HM Revenue & Customs

CWG2(2010)

Employer Further Guide to PAYE and NICs

Use from 6 April 2010

Help and guidance

Help and guidance is available from the following sources.

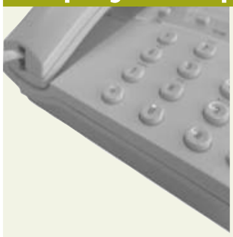
The Internet

Go to our website at **www.hmrc.gov.uk/paye**

Employer CD-ROM

Your Employer CD-ROM has most of the forms and guidance you will need to help you run your payroll throughout the year. For more information about your Employer CD-ROM see the inside back cover.

Employer Helplines

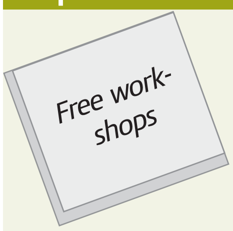


Employer for **less** than 3 years Phone the New Employer Helpline	**0845 60 70 143** Open 8.00am to 8.00pm Monday to Friday 8.00am to 5.00pm Saturday and Sunday
Employer for **more** than 3 years Phone the Employer Helpline	**08457 143 143** Open 8.00am to 8.00pm Monday to Friday 8.00am to 5.00pm Saturday and Sunday
If you have a hearing or speech impairment, and use a textphone	**0845 602 1380** (Only people with specialised equipment such as Minicom are able to use this service) Open 8.00am to 8.00pm Monday to Friday 8.00am to 5.00pm Saturday and Sunday

A list of helplines and opening hours is available:

- on our website, go to **www.hmrc.gov.uk/contactus/helplines.htm**
- on your CD-ROM
- in your Employer Bulletin, and
- in **The Phone Book** from BT.

In person



We offer free workshops covering all payroll topics. These workshops are available at locations nationwide. Further information is available from our website, go to **www.hmrc.gov.uk/bst** or by calling the Advice Team on **0845 603 2691.**

Forms and guidance in Braille, large print and audio

For details of employer forms and guidance in Braille, large print or audio call the Employer Orderline on **08457 646 646** and ask to speak to the Customer Service Team.

See the inside back cover for further help and guidance.

Numbers to the left of topics refer to paragraphs in the relevant chapters.

Contents

Contents

About this guide

Welcome to the *Employer Further Guide to PAYE and NICs* for the tax year 2010–11. This edition replaces the CWG2(2009).

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 Helpbooks.

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 PAYE and NICs. 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 HM Revenue & Customs on request.

This guide reflects the position at the time of writing. **It 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 payment 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 find links to some of this legislation from the following webpage **www.hmrc.gov.uk/menus/legalmenu.htm**

Please note that the legislation provided from this link is not updated with subsequent amendments.

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

- the HMRC website, go to **www.hmrc.gov.uk/paye** or
- the Employer Helpline by phoning **08457 143 143**.

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:

- the HMRC website, go to **www.hmrc.gov.uk/paye** or
- the Employer Helpline by phoning **08457 143 143**.

The operation of PAYE is based on the Income Tax (Pay As You Earn) Regulations 2003 and the payment of NICs 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 find links to some of the legislation from the following webpage **www.hmrc.gov.uk/menus/legalmenu.htm**

The link for 'Social Security Legislation for Northern Ireland' will take you to the Department for Social Development in Northern Ireland's website.

If you are unhappy with our service

If you are unhappy with our service, usually a phone call to the person or office you have been dealing with will allow us to put things right quickly. Their number will be on any papers they have sent.

However, if you are still unhappy, or you would like to deal with someone else, then you may want to complain. Please see our factsheet 'Complaints and putting things right' which is available on our website at **www.hmrc.gov.uk/dealingwith/complain.htm** or contact the Complaints Manager at the office you have been dealing with.

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 NICs 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 2010–11 tax year starts on 6 April 2010 and ends on 5 April 2011.

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 to 12 April inclusive, the second tax week 13 to 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 to 5 May inclusive, the second income tax month is 6 May to 5 June inclusive, and so on.

For details of relevant dates within a tax year, see the Employer Helpbook E13(2010) *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.

Recorded gender

This refers to the gender which a transsexual person was registered with at birth.

Acquired gender

This refers to the gender which a transsexual person presents to the world, it is not the gender that they were registered with at birth.

Full Gender Recognition Certificate

A certificate issued by the Gender Recognition Panel that shows a person has satisfied the criteria for legal recognition in their acquired gender. From the date of issue the person is recognised in their acquired gender and will benefit from any rights and responsibilities that are associated with that acquired gender.

Interim Gender Recognition Certificate

A certificate issued by the Gender Recognition Panel that shows a person has met the criteria to be recognised in their acquired gender subject to them annulling their marriage. A full Gender Recognition Certificate will be issued following the annulment of the marriage.

Transsexual female

A person who at birth was recorded as male but chooses to live as a female, should be referred to in female terms ('she', 'her', 'Ms').

Transsexual male

A person who at birth was recorded as female but chooses to live as a male, should be referred to in male terms ('he', 'him', 'Mr').

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 identifier and the title.

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 down on storage space, post and administration.

Online filing does not include using magnetic media for example, CD-ROM, disk and cartridges.

Online filing of Employer Annual Return (P35 and P14s)

Almost all employers are required to file their Employer Annual Return (P35 and P14s) online. There are very few exceptions. For further information about the exceptions:

- go to **www.hmrc.gov.uk/paye/payroll/year-end/paper-filing.htm** or
- see the Employer Helpbook E10(2010) *Finishing the tax year to 5 April 2010* which is available on your Employer CD-ROM, or
- from the Employer Orderline
  – phone **08457 646 646**
  – fax **08702 406 406**

For more information about online filing go to **www.hmrc.gov.uk/paye/onlinefiling.htm**

Sending employee starter and leaver forms online

If you have 50 or more employees you must send employee starter and leaver forms online. Under Government proposals, all employers, regardless of how many employees they have, must send these forms online from 6 April 2011.

The forms you must send online are:

- P45 Part 1 – *Details of employee leaving*
- P45 Part 3 – *New employee details*
- P46 – *Employee without a form P45*
- P46(Pen) – *Pension starter details (may be referred to as PENNOT in some commercial software products) see chapter 2 page 21 of this guide for more information*
- P46(Expat) – *a form only to be used where employees have been seconded to work in the UK whilst remaining employed by an overseas employer (further information is provided in Chapter 4).*

If you have fewer than 50 employees you don't have to wait until 2011. We suggest you start sending starter and leaver forms online as soon as you can. That way you will have your software and internal processes in place well before the deadlines and can start getting the benefits of online filing sooner.

For more information about sending starter and leaver information online, go to **www.hmrc.gov.uk/paye/employees/start-leave/notify-online.htm**

PAYE Online – your filing options

You can send forms and returns online using:

- our PAYE Online for Employers – Internet service, choosing either
  – our free 'Online Return and Forms - PAYE' product *(this is designed for small employers who have fewer than 50 employees and do not send large numbers of forms to us)*
  – *3rd party (commercial) payroll software*
- Electronic Data Interchange (EDI) – more suitable for large employers
- an agent or payroll bureau who can file online on your behalf, using our PAYE Online for Agents service.

PAYE Online – Direct Debit payment

When you register for PAYE Online for Employers you are given instant access to the Direct Debit Online service. This allows you to set up a Direct Debit Instruction which you can use to pay your monthly or quarterly PAYE and NICs payments.

Internet

Forms and Returns that can be **sent** over the Internet are:

- P35, P38A – *Employer Annual Return/Supplementary Statement*
- P14 – *End of Year Summary*
- P11D – *Return of expenses and benefits*
- CIS300*(Contractors Monthly Return)*
- P11D(b) – *Return of Class 1A National Insurance contributions, Return of expenses and benefits: Employer declaration*
- P9D – *Expenses and benefits form*
- P46(Car) – *Notification of car made available for private use*
- P45 Part 1, P45 Part 3, P46 – *Employee starter/leaver details*
- P46(Pen) – *Pension starter details (may be referred to as PENNOT in some commercial software products)*
- P46(Expat) – *a form only to be used where employees have been seconded to work in the UK whilst remaining employed by an overseas employer (further information is provided in Chapter 4)*
- WNU – *Works Number Update*
- P12 – *Employer Annual Deduction Card (Simplified deduction scheme)*
- P37 - *Employer Annual Return (Simplified deduction scheme)*

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

- P6 – *Employer coding notification*
- P6(B) – *Employer coding notification (budget)*
- P9 – *Annual coding notification*
- SL1 – *Student Loan start notice*
- SL2 – *Student Loan stop notice*
- P11D(b) *Notification*
- P35 *Notification*
- P37 *Notification*
- Reminders AR1N, AR1MN, AR2N, AR2MN and AR6.
- Incentive Letter notification

EDI

Forms and Returns that can be exchanged online using EDI are:

- P45 Part 1 – *Details of employee leaving*
- P45 Part 3 – *New employee details*
- P46 – *Employee without a form P45*
- P46(Pen) – *Pension starter details (may be referred to as PENNOT in some commercial software products)*
- P46(Expat) – *a form only to be used where employees have been seconded to work in the UK whilst remaining employed by an overseas employer (further information is provided in Chapter 4)*
- WNU – *Works Number Update*
- P11Ds – *Expenses and Benefit Returns*
- P11D(b) – *Return of Class 1A National Insurance contributions, Return of expenses and benefits: Employer declaration*
- P14 – *End of Year Summary*
- P35/P38A – *Employer Annual Return and supplementary statement*
- P46(Car) – *Notification of car made available for private use*
- P6, P6B, P9 – Coding notifications
- SL1/SL2 – *Collection of Student Loans - start/stop notices*

Companies involved in the Construction Industry Scheme can file monthly Returns (CIS300) and carry out verifications of subcontractors over the Internet or using EDI. For more information go to **www.hmrc.gov.uk/cis/cis-online.htm**

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 commercial software developers and provide free technical specifications to help them create products and services suitable for use with HM Revenue & Customs Online Services.

Software products that meet HM Revenue & Customs recognition for the **Internet**, including our own free Online Return and Forms – PAYE product, can be viewed on our website at **www.hmrc.gov.uk/efiling/paye/paye_software_forms.htm**

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

Also available are specifications for the Quality Standard which can be viewed at **www.hmrc.gov.uk/ebu/qual_stand.htm**

Privately produced programs

If you design and operate your own computer program there are special notes to help you. Our 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.hmrc.gov.uk/comp**

If you would like to receive notification by email about future releases of the notes to our website, please send your request, including your name and email address to **hmrcnotes@replyservice.co.uk**

or you can write to:

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

HMRC Payroll Standard and Pensioner Payroll Standard

We have two separate accreditation schemes for commercial payroll software. The Payroll Standard is for full payroll software and the Pensioner Payroll Standard is for software that can pay out pension recipients.

If a payroll software product displays the HMRC Payroll Standard logo or Pensioner Payroll Standard logo it means that the product has been tested and meets the requirements listed in these documents.

The logos help employers and pension payers identify payroll software products which have the essential features necessary to calculate PAYE, NICs, statutory payments and perform a range of other payroll functions.

To view the Payroll Standard, Pensioner Payroll Standard and a list of accredited products and their suppliers go to **www.hmrc.gov.uk/ebu/psu.htm**

We can only tell you whether or not a payroll software product has met the Payroll Standard or Pensioner 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.

Substitute end of year forms P14 *and* P60

We must approve all substitute end of year forms P14 or P60 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 HM Revenue & Customs for general use and bear a unique imprint agreed between HM Revenue & Customs and the supplier or manufacturer.

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

Employers wishing to design their own forms P14 or P60 must follow the RD1, *Specification for Employer PAYE End of Year Substitute Forms P14 and P60* and then send their design for approval to:

Customer Information Team
1st Floor
New Wing
Somerset House
Strand
London
WC2R 1LB

Form P45 for use on computer printers

We supply four versions of the P45 for computer use:

- form P45 (Continuous) – suitable for completion by impact printer
- form P45 (Continuous)(E) – suitable for completion by impact printer. For use by employers who submit P45 Part 1 online
- 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 Orderline on **08457 646 646**.

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 68.

For PAYE purposes

In addition, 'employee' includes, for most PAYE purposes, pension recipients 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 or civil partner for the purpose of his or her employment
- theatrical performers/artists within the entertainment industry.

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

- obtain an opinion using the Employment Status Indicator (ESI) tool at **www.hmrc.gov.uk/calcs/esi.htm**
- contact the Employer Helpline
- go to the HM Revenue & Customs website at **www.hmrc.gov.uk/employment-status/index.htm**

National Insurance numbers

1 What is a National Insurance number?

A National Insurance number is the unique reference number used by HM Revenue & Customs and the Department for Work and Pensions to identify an individual's NICs 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, although they can start work before providing the number.

It would be helpful if, for each employee, you:

- 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

Since 6 April 2004 we no longer accept, on Employer Annual 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. 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 blank, and
- enter the date of birth and gender in the appropriate boxes.

2 When the National Insurance number used by HM Revenue & Customs differs from the one you already hold

If the National Insurance number used by HM Revenue & Customs for an employee differs from the one you already hold, ask HM Revenue & Customs National Insurance Contributions Office to check the number for you.

You can do this by using form CA6855 available from the Employer Orderline, your Employer CD-ROM or HM Revenue & Customs office or the HM Revenue & Customs website at **www.hmrc.gov.uk/employers/emp-form.htm**

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 010 6677** 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 Helpbook E13(2010) *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 phoning the Employer Helpline on **08457 143 143**.

Late notification of marginal items of pay

Occasionally, employers' payroll sections do not 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 (LEL) 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(2010) *Class 1A National Insurance contributions on benefits in kind.*

For further help and advice contact the Employer Helpline on **08457 143 143**.

You should also read CA33 *Class 1A National Insurance contributions on Car and Fuel benefits* if you provide car 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. The calculators on your Employer CD-ROM will calculate tax and NICs for those intervals marked * below. If you are not sure what to do contact the Employer Helpline on **08457 143 143**. Please see Employer Helpbook E13(2010) *Day-to-day payroll* for examples of how to calculate NICs using the exact percentage method.

Pay intervals	To work out NICs
Weekly*	**Earnings period is weekly** Use either the appropriate weekly table or the exact percentage method to calculate NICs.
Fortnightly*	**Earnings period is two-weekly** Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables: • divide the earnings on which NICs are payable by 2 • look up this figure in the appropriate weekly table • multiply the NICs shown in the table by 2. This is the amount of NICs due.
Four-weekly*	**Earnings period is four-weekly** Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables: • 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*	**Earnings period is monthly** Use either the appropriate monthly table or the exact percentage method to calculate NICs.
Quarterly	**Earnings period is quarterly** Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables: • 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	**Earnings period is half-yearly** Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables: • 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	**Earnings period is yearly** Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables: • 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.

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

Using a code on a cumulative basis	Using a code on Week 1/Month 1 basis
Use the table for the tax week that includes the date of payment. If a payday is in week 53, use the table for week 1 again on a non-cumulative basis.	Use the table for week 1 on each payday.
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 payday in the tax year use the table for week 2 again on a non-cumulative basis.	Use the table for week 2 on each payday.
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 payday in the tax year use the table for week 4 again on a non-cumulative basis.	Use the table for week 4 on each payday.
Use the table for the month that includes the date of payment.	Use the table for month 1 on each payday.
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 3 on each payday.
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 6 on each payday.
Use the table for month 12.	Use the table for month 12.

Pay intervals	To work out NICs
Intervals of less than a week	**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. Use either the appropriate weekly table or the exact percentage method to calculate NICs.
Intervals of more than a week but not multiples of weeks or months	**Earnings period is the interval the payment covers** You must use the exact percentage method to work out the NICs due. To do this: • work out the daily lower earnings limits and Upper Accrual Point by dividing the weekly limits by 7 • multiply the answers by the number of calendar days in the period which the payment covers • work out the daily earnings threshold and upper earnings limit by dividing the annual figures by 365 • multiply the answers for the earnings threshold and upper earnings limit by the number of calendar days in the period which the payment covers. In all cases the resulting figures should be calculated to the nearest penny. Amounts of £0.005p or less should be disregarded. NICs are due on earnings in each interval if the earnings exceed the earnings threshold.
Employees paid once only	**Earnings period is the length of time you employ them or one week whichever is longer** Follow whichever rule above applies.

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

Using a code on a cumulative basis	Using a code on Week 1/Month 1 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.	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 us.	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).

Operation of PAYE and Class 1 NICs when the regular date for payment is a non-banking day

When a regular payday falls on a non-banking day (Saturday, Sunday or Bank Holiday) and because of this payment is made on the:

- last working day before the regular payday, or
- the next working day after the regular payday.

For PAYE purposes the payment may be treated as having been made on the regular payday.

For NICs purposes the payment **must** be treated as if it had been made at its regular time, if the actual and regular payment days are in the same tax year. The payment **may** also be treated as having been made at its regular time when the payment dates cross a tax year.

Example – regular payday and actual payday cross a tax month

Pay due on Saturday 6 November 2010 (tax month 8) but paid on Friday 5 November 2010 (tax month 7) **may** be treated for PAYE purposes as being paid on 6 November 2010. For NICs purposes the payment **must** be treated as having been paid on 6 November 2010.

(See pages 37 and 38 for further NICs information and examples.)

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 payday falls within the same tax month as the previous monthly payday.

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 payday 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 to being monthly paid on 7 June 2010 and receives their last two weekly payments on 29 May and 5 June.

The new earnings period is a month and will coincide with the tax month which always starts on the sixth of every month. The first monthly payday is 30 June.

Work out NICs due on the first monthly pay taking into account the earnings and NICs worked out on the payment made on 5 June.

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

Amend the form Deductions Working Sheet P11.

The weekly payment made on 29 May is not in the new earnings period and is 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(s) 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 5 June to the monthly earnings paid 30 June and work out NICs on the total at the appropriate contracted-out rate(s), using the new monthly NICs thresholds.

Deduct the NICs previously paid on the 5th to determine the amount of NICs now due on the 30th. Amend the form P11 to reflect the changes to the NICs category letter and NICs 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' payday changed but same pay interval kept

Take the following action if you change your employees' payday 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 5 of the Employer Helpbook E13(2010) *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 paydays 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 paydays.

Extra payments made on a separate payday from normal pay

Where you make extra payments (such as overtime, commission, bonuses and so on) on a **separate** payday 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 Tuesday 7 September 2010 and NICs have been worked out on that sum.

On Friday 10 September 2010 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 – 1f, 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 payday.

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 cumulative suffix codes: extra payment**
  - 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 column 7 of the Deductions Working Sheet)
  - add the repayment to the total tax due (in column 6 on the Deductions Working Sheet) and use that figure as your starting point when you next pay the employee.

- **for cumulative suffix codes: main payment**
  - enter the main payment on form P11 in the 'pay for the week or month column' next to the week/month in which you pay it
  - calculate the tax in the normal way but using the same figure of 'free pay' used for the extra payment.

- **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 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 paydays, 27 fortnightly paydays, or 14 four-weekly paydays instead of the usual 52, 26 or 13. This extra payday 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 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 paydays in the year
- '54' if there were 27 fortnightly paydays in the year
- '56' if there were 14 four-weekly paydays in the year.

5 Week 53 and suffix codes

For employees on a Week 1 coding, simply treat the extra payday 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 payday 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 P11 *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 96.

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 documentary confirmation of the payment (for example by letter, payslip or other printed/printable document) giving the following details:

- the date of the payment(s)
- the gross amount of each payment
- the amount of PAYE deducted from each payment
- confirmation that the payment is a post leaving payment.

You must not give the employee another form P45.

You do not need to notify us at the time of making the extra payment, although you must ensure that it 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 contributions 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 when an employee 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
- enter 'D' in the box at the bottom of the form and either
  - send P45 part 1 to HMRC online. Do not prepare and issue P45 parts 1A, 2 and 3, or
  - send all four parts of the paper form to us.

Remember if you have 50 or more employees you must send this information online.

Form P45 should be sent to us:

- on the day you learn of your employee's death, or
- without unreasonable delay.

PAYE should be deducted using the employee's code, from any payments which were due to the deceased employee after the date the employee died but before you have completed form P45, if they are paid in the tax year the employee died.

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 pension recipient

When you learn of the death of a pension recipient you should:

- complete a form P45 as usual
- enter 'D' in the box at the bottom of the form and either
  - send P45 part 1 to HMRC online. Do not prepare and issue P45 parts 1A, 2 and 3, or
  - send all four parts of the paper form to us.

Remember if you have 50 or more employees you must send this information online.

Form P45 should be sent to us:

- on the day you learn of your pension recipient's death, or
- without unreasonable delay.

PAYE should be deducted using the pension recipient's code, from any payments which were due to the deceased pension recipient, that are made either before or after you have completed form P45, if they are made in the tax year the pension recipient died. Record details of the payments on the pension recipient's form P11.

If such payments are made in a later tax year to the one in which the pension recipient 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 pension recipient.

Joint wages to spouses and civil partners

Where you pay a joint wage to spouses or civil partners, you should:

- prepare separate forms P11 for each spouse or civil partner
- divide the wage between them for both PAYE and NICs purposes
- ask us to let you have individual tax codes.

Change of gender

From 4 April 2005 transsexual people can legally change their recorded gender and benefit from any rights and responsibilities associated with their acquired gender.

Where the employee presents you with a **Full** Gender Recognition Certificate you will need to take a copy of the certificate and:

- update your records to show the employee's acquired gender and the title by which they want to be known
- operate NICs and PAYE to reflect the acquired gender.

(For example, a transsexual female with a **Full** Gender Recognition Certificate will pay NICs up to the State Pension age for women.)

Currently State Pension age for women born before 6 April 1950 is 60. From 6 April 2010 the State Pension age for women who were born on or after 6 April 1950 will gradually increase from 60 to 65 between 2010 and 2020. For further information go to **www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_4017919**

Do not update records or review the NICs and PAYE position of the employee where you are presented with an **Interim** Gender Recognition Certificate. It is only following the issue of the **Full** Gender Recognition Certificate that the person is accepted as having satisfied the criteria for legal recognition in their acquired gender.

More detailed guidance on how a change in gender may affect the operation of NICs and PAYE, including a list of frequently asked questions can be found at **www.hmrc.gov.uk/paye/employees/changes/gender.htm**

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 Helpline by phoning **08457 143 143**.

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 payday.

If an under deduction of PAYE or NICs arises:

- seek advice from us 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 an error.

If the error was made, for example, in the current tax year you must:

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

However, there are special rules which allow you to recover underpayments from your employees where the error was made in good faith.

This is done by making extra deductions from any later earnings you pay that employee. There are two conditions that apply to these recoveries.

The extra deduction you can make from any further payment of earnings can be no greater than the employee's contribution due on that further payment of earnings.

Example

An employee is due to pay primary contributions of £20 on his next payment of earnings. The maximum extra deduction that can be made is £20, making a total deduction on those earnings of £40.

The extra deduction can be made during the remainder of the tax year in which the error occurred and the whole of the following tax year.

Example

An error occurred and was made in good faith on 31 May 2009. The employer may make extra deductions from any earnings paid to the employee during the period 1 June 2009 to 5 April 2011 until the underpayment is recovered.

If at the end of the second tax year you have been unable to recover the full amount under-deducted, then you may not recover any more from the employee and you must bear the cost of the loss yourself. If the employee leaves your employment after the error occurred you must bear the cost of the loss yourself.

For further information and examples of good faith errors go to **www.hmrc.gov.uk/paye/payroll/day-to-day/errors.htm**

Guidance on how to amend your payroll records is available in Employer Helpbook E13(2010) *Day-to-day payroll.*

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 we are 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 we consider 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 we also believe 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 us for advice.

Arrears of pay for closed years

Where you are obliged to pay arrears of pay to employees in respect of closed tax years (for example, where a court orders an employer to pay arrears under equal pay legislation) you should:

- proceed as below

or, where large numbers of employees are involved you may:

- contact your Employer Compliance Office* with a view to making a special arrangement to deal with PAYE in a way that will ease matters for you.

For NICs purposes
Enter the full amount of the arrears paid on the current year P11 at the time of payment and work out NICs in the normal way.

For PAYE purposes (where the special arrangement referred to above does not apply)
You are not required to complete forms P11, P14 and P35. Allocate the arrears of pay between the tax years in which the payment should have been made and:

- calculate and deduct tax for each closed year as if the additional pay had been paid at week 53 for that year (see page 14)
- use the employee's tax code for that year. We will supply the appropriate tax codes for each of the closed years if you no longer have them.

To pay over the tax deductions you should:

- contact your local Employer Compliance Office* and explain the situation, quoting this guidance
- ask to pay the tax under an 'Employer Amendment Class 6 Settlement'.

**To find your local Employer Compliance Office phone the Employer Helpline on 08457 143 143*

The due date of the tax will be thirty days from the date of payment of the arrears of pay to the employees. Interest will be chargeable on late paid tax from the due date.

You must send us a list showing for each employee:
– their name
– their National Insurance number
– the pay and tax for each year.

Give each employee a letter showing the gross arrears of pay for each year and the tax deducted. Each letter should also contain the following message:

If you think that you have overpaid tax for any of the years concerned you should contact your HM Revenue & Customs office.

Paying a refund of tax when no payments are due to your employee

If an employee on a cumulative code is due a refund of tax but is not entitled to receive any payment from you in a pay period because:

- they are absent on unpaid leave, or
- they have no further entitlement to SSP or SMP and
- they are not absent as the result of a trade dispute

you must operate PAYE or run your payroll as if making a nil payment as long as the employee or their authorised representative has asked you to do so.

Different Employer PAYE references for separate groups of your employees

You may choose to have different Employer 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 2010 to take effect from 6 April 2011.

Making the election results in each Employer PAYE reference being treated separately for all PAYE/NICs purposes with separate Employer Annual Returns (P35 and P14s) being required for each one. 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 PAYE references.

If you wish to make an election ask us for a form P350 *Election – Employer Annual Return* which gives further information and incorporates an election for you to complete.

Completing your Employer Annual Return (P35 and P14s)

You must make a full and complete Employer Annual Return by 19 May consisting of one P35 for each reference and the P14s either as a complete submission or in parts (providing your software allows you to file in parts).

You will avoid the penalties for late filing and for non-online filing, (if you are required to file your Return online) if you send your complete Return online by 19 May. If any of your parts are sent on paper when you are required to file online, you may be charged a penalty. Take care to ensure your Return is accurate and complete. There are also penalties for careless and deliberate inaccuracies.

13 Part Returns

A part can be made up of a batch of P14s or just the P35. Parts can be sent from different places and in various ways. 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 batches of P14s are being sent. It is for this reason we recommend you send the P35 last.

Each part must include a unique identifier that is not used on any other part that you send. Using the same unique identifier on different parts could cause information to be lost.
Returns that are sent in parts are held until the complete Return, including the P35 has been received. See the *Guide to filing PAYE forms online and paying electronically* at **www.hmrc.gov.uk/payeonline/p14-p35-separately.htm** or look on your Employer CD-ROM for more advice on sending your Return in parts.

14 Correcting a Part Return

If you make a mistake, you can replace a part sent over the Internet or by Electronic Data Interchange as long as the replacement has the same unique identifier as the part that it replaces. A replacement part can only be sent if you have **not** received an online filing acceptance message for the whole Return (including the P35). Any changes or additions made after you have received this acceptance message must be made as an amendment.

15 Making amendments

Exceptionally, you may need to send us extra or amended information because, for example:

- you have updated your payroll information for 2009–10
- we ask you to send an amendment because we have found errors in your paper or magnetic media Returns.

We will only accept this information on a P35 and P14. 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 just send an amended P35 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'.

16 Sending amendments

You can make amendments online either from your software, if it will allow you to, or by using the HM Revenue & Customs' Online Return and Forms – PAYE product. Alternatively you may send amendments on paper using approved stationery, but in all cases you must also send a letter to us explaining the reason for the amendment.
Employers that must file online will not attract the non-filing penalty if an amendment is sent on paper.
Please do not send your amendment on the same day as your original Return.

17 – 19 not used – reserved for future use

Pension contributions

If you establish a pension scheme for your employees, you can arrange to have it registered for tax relief with us.

If you already have a pension scheme that was approved for tax relief prior to 6 April 2006 it will automatically become a registered pension scheme unless we have been advised that you do not wish that to happen.

If you deduct pension contributions from your employees' pay and pay these to a registered pension scheme you may be able to use what is known as a 'net pay arrangement' to give your employees tax relief on their pension contributions.

You can use the net pay arrangement if the pension scheme you have established is:

- registered by us as an occupational pension scheme, and
- you use the net pay arrangement in respect of all of your employees who pay contributions to the scheme.

Under the net pay arrangement, tax relief is due on any contributions your employees make to the scheme (including any additional voluntary contributions) that you deduct from the employee's gross pay.

If you wish to know more about registering a pension scheme, contact:

HM Revenue & Customs
Pensions Schemes Services
Yorke House
Castle Meadow Road
Nottingham
NG2 1BG

Phone **0845 600 2622**

If you are taking part in an existing group or 'centralised' scheme, you can use the net pay arrangement provided the scheme is registered with us and you are able to use the arrangement in relation to the scheme. In all other circumstances you must **not** use the net pay arrangement.

Where you deduct contributions under the net pay arrangement, remember that an employee is entitled only to tax relief, and **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.

Take the following action for each employee who is in the scheme:

- to work out PAYE due, deduct the total figure of pension contributions paid in the tax year to date from the employee's gross pay figure on the first payday following notification of registration
- if pension contributions have been paid in a previous tax year, send us 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 The Pensions Regulator.**

Pension payments

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

- are usually included in gross pay for PAYE purposes
- for NICs purposes
  – are not included in gross pay if paid out of a registered pension scheme
  – may need to be included in gross pay if paid out of an employer-financed retirement benefits scheme.

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

- have been awarded because an employee has ceased to hold an employment because of disablement attributable to the performance of the duties of the employment, and
- are **not** paid out of a registered pension scheme.

Contact us before you make any such payments.

20 Lump sum payments from pension schemes

Registered schemes

PAYE does not apply to lump sums paid under or out of a registered pension scheme, except trivial commutation payments, which are paid when small pension or annuity rights are fully commuted for a lump sum. PAYE is due on such payments (see paragraph 23).

For trivial commutation payments relating to benefit rights that have yet to come into payment, PAYE is due on 75% of the lump sum and where they relate to benefit rights in payment, PAYE is due on the entire amount.

Where the payment relates to a mixture of paid and unpaid benefit rights, the lump sum is reduced by 25% of the value of the unpaid benefit rights and PAYE is applied to the balance.

However, PAYE is due on all of a trivial commutation payment for the beneficiary of a deceased member.

For NICs purposes, do not include in gross pay any lump sum from a registered pension scheme.

More information about the tax treatment of lump sum payments under or out of registered pension schemes can be found in the Registered Pension Schemes Manual, at **www.hmrc.gov.uk/manuals/rpsmmanual**

Employer-financed schemes

Most lump sum payments made under, or out of, an **employer-financed retirement benefits scheme** (essentially, an unregistered scheme) should be taxed in full under PAYE. Exceptions include a lump sum funded by previous employer contributions that were taxed on the employee. More information about these schemes can be found in the Employment Income Manual (available on our website at **www.hmrc.gov.uk/manuals/eimanual**).

21 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
- do fill in form P46(Pen). Send it to your local HMRC office and give the employee a copy of the form or the information. (If you have 50 or more employees you will need to send the form to us online.)

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 us. If we 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.

If you are to pay the pension to a dependant of a deceased employee, follow the procedures under *'Pension recipient does not give you form P45'* in paragraph 22.

Pension to be paid by the trustees of a pension fund

As the employer, take the following action:

- treat the pension recipient as leaving your employment
- complete form P45 (and remember to send it to us online if you have 50 or more employees)
- do not complete form P46(Pen).

22 Procedures for other pension and annuity payers

All pensions and annuities from, or in respect of, a registered pension scheme are PAYE pension income.

Pension recipient gives you form P45

- Use the code on the P45 on a Week 1/Month 1 basis until you hear from us.
- You can either complete P45 Part 3 and send it to us or complete and send us form P46(Pen) instead. It will help both HMRC and the new pension recipient if you use the form P46(Pen) when you start to pay a pension for the first time, even if the person you are making the pension payment to hands you a P45 Part 3. (If you have 50 or more employees you will need to send the form to us online.)
- If we have 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 pension recipient gives you form P45 after the pension/annuity has started and after you have received a code from us you must destroy the P45.

Pension recipient does not give you form P45

In all cases complete a form P46(Pen)

- **Do not** give the form to the pension recipient. This is particularly important where the pension is paid to a widow, widower or surviving civil partner following the death of their spouse or civil partner.
- At the top of the form, under 'Pension recipient' enter the pension recipient's details.
- Complete the bottom two sections of the form and send it to your HMRC office. (If you have 50 or more employees you will need to send the form to us online.)
- Prepare a form P11 for PAYE purposes only.
- Use the emergency code on a Week 1 or Month 1 basis.

Pension to employee who still works for you

If your new pension payment is to an individual who is continuing in employment with you, then:

- complete and submit form P46(Pen) to HMRC
- **do not** merge your pension and employment payments to the individual
- until you hear otherwise from HMRC, continue using the same tax code as before for the individual's employment income
- until you hear otherwise from HMRC, you must also use code BR on a Week 1/Month 1 basis for the individual's pension payments.

Term Certain Pensions and Annuities

Pensions and annuities paid from or in respect of registered pension schemes are PAYE pension income under the PAYE system. If such pensions or annuities continue to be paid for a 'term certain' following the death of the pension recipient or annuitant or where the pensions or annuities are continuing and are paid to a named beneficiary (for example to a Trustee administrating a bankrupt's estate), the continuing pension and annuity instalments still remain as PAYE pension income. As a result they must be reported as part of the Employer Annual Return.

Where such payments are made to a named beneficiary or beneficiaries you must follow the usual procedure for new pensions and annuities. However, where the payments are made to a Personal Representative, Trustee or Body Corporate (that is a third party or non individual) a P46(Pen) is not required. The payment must be taxed using the Code BR and the details reported on form P14.

If the payment of the pension is passing from the pension recipient to someone other than an individual:

- do not send a P46(Pen) for the new recipient
- operate code BR
- at the end of the year send a P14 showing details of the payments made.

You must

- leave the National Insurance number blank
- enter the Gender as 'male'
- enter the forename as 'RP'
- enter the surname with the name as the non-individual.

23 Trivial commutation payments relating to registered pension schemes

Where a trivial commutation payment is taxable in whole or part as pension income, then tax has to be deducted through PAYE from the taxable amount.

Commutation where pension payments have already started:

- include the taxable commutation payment on the form P11 you have for the pension payments and operate PAYE in the normal way
- prepare form P45 including the taxable commutation payment and the pension payments made in the year
- give P45 Parts 1A, 2 and 3 to the pension recipient
- send P45 Part 1 to us immediately.

Commutation payment where pension payments have not started:

- do not use form P46
- prepare form P11 and record the taxable commutation payment
- deduct tax using the emergency code on a Week 1/Month 1 basis
- prepare form P45 including the taxable commutation payment. As it is a single payment the date of payment should be regarded as both the starting and leaving date
- give P45 Parts 1A, 2 and 3 to the pension recipient
- send P45 Part 1 to us immediately.

Sickness, Maternity, Paternity and Adoption

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

- Statutory Sick Pay (SSP) for up to a maximum of 28 weeks at the appropriate weekly rate 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 39 weeks if they are not at work because of pregnancy
- Statutory Adoption Pay (SAP) for up to 39 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:

- E14(2010)*Employer Helpbook for Statutory Sick Pay*
- E15(2010) *Employer Helpbook for Statutory Maternity Pay*
- E16(2010) *Employer Helpbook for Statutory Adoption Pay*
- E19(2010) *Employer Helpbook for Statutory Paternity Pay*

For frequently asked questions and calculators to help you work out if you have to pay SSP, SMP, SAP and SPP and, if so, how much, go to **www.hmrc.gov.uk/paye/statutorypayments.htm** It will also help you to work out how much you may be able to recover for each tax month.

24 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.

25 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 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 your employee will still be entitled to additional maternity or adoption leave after the end of the SMP or SAP period.

Payments paid 'free of tax or NICs'

26 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 us for a package containing:

- forms P11 *(FOT)*
- special 'free of tax' (FOT) Tax Tables, *Tables G*
- a leaflet FOT 1 which will help you work out the 'true gross pay' figure and show you how to complete form P11 *(FOT)*.

27 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 us for advice.

28 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

$$\frac{\text{'Free of Tax' element of pay} \times 100}{(100 - \text{employee's tax rate figure})^*}$$

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

- Table B   the figure is 20   - basic rate
- Table D   the figure is 40   - higher rate
                   or 50   - additional rate

Example

You enter into an agreement to pay an employee a wage of £150 and £15 '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

$$\frac{£15 \times 100}{(100 - 20)} = £18.75$$

and 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 **£168.75**

29 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 us for advice on how to work out the amount of PAYE and NICs due.

30 Agreement to pay an employee's share of NICs

You should contact us 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

Payroll Giving is a voluntary scheme that allows employees to give money to any UK-registered charity direct from their pay and get tax relief on the donations they make. Employers who currently offer the scheme say they find it easy to run and valuable for promoting good employee and community relations.

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.

To find out more you can:

- go to Payroll Giving pages at **www.hmrc.gov.uk/businesses/giving/payroll-giving.htm**
- look at 'Making payments to charities' under 'Payroll Topics' on your Employer CD-ROM
- call the Charities Helpline on **08453 02 02 03** or
- write to us at:

  HM Revenue & Customs Charities
  St John's House
  Merton Road
  Bootle
  Merseyside
  L69 9BB

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.

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

Cash awards

If you provide a cash 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 a cash award, the third party is responsible for deducting PAYE from the award and should seek advice on what to do from us. The value of that award must also be reported to you to enable you to account for the NICs due.

For advice on what to do for PAYE and NICs purposes call the Employer Helpline on **08457 143 143.**

Awards made by voucher which can be exchanged for cash

If you, or a third party, awards a cash voucher you, as the contractual employer must include the value of that cash voucher in the employee's gross pay and work out PAYE and NICs in the normal way.

32 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 37) 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 91) 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 81 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 or facilitate the provision of the award. They can account for the Class 1A NICs by entering into a Taxed Award Scheme. For further advice see CWG5(2010) *Class 1A National Insurance contributions on benefits in kind* Part 6, 'Third Party benefits' or phone the Employer Helpline on **08457 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 or facilitate 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(2010) *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 102–104) 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 through 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 the 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 or non-cash vouchers, which are subject to Class 1A NICs, the third party will be responsible for paying Class 1A NICs on the amount of tax paid if they have arranged or facilitated the provision of the benefit or non-cash voucher. 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 us.

For further information about liability for NICs on items included in PAYE Settlement Agreements, see page 91.

Apportionment

If an award is made for the benefit of more than one employee, see paragraph 35 for details of how to apportion the award between those employees for NICs purposes.

33 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.

34 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.

35 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 x 50% = £150
- employee B – £300 x 30% = £90
- employee C – £300 x 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 ÷ 3 = £100 each.

36 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 in the year, 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 £55 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 us 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* and CWG5(2010) *Class 1A National Insurance contributions on benefits in kind*
- 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(2010) *Class 1A National Insurance contributions on benefits in kind.*

37 Taxed Award Schemes

Providers of awards who wish to enter into a Taxed Award Scheme should ask for an information pack from:

HM Revenue & Customs
Incentive Award Unit
Local Compliance North West & Midlands Area
4th Floor
Trinity Bridge House
2 Dearmans Place
Salford
M3 5BH

Phone	**0161 261 3269**
Fax	**0161 261 3354**
Email	**incentive.awards@hmrc.gsi.gov.uk**

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

- agree in advance how the awards are to be valued
- sign a contract with us 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 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(2010) *Class 1A National Insurance contributions on benefits in kind* 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.

38 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 us
- 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, where the company is involved in construction operations and the employee is personally involved in construction duties.

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.

39 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.

40 Holiday pay from a holiday credit scheme

For holiday pay from a holiday credit scheme when money is set aside each payday 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.

41 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 paydays in the tax year, all holiday pay paid in week 52 must be subject to PAYE in week 52
- 53 paydays 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.

42 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 payday 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 payday 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 three, looking up this figure in the appropriate weekly table and multiplying the NICs shown in the table by three.

Exact percentage method used to work out NICs

Any of the following methods for calculating NICs is acceptable:

1. apply the three-weekly Lower and Upper Earnings Limits, Upper Accrual Point 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 three 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 three to get the total NICs due, or
3. divide the total payment by three to establish the average weekly earnings, work out the weekly NICs figures, multiply the answers by three, 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 payday are in different tax years and you are using Method A, see page 38 under 'Working out NICs for employees not paid on their usual payday'.

43 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 are 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 from 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 2010–11 contribution rates and limits for an employee paying NICs under contribution Table letter A. NICs are worked out using the exact percentage method.

On 4 September the employee is paid		£
Basic wages	for working 31 August – 4 September	205
plus		
Holiday pay	for 5 – 11 September	155
plus		
Holiday pay	for 12 – 18 September	155
	Total	**515**

On 25 September the employee is paid
Basic wages for working 21 – 25 September 205

The employee worked overtime during the week 31 August – 4 September and was due to receive the overtime payment of £80 on 11 September.

Example 1 Method A

Based on the employee being paid the overtime payment on 25 September

On payday of 4 September NICs are due

Earnings	Total contribution	Employee's contribution
	£	£
£205 (wages)	22.61	10.45
£155 (holiday pay)	10.71	4.95
£155 (holiday pay)	10.71	4.95
Total	**44.03**	**20.35**

On 25 September the employee is paid the overtime of £80. As the employee was due to receive this on 11 September, the £80 has to be added to the holiday pay for the week 5 – 11 September and NICs worked out again.

Earnings	Total contribution	Employee's contribution
	£	£
£205 (wages)	22.61	10.45
£155 (holiday pay)		
+ £80 (overtime)		
£235	29.75	13.75
£155 (holiday pay)	10.71	4.95
Total	**63.07**	**29.15**

On the payday of 25 September, 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
	£	£
£205 (wages)	**22.61**	**10.45**

Example 2 Method B

Based on the employee being paid the overtime payment on 11 September

On payday of 4 September NICs are due

Earnings	Total contribution	Employee's contribution
	£	£
£205 (wages)		
£155 (holiday pay)		
£155 (holiday pay)		
£515 ÷ 3 =		
£171.66 per week	14.67	6.78
	x3	x3
Totals	**44.01**	**20.34**

On 11 September, the employee is paid the overtime of £80. NICs must be worked out on this separately from the holiday pay payment of £155 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 25 September

On payday of 4 September NICs are due

Earnings	Total contribution	Employee's contribution
	£	£
£205 (wages)		
£155 (holiday pay)		
£155 (holiday pay)		
£515 ÷ 3 =		
£171.66 per week	14.67	6.78
	x3	x3
Totals	**44.01**	**20.34**

On 25 September, 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
	£	£
£205 (wages)		
+ £80 (overtime)		
= £285	**41.65**	**19.25**

Youth Training (YT)

44 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.

45 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 Helpline by calling **08457 143 143**.

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 them.

46 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.

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 Jobcentre Plus. You do not pay the participant a wage. No PAYE or NICs are due on this allowance.

New Deal 50 plus

To find out more about New Deal, contact Jobcentre Plus by visiting **www.jobcentreplus.gov.uk** or you can find the address and numbers in your local phone book.

Tips, gratuities, service charges and troncs

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.

PAYE is not due if cash tips are received directly from customers by your employees and are retained by them, and the monies never pass through your hands. Such tips are however taxable directly on the employee who should tell us the amounts they have received.

For PAYE purposes

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.

PAYE and tronc schemes

A tronc is a separate organised pay arrangement used to distribute tips, gratuities and service charges. You must tell us when you first become aware of the existence of a tronc, telling us the troncmaster's name and the arrangements in place.

If HMRC are satisfied that there is a tronc scheme for sharing tips/gratuities and service charges then we will set up a PAYE scheme in the troncmaster's name. 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.

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:

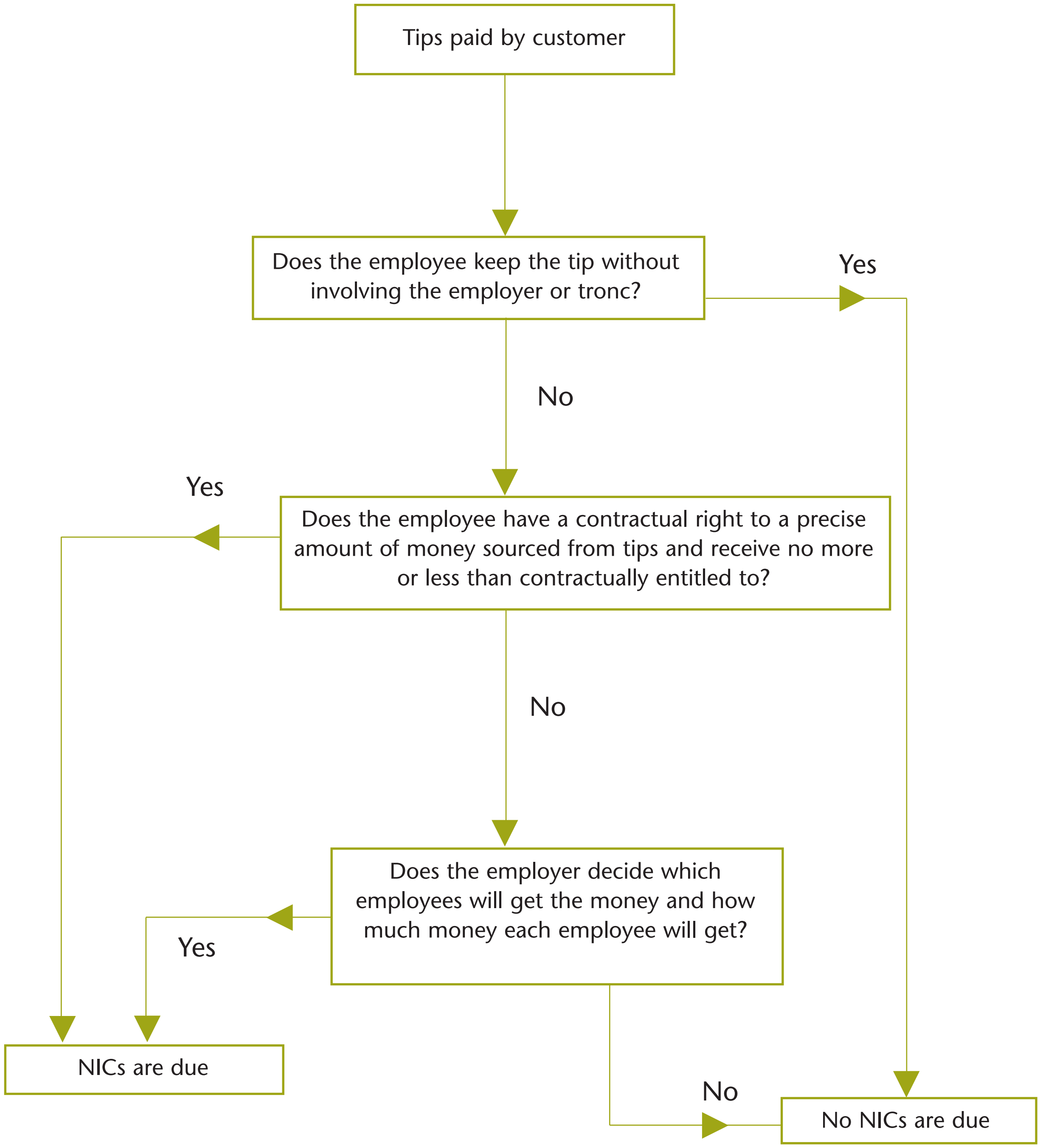
- share out the payments yourself, **or**
- get the formula for sharing out the payments put into the job contract.

It may also be advisable if you take 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 at **www.hmrc.gov.uk/helpsheets/e24.pdf** or on the Employer CD-ROM.

47 Tips/gratuities/voluntary service charges flowchart



For more information see booklet E24 *Tips, Gratuities, Service Charges and Troncs.*

Employees involved in a trade dispute or lock-out

48 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.

49 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 Jobcentre Plus, 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 Jobcentre Plus. If they uphold the employee's view they will give the employee written confirmation that he or she is not disqualified from receiving Jobseeker's 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.

50 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 51 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.

51 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 your Employer Annual Return (P35 and P14s) 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
- 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.

52 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 54 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.

53 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
- 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.

You can get forms P61 or P62 from your local HMRC office.

54 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, note your records to ensure that you include the figure of tax not refunded on forms P35 and P14 at the end of the tax year
- where form P35 for the tax year to which the refund relates has been sent:
  - 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 us with a covering list of names, amounts and the total of the unrefunded tax.

55 - 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 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.

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, we 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 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 payday is less than the normal earnings period, still work out NICs using the normal earnings period.

Example

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

If the interval between an employee starting work and the first payday 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 8 June and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first payday is 31 July. The employee receives £2,250 gross pay which is made up of

£750 for the period 8 June – 30 June

£1,500 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 £1,500 and record NICs on the employee's form P11 in tax month 4.

If the interval between an employee starting work and the first payday 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 9 March and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first payday is 30 April. The employee receives £1,950 gross pay which is made up of:

£450 for the period 9 March – 31 March

£1,500 for the period 1 April – 30 April

Work out NICs separately on the payment:

- for March of £450 using 2010–11 contribution rates and limits and record NICs on the employee's form P11 in tax month 1 of 2010–11
- for April of £1,500 and record NICs on the employee's form P11 in tax month 1.

Working out NICs for employees not paid on their usual payday

Take the following action if you pay employees on a day other than their usual payday, for example, you bring the payday 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 payday 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 4 June and 11 June are paid on 11 June. Work out NICs separately on each week's payment. Record the NICs information for the late 4 June payment on the employee's form P11 on the line covering 5 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.

(See the guidance on page 12 if the payment is due to be made on a non-banking day.)

Example

Two separate weeks' wages for weeks ending 30 March and 6 April are paid on 30 March. Work out NICs on each set of earnings separately using the usual earnings period, but record the total NICs for both the early 6 April payment and the 30 March payment together on the employee's form P11 on the line covering 30 March.

- **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 2010, March 2010 and April 2010 during May 2010. Work out NICs on the payments due for February and March separately using the 2010–11 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.

The methods described for calculation of mistimed payments can only be used when nothing was paid on the usual payday.

Changing the method of working out NICs

You may work out NICs using either:

- the Contribution Tables supplied by us, 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, this might be if you operate a computerised payroll system which is unable to perform the separate 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 at **www.hmrc.gov.uk/manuals/nimmanual/nim10009.htm** or contact us 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 form P14 *End of Year Summary*.

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 (COMP) or COMP Stakeholder Pension (COMPSHP) scheme. 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 form P14 *End of Year Summary*.

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 form P14 *End of Year Summary*.

In addition to completing a form P11, keep a separate record for each job showing the earnings between the Lower Earnings Limit and Upper Accrual Point 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 Earnings Threshold. This portion of earnings can only be disregarded once.

The examples on pages 41 to 60 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 2010–11 tax year. NICs are worked out using the exact percentage method. For further information on using the exact percentage method see the Employer Helpbook E13(2010) *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 (COMP) or COMP Stakeholder Pension (COMPSHP) scheme
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 (COSR) scheme
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 us. Our address and phone number can be found in *The Phone Book* or at **www.hmrc.gov.uk/local/employers/index.htm**

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 (£97 weekly), but total earnings do.

The employee's earnings are:

• £67 a week from the contracted-out job	**(Table letter D)**
• £70 a week from the not contracted-out job	**(Table letter A)**
£137 a week total earnings from both jobs	

The earnings period is weekly and NICs are due as follows:

Employee's contributions are due at the appropriate not contracted-out percentage rate on earnings above the Earnings Threshold (£110) up to and including the Upper Earnings Limit (£844).	**Employee's contribution** £137 - £110 (ET) = £27 £27 x 11% = **£2.97**
Employer's contributions are due at the appropriate not contracted-out percentage rate on the total earnings above the Earnings Threshold (£110).	**Employer's contribution** £137 - £110 (ET) = £27 £27 x 12.8% = **£3.46**

Total employee's and employer's NICs due = £2.97 + £3.46 = **£6.43**

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; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
97	13 00	27 00	0 00	6 43	2 97

At the end of the tax year, complete a form P14 *End of Year Summary*, 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 P14 *End of Year Summary*, would show:

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a **£**	**1b** **£**	**1c** **£**	**1d** **£**	**1e** **£ • p**	**1f** **£ • p**
A	5,044	676	1,404	0	334.36	154.44

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 (£421 monthly) but do not reach the Earnings Threshold (£476 monthly).

The employee's earnings are:

- £423 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)**
  £823 a month total earnings from both jobs

The earnings period is monthly and 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 (£476) up to and including the Upper Earnings Limit (£3,656).	**Employee's contribution** £823 - £476 (ET) = £347 £347 x 11% = **£38.17** **Employee's NIC rebate on contracted-out earnings** £423 - £421 (LEL) = £2 £2 x 1.6% = **£0.03** (to be added to employer's rebate as no contracted-out NICs due)
Employer's contributions are due at the appropriate not contracted-out percentage rate on the total earnings above the Earnings Threshold (£476).	**Employer's contribution** £823 - £476 (ET) = £347 £347 x 12.8% = **£44.42** **Employer's NIC rebate on contracted-out earnings** £423 - £421 (LEL) = £2 £2 x 3.7% = £0.07 Plus Employee's NIC rebate of £0.03 = **R£0.10** (Table letter D NICs)

Total employee's and employer's NICs due £38.17 + £44.42 (Table letter A) = **£82.59**

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 tell us 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 off-setting the NIC rebate),

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP		Earnings above the UAP, 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	**1f** £	p
421	2	00	0	00	0	00		R 0	10	0	00

and the other for the not contracted-out earnings and NICs.

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP		Earnings above the UAP, 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	**1f** £	p
0	53	00	347	00	0	00	82	59	38	17

At the end of the tax year, complete only one form P14 *End of Year Summary*, 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 P14 *End of Year Summary,* would show:

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ • p	1f £ • p
D	5,052	24	0	0	- 1.20	0.00
A	0	636	4,164	0	991.08	458.04

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 (£476 monthly) but do not reach the Upper Accrual Point (£3,337 monthly)

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

The employee's earnings are:

- £1,036 a month from the contracted-out job **(Table letter F)**
- £800 (£200 p/w x 4 weeks) a month from the not contracted-out job **(Table letter A)**
  £1,836 a month total earnings from both jobs

The earnings period is monthly and 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 (£476)
- the appropriate not contracted-out rate on the not contracted-out earnings until the total earnings reaches the Upper Earnings Limit (£3,656).

Employee's contributions
£1,036 - £476 (ET) = £560
£560 x 9.4% = **£52.64**

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

Employee's NIC rebate
£476 (ET) - £421 (LEL) = £55
£55 x 1.6% = **£0.88**

Net employee's NICs due = Table letter F £52.64 - £0.88 = **£51.76**
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 (£476)
- the appropriate not contracted-out percentage rate on the balance of total earnings.

Employer's contribution
£1,036 - £476 (ET) = £560
£560 x 11.4% = **£63.84**

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

Employer's NIC rebate
£476 (ET) - £421 (LEL) = £55
£55 x 1.4% = **£0.77**

Net employer's NICs due = Table letter F £63.84 - £0.77 = **£63.07**
Table letter A = **£102.40**

Total employee's and employer's NICs due = Table letter F £51.76 + £63.07 = **£114.83**
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 tell us 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 off-setting the NIC rebate),

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
421	55 00	560 00	0 00	114 83	51 76

and the other will show the not contracted-out earnings and NICs.

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
0	0 00	800 00	0 00	190 40	88 00

At the end of the tax year, complete a form P14 *End of Year Summary*, 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 P14 *End of Year Summary*, would show:

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a £	**1b** £	**1c** £	**1d** £	**1e** £ • p	**1f** £ • p
F	5,052	660	6,720	0	1,377.96	621.12
A	0	0	9,600	0	2,284.80	1,056.00

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 4

Contracted-out earnings exceed the Upper Accrual Point (£3,337 monthly) but do not reach the Upper Earnings Limit (£3,656 monthly)
The employee is a member of their employer's COMPSHP.
The employee's earnings are:

- £3,500 a month from the contracted-out job **(Table letter F)**
- £156 (£39 p/w x 4 weeks) a month from the not contracted-out job **(Table letter A)**
  £3,656 a month total earnings from both jobs

The earnings period is monthly and 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 (£476) up to and including the Upper Accrual Point (£3,337)
- the appropriate not contracted-out rate on the contracted-out earnings above the Upper Accrual Point
- the appropriate not contracted-out rate on the not contracted-out earnings until the total earnings reaches the Upper Earnings Limit.

Employee's contributions
£3,337 (UAP) - £476 (ET) = £2,861
£2,861 x 9.4% = **£268.93**

£3,500 - £3,337 (UAP) = £163
£163 x 11% = **£17.93**
£39 x 4 = £156
£156 x 11% = **£17.16**

Employee's NIC rebate
£476 (ET) - £421 (LEL) = £55
£55 x 1.6% = **£0.88**

Net employee's NICs due = Table letter F £286.86 - £0.88 = **£285.98**
Table letter A = **£17.16**

Employer's contributions are due at:

- the appropriate contracted-out percentage rate on the contracted-out earnings above the Earnings Threshold (£476) up to and including the Upper Accrual Point (£3,337).
- the appropriate not contracted-out percentage rate on the balance of total earnings.

Employer's contribution
£3,337 (UAP) - £476 (ET) = £2,861
£2,861 x 11.4% = **£326.15**

£3,500 - £3,337 (UAP) = £163
£163 x 12.8% = **£20.86**
£39 x 4 = £156
£156 x 12.8% = **£19.97**

Employer's NIC rebate
£476 (ET) - £421 (LEL) = £55
£55 x 1.4% = **£0.77**

Net employer's NICs due = Table letter F £347.01 - £0.77 = **£346.24**
Table letter A = **£19.97**

Total employee's and employer's NICs due = Table letter F £285.98 + £346.24 = **£632.22**
Table letter A £17.16 + £19.97 = **£37.13**

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 tell us 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; UAP = Upper Accrual Point; 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 UAP		Earnings above the UAP, 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	**1f** £	p	
421	55	00	2,861	00	163	00	632	22	285	98	

and the other will show the not contracted-out earnings and NICs.

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP		Earnings above the UAP, 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	**1f** £	p
0	0	00	0	00	156	00	37	13	17	16

At the end of the tax year, complete a form P14 *End of Year Summary*, 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 P14 *End of Year Summary*, would show:

National Insurance contributions in this employment	*(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*					
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a £	**1b £**	**1c £**	**1d £**	**1e £ • p**	**1f £ • p**
F	5,052	660	34,332	1,956	7,586.64	3,431.76
A	0	0	0	1,872	445.56	205.92

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 5

Contracted-out earnings reach or exceed the Upper Earnings Limit (£3,656 monthly)

The employee's earnings are:

- £4,170 a month from the contracted-out job **(Table letter D)**
- £800 (£200 p/w x 4 weeks) a month from the not contracted-out job **(Table letter A)**
  £4,970 a month total earnings from both jobs

The earnings period is monthly and NICs are due as follows:

Employee's contributions are due at:	**Employee's contribution**
• the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£476) up to and including the Upper Accrual Point (£3,337)	£3,337 (UAP) - £476 (ET) = £2,861 £2,861 x 9.4% = **£268.93** £3,656 (UEL) - £3,337 (UAP) = £319 £319 x 11% = **£35.09**
• the appropriate not contracted-out percentage rate on the contracted-out earnings above the Upper Accrual Point up to and including the Upper Earnings Limit (£3,656)	£4,970 - £3,656 (UEL) = £1,314 £1,314 x 1% = **£13.14** **Employee's NIC rebate**
• 1% on earnings above the Upper Earnings Limit.	£476 (ET) - £421 (LEL) = £55 £55 x 1.6% = **£0.88**

Net employee's NICs due = £304.02 - £0.88 + £13.14 = **£316.28**

Employer's contributions are due at:	**Employer's contribution**
• the appropriate contracted-out percentage rate on the contracted-out earnings above the Earnings Threshold (£476) up to and including the Upper Accrual Point (£3,337), and	£3,337 (UAP) - £476 (ET) = £2,861 £2,861 x 9.1% = **£260.35** £3,656 (UEL) - £3,337 (UAP) = £319 £319 x 12.8% = **£40.83** £4,970 - £3,656 (UEL) = £1,314 £1,314 x 12.8% = **£168.19** Total = **£469.37**
• the appropriate not contracted-out percentage rate on the balance of total earnings.	**Employer's NIC rebate** £476 (ET) - £421 (LEL) = £55 £55 x 3.7% = **£2.03**

Net employer's NICs due = £260.35 + £40.83 - £2.03 + £168.19 = **£467.34**

Total employee's and employer's NICs due = £316.28 + £467.34 = **£783.62**

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; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
421	55 00	2,861 00	319 00	783 62	316 28

At the end of the tax year, complete a form P14 *End of Year Summary*, 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 P14 *End of Year Summary,* would show:

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a £	**1b** £	**1c** £	**1d** £	**1e** £ • p	**1f** £ • p
D	5,052	660	34,332	3,828	9,403.44	3,795.36

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** 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 6

Not contracted-out earnings do not reach the Lower Earnings Limit (£97 weekly) but total earnings do.
The employee has an (APP or APPSHP) arrangement.
The employee's earnings are:

- £65 a week from the not contracted-out job **(Table letter A)**
- £75 a week from the contracted-out job **(Table letter D)**
  £140 a week total earnings from both jobs

The earnings period is weekly and NICs are due as follows:

Employee's contributions are due at:

- the appropriate contracted-out percentage rate on earnings above the Earnings Threshold (£110) up to and including the Upper Accrual Point (£770).

Employee's contribution

£140 - £110 (ET) = £30
£30 x 9.4% = **£2.82**

Employee's NIC rebate

£110 (ET) - £97 (LEL) = £13
£13 x 1.6% = **£0.21**

Net employee's NICs due = £2.82 - £0.21 = **£2.61**

Employer's contributions are due at:

- at the appropriate contracted-out percentage rate on earnings above the Earnings Threshold (£110), up to and including the Upper Accrual Point (£770).

Employer's contribution

£140 - £110 (ET) = £30
£30 x 9.1% = **£2.73**

Employer's NIC rebate

£110 (ET) - £97 (LEL) = £13
£13 x 3.7% = **£0.48**

Net employer's NICs due = £2.73 - £0.48 = **£2.25**

Total employee's and employer's NICs due = £2.61 + £2.25 = **£4.86**

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; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
97	13 00	30 00	0 00	4 86	2 61

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

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

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a **£**	**1b** **£**	**1c** **£**	**1d** **£**	**1e** **£ • p**	**1f** **£ • p**
D	5,044	676	1,560	0	252.72	135.72

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 7

Not contracted-out earnings exceed the Lower Earnings Limit (£421 monthly) but do not reach the Earnings Threshold.
The employee has an (APP or APPSHP) arrangement.
The employee's earnings are:

- £424 a month from the not contracted-out job **(Table letter A)**
- £390 (£97.50 p/w x 4 weeks) a month from the contracted-out job **(Table letter D)**
  £814 a month total earnings from both jobs

The earnings period is monthly and 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 (£476) up to and including the Upper Accrual Point (£3,337).

Employee's contribution

£814 - £476 (ET) = £338
£338 x 9.4% = **£31.77**

Employee's NIC rebate

£476 (ET) - £421 (LEL) = £55
£424 - £421 (LEL) = £3
£55 - £3 = £52 x 1.6% = **£0.83**

Net employee's NICs due = £31.77 - £0.83 = **£30.94**

Employer's contributions are due at the appropriate contracted-out percentage rate on the contracted-out earnings above the Earnings Threshold (£476), up to and including the Upper Accrual Point (£3,337).

Employer's contribution
£814 - £476 (ET) = £338
£338 x 9.1% = **£30.76**

Employer's NIC rebate
£476 (ET) - £421 (LEL) = £55
£424 - £421 (LEL) = £3
£55 - £3 = £52 x 3.7% = £1.92

Net employer's NICs due = £30.76 - £1.92 = **£28.84**

Total employee's and employer's NICs due = £30.94 + £28.84 = **£59.78**

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 tell us 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; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
421	3 00	0 00	0 00	0 00	0 00

and the other will show the contracted-out earnings and NICs.

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
0	52 00	338 00	0 00	59 78	30 94

At the end of the tax year, complete a form P14 *End of Year Summary*, 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 P14 *End of Year Summary*, would show:

National Insurance contributions in this employment	*(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*					
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a £	**1b** £	**1c** £	**1d** £	**1e** £ • p	**1f** £ • p
A	5,052	36	0	0	0.00	0.00
D	0	624	4,056	0	717.36	371.28

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 8

Not contracted-out earnings exceed the Earnings Threshold (£476 monthly) but do not reach the Upper Accrual Point (£3,337 monthly)

The employee has an APPSHP arrangement.

The employee's earnings are:

- £1,036 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)**
  £1,836 a month total earnings from both jobs

The earnings period is monthly and 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 (£476)
- the appropriate contracted-out percentage rate on the contracted-out earnings up to and including the Upper Accrual Point (£3,337).

Employee's contribution

£1,036 - £476 (ET) = £560
£560 x 11% = **£61.60**

£800 x 9.4% = **£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 (£476)
- the appropriate contracted-out percentage rate on contracted-out earnings up to and including the Upper Accrual Point (£3,337).

Employer's contribution

£1,036 - £476 (ET) = £560
£560 x 12.8% = **£71.68**

£800 x 9.1% = **£72.80**

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 £61.60 + £71.68 = **£133.28**
Table letter D £75.20 + £72.80 = **£148.00**

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 tell us 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; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
421	55 00	560 00	0 00	133 28	61 60

and the other will show the contracted-out earnings and NICs.

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
0	0 00	800 00	0 00	148 00	75 20

At the end of the tax year, complete a form P14 *End of Year Summary*, 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 P14 *End of Year Summary*, would show:

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a £	**1b** £	**1c** £	**1d** £	**1e** £ • p	**1f** £ • p
A	5,052	660	6,720	0	1,599.36	739.20
D	0	0	9,600	0	1,776.00	902.40

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 **has** an APP or APPSHP, NICs are worked out using a monthly earnings period.

Example 9

Not contracted-out earnings exceed the Upper Accrual Point (£3,337 monthly) but do not reach the Upper Earnings Limit (£3,656 monthly)

The employee has an APPSHP arrangement.

The employee's earnings are:

- £3,500 a month from the not contracted-out job **(Table letter A)**
- £156 (£39 p/w x 4 weeks) a month from the contracted-out job **(Table letter D)**
  £3,656 a month total earnings from both jobs

The earnings period is monthly and 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 (£476)
- the appropriate not contracted-out percentage rate on the contracted-out earnings until the total earnings reach the Upper Earnings Limit (£3,656).

Employee's contribution

£3,337 (UAP) - £476 (ET) = £2,861
£2,861 x 11% = **£314.71**
£3,500 - £3,337 (UAP) = £163

£163 x 11% = **£17.93**
£156 x 11% = **£17.16**

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 (£476)
- the appropriate not contracted-out percentage rate on contracted-out earnings above the Upper Accrual Point (£3,337).

Employer's contribution

£3,337 (UAP) - £476 (ET) = £2,861
£2,861 x 12.8% = **£366.21**
£3,500 - £3,337 (UAP) = £163
£163 x 12.8% = **£20.86**

£156 x 12.8% = **£19.97**

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 £332.64 + £387.07 = **£719.71**
Table letter D £17.16 + £19.97 = **£37.13**

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 tell us 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; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
421	55 00	2,861 00	163 00	719 71	332 64

and the other will show the contracted-out earnings and NICs.

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP	Earnings above the UAP, 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	**1f** £ p
0	0 00	0 00	156 00	37 13	17 16

At the end of the tax year, complete a form P14 *End of Year Summary*, 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 P14 *End of Year Summary*, would show:

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a £	**1b** £	**1c** £	**1d** £	**1e** £ • p	**1f** £ • p
A	5,052	660	34,332	1,956	8,636.52	3,991.68
D	0	0	0	1,872	445.56	205.92

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 10

Not contracted-out earnings reach or exceed the Upper Earnings Limit (£844 weekly)
The employee has an (APP or APPSHP) arrangement.
The employee's earnings are:

• £859 a week from the not contracted-out job	**(Table letter A)**
• £80 a week from the contracted-out job	**(Table letter D)**
£939 a week total earnings from both jobs	

The earnings period is weekly and NICs are due as follows:

Employee's contributions are due at:	**Employee's contribution**
• the appropriate not contracted-out percentage rate on earnings above the Earnings Threshold (£110), up to and including the Upper Earnings Limit (£844)	£770 (UAP) - £110 (ET) = £660 £660 x 11% = **£72.60** £844 (UEL) - £770 (UAP) = £74 £74 x 11% = **£8.14**
• 1% on earnings above the Upper Earnings Limit.	£939 - £844 (UEL) = £95 £95 x 1% = **£0.95**
	Employee's NIC rebate Nil

Total employee's NICs due = £72.60 + £8.14 + £0.95 = **£81.69**

Employer's contributions are due at the appropriate not contracted-out percentage rate on the total earnings above the Earnings Threshold (£110).	**Employer's contribution** £770 (UAP) - £110 (ET) = £660 £660 x 12.8% = **£84.48** £844 (UEL) - £770 (UAP) = £74 £74 x 12.8% = **£9.47** £939 - £844 (UEL) = £95 £95 x 12.8% = **£12.16**
	Employer's NIC rebate Nil

Total employee's and employer's NICs due = £81.69 + £106.11 = **£187.80**

Recording NICs

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

The employee's form P11 would show:

National Insurance contributions *Note: LEL = Lower Earnings Limit; ET = Earnings Threshold; UAP = Upper Accrual Point; 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 UAP		Earnings above the UAP, 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	**1f** £	p
97	13	00	660	00	74	00	187	80	81	69

At the end of the tax year, complete a form P14 *End of Year Summary,* recording details under contribution Table letter A.

Assuming the level of earnings each week / month remained unchanged, the P14 *End of Year Summary,* would show:

National Insurance contributions in this employment *(Note: LEL = Lower Earnings Limit, ET = Earnings Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)*

NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col.1a on P11	Earnings above the LEL, up to and including the ET (whole £s) From col.1b on P11	Earnings above the ET, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the ET From col.1f on P11
	1a **£**	**1b** **£**	**1c** **£**	**1d** **£**	**1e** **£ • p**	**1f** **£ • p**
A	5,044	676	34,320	3,848	9,765.60	4,247.88

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 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. An application for deferment is required each year.

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 (COMPSHP)** employment.

72 not used - reserved for future use

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 above the ET
- refund to the employee the difference between the NICs paid and the amount now due
- adjust your next payment to the Accounts Office as long as it is for the same tax year
- adjust the contribution Table letter under which the NICs are due on the employee's form P11 to the appropriate contribution Table letter for deferment (as indicated above)
- keep a record of earnings on which employee NICs would have been deducted.

Amend the form P11 by:

- drawing a line through each of the entries that you are adjusting so that the original entry can still be read
- recording the right amounts alongside
- entering the amended totals of columns 1a to 1f up to the date of change in the boxes next to the entry for the original contribution Table letter in the 'End of Year Summary' section on page 2 of the P11
- entering the new contribution Table letter on the next line of the 'End of Year Summary' section.

Employees with more than one job who want to know about deferment of Class 1 NICs should read *Guidance Notes for form CA72A* which you can find using 'Find a form' at **www.hmrc.gov.uk/allforms.shtml**
or phone Deferment Services on **0845 915 7141.**

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 up to the Upper Accrual Point. 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 (COMPSHP) scheme.

Employees pay primary NICs at the appropriate contracted-out percentage rate on earnings above the ET up to and including the UAP, at the appropriate not contracted-out rate on earnings above the UAP up to and including the 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 NICs payments, make a deduction to reflect the rebate that **would** have applied to employee's and employer's NICs on earnings between the LEL, up to and including the ET. This is known as the NICs rebate.

Examples of how the NICs rebate is calculated can be found in the Employer Helpbook E13(2010) *Day-to-day payroll.*

We 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 Contracting-out Number (ECON) and Scheme Contracted-out Number (SCON) by Pension Schemes Services.

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 63.

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) scheme, a COMP Stakeholder Pension (COMPSHP) scheme, 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 64 for further information
- **L** for employees for whom you hold form CA2700 issued by the National Insurance Contributions Office. See previous section on deferment of payment for further information (page 61).

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/Upper Accrual Point, threshold and percentage rates for the 2010–11 tax year can be found in the Employer Helpbook E12(2010) *PAYE and NICs rates and limits for 2010–11*.

Guidance on using the exact percentage method is supplied in the Employer Helpbook E13(2010) *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 64 for further information
- **S** for employees for whom you hold form CA2700 issued by the National Insurance Contributions Office. See previous section on deferment of payment for further information (page 61).

Members of a COMP or COMPSHP 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 form P14 *End of Year Summary*, you must ensure that the correct Scheme Contracted-out Number (SCON) is entered on form P14 against the relevant earnings.

If an employee moves from one COMP scheme to another you should make separate entries on the P14 showing the details of the earnings under each scheme, even though there is no change in the NICs category letter. You should enter the SCON of each COMP scheme against the relevant entry on the P14.

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/Upper Accrual Point, threshold and percentage rates for 2010–11 tax year can be found in the Employer Helpbook E12(2010) *PAYE and NICs rates and limits for 2010–11.*

Guidance on using the exact percentage method is supplied in the Employer Helpbook E13(2010) *Day-to-day payroll.*

Copies of the Employer Helpbooks E12(2010) and E13(2010) are available from:

- our website go to **www.hmrc.gov.uk/employers/emp-form.htm**
- your Employer CD-ROM
- the Employer Orderline on **08457 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 ET are due at the relevant contracted-out rate(s) 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 ET, 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 us.

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 Accounts Office and amend your pay records accordingly. See page 66 *Overpayment of employee's contributions*.

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

HM Revenue & Customs
National Insurance Contributions Office
Refunds Group
Benton Park View
Newcastle upon Tyne
NE98 1ZZ

78 Special rule for employees over State Pension age

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

Currently State Pension age for men is 65. For women born before 6 April 1950 State Pension age is 60.

From 6 April 2010 the State Pension age for women who were born on or after 6 April 1950 will gradually increase from 60 to 65 between 2010 and 2020. For further information go to **www.direct.gov.uk/en/Pensionsandretirement planning/StatePension/DG_4017919**

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*

on the National Insurance Services To Pensions Industry (NISPI) forms page under Pension Schemes at **www.hmrc.gov.uk/nic/coeg.htm**

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 Helpline by phoning **08457 143 143.**

If you have any queries about the contracting-out arrangements, contact:

HM Revenue & Customs
National Insurance Contributions Office
Services to Pensions Industry
Benton Park View
Newcastle upon Tyne
NE98 1ZZ

Phone **0845 915 0150**
Monday to Friday 8.00am to 5.00pm

Employees with Appropriate Personal Pension schemes or Appropriate Personal Pension Stakeholder Pension schemes and the effect on NICs

Appropriate Personal Pension (APP) and Appropriate Personal Pension Stakeholder Pension (APPSHP) schemes types of personal pensions 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 NICs 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.)

Special rules 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.

81 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 without 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 HM Revenue & Customs National Insurance Contributions Office at the address shown in paragraph 86 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.

82 Giving up the right to pay reduced rate NICs

A woman who wishes to give up her right to pay reduced rate NICs must:

- ask her employer to return the certificate to her
- complete:
  – part 1 of the certificate
  – form CF9 (if she is a married woman) or CF9A (if she is a widow)
  – send the certificate and completed form CF9 or CF9A to the address in paragraph 86.

Forms CF9 and CF9A can be obtained from **www.hmrc.gov.uk/allforms.shtml** or by writing to the address in paragraph 86.

If your employee would like further advice she should phone the National Insurance enquiries for Individuals Helpline on **0845 302 1479**.

83 Losing the right to pay reduced rate NICs

A woman 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 (for instance 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 and her election remains valid. As such, a married woman or widow will not lose her right to pay reduced rate NICs.

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 National Insurance Contributions Office at the address shown in paragraph 86.

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 or civil partnership 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).

84 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 State Pension age
- she 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, or
  - been self-employed
- she has changed her name
- she remarries
- she asks for it back
- she becomes widowed.

Complete the parts of the certificate which apply to you before you return it to your employee.

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 State Pension age and has provided you with proof of that (see paragraph 87).

If you cannot return a certificate of election to an employee who has left, send it with a note of explanation to the National Insurance Contributions Office at the address shown in paragraph 86.

85 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 Accounts Office.

To get a refund of an overpayment in a tax year which has ended, the employee must write, quoting her NI number, to:

HM Revenue & Customs
National Insurance Contributions Office
Refunds Group
Benton Park View
Newcastle upon Tyne
NE98 1ZZ

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.

86 More information

More information about the right to pay reduced rate NICs can be obtained by:

- phoning the Employer Helpline on **08457 143 143**, or
- contacting us at the following address

  HM Revenue & Customs
  National Insurance Contributions Office
  Individuals Caseworker
  Benton Park View
  Newcastle upon Tyne
  NE98 1ZZ

Payment of NICs for employees over State Pension age

Employees over State Pension age 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 the date they reach State Pension age.

Currently the State Pension age is 65 for men. For women born before 6 April 1950, State Pension age is 60.

From 6 April 2010 the State Pension age for women who were born on or after 6 April 1950 will gradually increase from 60 to 65 between 2010 and 2020. For further information go to **www.direct.gov.uk/en/Pensionsandretirement planning/StatePension/DG_4017919**

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 National Insurance Contributions Office.

If you stop deducting employee's contributions before you have seen proof, or continue to pay employer's contributions at the contracted-out rate, you are responsible for any underpayment.

87 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.

88 Getting a certificate of age exception

An employee can get a certificate of age exception by applying to the National Insurance Contributions Office at the address shown in paragraph 86. 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.

89 When to return a certificate of age exception

Certificates of age exception belong to the 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 86.

90 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 us.

If an overpayment has occurred in a previous tax year, to get a refund the employee must write to:

HM Revenue & Customs
National Insurance Contributions Office
Refunds Group
Benton Park View
Newcastle upon Tyne
NE98 1ZZ

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 us.

If an underpayment occurred for a previous tax year, contact the National Insurance Contributions Office at the address shown in paragraph 86 for advice.

91 – 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 as set out in the Employer Helpbook E13(2010) *Day-to-day payroll.*

You should particularly note that the normal P46 procedures for new employees who do not give you a P45 in the Employer Helpbook E13(2010) *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.

An agency ceasing to employ an agency worker should issue form P45, at the earlier of:

- the end of the relationship, between the agency and the worker
- the end of a period of three months during which the agency makes no payments to the worker.

An agency should, in respect of any agency workers for whom it is required to operate PAYE, issue form P45 at the earlier of:

- the end of the relationship between the agency and the worker
- the end of a period of three months during which the agency makes no relevant payments to the worker.

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 Helpbook E13(2010) *Day-to-day payroll.*

If the conditions are satisfied you can take the following special actions.

- Obtain a form P38(S) which can be printed from the Internet go to **www.hmrc.gov.uk/employers/emp-form.htm** or from the 'Forms and Helpbooks' section of your Employer CD-ROM or you can order a copy from the Employer Orderline on **08457 646 646**.
  - Ask the employee to complete the 'Student's Declaration' as soon as they start working for you, only accept a P38(S) you have issued.
  - You may also obtain the P38(S) information from the student electronically, provided it is exactly the same information as is required by the P38(S). You must put in place adequate safeguards to confirm it was the student who provided the information. And you **must** maintain an audit trail which is available to HMRC in support of any future query or compliance visit.

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 the 5 April, they must complete two forms P38(S).

- 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 Box L (tax code) 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.

A student, who completed a P38(S) and their holiday earnings exceed the personal allowance

If you hold a P38(S), but at any time the total pay in the employment with you exceeds the personal allowance for the year (as shown on the P38(S)) you should send your PAYE HMRC office a completed form P46 showing the date of commencement as the original start date of the employment. Where the employee completes statement A or B you should deduct tax from the first payment made which takes them over the personal allowance level, using code 0T on a Week 1/Month 1 basis.

Where statement C is completed code BR on a Week 1/Month 1 basis should be applied. If the employee has not completed the form P46, or provided you with the information to fully complete Section one, in time for the first payday in which their holiday pay exceeds their personal allowance, you **must** complete **Section one** to the best of your knowledge on their behalf and use code BR on a Week 1/Month 1 basis.

As this differs from the P46 prescribed codes, an entry needs to be made in the 'Tax Code Used' field on the P46. You must send in a P46 for all cases on the employee's first payday. If you have 50 or more employees, you must send all employee starter and leaver information and similar pension information online.

A student, having completed a P38(S) continues employment into term-time

If it becomes apparent a student, having completed a P38(S), is going to continue with their employment with you into term-time, send your PAYE tax office a completed form P46 showing the date of commencement as the original start date. Where the employee completes statement A or B you should deduct tax using the emergency tax code on a Week 1/Month 1 basis. Where statement C is completed code BR on a Week 1/Month 1 basis should be applied. As this differs from the P46 statement A and C prescribed codes, an entry needs to be made in the 'Tax Code Used' field on the P46 for these cases.

If the employee has not completed the form P46, or provided you with the information to fully complete Section one in time for the first payday of their employment in term-time, you **must** complete **Section one** to the best of your knowledge on their behalf and use code BR on a Week 1/Month 1 basis.

As this differs from the P46 prescribed codes, an entry needs to be made in the 'Tax Code Used' field on the P46. You must send in a P46 for all cases on the employee's first payday. If you have 50 or more employees, you must send all employee starter and leaver information and similar pension information online.

When making a 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.

A student, works under the P38(S) procedures and leaves but returns to work for you in term time

If a student worked for you in the holidays under the P38(S) procedures, and then after a break in employment returns to take up employment with you outside of term-time a P46 should be completed as though the student was a new employee.

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 an 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 have had to complete a form P11, prepare form P14 and enter on form P35 to show total earnings for the year, that is, including earnings for the period P38(S) procedures applied and only National Insurance being deducted
  - – if the student had worked under the P38(S) procedure and then following a break in employment recommenced with you in term-time a P14 should be completed in respect of each period of employment.
- keep all forms P38(S), including those relating to students for whom a 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 us 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:

- UK nationals
- European Union (EU) Nationals (excluding Bulgaria and Romania), or
- students (including Bulgaria and Romania nationals - see below) who are sponsored by one of the organisations listed below.

In all other cases follow the normal procedures in the Employer Helpbook E13(2010) *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

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

BARWAY SERVICES, Ely
CONCORDIA (YSV) LTD, Portslade, East Sussex
FRUITFUL LTD, Evesham
HAYGROVE LTD, Ledbury
HOPS (Labour Solutions), Kenilworth
R & J M PLACE LTD (International Farm Camp), Tunstead, Norwich
S & A PRODUCE, Hereford
SASTAK LTD, Craven Arms, Shropshire
WILKIN & SONS LTD (International Farm Camp), Tiptree, Essex

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
- the student must also produce his or her 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 Passport or Registration Card to make sure the sponsor gave the form P38(S) to the student you are employing. The farming sponsored students eligible to use the P38(S) procedure will be working in the UK under a UK Government immigration scheme called the Seasonal Agricultural Workers Scheme (SAWS). Non-students from Bulgaria and Romania can apply for places on SAWS, but, the P38(S) procedure does not apply to them. They are subject to deduction of tax through PAYE and to pay NICs, in the normal way as for all other employees. Employees on the SAWS scheme are not eligible for the PAYE and NIC concessions for Harvest Casuals contained in the table on page 72.

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, 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 in the year
- 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 employee's 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 68 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 ET no NICs are payable
- if earnings reach or exceed the LEL but do not exceed the ET the employee is treated as having paid NICs when claiming benefit
- if earnings exceed the ET, Class 1 NICs are payable by the employee and employer.

113 Harvest casuals

For PAYE

Circumstances	Action
The person is a daily casual and: • is taken on for one day or less • paid off at the end of that period • with no contract for further employment.	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.
The employee is taken on for no more than two weeks and has not been taken on previously by you since 6 April and paid above the PAYE threshold without PAYE being applied.	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.
The employee is taken on for more than two weeks.	No special procedures apply and normal procedures must be followed. The procedures are detailed in the Employer Helpbook E13(2010) *Day-to-day payroll.*

For NICs

Circumstances	Action
The employee is employed as a regular casual, for example taken on for a specified period and paid at regular intervals.	No special NIC rules apply and normal procedures must be followed. The procedures are detailed in the Employer Helpbook E13(2010) *Day-to-day payroll.*
The employee is engaged on an irregular basis: • to work outdoors harvesting perishable crops • is paid off at the end of each engagement, for example at the end of the day • has no contract for further employment.	NICs will not be collected where it is impossible for the employer to identify individuals and record their earnings. If the identity details are known NICs are due when the earnings for each engagement exceed the ET: • work out the NICs due at the time the earnings are paid • complete form P11 as detailed in the Employer Helpbook E13(2010) *Day-to-day payroll.*

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 we 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 contact us for advice on PAYE.

You should be aware that those who supply workers to agriculture and food/drink processing and packaging must be licensed with the Gangmasters Licensing Authority (GLA). It is an offence for gangmasters to operate without a licence or for contractors to use unlicensed gangmasters.

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, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Republic of Ireland, Romania, 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 including Serbia and Montenegro/Bosnia-Herzegovina/ Croatia and Macedonia.
- 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

  HM Revenue & Customs
  Charity, Assets & Residency (Newcastle)
  Room BP1301
  Benton Park View
  Longbenton
  Newcastle upon Tyne
  NE98 1ZZ

  Phone: **0845 915 4811**
  Fax: **0845 915 0067**

Resident, present or having place of business in the UK

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 include:

- a name plate displayed on the door or premises
- headed letter paper
- a listing in a phone 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 Helpline for advice by phoning **08457 143 143.**

From 1 May 2010 new European Community regulations will treat certain employers in European Community countries as having a place of business in the UK for all Class 1 National Insurance purposes in relation to their employees who become liable to UK National Insurance on or after 1 May 2010.

At the time of going to press the countries signed up to the new regulations are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia, Spain and Sweden but some other countries may follow suit.
For further details and an up-to-date position please see the National Insurance pages on our website, go to **www.hmrc.gov.uk**

115 Employees coming from within the European Economic Area (EEA) and countries with which the UK has a Reciprocal Agreement (RA) covering NICs or a Double Contributions Convention (DCC)

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 entitled to pay contributions only in that other 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.

NICs must be worked out in the normal way following the rules shown in this manual and the Employer Helpbook E13(2010) *Day-to-day payroll.* If the employee does not have a certificate exempting them from the payment of UK NICs you must deduct UK NICs.

116 Employees coming from countries outside the European Economic Area (EEA) with which the UK does not have a Reciprocal Agreement (RA) covering NICs or a Double Contributions Convention (DCC)

If 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 in the UK from a country outside the EEA and with which the UK does not have an RA covering NICs or a DCC. 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 Helpbook E13(2010) *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 is sent to work here temporarily by their overseas employer who has a place of business outside the UK even if that 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 you pay NICs for that employee and the normal rules about working out, paying and recording NICs apply.

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.

Host Employer Regulations

If an employer outside the UK with no place of business in the UK makes their employees available to you to work in your business, the law treats you as their employer.

This most commonly arises where you are supplied with workers by a foreign agency or perhaps you are loaned employees from a foreign company linked to yours. You will be liable for the payment of NICs (both primary and secondary) in respect of that person.

If you need any help contact the Employer Helpline on **08457 143 143.**

117 not used – reserved for future use

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*. You can view this at **www.hmrc.gov.uk** – enter NI132 in the '*search*' box.

For advice on the liability to pay NICs for persons going abroad contact:

HM Revenue & Customs
Charity, Assets & Residency (Newcastle)
Room BP1301
Benton Park View
Longbenton
Newcastle upon Tyne
NE98 1ZZ

Phone **0845 915 4811**

Fax **0845 915 0067**
or go to **www.hmrc.gov.uk/employers**

119 Modified NICs Schemes – Applying for simplified reporting for employees coming to or leaving the UK

Some employers can apply for simplified reporting for employers coming to or leaving the UK.

Details are in the Employment Procedures (EP) Manual, Appendices 7A and 7B. The arrangements allow certain employers to apply to pay NICs and complete the end of year return P14 at the normal time using a best estimate of the earnings and benefits, and later submit a minor correction to the amount of Class 1 or Class 1A NICs, without then attracting a penalty. The idea is to help businesses with internationally mobile workers, by giving them a little longer to identify and account for minor benefits and payments that were not paid from the UK payroll. Conditions apply.

For more information go to **www.hmrc.gov.uk/nic/work/index.htm** and enter 'Employment Procedures' in the 'search' box or contact your local HMRC office.

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 us as soon as possible for advice. We will want to know all about the employee 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 payday for work done in the UK, you should deduct tax using the emergency code until we tell 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 us 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 we have 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 ask us for a direction 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 us for further details in these cases.

Employee seconded to work in the UK

Where you employ a worker who has been seconded to work in the UK you must provide them with a form P46(Expat). The form should be returned to you so you can complete the employer sections and then send the fully completed form to us (if you have 50 or more employees you must send the form to us online).

Section one of form P46(Expat) must be completed by the employee and section two must be completed by you as the employer.

For the purpose of the form and this procedure, a seconded employee includes:

- individuals working wholly or partly in the UK for a UK employer on assignment **whilst remaining employed by an overseas employer**
- individuals assigned to work wholly or partly in the UK at a recognised branch of their overseas employer's business
- all individuals included by an employer within a dedicated expatriate PAYE scheme
- all individuals included by an employer within an expatriate modified PAYE scheme.

Form P46(Expat) must not be used for any worker whose circumstances are not as within the descriptions above. In all other circumstances the normal P46 procedures must be followed.

Note: If the employee has entered 'X' in the 'European Economic Area citizen box' on section one of form P46(Expat) you must use the emergency tax code on a cumulative basis even if the employee has completed statements B or C.

Form P46(Expat) is available:

- to download go to **www.hmrc.gov.uk/allforms.shtml**
- on the Employer's CD-ROM
- on our Online Return and Forms - PAYE product.

It may also be included in commercial payroll software (please check with your software provider for confirmation).

It is not available to order from the Employer Orderline.

For further advice about employees seconded to work in the UK please phone the Employer Helpline on **08457 143 143.**

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 us 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 authority wants you to make deductions for them and when you have this information contact us. We 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 us before employees start working in these areas.

123 Coding for payroll purposes for non-resident employees

Where a business in the UK or the UK branch or office of an overseas business employs an employee who is non-resident, and:

- the employee is working wholly outside the UK
- the employee has not been resident in the UK before
- **the employee does not intend to and will not perform any duties in the UK**

code 'NT' may be used for payroll purposes if the paying system demands a code number.

No P14 or entry on the P35 is required and there is no liability for NICs.

If the residency position of the employee or the place the duties are performed change so that the employee becomes liable to UK tax, you should immediately stop using code 'NT' and follow the P46 procedure, as if the employee is a new employee with no P45.

Workers providing their services through intermediaries

This section deals with the following:

- workers paid by intermediaries which do not meet the definition of Managed Service Companies ('IR35' rules)
- workers paid by Managed Service Companies
- how to complete question 6 on the P35 Employer Annual Return
- IR35: final figures unknown by April/May.

124 Workers paid by intermediaries which do not meet the definition of Managed Service Companies (IR35 rules)

The Intermediaries Legislation (also known as 'IR35') applies 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 or 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 go to **www.hmrc.gov.uk/employment-status/index.htm**

An individual working through a service company (defined on page 79 under 'How to complete question 6 on the P35 Employer Annual Return') is treated as a worker for the purposes of the legislation if he or she has:

- beneficial ownership of, or entitlement to acquire rights entitling him or her to receive, more than 5 per cent of the ordinary share capital of the service company, or
- possession of, or entitlement to acquire rights entitling him or her to receive 5 per cent 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 or she provides to clients.

The 'IR35' rules don't 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 or 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 partnership trade profits
- our current practice of including small amounts of PAYE income in the calculation of trade profits will also apply in these cases.

HM Revenue & Customs 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 per cent 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 and 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.

For NICs purposes, the deemed payment should be aggregated with any other earnings paid to the worker by the intermediary in the year which are derived from employed earner's employment. The amount of Class 1 NICs payable in respect of that aggregate amount should be calculated using an annual earnings period, irrespective of whether the worker is a director of the company in the tax year.

Where the provisions of the Intermediaries Regulations apply to the worker from the beginning of the tax year, the worker will have an annual earnings period. Where a later start date applies the worker is prescribed a pro rata annual earnings period. See also CA44 *National Insurance for Company Directors*.

For further information about the legislation go to **www.hmrc.gov.uk/ir35** or, contact the 'IR35' Helpline on **0845 303 3535**.

125 Workers paid by Managed Service Companies

Separate legislation applies to income received from 6 April 2007 by workers providing their services through Managed Service Companies.

A Managed Service Company (MSC) is a company through which a worker provides their personal services and:

- the worker's entire income is not treated as employment income, and
- there is a person who carries on a business of promoting or facilitating the use of service companies (an MSC Provider), and
- the MSC Provider exercises influence or control over the company, or benefits financially on an ongoing basis from the provision of the worker's services, or promotes an undertaking to make good a tax loss.

Where a worker provides their services through a MSC, the existing rules which outline the boundary between employment and self-employment for tax and NICs purposes do not apply.

Payments or benefits received by the worker or an associate which are not already treated as earnings, and can reasonably be taken to be in respect of the services of the worker, are treated as employment income and earnings.

For the purposes of the legislation, a company means a limited company, a limited liability partnership or a general partnership.

The MSC is responsible for deducting PAYE and accounting for NICs.

The MSC must deduct PAYE and account for NICs on payments of income to the worker during the year, in the normal way.

On each occasion when the worker or their associate receives from the MSC a payment or benefit which is not earnings from an employment, the MSC must calculate the deemed employment payment in accordance with the legislation and operate PAYE and Class 1 NICs on the deemed employment payment.

Appropriate deductions will be allowed on account of the deemed employment payment when calculating profits chargeable to Corporation Tax or partnership profits.

For guidance on calculating the deemed employment payment go to **www.hmrc.gov.uk/employment-status/msc.htm**

Expenses

When calculating the deemed employment payment, a deduction can be made for specific allowable expenses. Expenses incurred in providing services at the client's premises: for example, travel, subsistence or accommodation costs, are not allowable expenses.

Payment of tax and 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.

For NICs purposes, the deemed employment payment should be aggregated with any other earnings paid to the worker by the MSC.

A MSC must pay the PAYE and NICs in respect of the deemed employment payment to HMRC on a monthly basis. The normal end of year payment rules will apply to the PAYE and NIC on deemed payments (that is, the total PAYE and NICs due for the year must be paid by 19 April).

Where a MSC fails to pay the tax and NICs, and the sum is irrecoverable from it, HMRC may transfer the debt to a number of third parties.

The third parties include:

- the MSC's director or other office holder or an associate of the MSC
- the MSC Provider, its directors or other office holders or associates
- a person who encouraged or was actively involved in the provision of the worker's services through the MSC.

For further information about the legislation go to **www.hmrc.gov.uk/employment-status/msc.htm**

126 How to complete question 6 on the P35 Employer Annual Return

Question 6 is in two parts. The first part asks, 'Are you a Service Company?'

For the purposes of question 6, service company includes a limited company, a limited liability partnership, or a partnership (but not a sole trader) which provides your personal services to third parties.

If you are a service company (as explained above) in the year to 5 April 2010, tick the first 'Yes' box under this question.

If you answer 'No' you do not need to consider the second part. If you answer 'Yes', the second part then asks, 'If 'Yes', have you operated the Intermediaries legislation (sometimes known as IR35) or the Managed Service Companies legislation?'

Question 6 is deliberately in two parts. The first question identifies those employers who need to consider whether the second question applies. If the answer to the first question is 'No', the answer to the second question will similarly be 'No' and it is not necessary to tick the box in the second part.

The first part of the question should be answered 'Yes' if:

- an individual performed services (intellectual, manual or a mixture of the two) for a client or clients, and
- the services were provided under a contract between the client and the service company of which, at any time during the tax year, the individual performing the services was a shareholder or partner, and
- the service company's income was, at any time during the tax year, derived wholly or mainly (that is, more than half of it) from the services performed by the shareholders or partners personally.

The second part of the question should only be answered 'Yes' if:

- income has been treated as deemed employment income and PAYE and NICs deducted in accordance with the MSC or Intermediaries legislation (IR35), or
- an engagement is within the IR35 rules but the deemed payment is nil because sufficient amounts of employment income have been paid.

In all other circumstances answer 'No'.

The only engagements affected by the IR35 rules are those in which the worker would be classed as an employee (for NICs, employed earner) of the client if it were not for the service company involvement.

127 IR35: final figures unknown by April/May

The normal end of year payment rules apply to the PAYE and NICs on the deemed payment made under the Intermediaries legislation (that is, the total PAYE and NICs due for the year must be paid by 19 April).

If the intermediary is able to finalise the calculation of the deemed payment and the PAYE and NICs by 19 May, which is the final date by which the P35 should be sent, the P35 should be submitted showing the correct figures of tax and NICs on the deemed payment.

If the intermediary is not able to calculate the actual amount of the deemed payment and the PAYE and NICs due for 2009–10 by 19 April 2010, a payment on account of the estimated tax and NICs due should be made by 19 April 2010 supported with a P35 showing provisional figures.

HMRC will write to all employers later in the year reminding them that if their P35 figures were provisional in accordance with the above guidance, they must submit an amended P35 and make a balancing payment by 31 January 2011.

Where HMRC does not receive an amended P35 and balancing payment by 31 January 2011, the original P35 submitted will be considered to reflect figures which the employer declares to be final and correct.

Interest will be charged on late payments made after 19 April 2010 (when the original payment was due), but no penalties will be charged for sending the P35 with final figures late if:

- the original P35 and relevant P14s were received by 19 May 2010 with part 2 of question 6 of the P35 answered 'Yes' 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
- an amended P35, and accompanying documents, notifying the correct final amount for the deemed payment and the tax and NICs due is sent to us by 31 January 2011, and
- any additional tax and NICs due as a result of the amended P35 were paid by 31 January 2011.

128 – 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, phone the Employer Helpline on **08457 143 143**.

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 NICs purposes. For details of what to include on forms P9D or P11D see pages 86 and 87 and the chart at paragraph 136 (pages 88 to 90).

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 *Class 1A National Insurance contributions on Car and Fuel Benefits*	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 *Class 1A National Insurance contributions on Car and Fuel Benefits*	No
Childcare vouchers:		
• up to £55 per week/£243 per month where the qualifying conditions are met	No	No
• over £55 per week/£243 per month where the qualifying conditions are met	Yes (the excess over £55 per week/£243 per month)	No
• any amount not meeting the qualifying conditions	Yes	No
Christmas boxes in cash	Yes	Yes
Clothing or uniforms:		
• clothing or uniforms provided by you	No, but there may be a liability for Class 1A, see booklet CWG5(2010)	No
• payments to employees for non-durable items such as tights or stockings	No, but there may be a liability for Class 1A, see booklet CWG5(2010)	Yes
• other payments to employees to purchase clothing or uniforms which can be worn at any time	Yes	Yes
• other payments to employees to purchase clothing or uniforms which can be worn only at work	No	Yes
Council tax on employee's living accommodation:		
• 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 88 to 90)	No	No
• all other circumstances	Yes	No
Credit card, charge cards and so on – employees use your card to purchase **goods or services bought on your behalf:**		
• prior authority given by you to make the purchase **and** the employee explained in advance of the contract being made, **and** the supplier accepts that the purchase is made on your behalf	No, but there may be a liability for Class 1A, see booklet CWG5(2010)	No
• above condition not **fully** satisfied	Yes	No
Credit card, charge cards and so on – employees use your card for expenditure **other than** goods or services bought on your behalf:		
• payments relating to business expenses actually incurred	No	No
• readily convertible assets	See page 102	See page 102

Type of payment	Include on P11 for NICs	PAYE
• any other payments not reimbursed to you	Yes, at the date you decide not to seek reimbursement	No
Credit card reward payments made to employees for detecting and withdrawing lost or stolen cards:		
• made by you to your own employees	Yes	Yes
• made to your employees by a third party	No	Yes
Damages or similar payment made to an employee injured at work:		
• there is a contractual liability to make it	Yes	Yes
• all other circumstances	No	No
Director's personal bills charged to loan account:		
• 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	Yes, on the overdrawn (or additional overdrawn) amount	No
• all other circumstances	No	No
Director's remuneration, salary, bonuses, fees and so on, including any advance or anticipatory payments paid, voted or credited	Yes	Yes
Dividends from shares	No	No
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	No	No
Employment Tribunal Awards	See page 100	See page 100
Eyecare vouchers to obtain: • an eyesight test • corrective appliance (for example, glasses or contact lenses) which the test shows are necessary where • the eyesight test is required under Health and Safety at Work regulations, and • the eyesight test and corrective appliance are available generally to employees	No	No
Expenses payments or reimbursements covered by a dispensation	See page 91	See page 91
Guarantee payments under the Employment Rights Act 1996	Yes	Yes
Holiday pay	See page 28	See page 28
Honoraria	Yes	Yes
Incentive Awards	See page 24	See page 24
Incidental overnight expenses (IOEs)	See booklet 480 and booklet CWG5(2010)	See booklet 480
Inducement payment such as 'golden hello' to recruit or retain employees	Yes	Yes
Insurance premiums for pension (but see page 63), annuities, or health cover (but see page 95) and so on, **paid or reimbursed by you** where contract is between:		
• you and the insurance provider	No, but there may be a liability for Class 1A, see booklet CWG5(2010)	No
• employee and the insurance provider	See 'Personal bills paid' on page 84	See 'Personal bills paid' on page 84
Loans	No, but there may be a liability for Class 1A, see booklet CWG5(2010)	No
Loans written off	Yes, at time of write off	No

Type of payment	Include on P11 for NICs	PAYE
Long service awards:		
• awards in the form of cash or cash vouchers	Yes	Yes
• other awards	No, if they satisfy certain conditions. Ask us for details	See table on page 89
Lost time payments:		
• payments made by a third party or by you on behalf of a third party such as payments for jury service	No	No
• all other circumstances	Yes	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:		
• cash payments for meals	Yes	Yes
• vouchers redeemable for food and drink or a cash alternative	Yes (also see pages 25 and 26)	Yes
• vouchers provided for food and drink provided on your business premises or any canteen where meals are generally provided for your staff	No	No
• vouchers redeemable for meals only which cannot be transferred to another person, and		
– are worth no more than 15p per working day	No	No
– are worth more than 15p per working day	Yes (on the excess amount – also see pages 25 and 26)	No
Medical suspension payments made under the Employment Rights Act 1996 to an employee suspended from work on medical grounds	Yes	Yes
Mobile phone vouchers to obtain **one** mobile phone for private use	No	No
Mortgage payments met directly by you for employees:		
• mortgage provided by you or mortgage contract is between you and mortgagee	No, but there may be a liability for Class 1A, see booklet CWG5(2010)	No
• mortgage contract is between employee and mortgagee	Yes	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 100)		
• which can be turned into cash **by surrender** such as Premium Bonds, and so on	Yes	Yes
• which can be turned into cash only **by sale** such as furniture, kitchen appliances, holidays and so on	No, but there may be a liability for Class 1A, see booklet CWG5(2010)	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:		
• employee must repay you, even if the claim for damages is unsuccessful	No	No
• employee not required to repay you	Yes, but if the employee later receives damages and repays you, NICs can be refunded	Yes
Pensions from registered pension schemes	No	Yes
employer-financed retirement benefits schemes	No, if the payment satisfies certain conditions. Ask us for details.	Yes

Type of payment	Include on P11 for NICs	PAYE
Personal bills paid for goods and services supplied to employees, club memberships and so on:		
• contract to supply goods and services is between you and the provider	No, but there may be a liability for Class 1A, see CWG5(2010)	No
• contract to supply goods and services is between the employee and the provider		
– payment made direct to the provider	Yes	No
– payment made or reimbursed direct to the employee	Yes	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 100	See page 100
Redundancy payments	See page 98	See page 98
Relocation payments	See page 94	See page 94
Retirement benefits schemes – payments you make into such schemes		
• registered pension schemes	No	No
• employer-financed schemes	No	No
Retirement benefits schemes – lump sum payments out of such schemes		
• registered pension schemes	No	See paragraph 20
• employer-financed retirement benefits schemes	No, if the payment satisfies certain conditions. Ask us for details	See paragraph 20
Round sum allowances	See page 94	See page 94
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), Statutory Paternity Pay (SPP)	Yes	Yes
Stocks and shares	See 'readily convertible assets' and 'shares and other securities'	
Subscriptions or fees to professional bodies paid or reimbursed by you which:		
• are allowable tax deductions under S343 & S344 ITEPA 2003	No	No
• are **not** allowable tax deductions under S343 & S344 ITEPA 2003	Yes	Yes
Suggestion schemes awards to employees	No, if the award satisfies the conditions for exemption from tax. Ask us for details. If you make awards in the form of benefits, see also booklet CWG5(2010)	Awards which satisfy certain conditions are exempt from tax. Ask us for details

Type of payment	Include on P11 for NICs	PAYE
Phone 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(2010)	No
Employee is the subscriber but, **employer meets the cost of calls and/or rental:**		
• phone used exclusively for business use	No	No
• phone used exclusively for private use	Yes	**See Personal bills paid** on page 84
• phone used for both business and private use	Rental: yes – on the full amount of the rental	No
	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
Third party payments made to your employees	See booklet CWG5(2010)	See page 24
Tips and service charges	See page 32	See page 32
Training – payments for such things as course fees, books and so on:		
• training is work-related or is encouraged or required by you in connection with the employment	No	No
• training is provided for an employee who is leaving to enable them to find alternative employment	See page 99	See page 99
• all other circumstances	Yes	Yes
Transport vouchers, such as season tickets and so on, provided for:		
• employees of a passenger transport undertaking under arrangements in operation on 25 March 1982 where the employee is earning less than £8,500 in the year	No	No
• any other employee	Yes	No (and see page 26)
Travelling time payments	Yes	Yes
Trivial commutations from registered pension schemes	No	Yes
Vouchers which can be redeemed or exchanged for:		
• both goods and cash or cash alone	Yes	Yes (and see page 26)
• goods alone (but not readily convertible assets)	Yes	No (and see page 26)
• use of sporting or recreational facilities	No	No
• readily convertible assets	See page 102	See page 102
Wages, salaries, fees, overtime, bonuses, commission and so on	Yes	Yes

Giving us details of your employees' benefits and expenses

The paragraphs below tell you what forms you have to complete to give us details of your employees' benefits and expenses.

- Paragraph 130 tells you about the form P46(Car) you must send during the tax year, to give us the details we 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 at the end of the tax year, to give us the details we 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 your HMRC office by 6 July. You can, if you wish, send them with your Employer Annual Return but if you do, remember that forms P35 and P14 must be sent in time to reach your HMRC office by 19 May.

130 Form P46(Car)

Complete a form P46(Car) or online equivalent 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) must be sent 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
- 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.

For changes taking place during 2009–10, a form P46(Car) is no longer required when one car is replaced by another.

Full guidance and information on the tax and NICs aspects of company cars can be obtained from the following publications:

- 480 *Expenses and Benefits - A Tax Guide*
- CWG5(2010) *Class 1A National Insurance contributions on benefits in kind*
- CA33 *Class 1A National Insurance contributions on Car and Fuel Benefits.*

131 Form P11D

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 a registered pension scheme; 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(2010) *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)

Complete a form P11D(b) or online equivalent:

- to confirm that by 6 July all forms P11D you should have completed have been sent to us
- 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

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

Complete forms P9D or P11D to give us details of your employees' benefits and expenses. The chart at paragraph 136 (pages 88 to 90):

- 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 do not 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 us, 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. 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 us 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.

136 P9D/P11D Chart

Important This chart gives general guidance only. It does not cover all expenses or benefits. Booklet 480(2010) *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 us.

Expenses and benefits can also attract a Class 1 or Class 1A NICs liability. Guidance on Class 1A NICs can be found in CWG5(2010) *Class 1A National Insurance contributions on benefits in kind.*

The chart on pages 97 to 99 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 in company vehicles	No	Yes
All **Car or van fuel** and all other benefits supplied for private vehicles	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 £55 per week/£243 per month where the qualifying conditions are met	No	No
• childcare vouchers over £55 per week/£243 per month where the the qualifying conditions are met	Yes (the excess over £55 per week/ £243 per month)	Yes (the excess over £55 per week/ £243 per month)
• 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 £55 per week/£243 per month	No	No
• other registered or approved childcare over £55 per week/£243 per month	No	Yes
• any other means	see **www.hmrc.gov.uk/paye/exb/a-z/c/childcare.htm**	
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, civil partner, 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

Type of expense or benefit	P9D	P11D
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
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		
• services provided with it such as heat, light, repairs, domestic services	Yes	Yes
• value of the accommodation itself		
– where there is a special threat to the security of the employee who lives there as part of special security arrangements	No	No
– 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	No	No
– in all other circumstances	Yes	Yes
Loans (including notional loans, that is, securities acquired for less than market value) that are:		
• interest-free or at low interest	No	Yes
• written off	Yes	Yes
Long service awards in the form of:		
• cash or cash vouchers	No – see page 83	No – see page 83
• readily convertible assets	No – see page 102	No – see page 102
• non-cash awards which satisfy certain conditions	Ask us	Ask us
• other awards	Yes	Yes
Meals provided by you:		
• at a canteen open to your staff generally	No	No
• on your business premises, on a reasonable scale and all employees are able to obtain free or subsidised meals or meal vouchers	No	No
• in any other circumstances	No	Yes
Meal vouchers given:		
• which cannot be transferred to another person, are used only for meals and are not worth more than 15p for each working day	No	No
• in any other circumstances	Yes	Yes
Medical, dental treatment or insurance to cover the cost of such treatment:		
• outside the UK for treatment necessary while an employee was abroad	No	No
• in all other circumstances	No	Yes
Mobile phones, meaning one mobile phone used by an employee for private calls	No	No

Type of expense or benefit	P9D	P11D
NICs (employee's share) borne by you	Yes	Yes
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 phone rental and costs of calls	Yes	Yes
Relocation expenses payments and benefits:		
• expenses which are not exempt	Yes	Yes
• exempt expenses of £8,000 or less	No	No
• exempt expenses in excess of £8,000	Yes	Yes
Retirement benefits schemes (employer-financed) – payments by employer	No	No
Round sum allowances	See page 94	See page 94
Scholarships awarded to students because of their parents' employment	No	Yes
Security measures provided by you	No	Yes
Social functions:		
• 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)	No	No
• any other type of function	No	Yes
Sporting facilities such as shooting, fishing and horse racing:		
• covered by special exemption	No	No
• all other circumstances	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		
• employees of passenger transport undertakings under arrangements in operation on 25 March 1982	No	Yes
• any other employee or director	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. Do not include vouchers that can only be used to provide benefits that are exempt from tax. For example, any non-cash vouchers or credit tokens provided with a 'qualifying mobile phone' to facilitate its use.	Yes	Yes

Dispensations

137 What is a dispensation?

A dispensation is a notice sent to you by your HMRC office, authorising you not to report on forms P11D the expenses payments and benefits specifically covered by the dispensation. Your HMRC office will issue the dispensation if they are 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 your HMRC office
- write to your HMRC office 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.

Your HMRC office will then let you know what further information, if any, is needed for your request to be considered.

For further information and an application form P11DX go to:

- **www.hmrc.gov.uk/forms/p11dx.pdf**
- your Employer CD-ROM
- us.

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, we 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 us 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 we withdraw it.

PAYE Settlement Agreements

A PAYE Settlement Agreement (PSA) is an agreement between you and your HMRC office 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.

To find out more go to **www.hmrc.gov.uk/paye/exb-intro-psa.htm**

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.

For further details, go to **www.hmrc.gov.uk/paye/exb-intro-psa.htm**

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 Helpbooks:

- E14(2010) *Employer Helpbook for Statutory Sick Pay*
- E15(2010) *Employer Helpbook for Statutory Maternity Pay*
- E16(2010) *Employer Helpbook for Statutory Adoption Pay*
- E19(2010) *Employer Helpbook for Statutory Paternity Pay.*

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. Excess mileage payments can no longer be included in PSAs.

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.

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 NICs 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 provide evidence of the actual business expense.

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
- HM Revenue & Customs 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 NICs 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 92 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 92.

The rules for:

- paying the new passenger rate and
- what counts as business travel

are the same for both tax and NICs, see page 92.

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

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 £3 per week (£156 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, we may be prepared to authorise you to pay the expense without deducting PAYE. However, before doing this we 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 us have details of the amount you pay and what the allowance is intended to cover.

Where we agree 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 your HMRC office 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 Chapter 5 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; ask the 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(2010) *Class 1A National Insurance contributions on benefits in kind.*

If you make any payment towards a relocated employee's council tax ask the Employer Helpline on **08457 143 143** for advice.

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 Helpline on **08457 143 143**.

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, Statutory Maternity Pay, Statutory Adoption Pay, Statutory Paternity Pay 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.** First decide the appropriate tax and NICs rules to apply to each element. Then add these separate results 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 97 to 99 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(2010) *Expenses and benefits – A tax guide.*

Contact us 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.

If you are not sure which list entry applies to the type of payment, contact the Employer Helpline on 08457 143 143 for PAYE and NICs advice.

Type of payment	Include in gross pay for NICs purposes	Include in gross pay for PAYE purposes
1 Payment made under terms and conditions of employment – unless the payment is listed separately later in this chart *'Terms or conditions' means anything governing the employment relationship so, as well as any written contract, verbal terms, Handbooks and Agreements may well be included.* For example: • compensation for loss of office provided for under terms or conditions • accrued pay due • pay during a period of notice. If it is your normal practice to make a payment on termination, it should be treated in the same way as one made under terms or conditions (even if there is no legal obligation to pay it).	Yes	Yes
Note: Payments in lieu of notice: • paid under a legal entitlement (or paid automatically)	Yes	Yes
• paid under an employer's discretion which is in terms and conditions	Yes	Yes
• paid as damages.	see 7	see 7
Redundancy payments are dealt with at 6 on page 98		
2 Lump sums paid on retirement or death from: • a pension scheme registered by HM Revenue & Customs,	No	No
or • an employer-financed retirement benefits scheme.	No if the payment satisfies certain conditions. Ask us for details.	See paragraph 150
3 Other lump sums paid on retirement	Include only earnings received from the employment.	Yes in full but see paragraph 150
4 Other lump sums paid on the death of an employee	No	Yes in full but see paragraph 150
5 Lump sums to compensate for loss of employment through disability, injury, or ill health which prevents the employee carrying out the duties of the employment. Where such a payment is over £30,000, you may wish to agree with us before you pay the whole amount tax-free	No	No

Type of payment	Include in gross pay for NICs purposes	Include in gross pay for PAYE purposes
6 Payments for redundancy • due under statutory redundancy payment rules, or • paid from your non-statutory scheme to compensate for loss of employment **by reason of redundancy.** *Redundancy has a special legal meaning. Broadly, there must be a reduced need for employees which causes the termination of the employment.* 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.	No	On amounts over £30,000 only. See also paragraphs 148 and 151
7 Payments made as damages if the termination was a breach of contract. For example: • 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 151
8 Payments for the employee giving a restrictive covenant A restrictive covenant is an undertaking which restricts the employee's conduct.	Yes	Yes
9 Employee's legal costs These are costs incurred in bringing a claim to compensation for loss of employment.	No	May be tax-free, ask us about Extra Statutory Concession A81
10 Cost of 'outplacement counselling' This includes such things as: • a course or advice to assist the employee in finding new employment • a course to help the employee adjust to the termination of employment **provided that the counselling** • is generally available to employees. Reimbursed costs and associated travelling expenses are treated in the same way.	No	No

Type of payment	Include in gross pay for NICs purposes	Include in gross pay for PAYE purposes
11 Cost of retraining courses 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: • full time, or substantially fully • last for no more than one year, and • be designed to provide the employee with skills or knowledge which will help them to find alternative employment (including self-employment). 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 us for details.	No	No
12 Pension		
From registered pension schemes	No	Yes
Employer-financed retirement benefit schemes	No if the payment satisfies certain conditions, ask us for details	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 a '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
  – write to us enclosing Part 1 of the form P45 advising us of the amount and date of the lump sum payment; we 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 us advising us 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 us.

Guidance on reporting termination packages where amounts over £30,000 are taxable is given at paragraph 135.

150 Lump sum payments on retirement or death which are not from registered schemes

A lump sum retirement or death payment will be tax-free if it is from an employer-financed scheme, and:

- in the past the employee has been charged to tax on the employer contributions which funded the lump sum and no employer contributions have been made since 5 April 2006, 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), or
- it is for ill-health or disablement during service.

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 us about Extra Statutory Concession A10.

151 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 speak to us 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 152 to 154 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.

152 Reinstatement order or re-engagement order

If a Tribunal decides that an employee was unfairly dismissed, it may order the employer to pay notional 'arrears of pay' to the employee relating to a period when the employment did not exist. Such amounts count as gross pay for NICs purposes. For PAYE purposes, the payment is taxable on amounts over £30,000 only (see also paragraph 148).

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, that is, 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 that is, 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 Helpbook E13(2010) *Day-to-day payroll.*
- Operate PAYE at the week or month number that you make any payment(s).

153 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 152 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 Helpbook E13(2010) *Day-to-day payroll.*
- Operate PAYE procedures the week or month number that you make any payment(s).

154 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 November 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 guide.

- 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 that is, 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 on 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 to operating PAYE 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.

155 '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, the London Bullion Market or the New York Stock Exchange. For example, stocks, shares and other financial instruments, gold bullion and other precious metals and so on, 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 cannot be 'readily convertible assets' if:

- they represent the exercise of rights obtained before 27 November 1996, or
- they represent the exercise of rights from an approved Savings Related Share Option Scheme, or
- they represent the exercise of rights from an approved Company Share Option Plan and exercise occurs between 3 and 10 years from the date of grant or less than 3 years from grant by reason of injury, disability, redundancy or retirement at the age specified in the scheme.

156 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 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 TGCA 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 & Assets Valuation (PAYE Valuation)
Ferrers House
PO Box 38
Castle Meadow Road
Nottingham
NG2 1BB

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

157 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 the 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 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, of a right to acquire shares under an HM Revenue & Customs approved scheme is generally exempt from PAYE and NICs liability (subject to the paragraphs below). If an approved option is assigned or released for cash or a RCA then PAYE should be operated as for non-approved arrangements (see above).

Exercise of CSOP option on or after 9 April 2004

If an employee exercised an option and it was less than three years after the date it was granted and it was not exercised within six months of the employee leaving employment because of:

- injury
- disability
- redundancy (as defined by law), and
- retirement on or after reaching the age specified in the plan rules (which must not be less than 55), or
- it was exercised more than 10 years after grant.

PAYE and NICs must be accounted for on any gain if the shares aquired are RCAs. If you need advice phone the Employee Shares and Securities Unit on **0207 147 2853**.

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, phone the Employee Share and Securities Unit on **0207 147 2853.**

158 Restricted (conditional shares pre 16 April 2003) shares

Up to 16 April 2004

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.

From 16 April 2003

Securities (including shares) are restricted if they are subject to forefeiture or have other restrictions which means that the market value of those securities are less, due to the restriction. If securities are subject to a forfeiture provision that lasts for less than five years then Income Tax will not arise at the time of acquisition unless an election has been entered into to disregard the restriction. PAYE and NICs should be operated accordingly (subject to the security being a RCA). If there is no election then Income Tax will arise at the time when the restriction is lifted and PAYE and NICs applied if securities are a RCA. For restricted securities without a forfeiture restriction, Income Tax will arise at the time of acquisition on the value of the securities taking into account the value of the restrictions. Further charges to Income Tax will arise when those restrictions are lifted. It is also possible to enter into an election to disregard the restrictions at the time of acquisition in order to avoid further charges to Income Tax. PAYE and NICs should be applied if securities are RCAs.

159 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

160 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.

For chargeable events in relation to securities options, restricted securities and convertible securities, employees may enter into an agreement or election with the employer to meet some or all of the liability for employer's NICs. In these circumstances employer's NICs met by the employee is a deductible amount for Income Tax purposes but is not deductible in calculating the NIC due.

161 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.

162 Deducting NICs from certain non-cash payments

From 6 April 1999 the employer's right of recovery from subsequent cash payment 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, with effect from 10 June 2003, the employer's right to recover NICs from subsequent cash payments was extended to the end of the tax year following the year in which a non-monetary payment was 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.

163 Paying PAYE and NICs to HMRC on non-cash payments

PAYE payments are due by the 19th (or 22nd if paying electronically) of the month or quarter (if paying less than £1,500 per month).

You must pay HMRC **all** PAYE and NICs due, including that due on any non-cash payments made in that tax month or quarter, even if the employee did not have sufficient actual pay to allow all the deductions to be made in that pay period.

164 Recording a non-cash payment

Regardless of whether or not the employer 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 P35, P14 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.

165 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 161.

166 onwards not used - reserved for future use

480	Expenses and benefits – A tax guide
490	Employee travel – A tax and NICs guide for employers
CA33	Class 1A National Insurance contributions on Car and Fuel Benefits – A guide for employers
CA37	National Insurance Contributions Tables: Simplified Deductions Scheme for employers
CA38	Not Contracted-out Tables: National Insurance contributions Tables A and J
CA39	National Insurance Contributions Tables: Contracted-out contributions for employers with Contracted-out Salary Related Schemes
CA40	National Insurance Contributions Tables: Employee only contributions for employers or employees authorised to pay their own contributions
CA41	National Insurance Contributions Tables: National Insurance contributions Tables B and C
CA42	National Insurance Contributions Tables: Foreign-Going Mariner's and Deep Sea Fisherman's contributions for employers
CA43	National Insurance Contributions Tables: Contracted-out contributions and minimum payments for employers with Contracted-out Money Purchase Schemes
CA44	National Insurance for Company Directors
CWG5	Class 1A National Insurance contributions on benefits in kind – A guide for employers
E3	Employer Orderline 2010 Order Form
E4	Employer Orderline 2010 Fax Order Form

E10	Employer Helpbook: Finishing the tax year up to 5 April 2010
E11	Employer Helpbook: Starting the tax year from 6 April 2010
E12	Employer Helpbook: PAYE and NICs rates and limits for 2010–11
E13	Employer Helpbook: Day-to-day payroll
E14	Employer Helpbook for Statutory Sick Pay
E15	Employer Helpbook for Statutory Maternity Pay
E16	Employer Helpbook for Statutory Adoption Pay
E17	Employer Helpbook: Collection of Student Loans
E19	Employer Helpbook for Statutory Paternity Pay
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 Specification
Employer CD-ROM	Most of the forms and guidance you will need can be found on your CD-ROM. There are also useful calculators such as the PAYE Tax and NIC Calculators and the Car and Car Fuel Benefit Calculators. For more information see the 'Help & Further Guidance page' on the inside cover of this manual.
P6	Forms sent to employers by the HM Revenue & Customs office with coding or amended coding instructions. These are used throughout the tax year
P6T	Budget Coding Notice (in year)

P9D	Return of employee's expenses and benefits paid during the tax year. See also form P11D
P9(T)	A notice issued towards the end of one tax year giving coding instructions for the next tax year
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
P11	Deductions working sheet used to record the weekly/monthly tax and NICs of employees
P11D	Return of employee's expenses payments and benefits paid during the tax year. See also form P9D
P11D(b)	Covering certificate for forms P11D
P11D (Guide)	Notes on how to fill in form P11D
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
P14	End of year summary showing totals of individual employee's pay, tax, NICs and statutory payments paid and deducted during the year.
P30B	Payslips for sending payments to the Accounts Office
P30BC	Payslip booklet containing payslips
P32	For recording weekly/monthly totals of tax, NICs, Student Loan deductions and statutory payments (you may use this in addition to the P30BC)
P35	Employer Annual Return
P35(CS)	Continuation sheet for P35
P35(TAS)	Returns of awards under a Taxed Award Scheme
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
P38(S)	For use when students are employed during holidays
P39	End of year statement of people who are employed by non-resident employers
P45	For use when an employee leaves a job and when an employee starts a job. This is a four-part form
P45W	Welsh version of notes on form P45 Part 2, available on request
P46	For use when a new employee does not produce a P45 on commencement of employment
P46(Car)	Advance details of a car and/or fuel provided for directors and employees who earn at the rate of £8,500 a year or more including expenses and benefits
P46(Pen)	For use when someone is starting a pension
P46(Expat)	For use when an employee is seconded to work in the UK
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
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 HM Revenue & Customs office
TAS Payment Advice	Advice note sent out with P35(TAS)
Tax Tables	For working out an employee's tax each payday – consisting of Pay Adjustment Tables Tables A Taxable Pay Tables Calculator Method Alternative to Tables B to D Taxable Pay Tables Manual Method Tables B to D Nominal Taxable Pay Tables Free of Tax payments Tables G

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Further help and guidance

Further help and guidance for employers is available from the following sources.

The Internet

Go to **www.hmrc.gov.uk/paye** in the 'PAYE for employers' section where you'll find:

- a 'Getting started with PAYE' section for new employers
- advice on setting up and operating your payroll
- step-by-step guidance on filing your Employer Annual Return
- links to key PAYE forms, tools and publications.

Online services

For information about our online services go to **www.hmrc.gov.uk/online**

For help and assistance using our online services contact the Online Services Helpdesk:

- email **helpdesk@ir-efile.gov.uk**
- phone **0845 60 55 999** open 8.00am to 8.00pm seven days a week.

Your Employer CD-ROM

Your CD-ROM has:

- most of the forms and guidance you will need to run your payroll throughout the year
- a P11 Calculator that will work out and record your employees' tax, NICs and Student Loan deductions every payday with a linked P32 *Employer Payment Record* that works out what you need to pay us
- a range of other calculators that work out car and car fuel benefit, statutory payments and Student Loan deductions.

Employer Annual Return

Almost all employers are required to file their 2009-10 Employer Annual Return (P35 and P14s) online.

If you have used the P11 Calculator for all your employees during the year and have nine or less employees at 5 April you can send us your Employer Annual Return online direct from your Employer CD-ROM.

Starter and leaver information

You can also send starter and leaver information P45(Part 1), P45(Part 3), P46 and P46(Expat) online using the CD-ROM.

There is also:

- a Learning Zone to help you understand payroll topics such as statutory payments, Student Loan deductions and PAYE Online
- a PAYE for Employers section for new and less experienced employers explaining what to do when employing someone for the first time.

Your HM Revenue & Customs (HMRC) office

Your own HMRC office can also help you if you have a query about your PAYE scheme. All our office contact details are on our website, go to **www.hmrc.gov.uk/local/employers/index.htm**

Please tell us your employer reference which you will find on correspondence from your HMRC office.

Employer helpbooks

Our Employer helpbooks are designed to help you understand and operate PAYE, NICs and other payroll related matters.

The helpbooks are for guidance only, they are not comprehensive and have no legal force.

We also have many other leaflets and booklets that give further guidance, for example:

- CWG5(2010) *Class1A NICs on benefits in kind*
- 480(2010) *Expenses and benefits - A tax guide*
- 490 *Employee travel - A tax and NICs guide for employers*.

You can view, download or order most of the helpbooks, booklets and other guidance from:

- our website go to **www.hmrc.gov.uk/employers/emp-form.htm** or
- your Employer CD-ROM.

Or you can order copies from the Employer Orderline by phoning **08457 646 646.**

Yr Iaith Gymraeg

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

Business Link

As an employer you will have wider issues to consider such as health and safety, working time and time off and so on. Business Link, managed by the Small Business Service, provides a wide range of information and various tools to help you.

For more information:

- go to **www.businesslink.gov.uk**
- phone **0845 600 9006**, 8.30am to 5.30pm Monday to Friday.