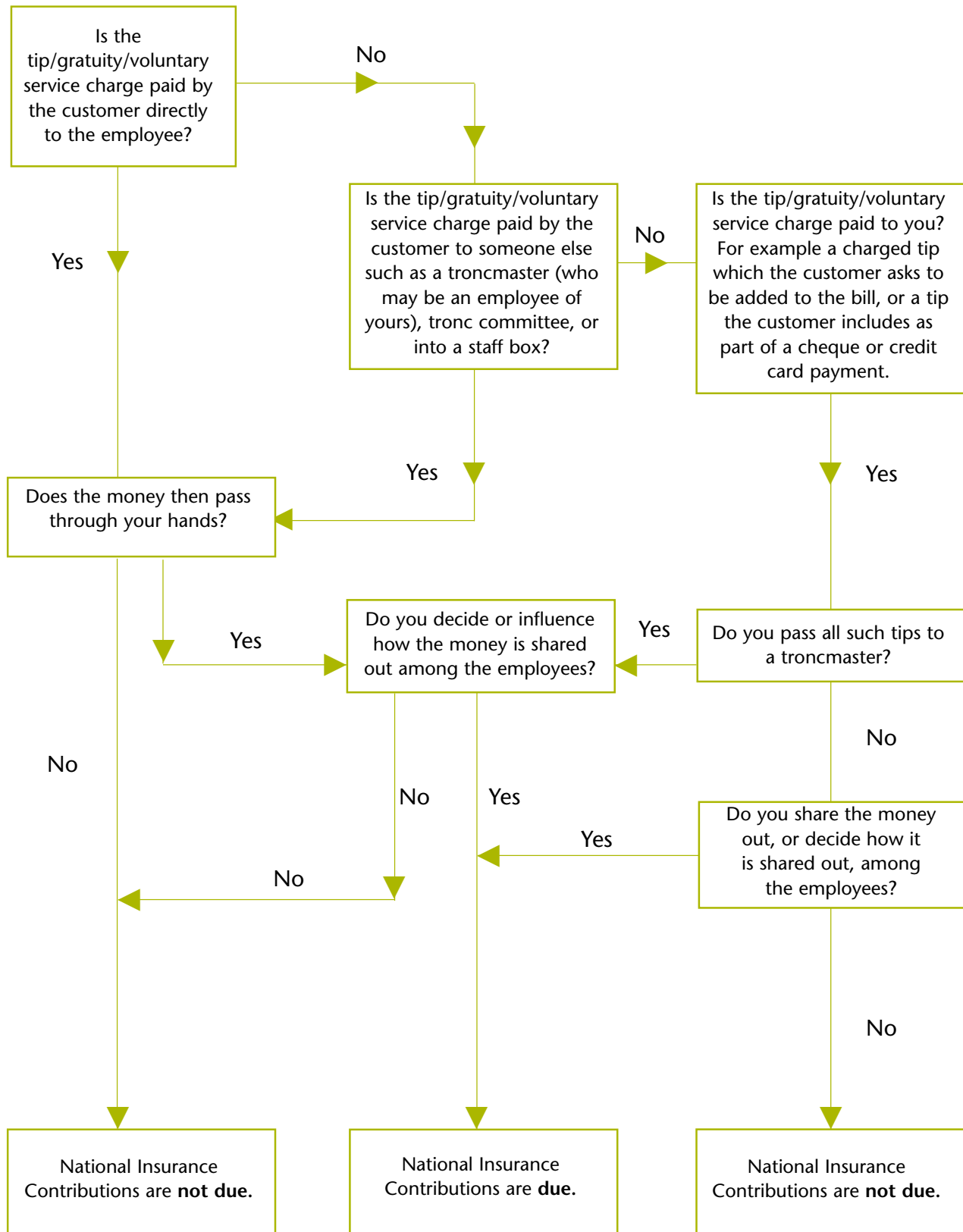
It may also be advisable if you took responsibility yourself for paying all earnings to any employee whose basic pay is not enough for full deductions of PAYE and NICs to be made.

More detailed guidance can be found in booklet E24 *Tips, Gratuities, Service Charges and Troncs. A guide to Income Tax, National Insurance contributions, National Minimum Wage issues and VAT.*

The booklet can be found on

- the Internet at **www.inlandrevenue.gov.uk/employers**
- the Employer's CD-ROM.

45 Tip/Gratuity/Voluntary service charge flowchart



Employees involved in a trade dispute or lock-out

46 When the special procedures apply and what they entail

The special procedures must be applied to employees who are absent from work because they are either

- taking part in a trade dispute, **or**
- laid-off and have a direct interest in a trade dispute.

The special procedures for such employees are as follows:

- You must withhold any tax refunds due to the employees for as long as they are involved in the trade dispute. This applies even if an employee becomes sick after the trade dispute starts.
- You pay any tax refunds that you have withheld only when one of the following circumstances arise
 - the employee returns to work
 - the employee leaves your employment
 - the employee dies.

47 How to decide if any employee is involved in a trade dispute or lock-out

It is up to you, the employer, in the first place to decide if an employee is involved in a trade dispute. Make your decision in the same way as you do for a report called for by the Employment Service Jobcentre, and contact them if you are in any doubt or difficulty.

Where you decide an employee is involved in a trade dispute but he or she disagrees, advise the employee to contact the local Employment Service Jobcentre. If they uphold the employee's view they will give the employee written confirmation that he or she is not disqualified from receiving Jobseekers Allowance for being involved in a trade dispute.

Where an employee produces such written confirmation

- you cannot treat the employee as being involved in a trade dispute
- the special procedures do not apply and you must pay the employee any tax refunds due.

48 Working out PAYE during the trade dispute

If you are not paying anything to employees involved in a trade dispute you may put off working out their PAYE until the earlier of the end of the trade dispute or 5 April. If you do put off working out their PAYE

- you will not be able to deduct from your payments to the Accounts Office (see paragraph 49 below) any refunds you have withheld
- where during the dispute an employee leaves your employment or dies, you must work out his or her particular PAYE in the normal way and
 - pay any refund due including any refund withheld in a previous tax year
 - complete form P45 in the usual way.

If you are paying anything to employees involved in a trade dispute or you are not paying them anything but nevertheless choose to work out their PAYE, you must

- make the PAYE calculations in the normal way
- where the PAYE calculations
 - show that a tax refund is due, withhold the refund from the employee
 - show that tax is deductible, make the deduction from any pay the employees are receiving. Any tax deductible should be reduced by any tax refund that you are already withholding from the employee. Remember, however, to reduce the amount of refund owed to the employee by the amount used by the set-off.

49 Payments to the Accounts Office during the trade dispute

During a trade dispute the procedures that apply in relation to the payments you make to the Accounts Office are as follows:

- Payments you have made to the Accounts Office for any tax month (or quarter where appropriate) ended before the trade dispute started, are not affected by the trade dispute.
- You must continue to make your monthly (or quarterly) payments to the Accounts Office during the trade dispute.
- If you are owed money because you made tax refunds before the dispute started but did not make a claim to the Accounts Office, you may deduct what you are owed from any amount you are due to pay to the Accounts Office during the trade dispute.

If you have put off working out the tax refunds due to your employees, you will need to do your calculations at the earlier of

- the end of the dispute, **or**
- when you complete forms P14 and P35 at the end of the tax year.

You can then deduct the refunds from the payments to the Accounts Office and/or claim what you are owed back from the Accounts Office, who will deal with the matter urgently.

If you have chosen to continue as normal to work out the tax refunds due to your employees you should observe the following procedures when making your monthly (or quarterly) payments to the Accounts Office:

- You may deduct from your payments to the Accounts Office, any refunds you actually make to employees because they are no longer involved in the trade dispute. (Remember, however, not to deduct from your Accounts Office payment any amount of withheld refund you have previously deducted under the procedure below.)
- You may deduct from your payment to the Accounts Office, **but only for the month (or quarter if appropriate) in which the refund arises**, any refunds calculated but withheld.
- Where the amount of withheld refunds exceeds the tax due for that month (or quarter) you may deduct the excess from any payment of NICs due. Your remittance payslip should show the Income Tax as a '**minus**' amount in such cases. For example, if the excess tax is £569.50 and the net NICs are £1340.06, your payslip should show

Income Tax	(minus) £569.50
Net NICs	<u>£1340.06</u>
Payment	£770.56

- Where the amount of withheld refunds exceeds the tax and NICs due for that month (or quarter), the excess refunds cannot be deducted from any subsequent payment to the Accounts Office or be claimed back from the Accounts Office until the refunds have actually been made to the employees.

50 Trade dispute ends in the same tax year it began

If the trade dispute ends in the same tax year it began, take the following action:

- Pay any refunds that you have withheld as soon as possible after the employees return to work.
- Follow the procedure at paragraph 52 for any employee whose withheld refund you cannot pay.
- Work out how much you owe to, or are owed by, the Accounts Office. Remember to allow for any deductions from payments to the Accounts Office that you have already made.
- Where your calculations show that you are owed by the Accounts Office you can **either**
 - deduct the amount you are owed from future payments you make to the Accounts Office, or

- claim the money back from the Accounts Office who will deal with your claim urgently your claim must be in writing and show how you have worked out the amount you are claiming.

51 Procedure at the end of the tax year if the trade dispute has not ended

You must take the following action at the end of the tax year if the dispute has not ended:

- Fill in the normal end of year forms as if you had actually paid the refunds you are withholding.
- Complete form P60 to give to the employee, by 31 May and, **either**
 - enter a single figure of tax deducted on form P60 and give the employee a statement of tax withheld on form P61, **or**
 - give a separate statement on form P60 of the tax withheld and give the employee a form P62. (You can get forms P61 or P62 from your Inland Revenue office.)
- Continue, for the following tax year, to
 - carry out normal PAYE calculations
 - withhold the tax refunds for as long as the employee is involved in the trade dispute.

52 Procedure for employees whose withheld refunds you cannot pay at the end of the trade dispute

Where an employee does not return to work at the end of the trade dispute, and you do not know where he or she is, you will not be able to pay the withheld refund to the employee. You should take the following action in such circumstances:

- Pay to the Accounts Office any tax you have not refunded to employees within 42 days of the end of the trade dispute.
- Where form P35 for the tax year to which the refund relates has not been sent in, note your records to ensure that you include the figure of tax not refunded on form P14 and P35 at the end of the tax year.
- Where form P35 for the tax year to which the refund relates has been sent in
 - prepare an additional form P14 for each employee involved to show the amount of tax which has not been refunded
 - send these additional forms P14 to your Inland Revenue office with a covering list of names, amounts and the total of the unrefunded tax.

53 – 59 not used - reserved for future use

Earnings periods for NICs purposes

Ordinarily, the earnings period for working out NICs is the regular interval between which payments of earnings are made.

Paragraphs 60 to 64 describe how to decide what the earnings period is in different circumstances. The rules described in those paragraphs ordinarily **do not apply** to directors. For details on the earnings period to use for directors, and see the booklet CA44 *National Insurance for Company Directors*.

60 Employees paid at regular intervals

If you pay your employees at regular intervals for example, weekly or monthly, the earnings period for working out NICs is that regular interval.

If payments are made based on a regular interval but the actual day you pay them changes

- treat them as paid at the regular interval, and
- work out NICs separately on each payment even if two or more payments are made in the same earnings period.

See the chart on pages 8 to 11.

61 Employees not paid at regular intervals but who can be treated as paid at regular intervals

If a payment is not made at regular intervals, there may be a regular pattern covering the period for which each payment is made. In such cases, that regular pattern should be used as the earnings period.

Example

If you pay your employees once a month and their contract shows their pay as a monthly amount, treat them as monthly paid even if sometimes they are paid for four weeks work and sometimes for five weeks work.

See the chart on pages 8 to 11.

62 Employees paid at irregular intervals

If the interval between payments to employees is not regular, and cannot be treated as being regular, the earnings period for working out NICs is the period which the payment covers, or one week, whichever is longer.

If it is not reasonably practicable to determine the earnings period in this way, the earnings period will be from the date

- of the previous payment to the date of the current payment, or

- the employment began to the date of the first payment. See page 15.

If either period is less than one week, the earnings period is one week.

The earnings period for a payment made before the employment begins or after it ends is one week.

If an employee is paid in irregular or unequal payments and it is established that this avoids, or reduces, the payment of NICs, you can be directed to work out NICs on a different basis. In such cases, the Inland Revenue National Insurance Contributions Office will inform you of the basis to use.

63 More than one set of regular payments

As a general rule, if an employee is paid more than one set of regular payments, all payments must be added together and NICs worked out using the shorter of the regular intervals between payments.

Example

If an employee receives basic pay on a weekly basis and commission on a monthly basis, NICs are worked out on the total pay based on a weekly earnings period.

However if you pay an employee at more than one regular interval and it is established by the Inland Revenue National Insurance Contributions Office that most of the earnings are paid at the longer (or longest) interval, you may be directed to work out NICs using the longer (or longest) interval.

If you are directed to use an annual earnings period to work out NICs, the earnings period for the rest of the tax year in which the direction is made will be the number of weeks left in that tax year.

64 Working out NICs when you first pay an employee

When you first pay an employee, you must work out NICs based on what will be the **normal** earnings period for the employment using the contribution rates and limits current at the actual time of payment.

If the interval between an employee starting work and the first pay day is less than the normal earnings period, still work out NICs using the normal earnings period.

Example

A new employee starts work on 11 August and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first pay day is 31 August. Work out NICs using a monthly earnings period.

If the interval between an employee starting work and the first pay day spans two or more earnings

periods, and each period is in the same tax year, work out NICs on the amounts due for each of those earnings periods separately using the normal earnings period.

Example

A new employee starts work on 6 June and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first pay day is 31 July. The employee receives £2250 gross pay which is made up of

£750 for the period 6 June – 30 June
£1500 for the period 1 July – 31 July.

Work out NICs separately on the payment

- for June of £750 and record NICs on the employee's form P11 in tax month 3
- for July of £1500 and record NICs on the employee's form P11 in tax month 4.

If the interval between an employee starting work and the first pay day spans two or more earnings periods, and the relevant earnings periods are in different tax years, work out NICs on the earnings due for each period separately using the normal earnings period. Use the contribution rates and limits current at the time the earnings are actually paid.

Example

A new employee starts work on 14 March and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first pay day is 30 April. The employee receives £1950 gross pay which is made up of

£450 for the period 14 March – 31 March
£1500 for the period 1 April – 30 April

Work out NICs separately on the payment

- for March of £450 using 2005–06 contribution rates and limits and record NICs on the employee's form P11 in tax month 1 of 2005–06
- for April of £1500 and record NICs on the employee's form P11 in tax month 1.

Working out NICs for employees not paid on their usual pay day

Take the following action if you pay employees on a day other than their usual pay day, for example, you bring the pay day forward because of a Bank holiday or you pay two months' salaries together to employees who submit their timesheets late. If the actual date of payment and the usual pay day are

- **in the same tax year**
treat the early or late payment as if it had been made at its usual time.

Example

Two separate weeks' wages for weeks ending 3 June and 10 June are paid on 10 June. Work out NICs separately on each week's payment. Record the NICs information for the late 3 June payment on the employee's form P11 on the line covering 3 June.

- **in different tax years**
work out NICs on the early or late payment separately from any other payments made in that tax year, using the contribution rates and limits appropriate to the year in which the payment is actually made.

Example

Two separate weeks' wages for weeks ending 1 April and 8 April are paid on 1 April. Work out NICs on each set of earnings separately using the usual earnings period, but record the total NICs for both the early 8 April payment and the 1 April payment together on the employee's form P11 on the line covering 1 April.

- **in both the same and different tax years**
look at each payment individually and decide which of the above rules applies to that payment.

Example

An employee is paid monthly on submission of a timesheet. The employee submits timesheets for February 2005, March 2005 and April 2005 during May 2005. Work out NICs on the payments due for February and March separately using the 2005–06 contribution rates and limits. Record the NICs separately in tax month 2. Work out NICs on the payments for April and May separately and record the NICs in tax months 1 and 2 respectively.

Changing the method of working out NICs

You may work out NICs using either

- the contribution Tables supplied by the Inland Revenue National Insurance Contributions Office, **or**
- the exact percentage method. This is when you apply the appropriate percentage rates to the gross pay for the earnings period.

You must use only one method for a particular employee in any tax year unless

- the employee changes to another payroll which already uses the other method
- you change your payroll system, for example, from manual to computer.

Employees with more than one job

This section describes the rules which govern the payment of NICs if an employee has more than one job.

65 An employee has two or more jobs with different employers and each one pays the employee

If an employee has another job or jobs with a different employer or employers, work out NICs in the normal way on the earnings you pay the employee. Ignore the payments made to the employee in the other job(s).

However, if you carry on business in association with the other employer(s), you must add together the earnings from each job and work out NICs on the total unless it is not reasonably practicable to do so. You may be asked to show why it has not been practicable to add together the earnings from each job. For advice on the type of information we use if we review your decision, see paragraph 67. In such cases, you should agree with the other employer(s) how to share out the payment of employer's contributions.

Employers are considered to be carrying on business in association with each other if

- their respective businesses serve a common purpose, **and**
- to a significant degree, they share such things as accommodation, personnel, equipment or customers.

66 An employee receives one payment of earnings for separate jobs with different employers

An employee may work for two or more employers in separate jobs but only get one payment of earnings.

If the employers

- are carrying on business in association with each other (see paragraph 65), NICs are due from the employer who actually pays the earnings.
- are not carrying on business in association with each other, each employer has to pay NICs on their share of the payment.

67 An employee has two or more jobs with the same employer

If an employee has two or more jobs with you at the same time, the general rule is that you must add all the earnings together and work out NICs on the total.

If the earnings from each job are separately calculated, you do not have to add the earnings from the separate jobs together if it is not reasonably

practicable to do so. For example, it might not be practicable to do so if you operate a computerised payroll system which is unable to perform the calculation and you would then have to do it manually. In such cases, you may be required to show why it has not been reasonably practicable to add the earnings together from each job.

There is no definition of the phrase 'not reasonably practicable' in National Insurance law. We rely upon the ordinary dictionary meaning and any relevant Court decisions.

The onus is on you as the employer to show that aggregation is not reasonably practicable. You will need to take into account the costs, resources, and the effects on running the business.

We consider the following points if we review your decision:

- Is it a fact that your payroll software cannot aggregate earnings?
- Is your payroll software provided by an external supplier or provided by an internal IT section?
- Does the provider of an outside IT package give an update service that includes aggregation?
- If the work has to be carried out manually, what are the costs?
- How many employees are potentially affected?
- Has there been a material change in the labour force since the decision not to aggregate was taken?

If you would like a more detailed discussion of the 'not reasonably practicable' test, please refer to either Tax Bulletin No.48 or section 10009 of the National Insurance Manual, both of which appear on our website. If you do not have access to the Internet, please contact your nearest Inland Revenue (National Insurance Contributions) Office for advice.

Working out and recording NICs when earnings from separate jobs are added together

68 NICs are due at the not contracted-out rate in all jobs

Work out NICs on the total earnings based on the shortest earnings period.

Only complete one form P11 and, at the end of the tax year, one End of Year Summary, form P14.

69 NICs are due at the contracted-out rate in all jobs and are covered by the same occupational pension scheme

This applies if all the jobs are in the same Contracted-out Salary Related (COSR) Scheme or the same Contracted-out Money Purchase Scheme (COMP) or COMP Stakeholder Pension (COMPSHP). Work out NICs on the total earnings based on the shortest earnings period.

Only complete one form P11 and, at the end of the tax year, one End of Year Summary, form P14.

70 NICs are due at the contracted-out rate in all jobs and are covered by different occupational pension schemes

This applies, for example, if an employee is a member of

- a Contracted-out Salary Related (COSR) Scheme in one job and a different COSR scheme in another job, **or**
- a Contracted-out Money Purchase (COMP) or COMP Stakeholder Pension (COMPSHP) Scheme in one job and a different COMP or COMPSHP scheme in another.

Work out NICs on the total earnings based on the shortest earnings period.

Complete one form P11 and, at the end of the tax year, one End of Year Summary, form P14.

In addition to completing a form P11, keep a separate record for each job showing the earnings between the lower and upper earnings limits for each job.

71 NICs are due at the contracted-out rate in one job and the not contracted-out rate in another

NICs must be worked out on the total earnings using the exact percentage method rather than the contribution tables. This is because the calculation of NICs in each table takes into account that portion of an employee's earnings which falls below the ET. This portion of earnings can only be disregarded once.

The examples on pages 38 to 53 explain what you need to do depending on whether or not the employee has an Appropriate Personal Pension (APP) or APP Stakeholder Pension (APPSHP) arrangement.

The examples use the rates and limits applicable to the 2005–06 tax year. NICs are worked out using the exact percentage method. For further information on using the exact percentage method see the Employer's Help Book E13 *Day-to-day payroll*.

The order in which to calculate **reduced** rate NICs is

- 1 first on earnings on which NICs are payable under table letter G if the employee belongs to the company's Contracted-out Money Purchase Scheme (COMP) or COMP Stakeholder Pension Scheme (COMPSHP)
- 2 then on earnings on which NICs are payable under table letter E if the employee belongs to the company's Contracted-out Salary Related Scheme (COSR)
- 3 finally on earnings on which NICs are payable under table letter B if the employee is in a not contracted-out employment

The order in which to calculate **standard** rate NICs is

- 1 first on earnings on which NICs are payable under table letter A if the employee has an APP or APPSHP
- 2 then on earnings on which NICs are payable under table letter F if the employee belongs to the company's COMP or COMPSHP scheme
- 3 then on earnings on which NICs are payable under table letter D if the employee belongs to the company's COSR scheme
- 4 finally on earnings on which NICs are payable under table letter A if the employee does not have an APP or APPSHP.

If you feel that sections 65 to 71 apply to you, and you need more information or help in this area, contact your nearest Inland Revenue (National Insurance Contributions) Office. The address and telephone number can be found in your local telephone directory.

71 continued

This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- **does not have** an APP or APPSHP arrangement, **and**
- NICs are due at the contracted-out rate in some jobs, **and**
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **weekly paid contracted-out** employment, and the employee does not have an APP or APPSHP arrangement, NICs are worked out using a weekly earnings period.

Example 1

Contracted-out earnings do not reach the lower earnings limit (£82 weekly), but total earnings do.

The employee's earnings are

- £62 a week from the contracted-out job (Table letter D)
 - £70 a week from the not contracted-out job (Table letter A)
- £132** a week total earnings from both jobs

The earnings period is weekly

NICs are due as follows

Employee's contributions are due at the appropriate not contracted-out percentage rate on earnings above the earnings threshold (£94) up to and including the upper earnings limit (£630).

Employee's contribution

$$\begin{aligned} &£132 - £94 \text{ (ET)} = £38 \\ &£38 \times 11\% = \mathbf{£4.18} \end{aligned}$$

Employer's contributions are due at the appropriate not contracted-out percentage rate on the total earnings above the earnings threshold (£94).

Employer's contribution

$$\begin{aligned} &£132 - £94 \text{ (ET)} = £38 \\ &£38 \times 12.8\% = \mathbf{£4.86} \end{aligned}$$

Total employee's and employer's NICs due = £4.18 + £4.86 = **£9.04**

Recording NICs

Complete one form P11 and record all details under contribution Table letter A

The employee's P11 would show

National Insurance contributions						Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit							
Earnings details						Contribution details							
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'			Employee's contributions due on all earnings above the ET				
1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p
82		12	00		38	00		9	04		4	18	

At the end of the tax year, complete an End of Year Summary, form P14, recording details under Table letter A

Assuming the employee worked for the same employer for the full 52 weeks, and the level of earnings each week remained unchanged throughout the year, the End of Year Summary, P14, would show

National Insurance contributions in this employment												(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UEL = Upper Earnings Limit)											
NIC table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL)(whole £s only) From col.1a on P11			Earnings above the LEL, up to and including the ET (whole £s only) From col.1b on P11			Earnings above the ET, up to and including the UEL (whole £s only) From col.1c on P11			Total of employee's and employer's contributions From col.1d on P11			If amount in col.1d is a minus amount, enter 'R' here	Employee's contributions due on all earnings above the ET From col.1e on P11			Scher (For C scherr Purch scherr						
	1a	£		1b	£		1c	£		1d	£	p		1e	£	p							
A	4	2	64	6	2	4	1	9	76	4	7	0	0	8	2	1	7	3	6	S			
																				S			
																				S			
																				S			

Statutory payments included in the pay 'In this employment' figure below															
Statutory Sick Pay (SSP)				Statutory Maternity Pay (SMP)				Statutory Paternity Pay (SPP)				Statutory Adoption Pay (SAP)			
1f	£	p		1g	£	p		1h	£	p		1i	£	p	

Pay and Income Tax details

71 continued

This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- **does not** have an APP or APPSHP arrangement, **and**
- NICs are due at the contracted-out rate in some jobs, **and**
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **monthly paid contracted-out** employment, and the employee does not have an APP or APPSHP arrangement, NICs are worked out using a monthly earnings period.

Example 2

Contracted-out earnings exceed the lower earnings limit (£356 monthly) but do not reach the earnings threshold (£408 monthly)

The employee's earnings are

- £363 a month from the contracted-out job (Table letter D)
 - £400 (£100 p/w x 4 weeks) a month from the not contracted-out job (Table letter A)
- £763** a month total earnings from both jobs

The earnings period is monthly

NICs are due as follows

Employee's contributions are due at

- the appropriate not contracted-out percentage rate on the not contracted-out earnings above the earnings threshold (£408) up to and including the upper earnings limit (£2730)

Employee's contribution

$$\begin{aligned} &£763 - £408(ET) = £355 \\ &£355 \times 11\% = \mathbf{£39.05} \end{aligned}$$

Employee's NIC rebate on contracted-out earnings

$$\begin{aligned} &£363 - £356(LEL) = £7 \\ &£7 \times 1.6\% = \mathbf{£0.11} \text{ (to be added to} \\ &\text{employer's as no contracted-out NICs due)} \end{aligned}$$

Employer's contributions are due at the appropriate not contracted-out percentage rate on the total earnings above the earnings threshold (£408).

Employer's contribution

$$\begin{aligned} &£763 - £408(ET) = £355 \\ &£355 \times 12.8\% = \mathbf{£45.44} \end{aligned}$$

Employer's NIC rebate on contracted-out earnings

$$\begin{aligned} &£363 - £356(LEL) = £7 \\ &£7 \times 3.5\% = £0.24 \\ &\text{Plus Employee's NIC rebate} \\ &\text{of } £0.11 = \mathbf{R£0.35} \text{ (Table letter D NICs)} \end{aligned}$$

Total employee's and employer's NICs due £39.05 + £45.44 (Table letter A) = **£84.49**

Recording NICs

Complete one form P11 for the contracted-out earnings and NICs (after off-setting the NIC rebate) and one for the not contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If PAYE is worked out on the total payment, and recorded on one form P11 note the second P11 'NI' in the tax code space. You must notify your Inland Revenue office the first time you use two P11 forms for the same employee.

The employee will have two forms P11, one will show the contracted-out earnings and NICs payable (after setting-off the NIC rebate):

National Insurance contributions						National Insurance contributions								
Earnings details						Contribution details								
Earnings at the LEL (where earnings are equal to or exceed the LEL)			Earnings above the LEL, up to and including the ET			Earnings above the ET, up to and including the UEL			Total of employee's and employer's contributions - mark minus amounts 'R'			Employee's contributions due on all earnings above the ET		
1a	£		1b	£	p	1c	£	p	1d	£	p	1e	£	p
356			7	00		0	00		R	0	35	0	00	

And the other for the not contracted-out earnings and NICs:

National Insurance contributions						National Insurance contributions								
Earnings details						Contribution details								
Earnings at the LEL (where earnings are equal to or exceed the LEL)			Earnings above the LEL, up to and including the ET			Earnings above the ET, up to and including the UEL			Total of employee's and employer's contributions - mark minus amounts 'R'			Employee's contributions due on all earnings above the ET		
1a	£		1b	£	p	1c	£	p	1d	£	p	1e	£	p
0			45	00		355	00		84	49		39	05	

At the end of the tax year, complete only one End of Year Summary, form P14, recording details under the appropriate contribution Table letters in the same order in which they were worked out.

Assuming the level of earnings remained unchanged throughout the year, the End of Year Summary, P14, would show

National Insurance contributions in this employment														(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UEL = Upper Earnings Limit)							
NIC table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL)(whole £s only) From col.1a on P11			Earnings above the LEL, up to and including the ET (whole £s only) From col.1b on P11			Earnings above the ET, up to and including the UEL (whole £s only) From col.1c on P11			Total of employee's and employer's contributions From col.1d on P11			If amount in col.1d is a minus amount, enter 'R' here	Employee's contributions due on all earnings above the ET From col.1e on P11			Schem (For C schem Purch schem				
	1a	£		1b	£		1c	£		1d	£	p			1e	£		p			
D	4	27	2		8	4			0			4	2	0	R			0	0	S	
A			0		5	4	0		4	2	6	0		1	0	1	3	8	8		S
																					S
																					S

Statutory payments included in the pay 'In this employment' figure below															
Statutory Sick Pay (SSP)				Statutory Maternity Pay (SMP)				Statutory Paternity Pay (SPP)				Statutory Adoption Pay (SAP)			
1f	£		p	1g	£		p	1h	£		p	1i	£		p

71 continued

This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- **does not** have an APP or APPSHP arrangement, **and**
- NICs are due at the contracted-out rate in some jobs, **and**
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **monthly paid contracted-out** employment, and the employee **does not** have an APP or APPSHP arrangement, NICs are worked out using a monthly earnings period.

Example 3

Contracted-out earnings exceed the earnings threshold (£408 monthly) but do not reach the upper earnings limit (£2730 monthly)

The employee is a member of their employer's COMPSHP.

The employee's earnings are

- £1013 a month from the contracted-out job (Table letter F)
 - £200 a week from the not contracted-out job (Table letter A)
(There are 4 weekly pay days in the monthly earnings period)
- £1813** a month total earnings from both jobs

The earnings period is monthly

NICs are due as follows

Employee's contributions are due at

- the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£408)
- the appropriate not contracted-out rate on the not contracted-out earnings until the total earnings reaches the upper earnings limit.

Employee's contributions

£1013 - £408 (ET) = £605
£605 x 9.4% = **£56.87**

£200 x 4 = £800
£800 x 11% = **£88.00**

Employee's NIC rebate
£408 (ET) - £356 (LEL) = £52
£52 x 1.6% = **£0.83**

Net employee's NICs due = Table letter F £56.87 - £0.83 = **£56.04**
Table letter A = **£88.00**

Employer's contributions are due at

- the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£408)
- the appropriate not contracted-out percentage rate on the balance of total earnings.

Employer's contribution

£1013 - £408 (ET) = £605
£605 x 11.8% = **£71.39**

£200 x 4 = £800
£800 x 12.8% = **£102.40**

Employer's NIC rebate
£408 (ET) - £356 (LEL) = £52
£52 x 1.0% = **£0.52**

Net employer's NICs due = Table letter F £71.39 - £0.52 = **£70.87**
Table letter A = **£102.40**

Total employee's and employer's NICs due = Table letter F £56.04 + £70.87 = **£126.91**
Table letter A £88.00 + £102.40 = **£190.40**

Recording NICs

Complete one form P11 for the contracted-out earnings and NICs (after off-setting the NIC rebate) and another for the not contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If PAYE is worked out on the total payment, and recorded on one form P11, note the second P11 'NI' in the tax code space. You must notify your Inland Revenue office the first time you use the two P11 forms for the same employee.

The employee will have two forms P11, one will show the contracted-out earnings and NICs payable (after setting-off the NIC rebate):

National Insurance contributions									
Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit									
Earnings details					Contribution details				
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'		Employee's contributions due on all earnings above the ET	
1a	£	1b	£ p	1c	£ p	1d	£ p	1e	£ p
356		52	00	605	00	126	91	56	04

And the other will show the not contracted-out earnings and NICs:

National Insurance contributions									
Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit									
Earnings details					Contribution details				
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'		Employee's contributions due on all earnings above the ET	
1a	£	1b	£ p	1c	£ p	1d	£ p	1e	£ p
0		0	00	800	00	190	40	88	00

At the end of the tax year, complete an End of Year Summary, form P14, recording details under the appropriate contribution Table letters in the same order in which they were worked out.

Assuming the level of earnings remained unchanged throughout the year, the End of Year Summary, P14, would show

National Insurance contributions in this employment												
(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UEL = Upper Earnings Limit)												
NIC table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s only) From col.1a on P11		Earnings above the LEL, up to and including the ET (whole £s only) From col.1b on P11		Earnings above the ET, up to and including the UEL (whole £s only) From col.1c on P11		Total of employee's and employer's contributions From col.1d on P11		Employee's contributions due on all earnings above the ET From col.1e on P11			
	1a	£	1b	£	1c	£	1d	£ p	1e	£ p		
F	4	272	6	24	7	260	1	522	92	672	48	
A		0		0	9	600	2	284	80	1	056	00

If amount in col.1d is a minus amount, enter 'R' here

Statutory payments included in the pay 'In this employment' figure below			
Statutory Sick Pay (SSP)	Statutory Maternity Pay (SMP)	Statutory Paternity Pay (SPP)	Statutory Adoption Pay (SAP)
1f	1g	1h	1i
£ p	£ p	£ p	£ p

Scheme (For Cx schem, Purcha schem)

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This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- **does not have** an APP or APPSHP arrangement, **and**
- NICs are due at the contracted-out rate in some jobs, **and**
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the contracted-out employment(s). For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **monthly paid contracted-out** employment, and the employee does not have an APP or APPSHP arrangement, NICs are worked out using a monthly earnings period.

Example 4

Contracted-out earnings reach or exceed the upper earnings limit (£2730 monthly)

The employee's earnings are

- £2786 a month from the contracted-out job (Table letter D)
- £800 a month from the not contracted-out job (Table letter A)
- **£3586** a month total earnings from both jobs

NICs are due as follows

Employee's contributions are due at	Employee's contribution
<ul style="list-style-type: none"> • the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£408) up to and including the upper earnings limit (£2730) 	$£2730 \text{ (UEL)} - £408 \text{ (ET)} = £2322$ $£2322 \times 9.4\% = \mathbf{£218.27}$
<ul style="list-style-type: none"> • 1% on earnings above the upper earnings limit 	$£3586 - £2730 \text{ (UEL)} = £856$ $£856 \times 1\% = \mathbf{£8.56}$
	<p>Employee's NIC rebate</p> $£408 \text{ (ET)} - £356 \text{ (LEL)} = £52$ $£52 \times 1.6\% = \mathbf{£0.83}$

Net employee's NICs due = £218.27 - £0.83 + £8.56 = **£226.00**

Employer's contributions are due at	Employer's contribution
<ul style="list-style-type: none"> • the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£408) up to and including the upper earnings limit (£2730), and 	$£2730 \text{ (UEL)} - £408 \text{ (ET)} = £2322$ $£2322 \times 9.3\% = \mathbf{£215.95}$ $£3586 - £2730 \text{ (UEL)} = £856$ $£856 \times 12.8\% = \mathbf{£109.57}$ Total = £325.52
<ul style="list-style-type: none"> • the appropriate not contracted-out percentage rate on the balance of total earnings 	<p>Employer's NIC rebate</p> $£408 \text{ (ET)} - £356 \text{ (LEL)} = £52$ $£52 \times 3.5\% = \mathbf{£1.82}$

Net employer's NICs due = £215.95 - £1.82 + 109.57 = **£323.70**

Total employee's and employer's NICs due = £226.00 + £323.70 = **£549.70**

Recording NICs

Complete one form P11 and record all details under contribution Table letter D

The employee's P11 would show

National Insurance contributions						Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit							
Earnings details						Contribution details							
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'			Employee's contributions due on all earnings above the ET				
1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p
356		52	00		2322	00		549	70		226	00	

At the end of the tax year, complete an End of Year Summary, form P14 recording details under Table letter D

Assuming the employee worked for the same employer for the full 52 weeks / 12 months of the year, and the level of earnings each week / month remained unchanged, the End of Year Summary, P14, would show

National Insurance contributions in this employment												(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UEL = Upper Earnings Limit)												
NIC table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s only)			Earnings above the LEL, up to and including the ET (whole £s only)			Earnings above the ET, up to and including the UEL (whole £s only)			Total of employee's and employer's contributions			If amount in col.1d is a minus amount, enter 'R' here	Employee's contributions due on all earnings above the ET			Scheme (For C scheme Purch scheme)							
	1a	£	p	1b	£	p	1c	£	p	1d	£	p		1e	£	p								
D	4	2	72	6	2	4	2	7	8	6	4	6	5	9	6	4	0	2	7	1	2	0	0	S
																								S
																								S
																								S

Statutory payments included in the pay 'In this employment' figure below															
Statutory Sick Pay (SSP)				Statutory Maternity Pay (SMP)				Statutory Paternity Pay (SPP)				Statutory Adoption Pay (SAP)			
1f	£	p		1g	£	p		1h	£	p		1i	£	p	

Pay and Income Tax details

71 continued

This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- has an APP or APPSHP arrangement, and
- NICs are due at the contracted-out rate in some jobs, and
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **weekly paid contracted-out** employment, and the employee has an APP or APPSHP, NICs are worked out using a weekly earnings period.

Example 5

Not contracted-out earnings do not reach the lower earnings limit (£82 weekly) but total earnings do.

The employee's earnings are

- £65 a week from the not contracted-out job (Table letter A)
 - £70 a week from the contracted-out job (Table letter D)
- £135** a week total earnings from both jobs

The earnings period is weekly

NICs are due as follows

Employee's contributions are due at

- the appropriate contracted-out percentage rate on earnings above the earnings threshold (£94) up to and including the upper earnings limit (£630).

Employee's contribution

$$\begin{aligned} &£135 - £94(\text{ET}) = £41 \\ &£41 \times 9.4\% = \mathbf{£3.85} \end{aligned}$$

Employee's NIC rebate

$$\begin{aligned} &£94(\text{ET}) - £82(\text{LEL}) = £12 \\ &£12 \times 1.6\% = \mathbf{£0.19} \end{aligned}$$

$$\text{Net employee's NICs due} = £3.85 - £0.19 = \mathbf{£3.66}$$

Employer's contributions are due at the appropriate contracted-out percentage rate on earnings above the earnings threshold (£94), up to and including the upper earnings limit (£630)

Employer's contribution

$$\begin{aligned} &£135 - £94(\text{ET}) = £41 \\ &£41 \times 9.3\% = \mathbf{£3.81} \end{aligned}$$

Employer's NIC rebate

$$\begin{aligned} &£94(\text{ET}) - £82(\text{LEL}) = £12 \\ &£12 \times 3.5\% = \mathbf{£0.42} \end{aligned}$$

$$\text{Net employer's NICs due} = £3.81 - £0.42 = \mathbf{£3.39}$$

$$\text{Total employee's and employer's NICs due} = £3.66 + £3.39 = \mathbf{£7.05}$$

Recording NICs

Complete one form P11 and record all details under contribution Table letter D.

The employee's form P11 would show

National Insurance contributions						Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit							
Earnings details						Contribution details							
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'			Employee's contributions due on all earnings above the ET				
1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p
82		12	00		41	00		7	05		3	66	

At the end of the tax year, complete an End of Year Summary, Form P14, recording details under contribution Table letter D.

Assuming the level of earnings remained unchanged throughout the year, the End of Year Summary, P14, would show

National Insurance contributions in this employment												(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UEL = Upper Earnings Limit)											
NIC table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s only) From col.1a on P11			Earnings above the LEL, up to and including the ET (whole £s only) From col.1b on P11			Earnings above the ET, up to and including the UEL (whole £s only) From col.1c on P11			Total of employee's and employer's contributions From col.1d on P11			If amount in col.1d is a minus amount, enter 'R' here	Employee's contributions due on all earnings above the ET From col.1e on P11			Scheme (For C, Schem, Purch, Schem)						
	1a	£	p	1b	£	p	1c	£	p	1d	£	p		1e	£	p							
D	4	26	4		6	24		2	13	2		3	66	60		1	90	32	S				
																			S				
																			S				
																			S				

Statutory payments included in the pay 'In this employment' figure below															
Statutory Sick Pay (SSP)				Statutory Maternity Pay (SMP)				Statutory Paternity Pay (SPP)				Statutory Adoption Pay (SAP)			
1f	£	p		1g	£	p		1h	£	p		1i	£	p	

Pay and Income Tax details

71 continued

This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- has an APP or APPSHP arrangement, and
- NICs are due at the contracted-out rate in some jobs, and
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **monthly paid not contracted-out** employment, and the other **weekly paid contracted-out** employment, and the employee has an APP or APPSHP, NICs are worked out using a monthly earnings period.

Example 6

Not contracted-out earnings exceed the lower earnings limit (£356 monthly) but do not reach the earnings threshold.

The employee's earnings are

- £363 a month from the not contracted-out job (Table letter A)
 - £400 (£100 p/w x 4 weeks) a month from the contracted-out job (Table letter D)
- £763** a month total earnings from both jobs

The earnings period is monthly

NICs are due as follows

Employee's contributions

- the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£408) up to and including the upper earnings limit (£2730)

Employee's contribution

$$\begin{aligned} &£763 - £408(\text{ET}) = £355 \\ &£355 \times 9.4\% = \mathbf{£33.37} \end{aligned}$$

Employee's NIC rebate

$$\begin{aligned} &£408(\text{ET}) - £356(\text{LEL}) = £52 \\ &£363 - £356(\text{LEL}) = £7 \\ &£52 - £7 = £45 \times 1.6\% = \mathbf{£0.72} \end{aligned}$$

$$\text{Net employee's NICs due} = £33.37 - £0.72 = \mathbf{£32.65}$$

Employer's contributions are due at the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£408), until earnings reach the upper earnings limit (£2730).

Employer's contribution

$$\begin{aligned} &£763 - £408(\text{ET}) = £355 \\ &£355 \times 9.3\% = \mathbf{£33.01} \end{aligned}$$

Employer's NIC rebate

$$\begin{aligned} &£408(\text{ET}) - £356(\text{LEL}) = £52 \\ &£363 - £356(\text{LEL}) = £7 \\ &£52 - £7 = £45 \times 3.5\% = \mathbf{£1.57} \end{aligned}$$

$$\text{Net employer's NICs due} = £33.01 - £1.57 = \mathbf{£31.44}$$

$$\text{Total employee's and employer's NICs due} = £32.65 + £31.44 = \mathbf{£64.09}$$

Recording NICs

Complete one form P11 for the not contracted-out earnings and NICs and one for the contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If PAYE is worked out on the total earnings and recorded on one form P11, note the second P11 'NI' in the tax code space. You must notify your Inland Revenue office the first time you use two forms P11 for the same employee.

The employee will have two forms P11, one will show the not contracted-out earnings:

National Insurance contributions						Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit							
Earnings details						Contribution details							
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'			Employee's contributions due on all earnings above the ET				
1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p
356		7	00		0	00		0	00		0	00	

And the other for the contracted-out earnings and NICs:

National Insurance contributions						Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit							
Earnings details						Contribution details							
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'			Employee's contributions due on all earnings above the ET				
1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p
0		45	00		355	00		64	09		32	65	

At the end of the tax year, complete an End of Year Summary, form P14, recording details under the appropriate contribution Table letters and in the same order that they have been worked out.

Assuming the level of earnings remained unchanged throughout the year, the End of Year Summary, P14, would show

National Insurance contributions in this employment												(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UEL = Upper Earnings Limit)							
NIC table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL)(whole £s only)			Earnings above the LEL, up to and including the ET (whole £s only)			Earnings above the ET, up to and including the UEL (whole £s only)			Total of employee's and employer's contributions			If amount in col.1d is a minus amount, enter 'R' here	Employee's contributions due on all earnings above the ET			Schem (For C schem Purchc schem)		
	1a	£	p	1b	£	p	1c	£	p	1d	£	p		1e	£	p			
A	4	2	72			84			0			0	00			0	00	S	
D			0		5	40		4	260			7	69	08		3	91	80	S
																			S
																			S

Statutory payments included in the pay 'In this employment' figure below															
Statutory Sick Pay (SSP)				Statutory Maternity Pay (SMP)				Statutory Paternity Pay (SPP)				Statutory Adoption Pay (SAP)			
1f	£	p		1g	£	p		1h	£	p		1i	£	p	

This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- has an APP or APPSHP arrangement, and
- NICs are due at the contracted-out rate in some jobs, and
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **monthly paid not contracted-out** employment, and the other **weekly paid contracted-out** employment and has an APP or APPSHP, NICs are worked out using a monthly earnings period.

Example 7

Not contracted-out earnings exceed the earnings threshold (£408 monthly), but do not reach the upper earnings limit (£2730 monthly)

The employee has an APPSHP arrangement.

The employee's earnings are

- £1013 a month from the not contracted-out job (Table letter A)
 - £800 (£200 p/w x 4 weeks) a month from the contracted-out job (Table letter D)
- £1813** a month total earnings from both jobs

The earnings period is monthly

NICs are due as follows

Employee's contributions are due at

- the appropriate not contracted-out percentage rate on the not contracted-out earnings above the earnings threshold (£408)
- the appropriate contracted-out percentage rate on the contracted-out earnings until the total earnings reach the upper earnings limit (£2730)

Employee's contribution

$$\begin{aligned} &£1013 - £408(ET) = £605 \\ &£605 \times 11\% = \mathbf{£66.55} \end{aligned}$$

$$£800 \times 9.4\% = \mathbf{£75.20}$$

Employee's NIC rebate

Nil (no Contracted-out earnings between the LEL and ET)

Employer's contributions are due at

- the appropriate not contracted-out percentage rate on the not contracted-out earnings above the earnings threshold (£408)
- the appropriate contracted-out percentage rate on contracted-out earnings until the total earnings reach the upper earnings limit (£2730)
- the appropriate not contracted-out percentage rate on any earnings above the upper earnings limit (£2730).

Employer's contribution

$$\begin{aligned} &£1013 - £408(ET) = £605 \\ &£605 \times 12.8\% = \mathbf{£77.44} \end{aligned}$$

$$£800 \times 9.3\% = \mathbf{£74.40}$$

Employer's NIC rebate

Nil (no Contracted-out earnings between the LEL and ET)

Total employee's and employer's NICs due = Table letter A £66.55 + £77.44 = **£143.99**

Table letter D £75.20 + £74.40 = **£149.60**

Recording NICs

Complete one form P11 for the not contracted-out earnings and NICs and one form P11 for the contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If PAYE is worked out on the total payment, and recorded on one form P11, note the second P11 'NI' in the tax code space. You must notify your Inland Revenue office the first time you use two forms P11 for the same employee.

The employee will have two forms P11, one will show the not contracted-out earnings and NICs:

National Insurance contributions						Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit					
Earnings details						Contribution details					
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'		Employee's contributions due on all earnings above the ET			
1a	£	1b	£ p	1c	£ p	1d	£ p	1e	£ p		
356		52	00	605	00	143	99	66	55		

And the other will show the contracted-out earnings and NICs:

National Insurance contributions						Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UEL = Upper Earnings Limit					
Earnings details						Contribution details					
Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the ET		Earnings above the ET, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'		Employee's contributions due on all earnings above the ET			
1a	£	1b	£ p	1c	£ p	1d	£ p	1e	£ p		
0		0	00	800	00	149	60	75	20		

At the end of the tax year, complete an End of Year Summary, form P14, recording details under the appropriate contribution Table letters in the same order that they have been worked out.

Assuming the level of earnings remained unchanged throughout the year, the End of Year Summary, P14, would show

National Insurance contributions in this employment										(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UEL = Upper Earnings Limit)											
NIC table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL)(whole £s only) From col.1a on P11			Earnings above the LEL, up to and including the ET (whole £s only) From col.1b on P11			Earnings above the ET, up to and including the UEL (whole £s only) From col.1c on P11			Total of employee's and employer's contributions From col.1d on P11			Employee's contributions due on all earnings above the ET From col.1e on P11			Scheme (For Contribution Purchase scheme)					
	1a	£	p	1b	£	p	1c	£	p	1d	£	p	1e	£	p						
A	4	2	72	6	2	4	7	2	60	1	7	27	8	8	7	9	8	6	0	S	
D			0			0	9	6	00	1	7	9	5	2	0	9	0	2	4	0	S
																				S	
																				S	

If amount in col.1d is a minus amount, enter 'R' here

Statutory payments included in the pay 'In this employment' figure below											
Statutory Sick Pay (SSP)			Statutory Maternity Pay (SMP)			Statutory Paternity Pay (SPP)			Statutory Adoption Pay (SAP)		
1f	£	p	1g	£	p	1h	£	p	1i	£	p

Pay and Income Tax details

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This example tells you how to work out NICs and fill in forms P11 and P14 when earnings from more than one job are added together, and the employee

- has an APP or APPSHP arrangement, and
- NICs are due at the contracted-out rate in some jobs, and
- the not contracted-out rate in others.

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **weekly paid contracted-out** employment, and the employee has an APP or APPSHP, NICs are worked out using a weekly earnings period.

Example 8

Not contracted-out earnings reach or exceed the upper earnings limit (£630 weekly)

The employee's earnings are

- £640 a week from the not contracted-out job (Table letter A)
 - £80 a week from the contracted-out job (Table letter D)
- £720** a week total earnings from both jobs

The earnings period is weekly

NICs are due as follows

Employee's contributions are due at

- the appropriate not contracted-out percentage rate on earnings above the earnings threshold (£94), up to and including the upper earnings limit (£630).

Employee's contribution

$$\begin{aligned} &£630(\text{UEL}) - £94(\text{ET}) = £536 \\ &£536 \times 11\% = \mathbf{£58.96} \end{aligned}$$

- 1% on earnings above the upper earnings limit

$$\begin{aligned} &£720 - £630 (\text{UEL}) = £90 \\ &£90 \times 1\% = \mathbf{£0.90} \end{aligned}$$

Employee's NIC rebate

Nil

$$\text{Total employee NICs due} = £58.96 + £0.90 = \mathbf{£59.86}$$

Employer's contributions are due at the appropriate not contracted-out percentage rate on the total earnings above the earnings threshold (£94).

Employer's contribution

$$\begin{aligned} &£720 - £94(\text{ET}) = £626 \\ &£626 \times 12.8\% = \mathbf{£80.13} \end{aligned}$$

Employer's NIC rebate

Nil

$$\text{Total employee's and employer's NICs due} = £59.86 + £80.13 = \mathbf{£139.99}$$

Deferment of the payment of employee's contributions for employees with more than one job

Employees with more than one employment, who anticipate earning in excess of the Upper Earnings Limit (UEL) in one, or in a number of employments, can apply to the Inland Revenue National Insurance Contributions Office for permission to defer some of their contributions liability. Where permission is granted the employee will pay a reduced main employee rate of 1% on all earnings from the Earnings Threshold (ET) to the UEL and the additional employee rate of 1% on all earnings above the UEL in the deferred employments.

If an application is allowed, our Deferment Services will send form CA2700 to the employer(s) concerned authorising them to deduct primary NICs at a rate of 1% on all earnings above the ET. Employer's contributions are still payable at the full standard rate. If you receive form CA2700 for an employee, use the appropriate contribution Table letter as follows

- Table letter 'J' for **Not contracted-out** employment
- Table letter 'L' for **Contracted-out Salary Related (COSR)** employment
- Table letter 'S' for **Contracted-out Money Purchase (COMP) or COMP Stakeholder Pension (COMPSPH)** employment.

For Deferment from April 2005 complete columns 1a – 1e of form P11.

73 What to do if you have already deducted employee's contributions in the tax year prior to receipt of form CA2700

If you have already deducted employee's contributions

- re-calculate the employee NICs due at 1% on all earnings over the ET
- refund to the employee any overpaid NICs
- adjust your next payment to the Inland Revenue Accounts Office as long as it is for the same tax year
- adjust the contribution table letter under which NICs are due on the employee's form P11 to the appropriate contribution Table letter for deferment (as indicated above).

If the employment is **not contracted-out**, cross out the entries in columns 1a – 1e of form P11 for the period concerned and only complete column 1d. If the employment is **contracted-out (COSR or COMP, or COMP Stakeholder Pension)** cross out the entries in columns 1a – 1e and complete again columns 1b, 1d and 1e.

Employees with more than one job who want to know about deferment should ask for leaflet *CA72 National Insurance contributions deferring payment* from their nearest Jobcentre, Jobcentre Plus or Social Security office.

Employers with occupational pension schemes – contracted-out rate NICs

If you have an occupational pension scheme which satisfies certain conditions, you can contract your employees out of the State Second Pension, previously known as the State Earnings Related Pension Scheme (SERPS). In such circumstances, NICs are payable at a contracted-out rate. This is lower than the not contracted-out rate, and the difference between the two is referred to as the contracted-out rebate.

The rate payable depends upon whether the occupational scheme is a Contracted-out Salary Related (COSR) Scheme, a Contracted-out Money Purchase (COMP) or COMP Stakeholder Pension (COMPSPH).

Employees pay primary NICs at the appropriate percentage rate on earnings above the Earnings Threshold (ET) up to and including the Upper Earnings Limit (UEL), and at 1% on earnings above the UEL. Employers pay secondary NICs on all earnings above the ET.

Following the introduction of the ET, employers operating contracted-out occupational pension schemes can, from their overall NIC payments, make a deduction to reflect the rebate that **would** have applied to employee's and employer's NICs on earnings between the Lower Earnings Limit, up to and including the ET. This is known as the NIC rebate.

Examples of how the NIC rebate is calculated can be found in the CA39 and CA43 *Contracted-out contribution Tables*, and in the CA42 *Foreign Going Mariners Contributions Tables*.

The Inland Revenue Audit & Pension Schemes Service (APSS) will send you a certificate giving you the right to work out and pay NICs at the contracted-out rate(s) for those employees covered by the certificate.

If you have such a certificate, you will have been allocated an Employer's Contracting-out Number (ECON) and Scheme Contracted-out Number (SCON) by Services to Pensions Industry.

Employees do not have to join or stay in their employer's occupational pension scheme. If an employee chooses to opt out of their employer's scheme or a new employee decides not to join, **not contracted-out rate NICs** are payable for them.

Please note that if an employee has an Appropriate Personal Pension (APP) or APP Stakeholder Pension (APPSHP), NICs must be paid at the not contracted-out rate. For more information about APP or APPSHP, see page 57.

74 Working out NICs payable at the contracted-out rate

Contracted-out NICs are payable under either Contribution Table letter D, E, L, F, G, or S (or mariners' equivalents). The letter used depends on whether the occupational scheme is a Contracted-out Salary Related (COSR) scheme, a Contracted-out Money Purchase (COMP), a COMP Stakeholder Pension scheme (COMPSP), or a Contracted-out Mixed Benefit (COMB) scheme.

For a **COSR scheme** and the COSR part of a COMB scheme use contribution Table letter

- **D** for all employees who pay NICs at the standard contracted-out rate
- **E** for married women or widows who have the right to pay reduced rate NICs. See page 58 for further information
- **L** for employees for whom you hold form CA2700 issued by the Inland Revenue National Insurance Contributions Office. See previous section on deferment of payment for further information (page 54).

If you use the Tables to work out NICs, use *National Insurance Tables: CA39 Contracted-out contributions for employers with Contracted-out Salary Related Schemes*.

If you use the exact percentage method to work out NICs, the appropriate earnings limits/threshold and percentage rates for relevant tax years can be found in *CA39 NI Table*.

Guidance on using the exact percentage method is supplied in the Employer's Help Book E13 *Day-to-day payroll*.

For a **COMP or a COMP Stakeholder Pension scheme** and the COMP part of a COMB scheme use contribution Table letter

- **F** for all employees who pay NICs at the standard contracted-out rate
- **G** for married women or widows who have the right to pay reduced rate NICs. See page 58 for further information
- **S** for employees for whom you hold form CA2700 issued by the Inland Revenue National Insurance Contributions Office. See previous section on deferment of payment for further information (page 54).

From 6 April 1997 members of a COMP or COMPSP scheme, including the COMP part of a COMB scheme, receive a rebate of their NICs based on their age. This is known as an Age Related Rebate (ARR). When completing the employee's End of Year Summary, form P14, you must ensure that the correct Scheme Contracted-out Number (SCON) is entered on form P14 against the relevant earnings.

Failure to enter the correct SCON, where contribution Table letter F or G apply, will result in non-payment of the ARR.

If you use the Tables to work out NICs, use *National Insurance Tables: CA43 Contracted-out contributions for employers with Contracted-out Money Purchase Schemes*.

If you use the exact percentage method to work out NICs, the appropriate earnings limits/threshold and percentage rates for relevant tax years can be found in *CA43 NI Tables*.

Guidance on using the exact percentage method is supplied in the Employer's Help Book E13 *Day-to-day payroll*.

CA39 and CA43 *NI Tables* are issued to appropriate employers by the Inland Revenue National Insurance Contributions Office each tax year. If you would like further copies, you can print them from your Employer's CD-ROM or contact the Employer's Orderline on **0845 7 646 646**.

75 Contracted-out status starts whilst in employment

NICs for employees who become contracted-out while they are employed by you and whose earnings go over the Earnings Threshold are due at the relevant contracted-out rate from the first payment you make to them on or after the date they become contracted-out. This is the case even if the payment was earned before that date.

76 Contracted-out status stops but employment continues

NICs for employees who stop being contracted-out but continue to be employed by you, whose earnings go over the Earnings Threshold, are due at the relevant not contracted-out rate from the first payment you make to them on or after the date they stop being contracted-out. This is the case even if the payment was earned before that date.

77 Retrospective membership of an occupational pension scheme

It may be decided that one or more of your employees can become retrospective members of your occupational pension scheme. This includes employees who have been reinstated retrospectively.

You and the employee(s) will be entitled to a refund of the difference between the not contracted-out NICs paid and the contracted-out rate NICs due since the retrospective membership date.

Retrospective membership is dependent on

- the rules of the occupational pension scheme, **and**
- whether or not the employment in question is excluded from the contracting-out certificate issued by APSS.

Your occupational pension scheme will provide the information you need.

If a refund is due for the current tax year, amend your next payment to the Inland Revenue Accounts Office and amend your pay records accordingly. See page 60 *Overpayment of employee's contributions*.

If a refund is due for a tax year which has ended, contact

The Inland Revenue National Insurance
Contributions Office
Refunds Group
Benton Park View
Newcastle-upon-Tyne
NE98 1YF

78 Special rule for employees over State Pension age

If an employee is over State Pension age (currently 65 for men, 60 for women) employer's contributions must be paid under contribution Table letter C at the **not contracted-out** rate even if they were in contracted-out employment before reaching State Pension age. Use Table C in CA41 *National Insurance Tables: Not contracted-out contributions*.

79 Further information

For further information about the procedures to be followed when a person leaves contracted-out employment, see

- CA14 *Termination of Contracted-out Employment Manual for Salary Related Pension Schemes*
- CA14A *Termination of Contracted-out Employment Manual for Money Purchase Pension Schemes*
- CA84 *Stakeholder Pension Scheme Manual*.

Termination of contracted-out employment for Mixed Benefit schemes is covered in both the CA14 and CA14A.

For advice about the assessment of NICs at the contracted-out rate, contact the Employer's Helpline by calling **0845 7 143 143**. Calls will be charged at the local rate.

If you have any queries about the contracting-out arrangements or would like copies of the relevant publications contact

The Inland Revenue National Insurance
Contributions Office
Services to Pensions Industry
Benton Park View
Newcastle upon Tyne
NE98 1YF

Phone **0845 9 150 150**

Lines are open 8.00am to 5.00pm Monday to Friday. Calls will be charged at the local rate.

Employees with Appropriate Personal Pension Schemes or Appropriate Personal Pension Stakeholder Pension Schemes and the effect on NICs

Appropriate Personal Pension (APP) Schemes/Appropriate Personal Pension Stakeholder Pension (APPSHP) Schemes are a type of personal pension which enable an employee to contract out of the State Second Pension, previously known as the State Earnings Related Pension Scheme (SERPS). Employees may contract out through an appropriate personal pension **and** be a member of either

- their employer's (contracted-in) occupational pension scheme, or
- a personal pension scheme for a private pension.

If you participate in a personal pension scheme, any pension contributions paid by an employee through the payroll system must be deducted from pay after tax and NI have been deducted.

80 Working out NICs

If an employee has an APP/APPSHP you must work out NICs at the standard not contracted-out rate, that is under contribution Table letter A. Do not use either a contracted-out rate or reduced rate.

Working out NICs when an APP/APPSHP scheme begins

If an employee

- opts out of State Second Pension (previously known as SERPS) in favour of an APP/APPSHP Scheme, continue to work out NICs using contribution Table letter A
- leaves your contracted-out occupational pension scheme in favour of an APP/APPSHP Scheme, work out NICs using contribution Table letter A on the first payment you make to the employee on or after the date on which they opt out of your scheme.

Payments made by an employer into an APP/APPSHP Scheme

Provided the payment is excluded from tax, do not include in gross pay any payment you make into an employee's APP/APPSHP Scheme. (This also applies to employers' contributions to personal pension schemes which are not APP/APPSHP Schemes.)

Funded Unapproved Retirement Benefits Schemes

81 Apportioning payments into Funded Unapproved Retirement Benefits Schemes (FURBS) between employees

General NICs position

Generally, any payment you make into a FURBS is regarded as earnings for NICs purposes (see page 76 under the entry for 'Retirement benefits schemes'). So you should include the amount you pay in the employee's gross pay.

Where the amount you pay into a FURBS is in respect of more than one employee, you will need to apportion that amount between the employees as follows:

Separate trust for each employee

For NICs purposes, include in each employee's gross pay the amount that you pay into the FURBS in respect of each employee.

Single trust fund – employees with a distinct and separate benefit share

For NICs purposes, include in each employee's gross pay the amount that you pay into the FURBS to secure each employee's share of benefits.

Single trust fund – discretionary trust

The amount that you should include in an employee's gross pay for NICs purposes will depend on whether or not, at the time you make a payment into the FURBS, what separate benefits are to be provided to each employee.

- (i) *Separate benefits to be provided to each employee are known at the time of the payment into the FURBS*

Apportion the payment(s) into the FURBS on the basis of the amount of the payments which have had to be made in order to obtain those benefits.

Example

Employer A makes a payment of £60,000 into a FURBS in respect of two employees, Y and Z. At the time of payment, it is known what separate benefits each employee will get from the FURBS.

In order to secure those benefits for the employees:

- £40,000 would have to be paid in respect of employee Y, and
- £20,000 would have to be paid in respect of employee Z.

On this basis, the amount of earnings, for NICs purposes, for each employee is

- employee Y – £40,000
- employee Z – £20,000

- (ii) *Separate benefits to be provided to each employee are not known at the time of the payment into the FURBS*

Apportion the payment(s) into the FURBS equally between the number of employees in respect of whom the payment(s) is being made.

Example

Employer B makes a payment of £60,000 into a discretionary FURBS in respect of three employees. At the time of payment, it is not known how the benefits of the FURBS will be split between the three employees. But under the rules of the FURBS, each employee must get a benefit.

Calculate the amount of earnings, for NICs purposes, for each employee by dividing the amount of the payment (£60,000) by the number of employees it covers (three). So each employee has earnings of £20,000.

Special treatment for some married women and widows

Some married women and widows have the right to pay reduced rate NICs. If an employee has such a right she must give you a valid 'certificate of election' before you can deduct NICs at the reduced rate.

82 Certificates of election

A certificate of election gives you the authority to deduct reduced rate NICs and you must keep the certificate until the woman

- stops working for you, **or**
- becomes liable to pay standard rate NICs, **or**
- reaches state pension age.

If you deduct reduced rate NICs before you are given a valid certificate of election, you are responsible for any underpayment.

It is also your responsibility to ensure the certificate of election you receive from your employee is valid. Check carefully any certificates you are given.

The only valid certificates of election are

- form CA4139 or CF383 unless
 - either box A or box B shows a date which has passed, **or**
 - the employee has not earned enough to pay NICs in any two consecutive tax years since 6 April 1978 and has not been self-employed
- form CF380A as long as the woman has worked for you continuously since 5 April 1980 and has paid reduced rate NICs throughout that time.

Getting a valid certificate of election

If an employee gives you a certificate of election which is not valid, return it to her. If she says that she is still entitled to pay reduced rate NICs, she must write to the Inland Revenue National Insurance Contributions Office at the address shown in paragraph 87 and ask for a replacement to be issued.

If an employee has more than one job, she must get a separate certificate to give each employer.

83 Giving up the right to pay reduced rate NICs

A woman who wishes to give up her right to pay reduced rate NICs should

- if she is a married woman, complete form CF9 in leaflet CA13 *National Insurance contributions for women with reduced elections*
- if she is a widow, complete form CF9A in leaflet CA09 *National Insurance contributions for widows or widowers*

send the completed form to the Inland Revenue National Insurance Contributions Office at the address in paragraph 87.

84 Losing the right to pay reduced rate NICs

A woman who has a valid certificate of election loses her right to pay reduced rate NICs if she

- gets divorced or her marriage is annulled
- becomes a widow but is not entitled to Bereavement Benefit after an initial period
- loses her right to Bereavement Benefit, for a reason other than remarriage

- has not, in any two consecutive tax years since 6 April 1978
 - had any earnings on which class 1 NICs are payable or treated as paid (i.e. where, since 6 April 2000, the earnings are between the LEL and ET), or
 - been self-employed

Whilst no NICs are payable between the LEL and ET, they are treated as having been paid. As such a married woman will not lose her right to pay reduced rate NICs and her election remains valid.

Divorce or annulment

Your employee is required by law to

- tell you when she is no longer entitled to pay NICs at the reduced rate, and
- return her certificate of election to the Inland Revenue National Insurance Contributions Office.

As the employer, you are required by law to return the certificate of election to the employee when asked to do so. You may consider it worthwhile to have arrangements in place

- so that your employee knows who, or which part of your organisation, she should inform that she is no longer entitled to pay reduced rate NICs and whether you require this to be done in writing
- to check any notification of change of surname or remarriage as this may mean that there has been a divorce or annulment
- to issue a periodic reminder to employees for whom you hold a certificate of election, advising them of the need to tell you if
 - their marriage ends by divorce or annulment
 - they are no longer entitled to pay reduced rate NICs.

Although all cases will be considered individually on their merits, **you will be liable for any underpayment of NICs unless**

- the employee was at fault. (This might mean, for example, that she failed to tell you that she was no longer entitled to pay reduced rate NICs under the laid-down procedures you may have, or she failed to ask for the return of the certificate of election), **and**
- the underpayment was not due to any negligence on your part. (For example, you may be considered negligent if you have inadequate or no arrangements in place for your employee to tell you that she is no longer entitled to pay NICs at the reduced rate.)

85 When to return a certificate of election

You must return a certificate to your employee when

- she leaves your employment
- she tells you that her marriage has ended in divorce or by annulment
- she reaches age 60
- she has paid no NICs for two consecutive tax years because her earnings have been below the lower earnings limit
- she has changed her name
- she remarries
- she asks for it back.

Complete the parts of the form which apply to you before you return a certificate.

When you have returned a certificate, if the woman still works for you, deduct standard rate NICs unless she has

- given you a new certificate of election
- reached age 60 and has given you a certificate of age exception.

If you cannot return a certificate of election to an employee who has left, send it with a note of explanation, to the Inland Revenue National Insurance Contributions Office at the address shown in paragraph 87.

86 Adjusting NICs

You must reassess and adjust any NICs already deducted if your employee

- gives you a valid certificate of election part way through the tax year
- is late in telling you that she is no longer entitled to pay reduced rate NICs.

Overpayment of NICs

If an overpayment of NICs occurs in the current year as a result of your receiving a valid certificate of election part of the way through the year

- refund the amount overpaid to the employee
- amend the employee's form P11
- adjust your next payment to the Inland Revenue Accounts Office.

To get a refund of an overpayment in a tax year which has ended, the employee must write to

The Inland Revenue National Insurance
Contributions Office
Refunds Group
Benton Park View
Newcastle upon Tyne
NE98 1YF

Underpayment of NICs

If as a result of the employee being late in telling you that she is no longer entitled to pay reduced rate NICs an underpayment has occurred, follow the rules on page 17.

87 More information

More information about the right to pay reduced rate NICs can be found in leaflets

- CA13 *National Insurance contributions for married women with reduced elections*
- CA09 *National Insurance contributions for widows or widowers*
- CA10 *National Insurance contributions for divorcees.*

Further information can also be obtained by

- calling the Employer's Helpline on **08457 143 143**, or
- contacting us at the following address

Inland Revenue National Insurance
Contributions Office
Contributor Caseworker
Benton Park View
Newcastle upon Tyne
NE98 1YF

Payment of NICs for employees over State Pension age

Employees over State Pension age, currently 60 for women and 65 for men, do not have to pay employee's contributions.

Employer's contributions are still due and are payable at the **not contracted-out rate**, even if you operate a contracted-out scheme. (See paragraph 78.)

Employer's contributions are due at the not contracted-out rate from the first payment you make to your employee on or after their 60th or 65th birthday.

As the employer you are responsible for ensuring that the correct contributions are paid, and before you stop deducting employee's contributions you must have seen proof that the employee has reached State Pension age. This can be a birth certificate, passport or certificate of exception, form CA4140 or CF384 issued by the Inland Revenue National Insurance Contributions office.

If you stop deducting employee's contributions before you have seen proof, or continue to pay employer contributions at the contracted-out rate, you are responsible for any underpayment.

88 Certificates of age exception

The certificate of age exception gives you the authority to stop paying employee's contributions.

The certificate shows a 'valid from' date and the employee will not be liable to pay any further employee's contributions on any payment of earnings made on or after that date.

89 Getting a certificate of age exception

An employee can get a certificate of age exception by applying to Inland Revenue National Insurance Contributions Office at the address shown in paragraph 87. If they do not already hold details of the employee's date of birth, evidence of their age, for example an original birth certificate, will be required.

If the employee has more than one job, they must get a separate certificate of age exception to give to each employer.

You are responsible for looking after any certificate given to you. Keep the certificate for as long as the employee works for you.

90 When to return a certificate of age exception

Certificates of age exception belong to the Inland Revenue National Insurance Contributions Office and, if requested, you must return a certificate to us.

Always return a certificate of age exception to your employee when their employment ends. If you are unable to return the certificate direct to the employee, send it, with a note of explanation, to us at the address shown in paragraph 87.

91 Adjusting NICs

If you are given a certificate of age exception which shows that the 'valid from' date has already passed, you will need to reassess and adjust any NICs wrongly paid.

Overpayment of employee's contributions

If an overpayment has occurred in the current tax year as a result of employee's contributions being wrongly deducted

- refund the employee's contributions to the employee
- amend the employee's form P11
- adjust your next payment to the Inland Revenue Accounts Office.

If an overpayment has occurred in a previous tax year, to get a refund the employee must write to

The Inland Revenue National Insurance
Contributions Office
Refunds Group
Benton Park View
Newcastle upon Tyne
NE98 1YF

Underpayment of employer's contributions

An underpayment of employer's contributions will happen if these contributions are paid at the contracted-out rate. Employer's contributions must be paid at the not contracted-out rate.

If an underpayment occurs in the current tax year

- amend the employee's form P11
- adjust your next payment to the Inland Revenue Accounts Office.

If an underpayment occurred for a previous tax year, contact the Inland Revenue National Insurance Contributions Office at the address shown in paragraph 87 for advice.

92 – 109 not used - reserved for future use

Part-time or casual employees

You must follow the same PAYE and NICs procedures for part-time or casual employees as you follow for full-time or permanent employees.

Accordingly the procedures to be followed when you take on a new part-time or casual employee are those set out in the Employer's Help Book E13 *Day-to-day payroll*.

The Help Book advises you what to do when a new employee does not give you a form P45 and is going to work for you for one week or less or where the employee is going to work for you for more than one week.

You should particularly note that the normal P46 procedures for new employees who do not give you a P45 in the Employer's Help Book E13 *Day-to-day payroll*, will apply if you take on an employee for one week or less but then

- keep the employee on for more than one week, **or**
- arrange for the employee to work for you again. (For example, for a few days every week or month at particular peak times or holiday periods and so on.)

Workers supplied by agencies

For NICs purposes

A person who gets work with a client through an agency or some other third party, but who is not an employee of the client, is usually treated for NICs purposes as an employee of the agency.

The agency is responsible for the payment of NICs where

- the worker is expected to carry out work personally, **and**
- someone has the right, even if not exercised, to supervise, direct or control the way the work is done and **any** of the following apply
 - the worker is paid by or through the agency
 - the worker is paid based on accounts sent by the agency to the client
 - the worker is paid by arrangements made with the agency
 - there are payments other than worker's pay. (For example fees or commission between the agency and the client.)

If the agency has no place of business or is not present in the UK, the client is treated as the employer.

A person who gets work through an agency or some third party is not treated as an employee if any of the following apply:

- The only payment made is an introductory fee.
- The work is done at home or somewhere not controlled or managed by the firm or person for whom the work is done, unless it is the kind of job done on other premises. (For example, an audit clerk supplied to an accountant through an agency who works on the premises of the accountant's clients.)
- The person is employed as an actor, singer, musician, other entertainer or a fashion, photographic or artist's model.

For PAYE purposes

PAYE must be operated for agency workers who

- have agreed with the agency that they will personally do work for the client, **and**
- can be supervised, directed or controlled over how they do their work.

This applies even if the worker makes a tax return as a self-employed person.

Where a UK agency pays a worker direct the agency will normally be responsible for operating PAYE.

Where the client pays the worker, the client should operate PAYE.

Students who work for you during their holidays

110 Students who are on courses in the UK

You can use a special procedure for employees who are students on courses in the UK working for you solely during their holidays.

The special procedure, known as the P38(S) procedure

- **does not affect the payments of NICs which must be worked out in the normal way**
- allows you to pay a student employee
 - without the need to follow the normal P45 or P46 procedures
 - without deduction of tax, even if the student's weekly or monthly pay exceeds the Emergency code limit.
- does **not** apply to students
 - who are working for you part-time outside normal holiday times
 - who work for you both during and outside normal holiday times.

Where you take on an employee who is a student on a course in the UK and the condition that the student is working for you solely during normal holiday times is **not** satisfied, you should follow the normal procedures in the Employer's Help Book E13 *Day-to-day payroll*.

If the condition is satisfied you can take the following special actions:

- Obtain a form P38(S) from the Employer's Orderline, phone **0845 7 646 646** and ask the employee to complete the 'Student's Declaration' as soon as he or she starts working for you. Do not accept from a student, a form P38(S) that you have not issued.
- If the student is paid more than the NICs lower earnings limit
 - work out and account for any NICs due
 - complete a form P11 for NICs purposes, entering 'NI' in Tax code, Box K on form P11.
- If the student is paid less than the NICs lower earnings limit
 - record details of all payments you make to the student
 - keep your record of payments for at least three years after the end of the tax year to which they relate.

If you hold a P38(S), but at any time in the tax year the total pay in the employment with you exceeds the personal allowance for the year (as shown on the P38(S)), you should deduct tax from the first payment made which takes the total pay for the year in your employment over the personal allowance level, using code OT on a week 1 or month 1 basis.

When making that payment

- prepare a form P11 if you have not already prepared one for NICs purposes
- for tax purposes you should
 - enter on the P11 the total payments to date, and
 - show total tax to date as 'NIL' for the week or month immediately preceding the first payment you are taxing
- advise your PAYE tax office that you are deducting tax in a P38(S) case, as the total pay in the employment has gone over the level of the personal allowance.

Note that the qualifying students must fill in form P38(S) for each tax year they work for you.

If, therefore, they work for you during the Easter holidays both before and after 5 April, they must complete two forms P38(S).

At the end of the student's period of employment with you, (or 5 April if the student is continuing working for you during the Easter holidays) complete the 'Employer's statement' on form P38(S).

Note that you should not fill in a form P45 when the employee leaves, for a student who, because of the P38(S) procedure, has not had tax deducted.

At the end of the tax year you should

- for any student for whom you had to complete a form P11, prepare form P14 and enter on form P35
- keep all forms P38(S), including those relating to students for whom a form P11 has been prepared, for at least 3 years after the end of the year to which they relate, or longer if you are asked to do so. These forms must be made available for inspection by the Inland Revenue if required.

111 Students who are on courses abroad

If, during their holidays, you take on an employee who is a student on a course abroad, take the following action

For NICs purposes

If the employee is a UK national studying abroad, work out NICs in the normal way on any payments you make.

If the employee is a foreign student, NICs may not be payable in certain circumstances. See paragraph 115 or 116 as appropriate.

For PAYE purposes

The P38(S) procedure can be used for students on courses abroad who work for you during their holidays if they are

- European Union (EU) Nationals working for you in agriculture, or
- students who are sponsored by one of the organisations listed below.

In all other cases follow the normal procedures in the Employer's Help Book E13 *Day-to-day payroll*.

Sponsored students

You may accept forms P38(S) from students who have been given one by any of the sponsors listed below. These organisations sponsor students, from a school or college abroad, to work here during a visit to the UK.

General sponsors

BUNAC British Universities North America Club
 CFS/AOSC Canadian Federation of Students/
 Association of Student Councils (Canada)
 EURO EMPLOY

IAESTE International Association for the Exchange of
 Students for Technical Experience
 LEICESTER TWIN City of Leicester Twinning
 Association
 WORKABOUT UK LTD Claverley

Farming sponsors

CONCORDIA (YSV) LTD, Hove
FRIDAY BRIDGE (International Farm Camp), Wisbech
G's MARKETING, Ely
HAYGROVE LTD, Ledbury
HOPS (GB), Kenilworth
R & J M PLACE LTD (International Farm Camp),
Tunstead
S & A PRODUCE, Hereford
SASTAK LTD, Craven Arms
WILKIN & SONS LTD (International Farm Camp),
Tiptree

Other points to note about the sponsorship scheme are

- the form P38(S) the student will bring along will show the sponsor's name, and
 - for students sponsored by BUNAC, a Blue Card number
 - for students of any other listed sponsor, a Passport or Registration card number
- the student, in addition to producing the form P38(S), must also produce his or her Blue Card, Passport or Registration Card as appropriate.

Where you take on a student who produces a P38(S) from one of the recognised sponsors, check the photograph on the Blue Card, Passport or Registration Card to make sure the sponsor gave the form P38(S) to the student you are employing.

Information for farmers

112 Free board and lodging

For PAYE purposes

If the general rules for taxing income were to be applied, a tax liability would arise on the value of free board and lodging supplied to employees who, under the Agricultural Wages Acts would be entitled to take a higher cash wage instead.

Extra Statutory Concession A60 (see leaflet IR1), however, allows you to provide free board and lodging without any tax consequences for the employee if **all** the following conditions are satisfied:

- The employee is a manual farmworker, (that is, not a director, clerk, book-keeper and so on).
- The farmworker does not earn at a rate of £8,500 or more.
- The contract between you and the employee provides for a net cash wage with free board and lodgings.
- The board and lodgings are provided by either
 - you in the farmhouse, **or**
 - a third party whom you pay direct under a contract the third party has with you to provide the employee with board and lodging.

For NICs purposes

Ordinarily, the provision of free board and lodging as a benefit in kind is not included in gross pay. However, when there is a charge involved, any payment made for board and lodgings must be included in gross pay unless **all** of the following conditions are satisfied:

- You contract with a third party to provide the board and lodgings.
- Any charge for the provision is paid directly by you to the third party.
- The third party should be the householder.
- The employee does not **already** have the right to reside in the dwelling house.
- The employees' wages are expressed as
 - their wage
 - their lodging allowance (which may include an amount which, in money terms, brings their wage up to at least the minimum wage under the Agricultural Wages Act).
- The employee's wages and lodging allowance are shown separately in your accounts.

113 Harvest casuals

The special rules shown overleaf apply only to **casual employees taken on for harvest work who are not members of your family**.

You must follow the normal procedures on page 62 for any part-time or casual employees

- that you take on for non-harvest work
- who are members of your family, regardless of the type of work they do.

Remember:

- if earnings do not exceed the Earnings Threshold no NICs are payable
- if earnings reach or exceed the Lower Earnings Limit but do not exceed the Earnings Threshold the employee is treated as having paid NICs when claiming benefit
- if earnings exceed the Earnings Threshold, Class 1 NICs are payable by the employee and employer.

113 Harvest casuals	
For PAYE	
Circumstances	Action
<p>The person is a daily casual and</p> <ul style="list-style-type: none"> is taken on for one day or less paid off at the end of that period with no contract for further employment 	<ul style="list-style-type: none"> do not deduct tax keep a record of the employee's name, address and amounts paid enter these details on form P38A at the end of the tax year as requested on form P35
<p>The employee is taken on for no more than 2 weeks and</p> <ul style="list-style-type: none"> has not been taken on previously by you since 6 April and paid above the PAYE threshold without PAYE being applied 	<ul style="list-style-type: none"> do not deduct tax keep a record of the employee's name, address and amounts paid enter these details on form P38A at the end of the tax year as requested on form P35
<p>The employee is taken on for more than two weeks</p>	<ul style="list-style-type: none"> no special procedures apply and normal procedures must be followed. The procedures are detailed in the Employer's Help Book E13 <i>Day-to-day payroll</i>
For NICs	
Circumstances	Action
<p>The employee is employed as a regular casual, eg taken on for a specified period and paid at regular intervals</p>	<ul style="list-style-type: none"> no special NIC rules apply and normal procedures must be followed. The procedures are detailed in the Employer's Help Book E13 <i>Day-to-day payroll</i>
<p>The employee is engaged on an irregular basis</p> <ul style="list-style-type: none"> to work outdoors harvesting perishable crops is paid off at the end of each engagement, eg at the end of the day has no contract for further employment 	<p>National Insurance contributions will not be collected where it is impossible for the employer to identify individuals and record their earnings.</p> <p>If the identity details are known NICs are due when the earnings for each engagement exceed the Primary Threshold.</p> <ul style="list-style-type: none"> work out the NICs due at the time the earnings are paid complete form P11 etc as detailed in the Employer's Help Book E13 <i>Day-to-day payroll</i>

114 Gangmasters or contractors engaged to carry out specific jobs

If you engage a gangmaster or a contractor who is not one of your own regular employees, to carry out specific jobs such as

- a contractor supplying own machinery or equipment for threshing, ploughing, haulage and so on
- a gangmaster supplying a squad of workers for potato, fruit, hop or other crop picking

the gangmaster or contractor is usually responsible for operating PAYE and accounting for the NICs due for any worker he or she provides. In such cases you must

- still record details of all payments you make to the gangmaster or contractor as the Inland Revenue office may ask for them at the end of the tax year.
- keep your record of payments for at least three years after the end of the tax year to which they relate.

If one of your own regular workers acts as a gangmaster, you may be responsible for operating PAYE. In such circumstances you should therefore contact your Inland Revenue office for advice on PAYE.

Employees coming to or leaving the UK – treatment for NICs purposes

In this section

- UK means England, Scotland, Wales and Northern Ireland. People living in the Isle of Man are usually treated as living in the UK.
- European Economic Area means Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, the Republic of Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia*, Spain, Sweden, Switzerland, and the UK.
- countries with which the UK has a full Reciprocal Agreement covering both NICs and benefits are Barbados, Bermuda, Guernsey, Israel, Jamaica, Jersey, Mauritius, Philippines, Turkey, USA, and the Federal Republic of Yugoslavia (Serbia and Montenegro, Bosnia-Herzegovina, Croatia, Slovenia* and the former Yugoslav Republic of Macedonia).
*For all practical purposes the Slovenia part of the Yugoslavia agreement has been superseded by the EC Regulations.
- countries with which the UK has a Double Contributions Convention (DCC) which covers NICs liability only and do not contain a provision

for benefits are Canada, the Republic of Korea and Japan.

- the UK also has reciprocal agreements which are benefit related and do not contain a provision for NICs with Canada and New Zealand. The insurability of workers coming to the UK from New Zealand will come under UK domestic legislation while those from Canada will come under the separate DCC covering NICs (see above).

- Further information about these arrangements may be obtained from

Inland Revenue
Centre for Non Residents
Room BP1301
Benton Park View
Newcastle upon Tyne
NE98 1YF

Phone: **0845 915 4811**
Fax: **0845 915 0067**

Resident, present or place of business in the UK

This section often refers to resident, present or 'place of business' in the UK but there is no definition of this phrase in Social Security legislation.

Whether you are resident, present or have place of business is a question of fact and may depend on how your business operates.

Generally, an employer can be said to be resident, present or in the UK if the registered office of the company is in the UK, even if no actual business is carried on there.

Generally, an employer can be said to have a place of business in the UK if

- they have a fixed address or occupy premises where they are, or are present with the consent of, the lawful owner or tenant, **and**
- an activity takes place which need not necessarily be remunerative in itself, but is in furtherance of the purposes of the business. The business does not need to be of a trading or commercial nature.

Some pointers to look for when considering if you have a place of business are

- a name plate displayed on the door or premises
- headed letter paper
- a listing in a telephone directory
- a lease or rent agreement or some sort of financial transaction for the use of the premises
- a registered office
- registration as a company incorporated outside the UK but with a place of business here for the purpose of the Companies Act 1985
- other premises in the UK.

If you have any doubt as to whether you have a place of business in the UK contact the Employer's Helpline for advice by calling **0845 7 143 143**. Calls are charged at the local rate.

115 Employees coming from within the European Economic Area and countries with which the UK has a Reciprocal Agreement covering NICs or a Double Contributions Convention

You do not have to pay Class 1 NICs for employees who

- have come from a country
 - in the European Economic Area, or
 - with which the UK has a Reciprocal Agreement or a Double Contributions Convention, **and**
- hold a certificate issued by the other country showing that they are still paying contributions in that country.

Once the period of exception shown on the certificate has elapsed

- if you are resident, present or have a place of business in the UK, Class 1 NICs (both employer's and employee's contributions) must be paid
- if you are not resident, present or do not have a place of business in the UK, you do not have to pay employer's contributions but the employee's contribution must still be paid.
See paragraph 117.

NICs must be worked out in the normal way following the rules shown in this manual and the Employer's Help Book E13 *Day-to-day payroll*.

116 Employees coming from countries outside the European Economic Area with which the UK does not have a Reciprocal Agreement covering NICs or a Double Contributions Convention

You are resident, present or have a place of business in the UK

The general rule is that Class 1 NICs (employer's and employee's contributions) must be paid for an employee who has come to work from abroad. NICs are payable from the date they start work in the UK. This is the case even if the employee is supplied by an agency whose place of business is not in the UK.

Work out pay and record NICs in the normal way following the rules set out in other parts of this manual and the Employer's Help Book E13 *Day-to-day payroll*.

Exceptions

NICs are not payable for the first 52 weeks starting from the first Sunday after the employee arrives in the UK for

- an employee not normally living or working in the UK who has been sent to work here temporarily by an overseas employer who has a place of business outside the UK even if the employer also has a place of business in the UK
- a student studying full-time outside the UK who starts temporary work in the UK if
 - they do not normally live in the UK
 - the job is done during their holidays and
 - the job is similar to, or related to, their studies
- an employee who is similar to an apprentice if
 - the employee does not normally live in the UK and starts work in the UK before reaching the age of 25, and
 - the job in the UK is similar to, or related to, their job outside the UK.

When the 52 week period finishes, the normal rules about working out, paying and recording NICs apply.

You are not resident, present or do not have a place of business in the UK

You do not have to pay employer's contributions but the employee's contribution must still be paid. See paragraph 117.

If you need any help you can contact the Employer's Helpline for advice by calling **0845 7 143 143**. Calls are charged at the local rate.

117 What you can do if you do not have to pay employer's contributions

If employer's contributions do not have to be paid, but you do have to pay employee's contributions, then you may have an associate in the UK who is willing to pay these contributions to the Inland Revenue Accounts Office and complete the End of Year Returns (End of Year Summary, form P14 and Employer's Annual Declaration, form P35) for the employee(s) concerned.

In such a case, the associate should keep your employee(s) records separate from their own and at the end of the tax year

- record the amount of earnings on which employee's contributions were paid in column 1a – 1c of the End of Year Summary form P14
- record the amount of employee's contributions payable in columns 1d and 1e of the End of Year Summary form P14
- prepare a separate form P35 and mark in column 1 on the back of the form 'Employee's contributions only'. A separate P35 can be obtained from your Inland Revenue office.

If you do not have an associate in the UK, the employee will need to pay and record their own NICs. They will need to read CA65 *National Insurance contributions for people working for Embassies, High Commissions, Consulates and overseas employers*. A copy of this leaflet can be obtained from your nearest Jobcentre, Jobcentre Plus or Social Security office.

If you pay an employee, who is sent to the UK from abroad, a sum to cover the cost of dual tax liability so the employee pays the amount of tax they would have paid if they had been in their own country, include that sum in gross pay.

If you are in doubt as to whether the above arrangements apply to you, contact the Employer's Helpline for advice by calling **0845 7 143 143**. Calls are charged at the local rate.

118 Liability to pay NICs for employees going abroad

If you have a place of business in the UK and have employees who work outside the UK, the NICs position for those employees whilst abroad and on their return is explained in NI132 *National Insurance for employers of people working abroad*. A copy of this leaflet can be obtained from your nearest Social Security office.

For advice on the liability to pay NICs for persons going abroad contact the

Inland Revenue
Centre for Non residents
Room BP1301
Benton Park View
Newcastle upon Tyne
NE98 1YF
Phone **0845 915 4811**
Fax **0845 915 0067**

119 End of Year Returns for employers with employees who are seconded aboard

If you have employees who are seconded abroad you can apply to defer reporting and accounting for NICs on certain payments that they receive until the 31 January following the end of a tax year.

These special arrangements relate only to employees seconded abroad who are not liable to UK tax after departure, and who have therefore been given an NT code number. They can apply both for the year of departure and any subsequent year where employees in question continue to be not liable to UK tax but there is a continuing NICs liability.

The following conditions must all be satisfied

- the earnings entered on the employee's P14 are equivalent to or greater than the annual earnings limit and NICs have been paid on those earnings

- the only payments covered by the arrangement are those which the UK employer cannot find out about, without disproportionate effort before the interest deadline for late payment and the penalties deadline for filing returns (19 April and 19 May respectively after the end of the tax year).

Payments not covered by the arrangements are

- any earnings paid in the UK, and/or
- known regular earnings paid overseas, or
- estimates of overseas earnings.

These should be paid and accounted for in the normal way through the P14s and the main P35.

Under the arrangements any residual NICs not on the main P35 can be reported and accounted for under a separate P35. The latest date for filing the separate P35 and accounting for any NICs due is the 31 January following the end of the tax year. If the separate P35 is not filed by 31 January, late filing penalties will be sought from the original date of 19 May after the end of the tax year. Interest will run from 1 February in respect of NICs due but unpaid at 31 January.

If you wish to use this special arrangement you will need to apply before the 30 November by completing the election form P350 obtainable from your local Inland Revenue office. An additional Employer's PAYE reference will be allocated for use when submitting the P35 and payment. If agreed, the arrangement will then apply for the current and subsequent years until no longer required or cancelled.

Employees coming to or leaving the UK – treatment for PAYE purposes

120 Employees coming from abroad

Subject to certain exceptions PAYE must be operated in the usual way for

- all employees working at a UK branch or office of any overseas business and
- all employees (including directors) who work under the day to day control and management of a business in the UK or the UK branch or office of an overseas business.

The concern in the UK who is using the services of an employee of an overseas employer, must operate PAYE as if it was the employer. This is the case regardless of whether the employee is paid by the UK concern, the overseas concern, or partly by both.

If all or part of an employee's income, including any benefits provided, is paid by the overseas concern, the UK employer must get together all details needed to operate PAYE and make returns on forms P11D.

If an employee is sent to you by an overseas concern and you do not think they will be working under your day to day control or management, contact your Inland Revenue office as soon as possible for advice. The Inland Revenue office will want to know all about the employees concerned and the work they have been sent to the UK to do to decide whether you have to operate PAYE for them.

If a decision has not been made before the first pay day for work done in the UK, you should deduct tax using the Emergency code until the Inland Revenue office tells you otherwise.

When it is confirmed that PAYE is to be operated

- work out the employee's pay
- work out the PAYE to deduct
- if the employee is paid by the overseas concern
 - tell the overseas employer how much to deduct for PAYE and
 - arrange for the overseas employer to account to you for these amounts either by allowing you to recover them from any charge made for the employee's services or by direct reimbursement
- keep all the usual PAYE records
- send the payments for PAYE to the Accounts Office in the usual way.

If the overseas employer will not tell you how much the employee is earning, contact your Inland Revenue office for advice.

Employees who are not resident, or if resident, not ordinarily resident in the UK

Where, because work is performed both in the UK and abroad, it is unclear at the time of making a payment how much of the payment will ultimately be assessable as PAYE income, the whole payment should be subjected to PAYE unless the Inland Revenue office has directed otherwise.

Such a direction may be possible where you consider it necessary to determine by apportionment what proportion of a payment is assessable to tax. You can request a direction from your Inland Revenue office that PAYE need only be applied to a certain proportion of the payment(s) made.

The direction may cover more than one employee and any number of years, provided these details are specified in the direction. Most commonly such a direction will be appropriate in a situation where a payment is made to an employee who is not resident (or if resident, not ordinarily resident) in the UK and that payment comprises of earnings which relate to duties in the UK and abroad.

Employees on short term business visits to the UK

Where an employee is likely to qualify for protection from UK income tax under the Dependent Personal Services Article of a Double Taxation Convention it may be possible to relax the strict PAYE requirements that arise.

Certain information will need to be provided and the criteria in the dependent personal services clause met. In the latter respect normally

- the employee must be present in the UK for a period not exceeding in aggregate 183 days in the calendar or fiscal year concerned
- the remuneration is paid by, or on behalf of, an employer who is not a resident of the UK, and
- the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the UK.

Contact your Inland Revenue office for further details in these cases.

121 Employees going abroad

The normal PAYE system applies to all employees of a UK employer even if the employees are working abroad for all or part of the time.

When you send an employee to work abroad you should provide the employee with a letter giving the following details

- the date the employee went abroad
- the gross pay and tax deducted whilst in your employment for the period from 6 April last to the date the employee was sent abroad.

Employees who spend most of their time abroad over a period of a year or more may be able to get full relief from UK tax on their earnings. You can make special PAYE arrangements with your Inland Revenue office in these cases.

If you have employees on an overseas contract, the overseas Revenue authorities abroad may get in touch with you about making foreign deductions from the employees' pay. It is advisable that you contact the overseas authority on or before the start of the overseas contract to establish your obligations in that country. This is because you are likely to have obligations to both UK and overseas Revenue authorities.

Although foreign deductions may be due, you must explain to the overseas authority that you are still responsible for operating PAYE under UK arrangements for these employees. Find out whether, and why, the foreign Revenue wants you to make deductions for them and when you have this information contact your Inland Revenue office for advice. The Inland Revenue office will tell you what you can do to make things easier for the employee who will have two lots of deductions made from their pay.

122 Employees working in offshore areas

You must operate PAYE for employees working offshore but there are exceptions. Contact your Inland Revenue office before employees start working in these areas.

Payments made to an Individual Worker through a Service Company or Partnership

Legislation was included in the Finance Act 2000 under which rules, (known as 'IR35'), applied from 6 April 2000 to income earned from engagements (known as relevant engagements) where

- a worker provides services to a client under a contract between the client and one or more intermediaries, **and**
- but for the presence of the intermediary, the income arising under the contract would have been treated as coming from an employment (or an office (NICs only)) held by the worker, if the individual had contracted directly with the client.

The existing rules which outline the boundary between employment and self-employment for tax/NICs purposes, continue to be used to determine whether an office or employment would have existed but for the use of an intermediary.

For more information on how to decide whether someone is employed or self-employed, please ask for leaflet, IR156 *Employed or Self-employed* available from any Inland Revenue office.

An individual working through a service company is treated as a worker for the purposes of the legislation if he/she has

- beneficial ownership of, or entitlement to acquire rights entitling him to receive, more than 5% of the ordinary share capital of the service company, or
- possession of, or entitlement to acquire rights entitling him to receive 5% of any distribution made by the company, or
- received, or could have received, payments or benefits from the company which are not salary but could reasonably be taken to represent payment for the services he provides to clients.

The 'IR35' rules do not apply where

- the worker is only entitled to receive income from the intermediary which is all taxed as PAYE income and liable to Class 1 NICs, and has no other rights to income or capital from the intermediary.

The 'IR35' rules also apply to engagements where the intermediary is a partnership. However, they only apply if

- an individual worker, or persons connected with him or her, is entitled to 60 per cent or more of the partnership profits, **or**
- all or most of the partnership's income in the relevant tax year is derived from the provision of services, in a form which would fall within the definition of relevant engagements, to a single client or associate of that client, **or**
- the profit sharing arrangements in the partnership provide for the income of any of the partners to be based on the amount of income generated by those partners through relevant engagements.

Where the worker would have been an employee of the client, but for the presence of the service company or partnership, the service company or partnership must pay the worker a salary which is liable to PAYE and NICs. The amount must be an equivalent to all of the income received by the service company or partnership, from a relevant engagement with a client, less certain deductions. If the salary actually paid is less than this amount, the balance will be deemed to have been paid to the worker on the last day of the tax year.

The intermediary will be responsible for operating PAYE and paying NICs as follows

Intermediaries which are companies

Where a company intermediary receives income in respect of relevant engagements

- the intermediary must operate PAYE and pay NICs on payments of salary to the worker during the year, in the normal way
- if at the end of the tax year, the total of the worker's employment income from the intermediary, including benefits in kind, amounts to less than the intermediary's income from all that worker's relevant engagements, then the difference (net of allowable expenses described below) will be deemed to have been paid to the worker as salary on 5 April (earlier in certain circumstances), and tax and NICs must be paid accordingly
- where salary is deemed in this way appropriate deductions will be allowed in calculating Corporation Tax profits and no further tax/NICs will be due if the worker subsequently withdraws the money from the company.

Intermediaries which are partnerships

Where a partnership intermediary receives income in respect of relevant engagements

- income of the partnership from all relevant engagements in the year (net of allowable expenses described below) will be deemed to have been paid to the worker on 5 April as salary from a deemed employment held by the worker. The partnership will be required to operate PAYE and pay NICs on any deemed salary
- any amount deemed to be salary and taxed as PAYE income, will not be included when calculating the worker's share of Schedule D partnership profits
- the Revenue's current practice of including small amounts of PAYE income in the calculation of Schedule D profits will also apply in these cases. The Inland Revenue office dealing with the partnership accounts can advise you on whether PAYE income can be regarded as small, in this context.

Expenses

In computing the deemed salary, the following deductions shall be allowed against income from relevant engagements

- all expenses otherwise eligible for deduction under the normal expense rules, **plus**
- any employer pension contributions made to an approved scheme which are allowable under normal rules, **plus**
- a flat rate 5% of the gross income from the relevant engagements, **plus**

- the amount of the employer's NICs paid during the year, plus any due on the deemed payment.

Payment of Tax & NICs on the deemed payment

Chapter 1 of this guide explains how to work out PAYE and NICs for various pay intervals. But where regular payments have been made to the director or employee in question throughout the tax year, the deemed payment should be treated as a week 53 payment – see page 14 of this guide.

The normal end of year payment rules will apply to the PAYE and NIC on the deemed payment. If you are not able to calculate the actual amount by 19 April, you should make a payment on account of the estimated tax and NIC due. If you send in your P35 *Employer's Annual Return* at the same time, you must also answer question 6 on the return to show that the tax and NICs on the deemed payment has been included, and make a clear note to show that the amount is provisional.

If you **are** able to finalise the calculation by 19 May, which is the final date by which you must send in your P35 *Employer's Annual Return*, you should show the correct figures of tax and NICs on the deemed payment and either pay any difference or request a repayment. Otherwise, you should make it clear that the figures are still provisional.

Late payments of tax and NICs on deemed payments

If intermediaries were not able to calculate the actual amount of the deemed payment for the 2003–04 tax year by either 19 April or 19 May, they were instructed to aim to finalise matters as soon as possible after those dates, and send in a correction to the return and accompanying documents with a final payment, or request for repayment.

Interest was charged on late payments from 19 April when the original payment was due, but no penalties were charged for sending in the return late if

- the P35 *Employer's Annual Return* was received by 19 May with question 6 completed and showing remuneration paid during the year, plus an amount on account of the deemed payment, with tax and NICs correctly calculated on that additional figure, **and**
- it was made clear in a covering letter that the amount was provisional pending finalisation of the deemed payment, **and**
- correction to the return and accompanying documents, notifying the correct final amount for the deemed payment and the tax and NICs due was sent in to us by 31 January 2005, **and**
- any additional tax and NICs due as a result of the correction to the return was paid by 31 January 2005.

Chapter 4

If these arrangements are withdrawn, or change, notification will be given in a Press Release.

Two leaflets giving more information about 'IR35' are available from any Inland Revenue office. Please ask for leaflet IR175 '*Supplying services through a limited company or partnership*' and IR2003 '*Supplying Services – How to calculate the deemed payment*'.

Further information about service companies can be found on the Inland Revenue website at www.inlandrevenue.gov.uk/ir35 or, contact the 'IR35' Helpline on 0845 303 3535.

123 – 129 not used - reserved for future use

What to include as gross pay on form P11

The chart which follows tells you what to include as gross pay on form P11 for PAYE and Class 1 NICs purposes. It lists the main type of payments that can be made to employees.

Some entries will refer you to more detailed information elsewhere. This is because there may be special conditions for that type of payment.

If the chart does not show the type of payment you are making or if you are not sure whether to include the payment on form P11, contact the Employer's Helpline by calling **0845 7 143 143**. Calls are charged at the local rate.

Important Even if the payment does not need to be shown on form P11 it may need to be shown on forms P9D or P11D for tax and Class 1A purposes. For details of what to include on forms P9D or P11D see pages 78 & 79 and the chart at paragraph 136 (pages 80 to 82).

Type of payment	Include on P11 for NICs? PAYE?	
Car/van fuel supplied for private motoring when the fuel is supplied using your credit card, or garage account or an agency card	No, if the conditions outlined below and over for credit cards, charge cards and so on are satisfied, but there may be Class 1A liability – see the booklet CA33 <i>Class 1A National Insurance contributions on Cars and Fuel Benefits - a guide for Employer's</i>	No
Car parking fees for business related journeys paid or reimbursed to employees	No	No
Cars or vans made available for private use	No, but there may be Class 1A liability – see the booklet CA33 <i>Class 1A National Insurance contributions on Cars and Fuel Benefits - a guide for Employer's</i>	No
Childcare vouchers	No	No
<ul style="list-style-type: none"> • up to £50 a week where the qualifying conditions are met 	Yes (the excess over £50 a week)	No
<ul style="list-style-type: none"> • over £50 a week where the qualifying conditions are met 	Yes	No
<ul style="list-style-type: none"> • any amount not meeting the qualifying conditions 	Yes	Yes
Christmas boxes in cash	Yes	Yes
Clothing or uniforms	No but there may be a liability for Class 1A, see booklet CWG5(2005)	No
<ul style="list-style-type: none"> • clothing or uniforms provided by you 	No but there may be a liability for Class 1A, see booklet CWG5(2005)	Yes
<ul style="list-style-type: none"> • payments to employees for non-durable items such as tights or stockings 	Yes	Yes
<ul style="list-style-type: none"> • other payments to employees to purchase clothing or uniforms which can be worn at any time 	No	Yes
<ul style="list-style-type: none"> • other payments to employees to purchase clothing or uniforms which can be worn only at work 		
Council tax on employee's living accommodation	No	No
<ul style="list-style-type: none"> • employee provided with accommodation which is within one of the categories where the value does not have to be included for tax purposes on form P9D or P11D (see the chart on pages 80 to 82) 	Yes	No
<ul style="list-style-type: none"> • all other circumstances 		
Credit card, charge cards and so on – employees use your card to purchase goods or services bought on your behalf	No, but there may be a liability for Class 1A, see booklet CWG5(2005)	No
<ul style="list-style-type: none"> • prior authority given by you to make the purchase and the employee explained in advance of the contract being made, and the supplier accepted that the purchase was made on your behalf 	Yes	No
<ul style="list-style-type: none"> • above condition not fully satisfied 		

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Type of payment	Include on P11 for NICs? PAYE?	
Credit card, charge card and so on – employees use your card for expenditure other than goods or services bought on your behalf <ul style="list-style-type: none"> • payments relating to business expenses actually incurred • readily convertible assets • any other payments not reimbursed to you 	<p>No</p> <p>See page 94 Yes at the date you decide not to seek reimbursement</p>	<p>No</p> <p>See page 94 No</p>
Credit card reward payments made to employees for detecting and withdrawing lost or stolen cards <ul style="list-style-type: none"> • made by you to your own employees • made to your employees by a third party 	<p>Yes</p> <p>No</p>	<p>Yes</p> <p>Yes</p>
Damages or similar payment made to an employee injured at work <ul style="list-style-type: none"> • there is a contractual liability to make it • all other circumstances 	<p>Yes</p> <p>No</p>	<p>Yes</p> <p>No</p>
Director's personal bills charged to loan account and so on <ul style="list-style-type: none"> • the transaction makes the account overdrawn (or more overdrawn) and it is normal practice for you to pay the director's earnings into the same account • all other circumstances 	<p>Yes on the overdrawn (or additional overdrawn) amount</p> <p>No</p>	<p>No</p> <p>No</p>
Director's remuneration , salary, bonuses, fees and so on, including any advance or anticipatory payments paid, voted or credited	<p>Yes</p>	<p>Yes</p>
Dividends from shares	<p>No</p>	<p>No</p>
Employee liability insurance - reimbursements of payments made by employees for insurance cover or uninsured liabilities (such as legal costs) for claims against the employee arising out of his or her work	<p>No</p>	<p>No</p>
Employment Tribunal Awards	<p>See page 93</p>	<p>See page 93</p>
Expenses payments or reimbursements covered by a dispensation	<p>See page 83</p>	<p>See page 83</p>
Guarantee payments under the Employment Rights Act 1996	<p>Yes</p>	<p>Yes</p>
Holiday pay	<p>See page 26</p>	<p>See page 26</p>
Honoraria	<p>Yes</p>	<p>Yes</p>
Incentive Awards	<p>See page 22</p>	<p>See page 22</p>
Incidental overnight expenses (IOEs)	<p>See booklet 480 and booklet CWG5(2005)</p>	<p>See booklet 480</p>
Inducement payment such as 'golden hello' to recruit or retain employees	<p>Yes</p>	<p>Yes</p>
Insurance premiums for pension (but see page 56), annuities, or health cover (but see page 87) and so on, paid or reimbursed by you where contract is between <ul style="list-style-type: none"> • you and the insurance provider • employee and the insurance provider 	<p>No, but there may be a liability for Class 1A, see booklet CWG5(2005) See 'Personal bills paid' on page 76</p>	<p>No</p> <p>See 'Personal bills paid' on page 76</p>

Type of payment	Include on P11 for NICs? PAYE?	
Loans	No, but there may be a liability for Class 1A, see booklet CWG5(2005)	No
Loans written off	Yes at time of write off	No
Long service awards <ul style="list-style-type: none"> • Awards in the form of cash or cash vouchers • Other awards 	Yes No, if they satisfy certain conditions. Ask your Inland Revenue office for details	Yes See table on page 81
Lost time payments <ul style="list-style-type: none"> • payments made by a third party or by you on behalf of a third party such as payments for jury service • all other circumstances 	No Yes	No Yes
Maternity suspension payments made under the Employment Rights Act 1996 to an employee suspended from work on maternity grounds	Yes	Yes
Meal allowances and vouchers <ul style="list-style-type: none"> • cash payments for meals • vouchers redeemable for food and drink or a cash alternative • vouchers provided for food and drink provided on your business premises or any canteen where meals are generally provided for your staff • vouchers redeemable for meals only which cannot be transferred to another person, and <ul style="list-style-type: none"> – are worth no more than 15p per working day – are worth more than 15p per working day 	Yes Yes (also see pages 23 and 24) No No Yes (on the excess amount – also see pages 23 and 24)	Yes Yes No No No No
Medical suspension payments made under the Employment Rights Act 1996 to an employee suspended from work on medical grounds	Yes	Yes
Mortgage payments met directly by you for employees <ul style="list-style-type: none"> • mortgage provided by you or mortgage contract is between you and mortgagee • mortgage contract is between employee and mortgagee 	No, but there may be a liability for Class 1A, see booklet CWG5(2005) Yes	No No
Parking fees at or near the normal place of employment paid for or reimbursed to employees	No	No
Payments in kind (but not readily convertible assets - see page 94) <ul style="list-style-type: none"> • which can be turned into cash by surrender such as Premium Bonds, and so on • which can be turned into cash only by sale such as furniture, kitchen appliances, holidays and so on 	Yes No, but there may be a liability for Class 1A, see booklet CWG5(2005)	Yes No
Payments you make to an employee whilst he or she pursues a claim for damages against a third party for loss of earnings following an accident <ul style="list-style-type: none"> • employee must repay you, even if the claim for damages is unsuccessful • employee not required to repay you 	No Yes, but if the employee later receives damages and repays you, NICs can be refunded	No Yes

Chapter 5

Type of payment	Include on P11 for	
	NICs?	PAYE?
Pensions	No	Yes
Personal bills paid for goods and services supplied to employees, club memberships and so on <ul style="list-style-type: none"> contract to supply goods and services is between you and the provider contract to supply goods and services is between the employee and the provider <ul style="list-style-type: none"> – payment made direct to the provider – payment made or reimbursed direct to the employee 	No, but there may be a liability for Class 1A, see booklet CWG5(2005) Yes Yes	No No Yes
Premiums for health cover, pensions, annuities and so on	See 'Insurance premiums'	See 'Insurance premiums'
Prize money paid in cash to employees for competitions you run in connection with your business, which are not open to the public	Yes	Yes
Readily convertible assets: remuneration provided in non-cash form such as stocks and shares, gold bullion, commodities, fine wine and so on	See page 94	See page 94
Redundancy payments	See page 90	See page 90
Relocation payments	See page 86	See page 86
Retirement benefits schemes - payments you make into such schemes Approved schemes Unapproved schemes	No Yes. See also paragraph 81 on page 57 about how to apportion payments between employees	No No
Round sum allowances	See page 86	See page 86
Securities or interests in securities	See 'readily convertible assets'	See 'readily convertible assets'
Sickness, maternity and other absence from work payments	Yes	Yes
Statutory Sick Pay (SSP) , Statutory Maternity Pay (SMP), Statutory Adoption Pay (SAP) and Statutory Paternity Pay (SPP)	Yes	Yes
Stocks and shares	See 'readily convertible assets'	See 'readily convertible assets'
Subscriptions or fees to professional bodies paid or reimbursed by you	No	No
Suggestions schemes awards to employees	No, if the award satisfies the conditions for exemption from tax. Ask your Inland Revenue office for details. If you make awards in the form of benefits, see also booklet CWG5(2005)	Awards which satisfy certain conditions are exempt from tax. Ask your Inland Revenue office for details

Type of payment	Include on P11 for NICs?	Include on P11 for PAYE?
Telephone calls and/or rental cost Employer is the subscriber	No Class 1 liability, but there may be a liability for Class 1A NICs, see booklet CWG5(2005)	No
Employee is the subscriber but, employer meets the cost of calls and/or rental <ul style="list-style-type: none"> telephone used exclusively for business use telephone used exclusively for private use telephone used for both business and private use 	No Yes Rental: Yes – on the full amount of the rental Calls: Yes – on the full amount of the cost of private calls. Any amount in respect of business calls, supported by appropriate evidence, can be excluded	No See Personal bills paid on page 76 No No
Third party payments made to your employees	See booklet CWG5(2005)	See page 22
Tips and service charges	See page 30	See page 30
Training – payments for such things as course fees, books and so on <ul style="list-style-type: none"> training is work related or is encouraged or required by you in connection with the employment training is provided for an employee who is leaving to enable them to find alternative employment all other circumstances 	No See page 91 Yes	No See page 91 Yes
Transport vouchers , such as season tickets and so on, provided for <ul style="list-style-type: none"> employees of a passenger transport undertaking under arrangements in operation on 25 March 1982 where the employee is earning less than £8,500 per year any other employee 	No Yes	No No (and see page 24)
Travelling time payments	Yes	Yes
Vouchers which can be redeemed or exchanged for <ul style="list-style-type: none"> both goods and cash or cash alone goods alone (but not readily convertible assets) use of sporting or recreational facilities readily convertible assets 	Yes Yes No See page 94	Yes (and see page 24) No (and see page 24) No See page 94
Wages, salaries, fees, overtime, bonuses, commission and so on	Yes	Yes

Giving your Inland Revenue office details of your employees' benefits and expenses

The paragraphs below tell you what forms you have to complete to give your Inland Revenue office details of your employees' benefits and expenses.

- Paragraph 130 tells you about the form P46(Car)(New) you must send in during the tax year, to give the Inland Revenue office the details they need about certain employees who are provided with a car which is available for private use.
- Paragraphs 131 to 133 tell you about the forms P9D, P11D and P11D(b) you must send in at the end of the tax year, to give the Inland Revenue office the details they need about the expenses you have paid and the benefits provided for your employees during the tax year and the amount of Class 1A NICs you are due to pay. You must send these forms in time to reach the Inspector by 6 July. You can, if you wish, send them with your End of Year Return but if you do, remember that forms P35 and P14 must be sent in time to reach the Inspector by 19 May.

130 Form P46(Car)(New)

You complete a form P46(Car)(New) to give details of all employees/directors for whom form P11D is appropriate, who are provided with a car which is available for private use.

The completed form P46(Car)(New) must be sent to the Inland Revenue office within 28 days of the end of the quarter to 5 July, 5 October, 5 January or 5 April in which **any** of the following take place:

- The employee/director is first provided with a car which is available for private use.
- A car provided to the employee/director is replaced by another car which is available for private use.
- The employee/director is provided with a second or further car which is available for private use.
- A car provided to the employee/director is withdrawn and not replaced.
- An employee/director provided with a car available for private use who was previously an employee for whom form P9D was appropriate, becomes an employee for whom form P11D is appropriate.

Full guidance and information on the tax and NICs aspects of company cars can be obtained from the following publications:

- The tax aspects are covered in
 - 480 *Expenses and Benefits - A Tax Guide*

- IR172 *Income Tax and Company Cars. A Short Guide to the Taxation of Company Cars.*

The NICs aspects are covered in

- CWG5(2005) *Class 1A National Insurance contributions on Benefits in Kind*
- CA33 *Class 1A National Insurance contributions on Cars and Fuel Benefits - A guide for employers.*

131 Form P11D

You complete a form P11D or online equivalent return (see page 4) to give details of all expenses payments and the cash equivalent of any benefits provided for the following types of employees, or their families, dependants and guests.

- Employees who earn at a rate of £8,500 or more in the year. Where an employee has more than one employment with you or with any other business under the same control, you must fill in form P11D if the total of his or her earnings from all such sources are at a rate of £8,500 or more in the year.

To work out whether an employee has earned at a rate of £8,500 or more in the year

- take the employee's annual rate of gross pay
- deduct any payments to which the employee is entitled to tax relief under the 'Net pay arrangement', that is contributions to an approved pension fund; exempt profit-related pay; authorised donations to a payroll giving scheme for charities
- add all expenses payments and benefits provided.
- Employees who are directors of another company under the same control.
- Directors of a company or business – excluding directors covered by the exemption below – but including
 - anyone who manages the affairs of a body or society
 - anyone on whose instructions directors usually act, but not those who are only professional advisers.

You do **not** have to fill in a form P11D for either full-time working directors or directors of a non profit making body, if they satisfy **all** of the following conditions:

- They earn at a rate of less than £8,500 in the year.
- They do not have a material interest in the company. Broadly speaking they do not directly or indirectly control more than 5% of the share capital.
- They do not have any other directorships with another business under the same control as yours, for which a P11D is needed.

P11Ds are also used to help you calculate the amount of Class 1A NICs that may be due on taxable benefits you provide to your employees. See CWG5(2005) *Class 1A National Insurance contributions on Benefits in Kind*.

Guidance on what to enter on form P11D is given at paragraph 134.

132 Form P11D(b)

You complete a form P11D(b)

- to confirm that by 6 July all forms P11D you should have completed have been sent to your Inland Revenue office
- to declare the total amount of Class 1A NICs you are due to pay.

The return date for both the P11D and the P11D(b) is 6 July following the end of the year in which the benefits and expenses have been provided.

The P11D(b) can also be used to make adjustments to the total benefits liable to Class 1A NICs taken from forms P11D.

133 Form P9D

You complete a form P9D to give details of the expenses payments and benefits of more than £25 that have not been treated as pay for employees who

- are not directors, and
- earned at a rate of less than £8,500 in the year. Paragraph 131 shows you how to work out whether an employee has earned at a rate of less than £8,500 in the year.

Class 1A NICs are not payable on benefits you report on forms P9D.

Guidance on what to enter on form P9D is given at paragraph 134.

134 What to enter on forms P9D or P11D

You must complete forms P9D or P11D to give your Inland Revenue office details of your employees' benefits and expenses. The chart at paragraph 136 (pages 80 to 82)

- sets out the various types of expenses that could be paid to employees and benefits that could be provided to them
- tells you whether or not you should enter the particular type of expense or benefit on form P9D or P11D.

135 Reporting termination packages where amounts over £30,000 are taxable

You need to report packages which are taxable only on amounts over £30,000. You don't need to do this if the package consists of cash only or, where it

includes non-cash benefits, if it has an estimated value of £30,000 or less.

You should make a report to the Inland Revenue office, at the latest by 6 July following the tax year in which the termination takes place, if a package is provided, which includes non-cash benefits and is estimated, over its lifetime, to exceed £30,000. In working out the cash equivalents of non-cash benefits for future years, so as to determine whether a report is needed or not, you only need make reasonable estimates using the rules in force in the year in which termination occurs.

You do not need to wait until 6 July if you want to send the report earlier. You can send it at any time after the termination has occurred.

You can prepare your report in whichever way suits you best. There is no prescribed form or format. A copy should always be given to the employee.

If you make a report it must contain the following information

- the total estimated value of the package
- details of the cash payments made and the cash equivalents of non-cash benefits provided in the year in which the termination took place (where the report is made in the tax year best estimates should be supplied)
- an estimate of the cash payments to be made in future years
- an estimate of the total lifetime of the package with details of any contingency factors (for example payments or benefits ceasing if the employee finds alternative employment)
- details of the type of benefits to be provided after the first year and the terms of their provision (for example car for three years, medical insurance for ten years, and so on).

If, after you have made your report there is a variation in the package and the total value increases by more than £10,000 you will need to make another report to your Inland Revenue office. This has to be made by 6 July following the end of the tax year in which the variation takes place. The report should only contain details of the variation.

A report will also need to be made if, having originally decided that you do not need to make a report, there is a variation in the package so that it includes non-cash benefits and exceeds £30,000. In these circumstances you should send a report to your Inland Revenue office at the latest by 6 July following the end of the tax year in which the change takes place. The report, however, should be for the year in which termination occurred as if one had been required in the first place.

If you make such a late report remember to provide a copy to the employee.

Chapter 5

136 P9D/P11D Chart

Important This chart gives general guidance only. It does not cover all expenses or benefits. Booklet 480 *Expenses and Benefits – A Tax Guide*, gives more information as does the *P11D Guide*. If you are not sure what to enter on P9D or P11D contact your Inland Revenue office for advice.

Expenses and benefits can also attract a Class 1 or Class 1A NICs liability. Guidance on Class 1A NICs can be found in CWG5(2005) *Class 1A National Insurance contributions on Benefits in Kind*.

The chart on pages 73 to 77 also gives information on when Class 1A NICs may be due on payments of expenses and benefits.

Type of expense or benefit	P9D	P11D
Assets given to the employee, or transferred at less than market value	Yes	Yes
Assets provided for the employee's use such as yachts, aircraft, furniture, kitchen appliances and so on	No	Yes
Benefits or payments		
• which could be turned into money	Yes	Yes
• any other benefit	No	Yes
Business expenses met wholly or partially by you	Yes	Yes
Car or van fuel supplied for private motoring	No	Yes
Car parking facilities		
• at or near the place of work	No	No
• elsewhere	No	Yes
Cars or vans made available for private use	No	Yes
Childcare help provided by		
• childcare vouchers up to £50 a week where the qualifying conditions are met	No	No
• childcare vouchers over £50 a week where the qualifying conditions are met	Yes (the excess over £50 a week)	Yes (the excess over £50 a week)
• childcare vouchers (any amount) not meeting the qualifying conditions	Yes	Yes
• places in qualifying nurseries or playschemes	No	No
• other registered or approved childcare up to £50 a week	No	No
• other registered or approved childcare over £50 a week	No	Yes
• any other means	See leaflet IR115	See leaflet IR115
Credit card, charge card payments made by you or credit account payments made by you	Yes	Yes
Entertaining allowances	Yes	Yes
Expenses in providing any pension, annuity, lump sum, gratuity or similar benefit which is given to an employee or to his or her spouse, children or other dependants on retirement or death	No	No
Expenses payments or reimbursements		
• covered by a dispensation	No	No
• not covered by a dispensation	Yes	Yes
Food, groceries, farm produce and so on	No	Yes
Goods or services (including professional services) supplied at less than their full cost	No	Yes
Holidays	No	Yes
Incidental overnight expenses (IOEs)		
• within the terms of the special exemption (see booklet 480)	No	No
• in all other circumstances	Yes	Yes

Type of expense or benefit	P9D	P11D
Income tax paid but not deducted from a director	No	Yes
Income tax paid in respect of a readily convertible asset if the tax is not recovered from the employee within 90 days	Yes	Yes
Living or other accommodation provided by you <ul style="list-style-type: none"> • services provided with it such as heat, light, repairs, domestic services • value of the accommodation itself <ul style="list-style-type: none"> – where there is a special threat to the security of the employee who lives there as part of special security arrangements – where it is necessary for the employee to live in that accommodation to do his or her job properly or it is provided so that the employee can do his or her job better and it is customary for employers to provide living accommodation for this type of job – in all other circumstances 	Yes No No Yes	Yes No No Yes
Loans (including notional loans, that is, securities acquired for less than market value) that are <ul style="list-style-type: none"> • interest free or at low interest • written off 	No Yes	Yes Yes
Long service awards in the form of <ul style="list-style-type: none"> • cash or cash vouchers • readily convertible assets • non-cash awards which satisfy certain conditions • other awards 	No – see page 75 No – see page 94 Ask your Inland Revenue office Yes	No – see page 75 No – see page 94 Ask your Inland Revenue office Yes
Meals provided by you <ul style="list-style-type: none"> • at a canteen open to your staff generally • on your business premises, on a reasonable scale and all employees are able to obtain free or subsidised meals or meal vouchers • in any other circumstances 	No No No	No No Yes
Meal vouchers given <ul style="list-style-type: none"> • which cannot be transferred to another person, are used only for meals and are not worth more than 15p for each working day • in any other circumstances 	No Yes	No Yes
Medical, dental treatment or insurance to cover the cost of such treatment <ul style="list-style-type: none"> • outside the UK for treatment necessary while an employee was abroad • in all other circumstances 	No No	No Yes
Mobile phones used by an employee for private calls	No	No
NICs (employee's share) borne by you	Yes	Yes

Chapter 5

Type of expense or benefit	P9D	P11D
Office accommodation, supplies or services such as ordinary office accommodation, equipment, typists, stationery and so on provided for an employee on your premises and only used by the employee in doing his or her job	No	No
Private expenses met wholly or partially by you	Yes	Yes
Private telephone rental and costs of calls	Yes	Yes
Relocation expenses payments and benefits <ul style="list-style-type: none"> • expenses which are not exempt • exempt expenses of £8,000 or less • exempt expenses in excess of £8,000 	Yes No Yes	Yes No Yes
Retirement benefits schemes (unapproved) – payments by employer (in practice)	No	Yes
Round sum allowances	See page 86	See page 86
Scholarships awarded to students because of their parent's employment	No	Yes
Security measures provided by you	No	Yes
Social functions <ul style="list-style-type: none"> • annual functions such as Christmas dinners, summer parties and so on, open to staff generally where the cost per head of the function is £150 or less. (Where more than one such function is held in a year and the aggregate cost per head of the functions is more than £150 per head, exclude details of any function(s) that total £150 or less and include details of all other functions) • any other type of function 	No No	No Yes
Sporting facilities such as shooting, fishing and horse racing <ul style="list-style-type: none"> • covered by special exemption • all other circumstances 	No No	No Yes
Subscriptions and professional fees	Yes	Yes
Third party payments to discharge employee's personal liability	Yes	Yes
Transport vouchers , tickets, passes and so on of any description which provide transport by any passenger transport undertaking given to <ul style="list-style-type: none"> • employees of passenger transport undertakings under arrangements in operation on 25 March 1982 • any other employee or director 	No Yes	Yes Yes
Vouchers , meaning any voucher, stamp or similar document which can be exchanged for money, goods or services except vouchers on which PAYE has already been operated	Yes	Yes

Dispensations

137 What is a dispensation

A dispensation is a notice sent to you by the Inspector of Taxes, authorising you not to report on forms P11D the expenses payments and benefits specifically covered by the dispensation.

The Inspector will issue the dispensation if he or she is satisfied that

- your employees would be able to obtain a deduction for the expenses or benefits in arriving at their tax liability, **and**
- payments are properly controlled by you.

A dispensation can cover any type of expense payments and most benefits in kind. For instance

- qualifying travel expenses
- reasonable scale rate payments for subsistence
- entertaining
- subscriptions to professional bodies or learned societies.

The following cannot be included in a dispensation

- company cars and company vans that are taxable
- private medical insurance
- cheap loans
- round-sum allowances
- mileage allowance payments to those who use their own cars for business travel.

138 How to apply for a dispensation

To apply for a dispensation you can either

- complete a form (P11DX) and send it to the Inspector of Taxes
- write to the Inspector of Taxes setting out
 - the employees or groups of employees for whom you would like a dispensation
 - the types and amounts of expenses payments or reimbursements which you wish to be covered by the dispensation
 - your system for controlling and authorising payments of expenses and reimbursements.

The Inspector will then let you know what further information, if any, is needed for your request to be considered.

Leaflet IR69 *Expenses payments & benefits in kind – how to save yourself work* gives you further information and includes an application form (form P11DX). You can get this leaflet and application form from your Inland Revenue office, from your Employer's CD-ROM or from the Inland Revenue website at

www.inlandrevenue.gov.uk/leaflets/c6.htm

139 Using a dispensation for NICs purposes

If you have a dispensation for tax purposes, you may also take it into account for NICs purposes provided that the conditions under which it was issued have not changed. When you take account of a

dispensation for NICs purposes, the Inland Revenue will accept it as evidence that the payments it covers

- are expenses incurred in carrying out the employment, and
- do not need to be included in gross pay for NICs purposes.

Class 1A NICs are not payable on benefits in kind included in a dispensation.

140 Information and guidance for holders of a dispensation

Note that

- a dispensation is only valid in relation to
 - the circumstances disclosed before it was issued
 - the types of expenses payment or reimbursements it covers
- you must inform the Inspector of Taxes if
 - your system for controlling payments alters, or
 - the amount(s) of any scale rate payments included in the dispensation change
- a dispensation normally continues to be effective until it is withdrawn by the Inspector of Taxes.

PAYE Settlement Agreements

A PAYE Settlement Agreement (PSA) is an agreement between you and the Inspector of Taxes under which you agree to pay the tax in a lump sum on certain expenses payments and benefits in kind you give your employees. You do not have to include items covered by a PSA on form P9D or P11D.

In addition to making lump sum payments of tax, you can also make lump sum payments of NICs on items included in PSAs by paying Class 1B contributions.

PSAs normally apply to items which are

- minor
- given by you on an irregular basis, or
- where it is impracticable for you to apply PAYE to them or include them on forms P9D or P11D.

PSAs do not apply, for example, to wages and salaries.

If you want to know more about PSAs, ask any Inland Revenue office for leaflet IR155 *PAYE Settlement Agreements – A more flexible way of dealing with some expenses payments & benefits in kind* or print one from your Employer's CD-ROM.

More information about Class 1B NICs

Class 1B NICs are payable on PSAs at the same time as tax, using the same payment slip.

Class 1B NICs are payable at the appropriate secondary employer's percentage rate on the total value of

- all items covered by the PSA which would give rise to a Class 1 or Class 1A NICs liability, **and**
- the tax payable by the employer under the PSA.

Chapter 5

For further details, see leaflet IR155 *PAYE Settlement Agreements – A more flexible way of dealing with some expenses payments & benefits in kind*.

If one of your employees fails to qualify for SSP, SMP, SAP or SPP because their average weekly earnings are too low, you will need to reassess their average weekly earnings taking account of items covered by a PSA which would have given rise to a Class 1 NICs liability.

For more information on calculating an employee's average weekly earnings for SSP, SMP, SAP or SPP purposes, see

- Employer's Help Books E14 *What to do if your employee is sick*, or E15 *Pay and time off work for parents*, or E16 *Pay and time off work for adoptive parents* (and their Supplements).

Taxation of mileage expenses payments

(See paragraph 141 for the NICs treatment of motoring expenses payments and passenger payments).

You can pay up to an 'approved amount' tax free to employees using their own vehicles for business travel. This is calculated as follows:

Kind of vehicle	Rate
Car or van	40p per mile for the first 10,000 business miles 25p per mile after that
Motor cycle	24p per business mile
Cycle	20p per business mile

There are two main conditions for payments to be free of tax

- they must be paid to the employee (not merely for the benefit of the employee) for the expenses of business travel in the employee's privately owned car, van, motor cycle or cycle
- they must not exceed the number of business miles multiplied by the appropriate mileage rate.

Payments that meet these two tests are known as approved mileage allowance payments (AMAPs).

If you do not pay more than the approved amount, all payments are tax-free AMAPs. You do not need to include them on form P9D or form P11D.

If you pay more than the approved amount, the excess will be charged to tax and you must include it on form P9D or form P11D.

Meaning of business travel

This is explained in booklet 490 *Employee travel - A Tax and NICs Guide for Employers*.

Associated employments

Where an employee gets motoring expenses payments from two or more associated employments, aggregate the mileage to work out when 10,000 business miles is reached.

Dispensations

Mileage expenses payments are no longer included in dispensations.

Any existing dispensation or part of a dispensation that related to payment of expenses for business travel in employees own vehicles ceased to be effective after 5 April 2002. Other parts of the dispensation are not affected.

Record keeping

Even if you pay amounts that are at or below the AMAPs limit and so are not taxable, you will still need to keep records of the payments made and the business journeys to which they relate.

Withdrawal of Fixed Profit Car Scheme and Car Allowance Enhanced Reporting Scheme

These arrangements were withdrawn from 6 April 2002. If you need to know about years up to and including the 2001–02 tax year, see chapter 16 of the 2002 edition of booklet 480 *Expenses and Benefits - A Tax Guide*.

Passenger payments

There is an additional exemption from tax for 'passenger payments'. These are payments you make to employees travelling on business journeys specifically because they carry as passengers fellow employees for whom the journeys are also business travel. The exempt amount is 5p per mile per fellow employee travelling as a business passenger.

The exemption applies only where the vehicle used is a car or a van, but is not restricted to employees' privately owned vehicles. It can also apply where the vehicle used is a company car or van, provided the employee is chargeable to tax on car or van benefit.

Exempt passenger payments do not need to be included on form P9D or form P11D (though any excess does). But you should keep adequate records to demonstrate that payments made satisfy the conditions for exemption.

Treatment of expenses payments for NIC purposes

If you pay an employee expenses, you must include them in gross pay unless they are specific and distinct payments of, or contributions towards, expenses actually incurred by the employee in carrying out their work. If you pay an employee expenses for using a privately owned vehicle for business purposes, there are special rules for working out

whether you need to include these payments in gross pay, see paragraph 141.

Evidence

To prove that they are expenses actually incurred by employees in carrying out their work you must be able to identify the business expense. Evidence of the business expense is required to establish

- the amount of the business expense
- that employees incurred the expense while carrying out their work.

The type of evidence will depend on the item of business expenditure. For example, evidence could include

- a log of business phone calls or visits
- credit card bills
- receipts
- work diaries showing the employee's engagements
- Inland Revenue dispensations
- a representative survey of the costs involved (that is a scale rate).

This is not a complete list and any evidence will be considered.

Using a scale rate

Payments based on a scale rate, which covers the costs likely to be incurred, should not be included in gross pay.

For scale rate payments to be excluded from gross pay the scheme you operate must satisfy all the following conditions:

- The scheme must not have an overall profit element.
- The payments must be based on an accurate survey of the costs involved.
- The scheme must allow for a movement in prices.
- The payments must be reasonable in relation to the employment involved.
- The employee must make a claim for each payment made.

Details of the scheme and its provisions must be available for inspection. NICs will be charged on all payments made under the scheme if the scheme is not supported by written evidence or is not considered sound.

If the payment you make is higher than the established scale rate include the excess in gross pay.

141 National Insurance contributions on motoring expenses payments

There is a statutory amount which can be paid to employees who use their own cars, vans, motor cycles or cycles for business travel without incurring a NICs liability. If you pay more than the

statutory NICs free amount, the excess amount must be added to any other earnings the employee receives in the earnings period in which you make the motoring expense payment. Class 1 NICs are then calculated on the employee's total earnings.

To work out whether NICs are due, you must multiply the amount of business miles travelled by the statutory mileage rate and compare that figure to the amount that you have paid. For privately owned cars and vans, the rate to use is the one which applies to the first 10,000 business miles. This rate is shown in the table on page 84 and must be used irrespective of the number of business miles actually travelled. In working out whether NICs are due, you must include in the calculation of the NICs free amount all business miles travelled, even if you do not pay the employee for all of his business mileage. For employees who use their own motor cycles and cycles for business travel, or who carry passengers, use the appropriate rates on page 84.

The rules for

- paying the new passenger rate and
 - what counts as business travel
- are the same for both tax and NICs, see page 84.

Further guidance on these rules for NICs, including examples of how NICs are calculated on motoring expenses payments, is included in booklet 490 *Employee Travel - A Tax and NICs Guide for Employers*.

Payments towards additional household costs incurred by employees who work at home

For both PAYE and NICs purposes

The Finance Act 2003 included a provision to abolish, with effect from 6 April 2003, the income tax charge that would normally arise when an employer contributes to the additional household costs incurred by employees who work at home. Such payments could already be made free of NICs.

From 6 April 2003 onwards, do not include in gross pay any payments made in respect of reasonable additional household expenses incurred by employees in carrying out duties of their employment at home.

You may pay up to £2 per week (£104 per year) without supporting evidence of the costs. If you choose to pay more, you must retain supporting evidence to show that the payment is wholly in respect of additional household expenses incurred by the employee in carrying out the duties at home.

142 – 147 not used - reserved for future use

Round sum allowances

If you pay a round sum allowance to an employee, you must treat the payment as follows.

For NICs purposes

Where a **specific and distinct business expense** is identified, do not include the business expense element of the allowance in gross pay.

If you cannot identify the business expense include the whole allowance – whether or not an expense is actually incurred – in gross pay.

For PAYE purposes

Include the whole allowance in gross pay. Where a round sum allowance is **clearly** meant to do no more than reimburse an employee for an expense actually incurred in doing his or her job, and the expense was incurred only because of the job, the Inspector of Taxes may be prepared to authorise you to pay the expense without deducting PAYE. However, before doing this the Inspector of Taxes will need to be satisfied that the allowance is equivalent to the reimbursement.

If you pay a round sum allowance which you believe may qualify to be paid without deduction of PAYE, you should let the Inspector have details of the amount you pay and what the allowance is intended to cover.

Where the Inspector agrees that you may pay some or all of an allowance without deducting PAYE, you must

- nevertheless include the allowance when completing form P9D or P11D
- notify the Inspector of any change to
 - the amount of the allowance
 - the circumstances in which the allowance is paid.

Travel and subsistence payments

The rules on the tax and NICs treatment of business travel by employees are explained in detail in booklet 490 *Employee Travel - A Tax and NICs Guide for Employers*.

Chapter 9 of booklet 490 covers employers' reporting requirements and explains when you need to operate PAYE on payments for travel and subsistence.

Chapter 6 of booklet 490 explains the limited circumstances in which you need to account for NICs on travel and subsistence payments.

Relocation allowances or expenses

Payments you make to or for an employee who has to move residence as a result of being relocated in the UK by you, should be treated as follows.

For PAYE purposes

Do not include in gross pay any exempt relocation expenses payments.

What constitutes an exempt expense payment is described at paragraph 5.3 of booklet 480 *Expenses and Benefits – A Tax Guide*.

Include in gross pay any expenses that are not exempt. Amongst other things this will include any payments not listed as eligible in Appendix 7 of booklet 480 *Expenses and Benefits - A Tax Guide*.

For NICs purposes

The NICs treatment for the payment of relocation allowances/expenses changed with effect from 6 April 1998.

Follow the guidance below, appropriate to whether an employee started work at the new location before, on, or after 6 April 1998.

Employee started work at the new location before 6 April 1998

Follow the guidance below, appropriate to whether or not you operate a scheme for making relocation payments.

You operate a scheme for making relocation payments
Details and the provisions of your scheme must be available for inspection and you should contact your nearest Inland Revenue National Insurance Contributions Office for advice if you have any doubts or queries.

NICs are not payable if you base your payments on an estimate of the costs likely to be incurred and all the following conditions are satisfied:

- Your scheme has no overall profit element.
- Payments are based on an accurate survey of the costs involved.
- Your scheme is designed to allow for movements in prices.
- The payments are reasonable in relation to the employment involved.

In **any** of the following circumstances, NICs are due on all the payments you make. Your scheme

- does not satisfy all of the above conditions
- is not supported by written evidence
- is not considered sound.

You do not operate a scheme for making relocation payments

Where you do not operate a scheme for making relocation payments

- Include in gross pay
 - any payment (either periodic or lump sum) you make to cover a **general** increase in an employee's cost of living
 - any payment (either periodic or lump sum) you make to an employee for the **extra** cost of occupying **improved** accommodation
 - any payment or reimbursement you make to an employee for expenses which were **not absolutely necessary**.
- Do not include in gross pay
 - any payment (either periodic or lump sum) you make to cover a **specific** additional expense incurred by the employee as a result of the move (for example higher mortgage or rent)
 - any payment (either periodic or lump sum) you make to an employee for the extra cost of occupying **comparable** accommodation but in a higher housing cost area
 - any payment or reimbursement you make to an employee for expenses which were **absolutely necessary**. (For example, solicitor's bill, estate agent's fees, removal expenses.)

Employee started work at the new location on or after 6 April 1998

Do not include in gross pay any expenses payments that are eligible for tax relief as listed in Appendix 7 of booklet 480 *Expenses and Benefits - A Tax Guide*.

Include in gross pay any relocation expenses you pay that are not eligible for tax relief as listed in Appendix 7.

If you provide

- a relocation package worth more than £8,000, **or**
- relocation benefits

see CWG5(2005) *Class 1A National Insurance contributions on Benefits in Kind*.

If you make any payment towards a relocated employee's council tax contact the Employer's Helpline by calling **0845 7 143 143** for advice. Calls will be charged at the local rate.

Allowances or expenses to employees relocating abroad

For both PAYE and NICs purposes

Do not include in gross pay any **exempt** allowances and expenses paid to employees relocating abroad.

Allowances or expenses to employees working abroad

For both PAYE and NICs purposes

Treat payments of expenses to employees working abroad like other expenses payments. In addition, include in gross pay

- payments described as compensation for working abroad
- sums paid as an inducement to work abroad
- any bonus paid for working abroad.

If you pay an employee a general allowance to compensate for the higher cost of living abroad, commonly known as a cost of living allowance/cost of living addition, that sum must be included in gross pay.

But, do not include in gross pay any payment you make towards expenses incurred in

- providing an employee with medical treatment outside the UK where the need for the treatment arises while the employee is outside the UK working for you
- providing insurance for the employee against the cost of such treatment.

You will need to get advice if you pay the travelling expenses for employees and/or their families returning to the UK on home leave.

Contact the Employer's Helpline by calling **0845 7 143 143**. Calls are charged at the local rate.

Payments you make when an employee stops working for you

The guidance below tells you what you should do if you make additional one-off payments such as on redundancy or retirement. Guidance on 'standard' payments such as salary, wages, SMP, SAP, SPP and so on is given on page 15.

148 Type of payment

The treatment of a payment made when an employee stops working for you varies according to the type of payment. This is true for both PAYE and NICs purposes.

A **single payment** is often made up of more than one element. For example, one payment might cover

- redundancy pay
- accrued holiday pay, **and**
- a payment in lieu of notice.

Each element must be considered **separately**. You first decide the appropriate tax and NICs rules to apply to each element. Then these separate results are brought together.

For PAYE purposes

Most payments fall into one of the following three categories

- Payments which are taxable in full.
- Payments which are taxable only on amounts over £30,000
 - if there is more than one sum in this category, you must total all such payments before applying the £30,000 limit
 - if payments are made by instalments, the exemption does not just apply to the year in which the termination takes place. Any unused balance after setting off both cash payments and non-cash benefits may be carried forward to set against payments in a later year.
- Payments which are completely tax free.

For NICs purposes

Payments are either included or not included in gross pay.

149 Action to take when you make such payments

The chart on pages 89 to 91 lists the most common elements included in a leaving payment, and tells you what the appropriate tax and NICs treatments are.

If you need more information about how to value non-cash benefits, see Chapter 27 of booklet 480 *Expenses & Benefits – A Tax Guide*.

Contact your Inland Revenue office for guidance on calculating the taxable amount if

- you intend to provide anything other than cash when an employee leaves – for example, an asset (such as a car) or the use of an asset
- any payment (or part payment) is to be paid by a third party, for example another employer.

For guidance, if you are not sure which list entry applies to the type of payment you are making, contact the Employer's Helpline by calling 0845 7 143 143. Calls are charged at the local rate.

Type of payment	Include in gross pay for NICs purposes? PAYE purposes?	
<p>6 Payments for redundancy</p> <ul style="list-style-type: none"> due under statutory redundancy payment rules, or paid from your non-statutory scheme to compensate for loss of employment by reason of redundancy. <i>Redundancy has a special legal meaning. Broadly, there must be a reduced need for employees which causes the termination of the employment.</i> <p>This would not include, for example, a payment in lieu of notice provided for by such a scheme. The redundancy may be indirect. For example, an employee leaves as a result of a reduced need for employees elsewhere in the business.</p>	No	On amounts over £30,000 only. See also paragraphs 148 and 152
<p>7 Payments made as damages</p> <p>The termination was a breach of contract. For example,</p> <ul style="list-style-type: none"> you did not give the employee proper notice, and there was no entitlement or option to make payment in lieu of notice. A payment in lieu then made is damages for the breach you agree, or the Courts or an Employment Tribunal rule, that the employee was unfairly or wrongly dismissed. If you pay something which is due under the terms or conditions of employment, it will not be damages. For example, you may be ordered, or agree, as part of a settlement of damages to pay wages due under such terms. In these circumstances that element of the payment must be included in gross pay for NICs and PAYE purposes. 	No	On amounts over £30,000 only. See also paragraphs 148 and 152
<p>8 Payments for the employee giving a restrictive covenant</p> <p>A restrictive covenant is an undertaking which restricts the employee's conduct.</p>	Yes	Yes
<p>9 Employee's legal costs</p> <p>These are costs incurred in bringing a claim to compensation for loss of employment.</p>	No	May be tax free, ask your Inland Revenue office about Extra Statutory Concession A81
<p>10 Cost of 'outplacement counselling'</p> <p>This includes such things as</p> <ul style="list-style-type: none"> a course or advice to assist the employee in finding new employment a course to help the employee adjust to the termination of employment. <p>provided that the counselling</p> <ul style="list-style-type: none"> is generally available to employees <p>Reimbursed costs and associated travelling expenses are treated in the same way.</p>	No	No

Type of payment	Include in gross pay for	
	NICs purposes?	PAYE purposes?
<p>11 Cost of retraining courses</p> <p>This covers the payment or reimbursement of retraining course expenses for an employee who is about to leave, or who has recently left your employment. The course must be</p> <ul style="list-style-type: none"> • full time, or substantially full time • last for no more than 1 year, and • be designed to provide the employee with skills or knowledge which will help them to find alternative employment (including self employment). <p>There are further conditions relating to the time when the employee starts the course, and the period for which the employee has worked for you. Ask your Inland Revenue office for details.</p>	No	No
12 Pension	No	Yes

For NICs purposes

If you make payment

- **when the employee leaves**, work out NICs based on the regular earnings period for the employment
- **after the employee has left**, work out NICs based on a weekly earnings period. If the payment is made together with a standard payment, treat it as an 'irregular sum' and follow the rules on page 15.

For PAYE purposes

Where no tax is due (because the payment is not taxable or the payment is 'taxable on amounts over £30,000' payment below this limit) do not include in gross pay on either form P11 or form P45.

Where tax is due (because the payment is taxable in full or the payment is a 'taxable on amounts over £30,000' payment above this limit), and

- you make the payment to the employee **when or before the employee leaves**
 - include the taxable amount in gross pay on form P11 and operate PAYE in the normal way
 - include the taxable amount in gross pay on form P45
 - send a letter to the Inland Revenue office with Part 1 of the form P45 advising them of the amount and date of the lump sum payment; the Inland Revenue office can then contact the employee if any repayment is due
- you make the payment to the employee **after the employee leaves**

- include the taxable amount in gross pay on form P11 for the tax week or month number in which you make payment
- operate PAYE by using Code BR (non-cumulatively)
- do not issue a further form P45; instead write to your Inland Revenue office advising them of the amount and date of the lump sum payment and the amount of tax deducted
- provide the employee with a copy of the letter you send to the Inland Revenue office.

Reporting termination packages where amounts over £30,000 are taxable

You need to report packages which are taxable only on amounts over £30,000. You don't need to do this if the package consists of cash only or, where it includes non-cash benefits, if it has an estimated value of £30,000 or less.

You should make a report to the Inland Revenue office, at the latest by 6 July following the tax year in which the termination takes place, if a package is provided, which includes non-cash benefits and is estimated, over its lifetime, to exceed £30,000. In working out the cash equivalents of non-cash benefits for future years, so as to determine whether a report is needed or not, you only need make reasonable estimates using the rules in force in the year in which termination occurs.

You do not need to wait until 6 July if you want to send the report earlier. You can send it at any time after the termination has occurred.

You can prepare your report in whichever way suits you best. There is no prescribed form or format. A copy should always be given to the employee.

If you make a report it must contain the following information

- the total estimated value of the package
- details of the cash payments made and the cash equivalents of non-cash benefits provided in the year in which the termination took place (where the report is made in the tax year best estimates should be supplied)
- an estimate of the cash payments to be made in future years
- an estimate of the total lifetime of the package with details of any contingency factors (for example payments or benefits ceasing if the employee finds alternative employment)
- details of the type of benefits to be provided after the first year and the terms of their provision (for example car for three years, medical insurance for ten years, and so on).

If, after you have made your report there is a variation in the package and the total value increases by more than £10,000 you will need to make another report to your Inland Revenue office. This has to be made by 6 July following the end of the tax year in which the variation takes place. The report should only contain details of the variation.

A report will also need to be made if, having originally decided that you do not need to make a report, there is a variation in the package so that it includes non-cash benefits and exceeds £30,000. In these circumstances you should send a report to your Inland Revenue office at the latest by 6 July following the end of the tax year in which the change takes place. The report, however, should be for the year in which termination occurred as if one had been required in the first place.

If you make such a late report remember to provide a copy to the employee.

150 Lump sum payments on retirement or death - further approval rules

Most schemes which Savings, Pensions, Share Schemes (SPSS) approve are contractual, but under Statement of Practice 13/91, SPSS will also consider granting approval for lump sum payments which are non-contractual. This type of payment is often called 'ex-gratia' payment. Ex-gratia payments can be paid tax free provided

- the employee is not otherwise a member of an approved or statutory scheme, **or**
- if the employee is a member of an approved or statutory scheme, the scheme provides death in service benefits only.

Further, if payments and benefits to such an employee from all associated employers total less than £8,500 (for the tax year to 5 April 2005), they can be treated as approved without referring to SPSS. They are then tax free.

Further information may be obtained by contacting the

Inland Revenue
Savings, Pensions, Share Schemes
Yorke House
Castle Meadow Road
Nottingham
NG2 1BG
Phone 0115 974 1600

151 Lump sum payments on retirement or death which are not from approved or statutory schemes

See also paragraph 150

A lump sum retirement or death payment will also be tax free if it is from a non-approved scheme, **and**

- in the past the employee has been charged to tax on the employer contributions which funded the lump sum, **or**
- it is a payment on death which happened as a result of an accident whilst the person was an employee (including accidents outside work).

Where a lump sum retirement or death payment is not tax free and it is paid to any person or body other than an individual (for example, to a club or society) the payer is charged to tax at 40% and PAYE does not apply.

Certain payments from overseas retirement benefit schemes may be tax-free. If you think this may apply, ask your Inland Revenue office about Extra Statutory Concession A10.

152 Foreign service

A payment which is 'taxable on amounts over £30,000' may qualify for an **additional** income tax relief. This relief applies if, during the employment, there was 'foreign service'. Broadly, this means that the employee was not '**resident and ordinarily resident**' in the UK at some time during the employment. If you think this relief may apply, you may wish to consult your Inland Revenue office before taking account of any relief.

Employment Tribunal Awards

The guidance below tells you what you should do if an employment tribunal (in Northern Ireland, an industrial tribunal) requires you to make payments to an employee under

- a reinstatement order or a re-engagement order, or
- an order for the continuation of employment, or
- a protective award.

Payments due under such awards count as gross pay for both NICs and PAYE purposes. See paragraphs 153 to 155 below for details.

You must calculate Class 1 NICs and PAYE tax on the full amount of the award. That is, on the amount awarded before any deductions ordered by the tribunal. If you do not know the full amount of an award, contact the Clerk to the tribunal that made the award.

If the actual amount you have to pay the employee is less than the amount of NICs and PAYE tax due on the full amount of the award, see paragraph 11 on page 17 of this guide. This gives guidance about recovering underpayments of NICs and PAYE tax from an employee.

153 Reinstatement order or re-engagement order

If a tribunal decides that an employee was unfairly dismissed, it may order the employer to pay arrears of pay to the employee. Such amounts count as gross pay for both NICs and PAYE purposes.

For NICs purposes

- Payment made to an employee

Where you make a payment under an order to an employee

- you must treat it as a separate payment and not add it to any other payment of earnings you make to the employee at the same time
- assess the amount of NICs due on the payment using an earnings period which is the longer of
 - the period to which the order relates, or
 - a week.

Use this earnings period no matter how you make the payment ie, in a lump sum or by instalments

- use the contribution Table letter, NI percentage rates and earnings limits current at the time you make payment (or when the payment is due to be made if nothing is actually paid because of adjustments to the gross amount by the tribunal)

- record the payment, NICs details etc, on the P11 in the tax week/month in which you make payment. This means that if you make another payment of earnings to the employee at the same time, you will have two lots of entries for the same tax week/month.

- Payment made to a director

Where you make a payment under an order to a director

- add the amount of the payment to any other earnings paid to date in the year
- assess the amount of NICs due on the total amount of earnings to date
- use the earnings period which you are using to assess NICs on any other payments you make to the director ie, an annual earnings period or a pro-rata annual earnings period. For further information, see the booklet *CA44 National Insurance for company directors*
- use the contribution Table letter, NI percentage rates and earnings limits current at the time you make payment
- record the payment, NICs details etc, on the P11 in the normal way.

For PAYE purposes

- Treat the employee as a new employee and follow the procedures at Employer's Help Book E13 *Day-to-day payroll*.
- Operate PAYE at the week or month number that you make any payment(s).

154 Order for the continuation of employment

A tribunal may order that

- an employee's employment must continue whilst it deals with a complaint of unfair dismissal, and
- specify the amount that the employer must pay the employee.

Such amounts count as gross pay for both NICs and PAYE purposes.

For NICs purposes

Follow the guidance in paragraph 153 under 'Payment made to an employee' or 'Payment made to a director', as appropriate.

For PAYE purposes

- Treat the employee as a new employee and follow the procedures in the Employer's Help Book E13 *Day-to-day payroll*.
- Operate PAYE procedures the week or month number that you make any payment(s).

155 Pay due under a protective award

A tribunal may decide that an employer has broken some rules in making, or proposing to make, an employee redundant. If so, it can order the employer to pay the employee for a certain period. This is called the 'protected period'.

Amounts paid under a protective award count as gross pay for both NICs and PAYE purposes.

For NICs purposes

- Payment made to an employee
Where you make a payment under a protective award to an employee
 - you must treat it as a separate payment and not add it to any other payment of earnings you make to the employee at the same time
 - assess the amount of NICs due on the payment using an earnings period which is the longer of
 - the protected period, or
 - that part of the protected period in respect of which the payment is made, or
 - a week.Use this earnings period no matter how you make the payment, that is, in a lump sum or by instalments.

Example

An employee is made redundant on 31 October. The Employer pays their wages up to 30 November.

A tribunal decides:

- the protected period is 31 October to 31 December (62 days)
- the employer must pay the employee their wages for the period 1 December to 31 December (31 days).

Assess the amount of NICs due on the wages paid for the period 1 December to 31 December using a 62 day earnings period, as this is the longer period of

- the protected period (62 days), or
- that part of the protected period in respect of which the payment is made (31 days), or
- a week (7 days).

For guidance on how to work out the NICs using this 62 day earnings period, see the middle row on page 10 of this booklet

- use the contribution Table letter, NI percentages rates and earnings limits current at the time you make payment (or when the payment is due to be made if nothing is actually paid because of adjustments to the gross amount by the tribunal)

- record the payment, NICs details etc, on the P11 in the tax week/month in which you make payment. This means that if you make another payment of earnings to the employee at the same time, you will have two lots of entries for the same tax week/month.

- Payment made to a director

Where you make a payment under a protective award to a director

- add the amount of the payment to any other earnings paid to date in the year
- assess the amount of NICs due on the total amount of earnings to date
- use the earnings period which you are using to assess NICs on any other payments you make to the director ie, an annual earnings period or a pro-rata annual earnings period. For further information, see the booklet CA44 *National Insurance for Company Directors*
- use the contribution Table letter, NI percentages rates and earnings limits current at the time you make payment
- record the payment, NICs details etc, on the P11 in the normal way.

For PAYE purposes

For tax purposes these payments are taxable amounts over £30,000 only. Apply PAYE to the excess. See paragraph 148.

Providing an employee with a non-cash payment

The following paragraphs provide a guide as to how PAYE is operated where assets other than cash are provided to an employee and are treated as earnings of the employee. In general PAYE and NICs will have to be operated where the asset is a 'readily convertible asset' (RCA) or where certain cash sums are paid in connection with securities even where those securities are not RCAs.

156 'Readily Convertible Asset' (RCA)

A 'readily convertible asset', for the purposes of this Guide, is one which

- is capable of being sold on a recognised investment exchange or the London Bullion Market. For example, stocks, shares and other financial instruments, gold bullion and other precious metals and so on, **or**
- is capable of being sold on a market specified in PAYE regulations – the New York Stock Exchange is the only specified market for this purpose, **or**
- is a right over a money debt. For example, trade debts assigned by an employer to an employee, **or**
- is subject to a fiscal warehousing regime, such as

a bonded warehouse. For example, oriental carpets stored in 'bond', or

- gives rise to a right to enable an employee to obtain money. For example, an interest in trust which comes to an end shortly after being assigned to an employee, resulting in an automatic right to cash, or
- is subject to a trading arrangement, either at the time of provision or likely to come into existence in future under an arrangement or understanding in place when the asset is provided. For example shares or jewellery which can be sold either under an arrangement existing at the time of provision or under future arrangements for which steps have been taken at the time the shares or jewellery are provided, or
- is already owned by the employee and whose value is enhanced by the employer. For example, an employer may pay an additional premium to an employee's life assurance policy, considerably increasing the value of the policy, or
- is an asset consisting in securities which are not shares that are 'corporation tax deductible' (Schedule 23 Finance Act 2003). (Most shares will already be RCA under one of the criteria above.) 'Securities' include shares of any body corporate, corporate or government loan stock, and other securities defined in Schedule 22 Finance Act 2003. Shares which are 'readily convertible assets' are excluded from that definition if they represent either the exercise of rights obtained before 27 November 1996 or, are provided as part of a scheme approved by the Inland Revenue.

157 Valuation of assets

Payments in the form of readily convertible assets must be included in gross pay for both PAYE and NICs purposes. The amount on which PAYE should be operated and NICs assessed is the best estimate that can reasonably be made of the amount of income on which the employee is likely to be chargeable to tax in respect of the provision of the asset.

For most assets, including shares or other securities provided directly to an employee, the value to be ascertained is 'money's worth', with reference to

- the cost of the asset to the employer
- the market value of the asset when it was awarded
- where the employee has already sold the asset, the amount received for it – if known
- where the employee has contributed towards the cost of the asset – the amount of that contribution should be deducted.

Where, however, the event is one charged to tax under the securities legislation (for example exercise of option or lifting of restriction on a security) the market value must be obtained by reference to the Capital Gains Tax (CGT) value (see Sections 272 and 273 TCGA 1992).

If income is provided in the form of unquoted or restricted shares employers may wish to check whether the amount on which they propose to operate PAYE is reasonable. They can do this by writing, with full details of the transaction, to

Shares Valuation Division (PAYE Valuation)
Fitzroy House
Castle Meadow Road
Nottingham
NG2 1BD

Any difference between the employer's 'best estimate' and a finally agreed value will be dealt with through the employee's self assessment.

Shares and other securities

158 Securities options

PAYE and NICs will normally be due where

- securities are acquired by an employee (or associated person) pursuant to an employment related securities option, or
- such an option is assigned or released for consideration (even if security is non-RCA, if the consideration is cash or an RCA then PAYE and NICs will be due), or
- the employee (or associated person) receives a benefit in cash or money's worth in connection with the option (for example compensation for loss of option following take-over).

For employees who are resident, ordinarily resident and domiciled in the UK there is no longer any possible charge on the grant of an over-10-year option.

Tax advantaged schemes : CSOP, SAYE and EMI

The gain made on the exercise, assignment or release of a right to acquire shares under an Inland Revenue approved scheme is exempt from PAYE and NICs liability (subject to the paragraph below).

Share options pre 6 April 1999

Special provisions apply to share options awarded prior to 6 April 1999 and rolled over after 5 April 1999. For guidance for NICs purposes, contact the Employer's Helpline, telephone number **0845 7 143 143**

159 Conditional shares

If a conditional share (one where the value is liable to forfeiture in whole or in part) was issued before 16 April 2003, then it remains within the old scheme of taxation on its full value (less anything already paid or charged to tax) when the forfeiture condition is lifted. PAYE and NICs should be operated accordingly (subject to the share being a RCA).

Conditional shares awarded before 9 April 1998 do not incur a further NICs charge when the conditions are lifted.

160 Special charges on employment - related securities

The following charges on events are subject to PAYE and NICs where the securities are RCAs.

- Chargeable events in relation to restricted securities and restricted interests in securities.
- Chargeable events in relation to convertible securities and interests in convertible securities.
- Charge on acquisition where market value of securities or interest artificially depressed.
- Charge where market value of securities artificially enhanced.
- Charge on discharge of notional loan where securities or interest acquired for less than market value (but not the annual charge).
- Charge where securities or interest disposed of for more than market value.
- Chargeable benefits from securities or interest.

Even if the securities are not RCA, if the consideration takes the form of cash or a RCA then PAYE and NICs should be operated.

Practical considerations on non-cash payments

161 PAYE and NICs on RCAs

Payment in the form of readily convertible assets must be included in gross pay for both PAYE and NICs purposes. The amount on which PAYE should be operated and NICs assessed is the amount of income which counts as employment income for income tax purposes. Include such notional payments in gross pay for the pay period the payment is deemed as paid. Work out PAYE in the normal way. If the employee is on a K code, ignore the 50% overriding limit when calculating the PAYE due on the payment.

When assessing the amount of earnings for NICs in respect of securities options do not deduct from the amount which counts as employment income for income tax purposes any amount deductible in respect of the employer's NICs met by the employee.

162 Deducting PAYE from non-cash payments

Recover from the employee the PAYE due on the non-cash payment by deducting it in the following way

- first, from any net wages, salaries, commission, fees and so on paid at the same time as non-cash payment, even if this reduces the employee's pay to nil
- then from any later payments made in that pay period until the full amount of PAYE due on the non-cash payment has been recovered.

Any PAYE which you do not recover from the employee, must be made good by the employee within 90 days of receipt of the non-cash payment.

If the employee does not do this, then you must show the unrecovered amount as further remuneration on forms P9D and P11D after the end of the tax year.

163 Deducting NICs from certain non-cash payments

From 6 April 1999 the employer's right of recovery from subsequent cash pay in the same tax year where an under deduction occurred because of non-cash earnings was extended.

The rules provided for the recovery of NICs following a payment to an employee or ex-employee who received, completely or partially, non-monetary earnings from which the full amount of NICs could be deducted at the time of payment.

There have been further changes although these do not affect the general rule that recovery of an underpayment of employee NICs must be made in the same tax year from any further cash payment of earnings to the employee and the amount cannot exceed the contribution due on that further payment. In addition, they do not affect the employer's responsibility to account for NICs at the time payment is made.

However, an employer's right to recover NICs from subsequent cash payments has been extended to the end of the tax year following the year in which a non-monetary payment is made but only where the under deduction has occurred because a payment of earnings

- has been made by an intermediary, or
- comprises a beneficial interest in shares, or
- comprises of securities or an interest in securities.

In addition there is no limit on the amount that the employer can recover from subsequent earnings to recover the under-deduction.

Intermediary is defined as

- a person acting on behalf of the employer and at the expense of the employer, or
- by a person connected with him, or trustees holding property for any person who include, or class of persons which includes, the employee.

164 Sending remittances to the Accounts Office

At the end of the month or quarter you must account for **all** the PAYE and NICs due, including any PAYE on non-cash payments, regardless of whether or not the employee had sufficient actual pay to allow all the deductions to be made in that pay period.

165 Recording a non-cash payment

Regardless of whether or not the employee has borne the PAYE and employee's share of NICs you must include the value of the readily convertible asset with the related PAYE and NICs due, on your payroll records for the employee and the end of year forms P14, P35 and P60 as appropriate.

If the employee leaves your employment during the year in which the readily convertible asset was provided, include the value of the asset and all PAYE due when completing the form P45.

166 P9D/P11D

Readily convertible assets liable to PAYE should not be reported on forms P9D or P11D, but tax not recovered from the employee may need to be reported on forms P9D or P11D, see paragraph 162.

167 onwards not used - reserved for future use

Appendix of forms, leaflets and tables issued by the Inland Revenue

	This appendix tells you about the forms and other material you may need.	CA43	National Insurance Contributions Tables: Contracted-out contributions and minimum payments for employers with Contracted-out Money Purchase Schemes
480	Expenses and benefits – A tax guide		
490	Employee travel – A tax and NICs guide for employers	CA44	National Insurance for Company Directors
CA24	National Insurance contributions for masters and employers of mariners	CA65	National Insurance contributions for people working for Embassies, High Commissions, Consulates and overseas employers
CA25	National Insurance contributions for agencies and people working through agencies	CWG5(2005)	Class 1A National Insurance contributions on benefits in kind – A guide for employers
CA26	National Insurance contributions for examiners, moderators and invigilators, lecturers, teachers and instructors	E1	What's new
		E3	Employer's Orderline 2005 Order Form
CA33	Class 1A National Insurance contributions on Car and Fuel Benefits – A guide for employers	E4	Employer's Orderline 2005 Fax Order Form
CA37	National Insurance Contributions Tables: Simplified Deductions Scheme for employers	E10	Employer's Help Book: Finishing the tax year up to 5 April 2005
CA38	Not Contracted-out Tables: National Insurance contributions Tables A and J	E11	Employer's Help Book: Starting the tax year from 6 April 2005
CA39	National Insurance Contributions Tables: Contracted-out contributions for employers with Contracted-out Salary Related Schemes	E12	PAYE and NICs rates and limits for 2005-2006
CA40	National Insurance Contributions Tables: Employee only contributions for employers or employees authorised to pay their own contributions	E13	Employer's Help Book: Day-to-day payroll
		E14	Employer's Help Book: What to do if your employee is sick
CA41	National Insurance Contributions Tables: National Insurance contributions Tables B and C	E15	Employer's Help Book: Pay and time off work for parents
CA42	National Insurance Contributions Tables: Foreign-Going Mariner's and Deep Sea Fisherman's contributions for employers	E16	Employer's Help Book: Pay and time off work for adoptive parents
		E24	Tips, Gratuities, Service Charges and Troncs: A guide to Income Tax, National Insurance contributions, National Minimum Wage issues, and VAT
		EEC1	Expenses and Benefits Returns on Magnetic Media: Submission Instructions and Technical Specifications

IR1	Extra-Statutory Concessions	P11D(INT)	Tells you the average and official rates of interest for the year and enables you to calculate the cash equivalent of any interest-free or low interest loans
IR56	Employed or self-employed? A guide for tax and National Insurance		
IR69	Expenses payments and benefits in kind – How to save yourself work	P14	End of year summary showing totals of individual employee's pay, tax, NICs and statutory payments paid and deducted during the year. This is a three part form
IR 115	Income tax, National Insurance contributions and childcare		
IR124	Using your own vehicle for work	P30B	Payslips for sending payments to the Accounts Office
IR172	Income tax and company cars		
IR175	Supplying services through a limited company or partnership	P30BC	Payslip booklet containing payslips
IR2003	Supplying services. How to calculate the deemed payment	P31	For use by a new employer who wishes to pay quarterly
NI132	National Insurance for employers of people working abroad	P32	For keeping monthly totals of tax, NICs and statutory payments (you may use this instead of the P30BC)
P6	Forms sent to employers by the Inland Revenue office with coding or amended coding instructions. These are used throughout the tax year	P35	Employer's Annual Return
		P35(CS)	Continuation sheet for P35
		P35(MT)	Version of P35 for employers who send in their end of year returns on magnetic tape
P9(T)	A notice issued towards the end of one tax year giving coding instructions for the next tax year		
		P35(TAS)	Returns of awards under a Taxed Award Scheme
P9X	Instruction to an employer giving authority to amend certain suffix codes from the start of the new tax year when the Government has changed personal allowances	P38/P38A	Employer's supplementary statement with details of employees who were paid over £100 in total for the year but for whom a deductions working sheet was not completed or who were not entered on the P35
P9D	Return of employee's expenses and benefits paid during the tax year. See also form P11D		
P11	Deductions working sheet used to work out the weekly/monthly tax and NICs of employees	P38(S)	For use when students are employed during holidays
		P39	End of year statement of people who are employed by non-resident employers
P11D	Return of employee's expenses payments and benefits paid during the tax year. See also form P9D		
		P45	For use when an employee leaves a job and when an employee starts a job
P11D(b)	Covering certificate for forms P11D		
		P45W	Welsh version of notes on form P45 (Part 2), available on request
P11D (Guide)	Notes on how to fill in form P11D		

Appendix

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P60	Certificate of Pay, income tax and NICs
P61	End of year notification to an employee of tax refunds withheld during a trade dispute
P62	End of year advice to an employee involved in a trade dispute
P160	For use on the retirement of an employee who is to be paid a pension by the employer
P403	For use by funds paying holiday pay to employees
P440	Analysis of totals on P35(TAS)
P440(CS)	Continuation sheet for P440
P443	Certificate to employee giving details of Taxed Incentive Award
RD1	Specification for employer's PAYE substitute end of year documents
Code Lists	Replacing form P9 by arrangement with the Inland Revenue office
TAS Payment Advice	Advice note sent out with P35(TAS)
Tax Tables	Comprising Tables A, Calculator Tables, SR + B to D and G for working out an employee's tax each pay day

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