

PAYE and NICs rates and limits for 2005-2006

Includes

- PAYE Thresholds and Rates
- Emergency tax code
- Mileage Payments
- Class 1A NICs on benefits in kind
- NICs Earnings Limits, Thresholds and Rates
- Statutory Sick Pay (SSP)
- Statutory Maternity Pay (SMP)
- Statutory Paternity Pay (SPP)
- Statutory Adoption Pay (SAP)
- Funding of SMP, SPP and SAP
- National Minimum Wage

Use from 18 May 2005

Help

We can help you

By telephone

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

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

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

In person

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

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

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

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

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

At your local Inland Revenue office

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

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

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

By Internet

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

Further guidance

Employer's Help Books

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

The Help Books are for guidance only.

They are not comprehensive and they have no legal force.

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

- CWG2(2005), *Employer's Further Guide to PAYE and NICs*
- CWG5(2005), *Class 1A NICs on benefits in kind*
- 480(2005), *Expenses and Benefits – a tax guide*

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

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

or you can

- download them from the Internet at
www.inlandrevenue.gov.uk/employers
- print them from the CD-ROM*
- get copies from the Employer's Orderline
 - Internet **www.inlandrevenue.gov.uk/employers**
 - Phone **0845 7 646 646**
 - Fax **0870 2 406 406**

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

Forms and guidance in Braille, large print or audio

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

Yr Iaith Gymraeg

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

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

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

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

PAYE and NICs rates and limits for 2005-2006

This booklet gives details of

- Pay As You Earn (PAYE) thresholds and rates
- Class 1 National Insurance rates and earnings limits
- Mileage payments
- Class 1A National Insurance rate
- Class 1B National Insurance rate
- Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay and Statutory Adoption Pay rates
- National Minimum Wage.

If you use payroll software you will need to make sure that this has been updated to incorporate the new rates and limits included in this booklet. Alternatively the Employer's CD-ROM contains calculators featuring most of these rates and limits.

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Pay As You Earn (PAYE)

Thresholds

The PAYE thresholds (the level of earnings at which tax becomes payable) are

£94.00 weekly

£408.00 monthly.

These are the same as the earnings thresholds for NICs.

Rates

The tax rates are

Starting rate **10%** up to £2,090

Basic rate **22%** from £2,091 to £32,400

Higher rate **40%** over £32,400.

Tax codes starting with a **K** have a Regulatory limit of **50%**.

The Regulatory limit is specified as a percentage of pay and so on, and restricts the amount of tax to be deducted from the pay in the period. Where for example, pay in the period is very low and the 'normal' operation of the K code would give rise to a very high tax liability, possibly even exceeding the pay and so on in the period, the overriding Regulatory limit will apply.

Emergency tax code

The emergency tax code is **489L**.

The following information is to be used in conjunction with that contained at page 20 of booklet E13, *Day-to-day payroll, 'A new employee gives you a form P45'*.

Step 3 Deciding which tax code to use

- Check which year the P45 is for. To do this look at the leaving date at item 4. If the leaving date is in the current tax year (the period 6 April 2005 to 5 April 2006), use the tax code on the P45 and enter in Box K of the P11
- A tax code is normally made up of one or more numbers followed by a letter. If the tax code on the P45 has only a number, add a letter 'T' to the end of the code when you enter it on the P11 but *do not alter the P45*
- If the employee starts working for you during the period **6 April 2005 to 24 May 2005** and the P45 is for an earlier tax year, follow the help below to find out which tax code to use and enter the tax code in Box K of the P11.

If you take on a new employee

- **any time after 6 April 2005** and the P45 is for a tax year before 2004-2005, or
- **after 24 May 2005** and the P45 is for the 2004-2005 tax year, or earlier,

use the emergency tax code, shown on this page, on a week 1 or month 1 basis

- **during the period 6 April 2005 to 24 May 2005** and the P45 is for the 2004-2005 tax year use the code on the P45, **but**
 - **add 15** to any tax code ending in L, for example tax code 474L becomes 489L
 - **do not carry forward** any week 1/month 1 markings from the P45

- enter the amended code at item 12 on Part 3 of the form P45.

Mileage payments

The following rates are used to calculate the maximum amount that can be exempted from tax and NICs for business miles travelled in the employee's own vehicle.

Motor cars and vans

First 10,000 business miles* 40p per mile

Over 10,000 business miles 25p per mile

Motorcycles 24p per mile

Cycles 20p per mile

** For NIC purposes, and irrespective of the number of business miles travelled, use the rate which applies to the first 10,000 business miles only.*

Additional Passenger Payments

You can also pay up to **5p** per mile free of tax and NICs for each employee who travels as a passenger on a business journey.

For further information on paying employees for business miles travelled using the employee's own transport, see the CWG2, *Employer's Further Guide to PAYE and NICs*, under 'mileage expenses for NICs'.

Class 1A NICs on benefits in kind

If you provide benefits, including cars, to an employee during the tax year you may have to pay Class 1A NICs.

The Class 1A NICs rate for benefits provided in 2004-2005 is **12.8%**.

Class 1A NICs for benefits provided in the 2004-2005 tax year are due to be paid by 19 July 2005. If you pay by an approved electronic payment method please pay any Class 1A NICs in time for your cleared payment to reach us no later than 22 July 2005. See * below.

For more detailed information about benefits and expenses see

- CWG5(2005), *Class 1A National Insurance contributions on benefits in kind – a guide for employers*
- CA33, *Car and Fuel Manual*,
- 480(2005), *Expenses and Benefits – A tax guide*,
- 490, *Employee travel – A tax and NICs guide for employers*,
- P11D Guide
- P11D Working Sheets.

You can get these from the Employer's Orderline on **0845 7 646 646** or view and print them off from your Employer's CD-ROM.

Further information can also be found in the **Expenses and benefits in kind**, a guide to tax and NICs, available on your Employer's CD-ROM or on our website at www.inlandrevenue.gov.uk/employers/ebik

Class 1B NICs

If you make expenses payments to your employees or give them benefits, and you include these in a PAYE Settlement Agreement, you may have to pay Class 1B NICs.

The Class 1B NICs rate for the 2004-2005 tax year is **12.8%**.

Class 1B NICs in respect of the 2004-2005 tax year are due to be paid by 19 October 2005. If you pay by an approved electronic payment method please pay any Class 1B NICs in time for your cleared payment to reach us no later than 22 October 2005. See * below.

For more detailed information about PAYE Settlement Agreements and Class 1B NICs see

- Leaflet IR155 - *PAYE Settlement Agreements*
- CWG2, *Employer's Further Guide to PAYE and NICs*.

You can get these from the Employer's Orderline on **0845 7 646 646** or view and print them off from your Employer's CD-ROM.

* *Where the 22nd falls on a weekend or is a bank holiday, your cleared payment must reach us on the **previous** bank working day.*

Class 1 National Insurance contributions (NICs)

Earnings limits

To calculate NICs three levels of earnings are used

- Lower Earnings Limit (LEL)
- Earnings Threshold (ET) and
- Upper Earnings Limit (UEL).

The corresponding weekly, monthly and annual earnings limits and thresholds are in the tables on pages 4 and 5.

This information has already been used in the NI Tables and the NI calculator on your Employer's CD-ROM.

If you are using the NI Tables or the NI calculator on your Employer's CD-ROM, you do not need to do anything else other than make yourself aware of the changes to the thresholds and earnings limits.

Lower Earnings Limit (LEL)

This is the minimum level of earnings that an employee needs to qualify for benefits, such as Retirement Pension and Jobseekers Allowance. If an employee's earnings reach or exceed this level, but do not exceed the Earnings Threshold, they will not pay NICs but will be treated as having paid them when claiming benefit. For this reason, you must keep details of an employee's earnings at or above the LEL on a form P11 or equivalent record and report them at the end of the year on a form P14.

Earnings Threshold (ET)

When the earnings exceed this level NICs become payable by the employee **and** employer.

This is set at the same level as the PAYE threshold.

Upper Earnings Limit (UEL)

Where earnings exceed the UEL, the employee pays NICs at 1% on those earnings above the UEL. The UEL does not apply to employer's NICs, which are payable on all earnings above the ET, including those above the UEL, at the appropriate rate.

Not contracted-out

National Insurance rates and earnings limits 2005-2006 – <i>you do not need to lo</i>					
		Lower Earnings Limit (LEL)		Earnings Threshold	
		£			
		Weekly	82	Weekly	
		Monthly	356	Monthly	
		Annual	4,264	Annual	
Contribution Table letter	Employee's contributions and NIC rebate				
	Earnings below LEL	Earnings at or above LEL up to and including ET	Earnings above ET up to and including UEL	Balance of earnings above UEL	NIC earn LEL, inclu
A	NIL	0%	11%	1%	
B	NIL	0%	4.85%	1%	NI no
C (Pensioners)	NIL	NIL	NIL	NIL	
J (deferment - not contracted-out)	NIL	0%	1%	1%	

Contracted-out

National Insurance rates and earnings limits 2005-2006 – <i>you do not need to lo</i>					
		Lower Earnings Limit (LEL)		Earnings Thresh	
		£			
		Weekly	82	Weekly	
		Monthly	356	Monthly	
		Annual	4,264	Annual	
Contribution Table letter	Employee's contributions and NIC rebate				
	Earnings below LEL	Earnings at or above LEL up to and including ET	Earnings above ET up to and including UEL	Balance of earnings above UEL	
COSR	D	NIL	0%	9.4%	1%
	E	NIL	0%	4.85%	1%
	L (deferment - contracted-out)	NIL	0%	1%	1%
COMP	F	NIL	0%	9.4%	1%
	G	NIL	0%	4.85%	1%
	S (deferment - contracted-out)	NIL	0%	1%	1%

Look at this table if you are using the NI Tables

Lower Earnings Threshold (LET)		Upper Earnings Limit (UEL)	
£			£
94		Weekly	630
408		Monthly	2,730
4,895		Annual	32,760

Employer's contributions and NIC rebate					
NIC rebate on earnings above LEL, up to and including ET	Earnings below LEL	Earnings at or above LEL up to and including ET	Earnings above ET up to and including UEL	Balance of earnings above UEL	NIC rebate on earnings above LEL, up to and including ET
	NIL	0%	12.8%	12.8%	NIC rebate not due
	NIL	0%	12.8%	12.8%	
	NIL	NIL	12.8%	12.8%	
	NIL	0%	12.8%	12.8%	
Employer's rates for mariners should be reduced by 0.5%					

Look at this table if you are using the NI Tables

Lower Earnings Threshold (LET)		Upper Earnings Limit (UEL)	
£			£
94		Weekly	630
408		Monthly	2,730
4,895		Annual	32,760

Employer's contributions and NIC rebate					
NIC rebate on earnings above LEL, up to and including ET	Earnings below LEL	Earnings at or above LEL up to and including ET	Earnings above ET up to and including UEL	Balance of earnings above UEL	NIC rebate on earnings above LEL, up to and including ET
1.6%	NIL	0%	9.3%	12.8%	3.5%
NIL	NIL	0%	9.3%	12.8%	3.5%
1.6%	NIL	0%	9.3%	12.8%	3.5%
1.6%	NIL	0%	11.8%	12.8%	1%
NIL	NIL	0%	11.8%	12.8%	1%
1.6%	NIL	0%	11.8%	12.8%	1%
Employer's rates for mariners should be reduced by 0.5%					

Statutory Sick Pay (SSP)

The **weekly** rate of SSP is £68.20 for employees with average weekly earnings of £82 or more.

The SSP **daily** rate is the weekly rate of SSP divided by the number of qualifying days in the week and then multiplied by the number of qualifying days of incapacity in the week, rounded up to the nearest penny. For SSP purposes weeks begin on Sunday and end on Saturday.

Unrounded Daily Rates *	Number of Qualifying Days in week	Number of Qualifying Days of incapacity for work in the week						
		1	2	3	4	5	6	7
£		£	£	£	£	£	£	£
9.7428	7	9.75	19.49	29.23	38.98	48.72	58.46	68.20
11.3666	6	11.37	22.74	34.10	45.47	56.84	68.20	
13.6400	5	13.64	27.28	40.92	54.56	68.20		
17.0500	4	17.05	34.10	51.15	68.20			
22.7333	3	22.74	45.47	68.20				
34.1000	2	34.10	68.20					
68.2000	1	68.20						

* unrounded daily rates are shown for employers with computerised Payroll Systems.

Recovery of SSP

In certain circumstances you may be able to recover some of the SSP you pay under the Percentage Threshold Scheme.

You can get back any SSP you have paid over and above 13% of your NICs liability for the same tax month in which you have paid SSP. For further information see the Employer's Help Book E14(2005), *What to do if your employee is sick*.

Statutory Maternity Pay (SMP)

Women expecting a baby on or before 5 April 2005 who satisfy the qualifying conditions are entitled to a maximum of 26 weeks SMP. These include having average weekly earnings of

- £77 if their baby is due on or before 17 July 2004
- £79 if their baby is due on after 18 July 2004

Women expecting a baby on or after 6 April 2005 who satisfy the qualifying conditions are entitled to a maximum of 26 weeks SMP. These include having average weekly earnings of

- £79 if their baby is due on or before 16 July 2005
- £82 if the baby is due on or after 17 July 2005

The weekly rate is:

First 6 weeks of payment	90% of employee's average weekly earnings
Remaining weeks	Pay the lower of <ul style="list-style-type: none"> - 90% of average weekly earnings, or - £106.00

For more information see the Employer's Help Book E15(2005), *Pay and time off work for parents*. You can see examples of SMP payments on the internet at www.inlandrevenue.gov.uk/employers

Statutory Paternity Pay (SPP)

SPP is paid for a maximum of 2 weeks to employees who satisfy the qualifying conditions. These include having average weekly earnings of

- £79 if their baby is due on or before 16 July 2005, or if they are notified that they have been matched with a child or received official notification that they are eligible to adopt a child from abroad on or before 2 April 2005
- £82 if the baby is due on or after 17 July 2005, or if they are notified that they have been matched with a child or received official notification that they are eligible to adopt a child from abroad on or after 3 April 2005.

The weekly rate is the **lesser of** £106.00 or 90% of the employee's average weekly earnings.

For more information see the Employer's Help Book E15(2005), *Pay and time off work for parents* if your employee is entitled to SPP because a baby was born. See the Employer's Help Book E16(2005), *Pay and time off work for adoptive parents* for more information if your employee is entitled to SPP because a child was being adopted in the UK or from abroad.

Statutory Adoption Pay (SAP)

Employees who are adopting a child and are notified that they have been matched with a child or received official notification that they are eligible to adopt a child from abroad on or after 3 April 2005 who satisfy the qualifying conditions are entitled to a maximum of 26 weeks SAP. These include having average weekly earnings of

- £79 if they are notified that they have been matched with a child or received official notification that they are eligible to adopt a child from abroad on or before 2 April 2005
- £82 if they are notified that they have been matched with a child or received official notification that they are eligible to adopt a child from abroad on or after 3 April 2005.

The weekly rate is the **lesser of** £106.00 or 90% of employee's average weekly earnings.

For more information see Employer's Help Book E16(2005), *Pay and time off work for adoptive parents*.

Funding of SMP/SPP/SAP

All employers are entitled to recover 92% of the SMP/SPP/SAP they pay.

If you qualify for Small Employer's Relief you are entitled to recover 100% of the SMP/SPP/SAP you pay plus 4.5% for payments made on or after 6 April 2005.

The Small Employer's Relief Threshold is £45,000 for payments made on or after 6 April 2005.

For more information see

- the Employer's Help Book E15(2005), *Pay and time off work for parents* where baby is born
- the Employer's Help Book E16(2005), *Pay and time off work for adoptive parents* where a child has been adopted in the UK or from abroad.

From 1 October 2004

- **Main rate £4.85** (22 years and over)
- **Development rate £4.10** (18 – 21 year olds and trainees) **and** for people aged 22 years and over who start a new job and do accredited training (a course approved by the UK Government to obtain a vocational qualification). You can only pay the development rate for the first six months, in these circumstances, and after that you must pay the main rate.

From 1 October 2005

- **Main rate £5.05** (22 years and over)
- **Development rate £4.25** (18 – 21 year olds and trainees).

National minimum wage for 16 and 17 year olds

A national minimum wage for 16 and 17 year olds was introduced from 1 October 2004. The rate is **£3.00** an hour and applies to all 16 year olds who are no longer of compulsory school age, and 17 year olds.

National minimum wage for Pieceworkers

Legislation came into effect on 1 October 2004 affecting pieceworkers (also known as output workers, out-workers and homeworkers).

For up to the minute information

- Call the National Minimum Wage Helpline on **0845 6000 678** – Monday to Friday, 8am to 6pm.
- Visit the Department of Trade and Industry (DTI) interactive website at www.tiger.gov.uk

Collection of Student Loans

The Annual Threshold, previously £10,000, below which Student Loan repayments are not due, increased to £15,000 from 6 April 2005.

You can use the calculator on the CD-ROM or the SL3, *Student Loan Deduction Tables*, to calculate deductions.

There is more detailed guidance in the booklet *Employer's Help Book, E17, Collection of Student Loans*.

