

Day-to-day payroll

Includes

- **Working out and recording tax and NICs on form P11**
- **Making payments to the Inland Revenue**
- **Taking on a new employee**
- **What to do when an employee leaves**
- **Employee's tax code changes in the year**
- **Changes that may affect an employee's NICs**
- **Tax Credits**
- **Student Loan Deductions**

**Use from
6 April 2005 to
5 April 2006**

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** or
- call the New Employer's Helpline on **0845 60 70 143** and ask for details of your local Business Support Team.

At your local Inland Revenue office

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

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

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

By Internet

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

Further guidance

Employer's Help Books

There 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.*

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Day-to-day payroll

This Help Book helps you to

- work out how much tax and National Insurance contributions (NICs) you need to deduct when you make a payment of wages or salary to an employee, unless the employee is a director – for help on working out NICs for a director, see booklet CA44, *National Insurance for company directors*
- fill in a P11, *Deductions Working Sheet*
- pay over tax and NICs to the Inland Revenue
- fill in a P11, *Deductions Working Sheet* if you take on a new employee
- take the right action when an employee leaves
- change an employee's tax code
- identify the right rate of NICs if there is a change in an employee's circumstances
- start or stop paying Working Tax Credit
- make Student Loan Deductions.

If your employee

- is sick
 - see the Employer's Help Book E14, *What to do if your employee is sick*, included on your Employer's CD-ROM or available from the Employer's Orderline.
- tells you they, or their wife or partner, are pregnant
 - see the Employer's Help Book E15, *Pay and time off work for parents*, included on your Employer's CD-ROM or available from the Employer's Orderline.
- tells you that they, or their spouse or partner, are adopting a child
 - see Employer's Help Book E16, *Pay and time off work for adoptive parents*, included on your Employer's CD-ROM or available from the Employer's Orderline.

Do it online

PAYE Online for Employers is a secure, convenient and quick way to send and receive day to day information about your employees. It is more reliable and efficient than using paper, and can cut down on storage space, post and administration.

Doing it online can benefit your employees too. It means employees can get the right tax code more quickly and pension and benefit records are updated faster at the end of the tax year.

You can send and receive forms and returns online using

- the online services of an agent or payroll bureau
- Internet - you can choose either
 - the Inland Revenue's free product, 'Online Return and forms – PAYE',
 - 3rd party payroll software
- Electronic Data Interchange (EDI) - more suitable for large employers.

The forms you can send include

- P45(1) - employee leaving work
- P45(3) - employee starting work
- P46 - employee starting work (with no P45)
- P46(Car) - car provided for the private use of an employee or director

and receive

- P6 - notice to employer of employee tax code (or amended code) and previous pay and tax
- P9 periodic - amended code (new tax year)
- SL1 and SL2 - Student Loan notifications
- TC700 to TC704 - Tax Credit notices.

Go to www.inlandrevenue.gov.uk/payonline for more about online filing or register now for PAYE Online for Employers - Internet at www.inlandrevenue.gov.uk and click on 'PAYE for employers' under the heading 'do it online'

When you register to use PAYE Online for Employers - Internet we will automatically send your notices and reminders like P6s and P9s to your online Secure Mailbox, unless you tell us after you register that you want to continue getting them on paper.

You get to your secure mailbox by going to www.inlandrevenue.gov.uk then

- clicking on 'PAYE for Employers' under the heading 'do it online'.
- keying in your password and your User ID
- clicking on 'View your notices and reminders'.

Software that meets the Inland Revenue Payroll Standard will have all that you need to operate PAYE. There is a list of products we have tested at www.inlandrevenue.gov.uk/ebu/acclist.htm, or you can phone our Payroll Standard Helpline on **0845 9 159 146**.

Part 1 Working out and recording PAYE on form P11

Tax codes and how to use them

An employee's tax code reflects the tax allowances due against that employee's pay.

You work out the PAYE due by using the employee's tax code and the Tax Tables to find out how much to deduct from, or refund to, that employee on each pay day.

Codes issued by the Inland Revenue

The code your Inland Revenue office issues to you for an employee may be any one of the following

- a code of one or more numbers followed by the letter L, P, T, V or Y, for example 345L, 456V, 567P, OT
 - this is known as a **suffix code**
The letter shows how the code should be adjusted to take account of any Budget changes
- a code starting with either the letter
 - D followed by a number, for example D0; this is known as a **D code** and means that the whole of the employee's pay and so on should be taxed at the higher rate, or
 - K followed by one to four numbers, for example K123; this is known as a **K code** and enables additional tax, in respect of benefits and so on, to be deducted
- a code which is letters only, **BR** or **NT**
 - **BR** means that tax will be deducted at the basic rate with no tax-free allowances
 - **NT** means that no tax is to be deducted.
Do not refund any tax deducted from an employee before the issue of an NT code, unless your Inland Revenue office tells you to.

Never alter an employee's tax code unless your Inland Revenue office tells you to do so.

Employer's CD-ROM PAYE tax calculator

Use the PAYE tax calculator on your Employer's CD-ROM to calculate the pay adjustment and tax due on your employee's pay. It saves you the job of using the tables and doing the calculations.

Pay Adjustment Tables, Tables A

Use these tables in all cases where an employee has a suffix code or K code. With them you will be able to work out the employee's 'Total pay adjustment to date' on any pay day.

The 'Total pay adjustment to date' figure represents

- *in suffix code cases*, the total pay an employee may have free of tax – known as Free Pay
- *in K code cases*, the total pay to be added to an employee's pay – known as Additional Pay.

To use the tables you need to know the

- employee's tax code, and
- tax week/month number covering the date of payment – see the charts on page 21.

Taxable Pay Tables, Calculator Method

Use these tables (*Calculator Tables*) together with your calculator to work out the employee's 'Total tax due to date' on any pay day.

For suffix code and K code cases, you need to

- know the employee's 'Total taxable pay to date' figure.

The employee's 'Total taxable pay to date' figure is

- suffix code cases, the total pay to date **minus** the Free Pay according to *Pay Adjustment Tables, Tables A*
- K code cases, the total pay to date **plus** the Additional Pay according to *Pay Adjustment Tables, Tables A*.

Use the tables in the booklet to work out the PAYE tax deductions.

For

- code BR cases, multiply the whole pay (rounded down to the nearest whole pound) by 22% (0.22) to calculate the PAYE tax deductions at the Basic Rate – *code BR means there are no tax-free allowances*
- D code cases, multiply the whole pay (rounded down to the nearest whole pound) by 40% (0.40) to calculate the PAYE tax deductions at the Higher Rate on a week 1 or month 1 basis.

Taxable Pay Tables, Manual Method

These are alternative tables (*Manual Tables*) you can use to work out the employee's tax due if you prefer not to use a calculator.

When to use a code on a week 1/month 1 basis

You normally work out PAYE on a cumulative basis.

This means you need to take into account an employee's previous pay and tax figures in the tax year to find out the tax to deduct from their pay.

Occasionally, you may have to make deductions in a non-cumulative way. This is called a week 1 or month 1 basis.

You should use a code on a week 1/month 1 basis when

- your Inland Revenue office either
 - tells you to use a D code, or
 - adds a week 1/month 1 marking to any other code they tell you to use
- you have a new employee and the flowchart on page 23 of this Help Book tells you to use the emergency code on a week 1/month 1 basis
- a weekly pay day falls on 5 April or, *in a leap year*, on 4 or 5 April. If this occurs, see the CWG2, *Employer's Further Guide to PAYE and NICs*, under 'Week 53 payments'

How to use a code on a week 1/month 1 basis

Use the *Pay Adjustment Tables, Tables A*, for an employee on a week 1/month 1 code, paid weekly or monthly, and

- treat each payment you make to the employee separately, *you should ignore their previous pay and tax details*

- regardless of when the pay date is, turn to the page in the tables for week 1 or month 1 to work out the employee's 'Pay adjustment to date' figure
- use the guidance on pages 5 to 8 of this Help Book, appropriate to the code, to make the entries on form P11, or equivalent record.

Calculating the total pay adjustment to date

The 'total pay adjustment to date' figure represents

- in suffix code cases, the Free Pay you deduct from an employee's total gross pay to date
- in K code cases, the Additional Pay you add to an employee's total gross pay to date.

The charts on page 21 of this Help Book show the periods covered by each tax week or month.

When you have found which week or month number is appropriate for the pay date, turn to the page in the *Pay Adjustment Tables, Tables A*, for that particular week or month number.

If a pay date is 1 December, for example, the table shows the week number is 35, the month number is 8.

All the examples which follow use Week 35 to illustrate the procedures.

Examples

Employee's code is 500 or less

If the employee's code is 500 or less, look up the employee's code in the *Pay Adjustment Tables, Tables A*, column headed 'Code'.

The 'Total pay adjustment to date' figure is immediately to the right.

Week 35 – code 320

The 'Total pay adjustment to date' figure at week 35 for an employee on code 320 is £2,160.20.

Employee's code is 501 or more and does not divide exactly by 500

- 1 Split the code into units of 500 and the leftover balance.
- 2 Look up the leftover balance figure in the *Pay Adjustment Tables, Tables A*, column headed 'Code'.
The 'Total pay adjustment to date' for the leftover balance is immediately to the right.
- 3 Multiply the number of units of 500 by the figure given in the box marked * at the foot of the tax table page.
- 4 Add the amounts at steps 2 and 3 above together to find out the 'Total pay adjustment to date' figure.

Week 35 – code 1567

- 1 Code 1567 is split into 3 units of 500 and a leftover balance of 67.
- 2 The 'Total pay adjustment to date' figure at week 35 for a leftover balance figure of 67 is £457.10.
- 3 The 'Total pay adjustment to date' figure for 3 units of 500 at week 35 is $3 \times £3,365.60 = £10,096.80$.
- 4 This means that the 'Total pay adjustment to date' figure at week 35 for an employee on code 1567 is $£457.10 + £10,096.80 = £10,553.90$.

Employee's code is 501 or more and divides exactly by 500

- 1 Split the code into units of 500 and treat the last one as the leftover balance.
- 2 Look up the leftover balance figure in the *Pay Adjustment Tables, Tables A*, column headed 'Code'.
The 'Total pay adjustment to date' for the leftover balance figure is immediately to the right.
- 3 Multiply the number of other units of 500 by the figure given in the box marked * at the foot of the tax table page.
- 4 Add the amounts at steps 2 and 3 above together to find out the 'Total pay adjustment to date' figure.

Week 35 – code 1500

- 1 Code 1500 is split into 2 units of 500 with 1 unit of 500 left over.
- 2 The 'Total pay adjustment to date' figure at week 35 for the leftover unit of 500 is £3,371.55.
- 3 The 'Total pay adjustment to date' figure for 2 units of 500 at week 35 is $2 \times £3,365.60 = £6,731.20$.
- 4 This means that the 'Total pay adjustment to date' figure at week 35 for an employee on code 1500 is $£3,371.55 + £6,731.20 = £10,102.75$.

D Code cases - are always operated on a week 1/month 1 basis	
Column 3	Leave blank.
Column 4a	Leave blank.
Column 5	Leave blank.
Column 6	Leave blank.
Column 7	Use the <i>Calculator Tables</i> or look up in Table D at page 11 of the <i>Manual Tables</i> the amount shown in column 2 to find the amount of tax to deduct

Code BR cases - cumulative basis	
Column 3	Add the amount you recorded in column 2 to the last previous amount in column 3 to give the 'Total pay to date'.
Column 4a	Leave blank.
Column 5	Leave blank.
Column 6	Use the <i>Calculator Tables</i> or look up in Table B Tax at 22% on pages 8 and 9 of the <i>Manual Tables</i> the amount shown in column 3 to find the 'Total tax due to date.
Column 7	<p>Take the previous amount in column 6 and the amount you now enter in column 6. Take the lower amount away from the higher amount to give the 'tax deducted or refunded in the week or month'.</p> <p>If the amount you now enter in column 6 is the higher amount, the difference is the tax to deduct from the employee. If the previous amount is the higher amount, the difference is the tax to refund and include in the payment you make to the employee. Mark any refund entry 'R'.</p>

Code BR cases - week 1/month 1 basis	
Column 3	Leave blank.
Column 4a	Leave blank.
Column 5	Leave blank.
Column 6	Leave blank.
Column 7	Use the <i>Calculator Tables</i> or look up in Table B Tax at 22% on pages 8 and 9 of the <i>Manual Tables</i> the amount shown in column 2 to find the amount of tax to deduct.

Code NT cases	
Column 3	Add the amount you recorded in column 2 to the last previous amount in column 3 to give the 'Total pay to date'.
Column 4a	Leave blank.
Column 5	Leave blank.
Column 6	Leave blank.
Column 7	Leave blank.

K code cases - cumulative basis	
Column 3	Add the amount you recorded in column 2 to the last previous amount in column 3 to give the 'Total pay to date'.
Column 4a	Leave blank.
Column 4b	Enter the 'Total pay adjustment to date' figure from the <i>Pay Adjustment Tables, Tables A</i> . This is the figure you enter for 'Total additional pay to date'.
Column 5	Add the amount recorded in column 4b to the amount in column 3 to give the 'Total taxable pay to date'.
Column 6	Use the <i>Calculator Tables</i> or look up the <i>Manual Tables</i> , to find out the 'Total tax due to date'.
Column 6a	<p>For the first pay day after 5 April copy the amount in column 6.</p> <p>For other pay days</p> <ul style="list-style-type: none"> • take the figure in column 6 and compare it with the amount in column 6 for the previous pay day • take the lower amount away from the higher amount and <ul style="list-style-type: none"> – if the amount in column 6 for the previous pay day is the lower amount, add to the result any entry in column 8 for the previous pay day. Enter the figure obtained as the 'Tax due at end of current period'. – if the amount in column 6 for the previous pay day is the higher amount, take away from the result any entry in column 8 for the previous pay day. Enter the figure obtained in column 6a. The amount you have just entered in column 6a is the tax to refund for this week/month and should be marked 'R'. <p><i>The exception to this is where the amount in column 8 for the previous pay day is greater than the difference between the higher and lower amounts in column 6, when a tax deduction is then appropriate.</i></p>
Column 6b	Enter 50% of the 'Pay in the week or month'. This is the 'Regulatory limit'.
Column 7	The amount of 'Tax deducted' you enter in this column is the lower of the figures you have entered in column 6a and 6b, unless the figure you have just entered in column 6a shows that a tax refund is due. If a refund is due, copy the amount from column 6a and mark it 'R'.
Column 8	If the amounts in columns 6b and 7 are the same, take away the amount in column 6b from the amount in column 6a to give the 'Tax not deducted owing to the Regulatory limit'. Leave blank if they are not the same.

K code cases - week 1/month 1 basis	
Column 3	Leave blank.
Column 4a	Leave blank.
Column 4b	Enter the 'Total pay adjustment to date' figure from week 1 or month 1 of the <i>Pay Adjustment Tables, Tables A</i> . This is the figure you enter for 'Total additional pay to date'.
Column 5	Add the amount recorded in column 4b to the amount in column 2 to give the 'Total taxable pay to date'.
Column 6	Leave blank.
Column 6a	Use the <i>Calculator Tables</i> or look up in the <i>Manual Tables</i> the amount in column 5 to find the 'Tax due at end of current period'.
Column 6b	Enter 50% of the 'Pay in the week or month'. This is the 'Regulatory limit'.
Column 7	Copy the lower of the figures you have just entered in columns 6a or 6b.
Column 8	Leave blank.

Column 9 - Tax Credits

Record the amount of Working Tax Credit paid to the employee in this column at the appropriate week or month.

If, exceptionally, you have not been required to prepare form P11, or an equivalent record, for the employee for PAYE and NICs purposes, you should prepare one so that you can record the Working Tax Credit.

There is no need to record pay on the form P11 if it is being prepared solely for Working Tax Credit purposes.

For further information about Working Tax Credit, see Part 8 of this Help Book.

Unusual circumstances

The CWG2, *Employer's Further Guide to PAYE and NICs*, under 'pay intervals', gives information about what you should do if

- there is more than one pay day in any tax week or month
- regular pay days are at other than weekly or monthly intervals
- an employee changes from being weekly to monthly paid or monthly to weekly paid
- you change your employee's pay day but keep the same pay interval
- you make payments in addition to normal pay on a day that is not the regular pay day.

Ask your Inland Revenue office for information about what you should do in any other unusual circumstances.

Part 2 Working out and recording NICs on form P11

How Class 1 NICs are made up

Class 1 NICs are made up of two elements

- **Employee's contribution** (also known as the primary contribution) which you are liable to pay in the first instance but which can be deducted from your employee's pay
and
- **Employer's contribution** (also known as the secondary contribution) which you are liable to pay.

Employee's contribution

An employee's contribution is payable if the employee

- is aged 16 or over and under State Pension age (60 for women, 65 for men) and
- earns more than the Earnings Threshold (ET).

An employee's contribution is payable on all earnings above the ET.

For exceptions to this rule see Part 7 'Changes that may affect an employee's NICs' in this Help Book and the CWG2, *Employer's Further Guide to PAYE and NICs*, under 'State Pension age'.

Employer's contribution

An employer's contribution is payable if the employee

- is aged 16 or over and
- earns more than the ET.

An employer's contribution is payable on all earnings above the ET, even if the employee is over State Pension age or otherwise excepted from paying their employee's contribution.

How to work out NICs

To work out NICs you must first decide

- the correct earnings period
- the amount of gross pay due to the employee within that earnings period, and
- the contribution Table letter.

Earnings period

You must work out NICs on a payment by payment basis. NICs are worked out on the employee's gross pay above the ET using the appropriate percentage rates, and are based on the period of time for which the earnings are paid.

If you pay an employee weekly, the earnings period is one week.

If you pay an employee monthly, the earnings period is one month.

For more information about earnings periods, see the CWG2, *Employer's Further Guide to PAYE and NICs*, under 'pay intervals'.

Gross pay

The gross pay used to work out NICs is known as **earnings**. Gross pay is the amount due to the employee **before** any deductions.

Gross pay includes such things as

- salaries
- wages
- overtime
- bonus payments, commission and so on.

For further details of what should be included as gross pay, see the CWG2, *Employer's Further Guide to PAYE and NICs*, 'Chapter 5'.

Contribution category letter

NICs are divided into classes and there are differing rates for Class 1 NICs, identified by category letters. It is important to know which rate or rates apply to each employee.

Each category is allocated a contribution category letter. This letter corresponds with the letters shown in the National Insurance Tables and is referred to as a **contribution Table letter**.

To identify which contribution Table letter to use see the chart on page 31.

Methods of working out NICs

There are two methods of working out NICs. You can either use the NI Tables or the exact percentage method. You can use payroll software or the NI calculators on the Employer's CD-ROM to work out the correct amount of NICs

The same earnings limits and rates are used in both methods. You will find these either in the Employer's Help Book E12, *PAYE and NICs rates and limits 2005-2006*, or in the NI Tables on your Employer's CD-ROM.

If you work out NICs for directors, you should refer to the booklet CA44, *National Insurance for Company Directors*.

NI Tables

You must use the correct NI Tables to work out the NICs due on your employee's earnings. The NICs are worked out using whole pounds only.

In the NI Tables, earnings are based on steps of £1 (weekly) and £4 (monthly) between the Lower Earnings Limit (LEL) and Upper Earnings Limit (UEL). NICs are worked out on the mid-point of each step, except for those earnings at the LEL, Earnings Threshold (ET) and UEL when the NICs are worked out on the exact amounts. For example, in the weekly table, NICs for earnings between £90 and £90.99 are worked out on £90.50.

If you use the NI Tables to work out NICs, you and your employee may pay slightly more or less than if you used the exact percentage method.

Each set of NI Tables gives help on how to use them.

Filling in the form P11 using the NI Tables

If you use the NI Tables to work out the NICs payable you can use the same table to help you fill in the form P11.

Copy the figures in columns 1a to 1e of the table to the columns 1a to 1e of the form P11 on the line next to the tax week or month in which the employee is paid.

Exact percentage method

If you decide to use this method the NICs must be worked out using the employee's gross pay – pounds and pence. Each element of the employee's and employer's contributions must be worked out separately.

To work out the employee's contribution

Work out the employee's gross pay due and the earnings period.

Employee's NICs are only payable when the employee's earnings exceed the weekly, monthly or equivalent ET, see the Employer's Help Book E12, *PAYE and NICs rates and limits for 2005-2006*. NICs are due on earnings between the ET and UEL at the appropriate main employee's percentage rate. If the employee's earnings exceed the UEL, NICs are also due at the additional employee's percentage rate on all earnings above the UEL.

Earnings are above the ET but do not exceed the UEL

- Deduct the weekly or monthly ET from the earnings and multiply this amount by the appropriate main employee's percentage rate to work out the NICs due.

Round the calculation to the nearest penny, disregarding £0.005 or less.

Earnings exceed the UEL

- Deduct the weekly or monthly ET from the weekly or monthly UEL, and multiply this amount by the appropriate main employee's percentage rate.
- Deduct the weekly or monthly UEL from the total earnings and multiply this amount by 1% (the additional employee's percentage rate).
- Add both amounts together to work out the employee's NICs due.

Round the calculation to the nearest penny, disregarding £0.005 or less.

For details of the employee's percentage rates, see the Employer's Help Book E12, *PAYE and NICs rates and limits for 2005-2006*, on your Employer's CD-ROM.

To work out the employer's contribution

Use the same gross pay due and earnings period to work out the employer's contribution.

The appropriate employer's percentage rate is used to work out the NICs due on all earnings above the ET, including those above the UEL.

If the employee is a member of your contracted-out occupational pension scheme, NICs are worked out using

- the appropriate employer's contracted-out percentage rate on earnings above the ET, up to and including the UEL
- the employer's not contracted-out percentage rate on the earnings above the UEL.

The two amounts are added together before recording the NICs due on the form P11.

Examples of working out NICs using the exact percentage method

The following three examples each show how to work out NICs and fill in the form *P11* when you use the exact percentage method and the employee is not contracted-out.

You will find details of the rates and limits in the Employer's Help Book E12, *PAYE and NICs rates and limits 2005-2006*.

Example 1

An employee is weekly paid. NICs are due under contribution Table letter A. The employee is paid £232.77 on 22 July 2005.

$£232.77 \text{ minus } £94 \text{ (ET)} = £138.77$

Employee's contribution:

$£138.77 \times 11\% = £15.264$ rounded to $£15.26$

This is the figure to enter in column 1e on form P11.

Employer's contribution:

$£138.77 \times 12.8\% = £17.762$ rounded to $£17.76$

The total of employee's and employer's contributions payable is $£15.26 + £17.76 = £33.02$

This is the figure to enter in column 1d of the form P11.

The earnings columns 1a, 1b and 1c of the form P11 are filled in as follows

1a LEL $£82$

1b ET *minus* LEL $£94 - £82 = £12$

1c Employee's earnings *minus* ET
 $£232.77 - £94 = £138.77$

Example 2

An employee is monthly paid. NICs are payable under contribution Table letter A. £2,760.88 is paid on 31 July 2005.

Employee's contribution:

The employee is liable for NICs on all earnings above the ET, including any earnings above the UEL.

$£2,730 \text{ (UEL)} \text{ minus } £408 \text{ (ET)} = £2,322$

$£2,322 \times 11\% = £255.42$

$£2,760.88 \text{ minus } £2,730 \text{ (UEL)} = £30.88$

$£30.88 \times 1\% = £0.308$

$£255.42 + £0.308 = £255.728$ rounded to $£255.73$

This is the figure to enter in column 1e on form P11.

Employer's contribution:

$£2,760.88 \text{ minus } £408 \text{ (ET)} = £2,352.88$

$£2,352.88 \times 12.8\% = £301.168$ rounded to $£301.17$

The total of employee's and employer's contributions payable is $£255.73 + £301.17 = £556.90$

This is the figure to enter in column 1d on form P11.

The earnings columns 1a, 1b and 1c of the form P11 are filled in as follows:

1a LEL $£356$

1b ET *minus* LEL $£408 - £356 = £52$

1c UEL *minus* ET $£2,730 - £408 = £2,322$.

Example 3

An employee is paid every 4 weeks. NICs are due under contribution Table letter A. The employee is paid £923.08 on 22 July 2005.

The first step is to work out the ET for a four-weekly earnings period. To do this, divide the annual earnings threshold by 52, then multiply the answer by four. Finally, **round up** the answer to the next whole pound.

Earnings Threshold

$£4,895 \div 52 = £94.13 \times 4 = £377$

LEL and UEL

You then work out the LEL and UEL for the four-weekly earnings period by multiplying the weekly limits by the number of weeks in the earnings period, in this example four.

- LEL = $£82 \times 4 = £328$

- UEL = $£630 \times 4 = £2,520$

As the earnings fall between the ET and UEL, NICs are worked out as follows:

Employee's contributions

$£923.08 - £377 = £546.08$

$£546.08 \times 11\% = £60.068$ rounded to $£60.07$

$£60.07$ is the figure to be entered in column 1e on form P11.

Employer's contributions

$£923.08 - £377 = £546.08 \times 12.8\% = £69.898$ rounded to $£69.90$

The total of employee's and employer's contributions payable is $£60.07 + £69.90 = £129.97$

This is the figure to enter in column 1d on form P11.

Contracted-out occupational pension schemes

If the employee is a member of your contracted-out occupational pension scheme you will also have to work out employee's and employer's NIC rebates. If you use the appropriate NI Tables for contracted-out pension schemes, the NIC rebates are worked out for you and are taken into account in arriving at the amount of NICs shown as due.

Employee's NIC rebate

The employee's NIC rebate is calculated on earnings between the LEL and the ET. The employee is entitled to that portion of his rebate that can be offset against his NICs. The employer is entitled to any balance of the employee's NIC rebate that cannot be offset against the employee's NICs.

Employer's NIC rebate

The employer's NIC rebate is also calculated on earnings between the LEL and the ET. The employer is entitled to his own rebate plus any balance of employee's NIC rebate not offset

Example (using 2005-2006 figures and rates)

Employee earns £95 per week (contribution Table letter D)

Employee's NICs = £1 x 9.4% = £0.09

Employer's NICs = £1 x 9.3% = £0.09

Employee's NICs rebate = £94 - £82 = £12 x 1.6% = £0.19

Employer's NICs rebate = £94 - £82 = £12 x 3.5% = £0.42

The employee is entitled to £0.09 of their NIC rebate, which reduces their NIC liability to nil. £0.00 is the figure to be entered in column 1e on form P11.

The employer is entitled to the balance of £0.10, plus their own NIC rebate of £0.42 = £0.52.

£0.52 employer rebate offset against £0.09 employer NICs = minus £0.43 employer NICs. £R0.43 is the figure to be entered in column 1d on form P11.

(Negative figures should be denoted by an 'R' immediately before the entry in column 1d of the form P11).

Further information can be found in

- CA39 and CA43, *National Insurance Tables*
- CWG2, *Employer's Further Guide to PAYE and NICs* under 'occupational pension schemes'.

Filling in a form P11 – NICs

NICs

If, during any earnings period in the year, the employee earns below the LEL, do not enter these earnings in columns 1a to 1c of the P11.

When an employee's earnings are at or above the LEL at any time during the year, you must fill in the National Insurance (NI) section of the form P11 or equivalent record, **even if the employee does not pay any NICs**. You must report this information at the year end. This is to protect the employee's entitlement to benefits, which is linked to earnings at the LEL, and for working out average weekly earnings for Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay and Statutory Adoption Pay.

Enter all the details of earnings at or above the LEL, and NICs in the appropriate columns 1a to 1e that corresponds to the week or month number in which you make a payment to an employee.

Where an employee's earnings exceed the UEL, only record in column 1c of the P11 the earnings from the ET up to and including the UEL. You should not include the amount of earnings in excess of the UEL, even though the NICs payable on these earnings will be included in the total NICs figure recorded in column 1d.

Month no		Week no For Employer's use	National Insurance contributions							Statutory payments				Student Loan Deduc (whole pound)
Bt/fwd Mth	Wk		Earnings details			Contribution details				Statutory Sick Pay (SSP)	Statutory Maternity Pay (SMP)	Statutory Paternity Pay (SPP)	Statutory Adoption Pay (SAP)	
			1a	1b	1c	1d	1e	1f	1g	1h	1i	1j		
			£	£	£	£	£	£	£	£	£	£		
Bt/fwd	Bt/fwd		Bt/fwd	Bt/fwd	Bt/fwd	Bt/fwd	Bt/fwd	Bt/fwd	Bt/fwd	Bt/fwd	Bt/fwd	Bt/fwd		
7	30													
	31													
	32													

Earnings details	
Column 1a	Earnings at the LEL If the employee earns at or above the Lower Earnings Limit (LEL), enter the LEL figure. If the earnings do not exceed the LEL there will be no NICs payable and columns 1b to 1e will be left blank.
Column 1b	Earnings above the LEL, up to and including the Earnings Threshold Enter any earnings above the LEL, up to and including the Earnings Threshold (ET). If the earnings are constantly above the ET, the figure entered here will be the same each earnings period. If NI Tables are used, the amount entered will be in whole pounds only. If the exact percentage method is used, the amount entered will be in pounds and pence, unless earnings reach or exceed the ET in which case the entry will be in whole pounds only. If the earnings do not exceed the ET there will be no NICs payable and columns 1c to 1e will be left blank.
Column 1c	Earnings above the Earnings Threshold, up to and including the UEL Enter any earnings above the ET, up to and including the Upper Earnings Limit (UEL). If the earnings are constantly above the UEL, the figure entered here will be the same in each earnings period. Do not include those earnings above the UEL. If NI Tables are used, the amount entered will be in whole pounds only. If the exact percentage method is used, the amount entered will be in pounds and pence, unless earnings reach or exceed the UEL in which case the entry will be in whole pounds only.
Contribution details	
Column 1d	Total of employee's and employer's contributions payable Enter the combined total of both the employee's and employer's NICs, not just the employer's NICs. Where NICs are due under contribution Table letter D, F, L or S, the amount to be entered is the combined total after deduction of any employee's and employer's NIC rebates.
Column 1e	Employee's contribution payable on earnings in 1c This column should show only the employee's NICs payable included in column 1d. Include any employee's NICs payable on earnings above the UEL, where appropriate. If there are no employee's NICs payable, leave blank. If contribution Table letter D, F, L or S is used, the amount entered should be the employee's NICs payable after deducting the employee's NIC rebate. If this amount is zero enter '0.00'.
Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP), Statutory Paternity Pay (SPP), Statutory Adoption Pay (SAP) and Student Loan Deductions	
Column 1f	Statutory Sick Pay Recording SSP is optional if you are not recovering any SSP in the same tax month. You need only enter SSP paid in those tax months where a recovery is made. For more information see the Employer's Help Book E14, <i>What to do if your employee is sick</i> .
Column 1g	Statutory Maternity Pay Enter the gross amount of SMP paid before deducting NICs, tax or any other deductions due. For more information see the Employer's Help Book E15, <i>Pay and time off work for parents</i> .

Column 1h Statutory Paternity Pay

Enter the gross amount of SPP paid before deducting tax, NICs or any other deductions due.

For more information if your employee is entitled to SPP because a baby was born see the Help Book E15, *Pay and time off work for parents*.

For more information if your employee is entitled to SPP because a child was being adopted see the Help Book E16, *Pay and time off work for adoptive parents*.

Column 1i Statutory Adoption Pay

Enter the gross amount of SAP paid before deducting tax, NICs or any other deductions due.

For more information see the Help Book E16, *Pay and time off work for adoptive parents*.

Column 1j Student Loan Deductions

Only employers who have been notified by the Inland Revenue to start making Student Loan Deductions from an employee's earnings should use this column.

Part 3 Making payments to the Inland Revenue

When to make payment

Each tax month you must pay your Accounts Office all the amounts due for that tax month in respect of

- Income Tax – Pay As You Earn (PAYE)
 - deductions from subcontractors
- Student Loan Deductions
- National Insurance contributions (NICs)

The day your payment needs to reach us depends on what payment method you use

- If you pay electronically or through your bank, Post Office or Alliance and Leicester Commercial Bank your cleared payment for the full amount due must reach our account no later than 22nd of the month. Where the 22nd falls on a weekend or is a bank holiday, your cleared payment must reach us on the **previous** bank working day.
- Employers who are **not** subject to the mandatory electronic payment rules and who continue to pay by post must ensure that payment reaches us no later than 19th of the month.

When paying electronically you need to allow enough time for your payment to reach us. Except for CHAPS which is a sameday payment transfer facility, it normally takes 3 bank working days for payment to reach us. Some banks and building societies take longer. You will need to check how long your bank or building society takes and what their cut-off time is for initiating payment. Billpay payment reaches us on the 3rd bank working day after your transaction.

Interest and Surcharge

We charge interest on

- any payment made electronically or through your bank, Post Office or Alliance and Leicester Commercial Bank that reaches us after 22 April following the end of the tax year, and
- any cheque payment that reaches us after 19 April following the end of the tax year.

Large employers who are subject to the mandatory electronic payment rules are liable to surcharge if they pay late or do not pay electronically.

Payslip booklet

You need a payslip booklet to pay through your Bank, a Post Office, Alliance and Leicester Commercial Bank or if you post us a cheque. You do not need a payslip booklet if you pay us electronically.

To stop us issuing booklets for future years

- follow the guidance on our website at www.inlandrevenue.gov.uk/howtopay/payee.htm or
- contact your Accounts Office.

If you do not pay electronically and do not receive your P30BC, *Payslip Booklet* in time to make your payments, contact your Accounts Office immediately.

Quarterly payment option for small employers

If your average monthly payments of PAYE, deductions from subcontractors, Student Loan Deductions and/or NICs for the current year are likely to be less than £1,500, you can choose to pay your Accounts Office quarterly rather than monthly.

Where working tax credit payments are known or can be reasonably estimated these should be taken into account in your calculations.

The tax quarters end on

- 5 July
- 5 October
- 5 January, and
- 5 April

which means your cleared electronic payments are due by 22nd of the month in which the quarter ends or, if you pay by cheque, by the earlier date of the 19th of that month.

If you choose to pay quarterly, please contact your Accounts Office to arrange this facility quoting your Accounts Office reference. **This is shown on your Payslip Booklet cover** or on the P30B letter issued in place of your Booklet.

How the payments are calculated

In most cases the payments will be calculated for each month/quarter by

PAYE

- adding together all the
 - tax that you have deducted from/refunded to your employees
 - deductions from payments made to subcontractors
 - Student Loan Deductions made from your employees
- subtracting any working tax credit payments made.

NICs

- adding together all the employees' and employer's NICs due, and
- subtracting any
 - SSP you are entitled to recover
 - SMP/SPP/SAP and/or NIC compensation you are entitled to recover.

Correcting an error

If you make a mistake when working out how much to pay to your Accounts Office, you can put it right by adjusting your next payment, or when you pay any balance due at the end of the tax year.

If you discover a mistake after the tax year has ended, contact

- the Employer's Helpline by calling **0845 7 143 143** for advice about NICs, SSP, SMP/SPP/SAP, Student Loan Deductions and working tax credit or
- your Inland Revenue office for advice about PAYE.

Keeping records

We may ask to inspect your records to make sure that you have paid all the tax and NICs due. If you have not, we may make estimates which you will have to pay. Both the P32, *Employer's Payment Record* and the P30BC, *Payslip Booklet*, pages 4 and 5, are designed to

- help you make the calculations referred to above
- record your payments.

You only need to use one of these forms to keep your records.

These forms will also help you fill in your P35, *Employer's Annual Return*, at the end of the year.

Making a payment

Large employers, those who have 250 or more employees whom we have notified, have to make their monthly payments electronically. They can also pay by Bank Giro, at the Post Office or by transfer from their Alliance and Leicester Commercial Bank accounts.

We accept payment by a range of methods but we recommend payment is made electronically through your bank's Internet/Telephone banking service, by BACS Direct Credit or CHAPS. We also offer a service called Billpay where you can pay by debit card over the Internet. Electronic payments are generally more efficient and secure than payment by post.

We also treat as electronic any payment made by Bank Giro, at the Post Office or from an Alliance and Leicester Commercial Bank account. Again payment made by these methods is more secure than a payment sent in the post.

Where a payment is made by post, please send it with your completed payslip, P30B, to the Accounts Office in one of the envelopes we sent you.

For more information about how to pay please

- visit our website
www.inlandrevenue.gov.uk/howtopay
- refer to our leaflet, IR2010, *Paying tax and national insurance contributions electronically*
- contact your Accounts Office.
 - Accounts Office Shipley
Tel **01274 539328**
Fax **01274 539616**
E-mail aos.directpayments@ir.gsi.gov.uk
 - Accounts Office Cumbernauld
Tel **01236 783717**
Fax **01236 783016**
E-mail aoc.directpayments@ir.gsi.gov.uk

When you pay by Bank Giro, at a Post Office, by transfer from your Alliance and Leicester Commercial Bank account or by post you must complete a payslip, P30B

- for the correct 'period ending' (see top right of P30B)
- showing how the payment is made up between Net Income Tax and Net National Insurance.

See the example of payslip P30B on page 18.

Use the information from the P32, or the table on pages 4 and 5 of your P30BC, to fill in the P30B as follows

P30B box heading	P30BC or P32 column number
Net Income Tax	4
Net National Insurance	15
Amount due	16

If at the end of a month/quarter

- you have no payments to make, tell your Accounts Office by returning a 'Nil' P30B for the relevant period.
- the total of working tax credit paid is greater than the total deductions in respect of Income Tax and Student Loan Deductions, enter the excess in column 4 of your P32 or P30BC with the letter 'M' (for minus) in front. Where you are paying by Bank Giro, at a Post Office, using Alliance and Leicester Commercial Bank or by post complete the Net Income Tax box on your P30B (from column 4 of your P32 or P30BC) with the letter 'M' (for minus) in front. The examples of forms P32, P30BC and P30B on page 18 show how this will look.
- the total recoverable SSP/SMP/SPP/SAP and/or NIC compensation claimed is more than the NICs payable, enter the excess in column 15 of your P32 or P30BC with the letter 'M' (for minus) in front. Where you are paying by Bank Giro, at a Post Office, using Alliance and Leicester Commercial Bank or by post complete the Net National Insurance box on your P30B (from column 15 of your P32 or P30BC) with the letter 'M' (for minus) in front.
- the 'Amount due' in column 17 of your P32 or P30BC is a **minus** figure, recover the amount you are owed from the following month's/quarter's payment and return a 'NIL' P30B for the relevant period to your Accounts Office to prevent the unnecessary issue of a reminder for payment.

If it is not possible to recover the amount you are owed from the following month's/quarter's payment, write to your Accounts Office, explaining how you have worked out the amount owed and ask for it to be paid to you. Quote your Accounts Office reference shown on the front of your P30BC, *Payslip Booklet* or P30B letter.

Further information about payments and payslips

There are special rules about making payments during a **trade dispute**: for details see the CWG2, *Employer's Further Guide to PAYE and NICs*, under 'trade disputes'.

If you need to post a payment to the Accounts Office and do not have a payslip (for example, if the payment is for an earlier year) please send your cheque with a covering letter showing

- your address and telephone number
- your Accounts Office reference, shown on the front of your P30BC, *Payslip Booklet*, or on the P30B letter
- the period the payment is for
- the amount of PAYE and NICs you are paying.

There is a reference converter on our website at www.inlandrevenue.gov.uk/howtopay/converter.htm which you will find useful if you are paying electronically through your bank's Internet or Telephone banking service or by BACS Direct Credit. It will help ensure your payment is allocated correctly, particularly if your payment is for an earlier year.

Example of P32 (extract)

Inland Revenue **Employer's Payment Record**

Employer's name: _____

Accounts Office reference: _____

Year ended 5 April: _____

You will need information about payments when you complete your form P35 (Employer's Annual Return). Please enter the details requested each time you make a payment. Usually, this would be each week or month - when you make the payment. If you make quarterly payments then you would normally record the details every third month. However, you may prefer to enter details for each month (or week) - you should then total them every third month.

For guidance on making payments to the Inland Revenue please see Part 3 of Employer's Help Book E13 Day-to-day payroll.

Period	Week no	Income Tax (inc. subcontractor deductions)	Student Loan Deductions	Tax Credits paid to employee's	Net Income Tax (1 + 2 minus 3)	Gross National Insurance contributions (NICs)	Statutory Sick Pay (SSP) recovered	Statutory Maternity Pay (SMP) recovered	NIC compensation on SMP	Statutory Paternity Pay (SPP) recovered	NIC compensation on SPP	Statutory Adoption Pay (SAP) recovered	NIC compensation on SAP	Total deductions from NICs (total of boxes 6 to 12)	Net NICs (5 minus 13)	Amount due (4 + 14)	Date paid
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
6 April to 5 May	1																
	2																
	3																
	4																
Month 1	Total	1234 50	60 00	1500 00	M 205 50	1094 38		168 25	8 41					176 66	917 72	712 22	6/5/05
6 May to 5 June	5																
	6																

Example of P30BC (extract of page 4)

Calculation of net Income Tax – monthly payments

Date	Income Tax including subcontractor deductions	Student Loan Deductions	Tax Credits paid to employees	Net Income Tax (1+2 minus 3)	Gross NIC	Statutory Sick Pay (SSP) recovered	Stat. Maternity Pay (SMP) recovered	NIC compensation on SMP
1	£	2	£	3	£	4	£	8
5 May	1234 50	60 00	1500 00	M 205 50	1094 38		168 25	8 41
5 Jun								

Example of P30BC (extract of page 5)

Calculation of net National Insurance contributions – monthly payments

Stat. Paternity Pay (SPP) recovered	NIC compensation on SPP	Stat. Adoption Pay (SAP) recovered	NIC compensation on SAP	Total deductions from NIC (total of boxes 6 to 12)	Net NIC (5 minus 13)	Amount due (4 + 14)	Date paid
9	£	10	£	11	£	12	£
				176 66	917 72	712 22	6/5/05

Example of payslip P30B

Alliance & Leicester Transcash Payslip **Inland Revenue**

COMMERCIAL BANK
Bootle Merseyside GIR 0AA
Year 2005-06

Net Income Tax: **M 205 50**

Net National Insurance: **917 72**

Amount due (no fee payable at PO counter): **712 22**

bank giro credit

Period ending: **05 May 2005**

Reference: **159 209 24** | 131 PE 00045678 0601 | Credit account number: **610 5041**

Cashier's stamp and initials: _____

Signature: _____ Date: _____

P30B BS 9/04 | **10-50-41**

BANK OF ENGLAND
HEAD OFFICE COLLECTION A/C
INLAND REVENUE

CASH: _____
CHEQUE: _____

Please do not fold this payslip or write or mark below this line

131PE000456780601 &7241105167 00000000 74 X

Part 4 Taking on a new employee - including someone who has worked for you before

Who to treat as an employee

You should treat as an employee anyone you employ under a contract of service, including

- casual and part-time workers, and
- anyone who is an office holder, including directors.

If the employee does not give you a form P45 because they claim to be self-employed, look at the terms on which you took them on. The leaflet IR56, *Employed or self-employed? – A Guide for Tax and National Insurance*, will help.

You can get copies of this leaflet from any

- Inland Revenue office, or
- Department for Work and Pensions office.

If you are in any doubt ask your Inland Revenue office for help, and treat them as an employee in the meantime.

If your new employee tells you they have previously been claiming Jobseekers Allowance, tell them that to stop claiming they should contact their Jobcentre Plus office or send back their UB40.

National Insurance numbers

Importance of National Insurance numbers

The Inland Revenue National Insurance Contributions Office issues National Insurance (NI) numbers to those approaching 16 years of age and to those working or claiming benefit so that NICs and credits can be correctly recorded on each person's National Insurance account, income tax and other records.

You should ask your employee for their NI number and they must let you know what it is, if known, when you ask for it. It is essential that you show the full and correct NI number on all documents on which you record NICs. Anyone who does not have an NI number must apply for one when they start work by contacting their local Jobcentre Plus office.

The NI number is important because it helps to link the information you will send us at the end of the year to your employee's National Insurance account, income tax and other records. This in turn helps to protect your employee's entitlement to benefits such as basic State Pension.

Use the correct National Insurance number

The Inland Revenue will no longer accept 'temporary' National Insurance numbers, e.g. TN220157M for a male born on 22 January 1957. This applies no matter which method you use to submit your forms and returns (e.g. paper, online) so in all cases you should try to obtain the correct National Insurance number.

Identifying the NI number

NI numbers consist of two letters, followed by six numbers, followed by one letter, A, B, C or D. No other format is acceptable.

It will look something like this: AB123456C.

This NI number is only an example and should not be used where an employee does not provide their NI number.

If the NI number is not shown on the P45 in this format or the employee can't remember their NI number, see 'Tracing National Insurance numbers' on page 24.

A new employee gives you a form P45

This section will take you step by step through the actions you need to take when you take on a new employee and they give you a form P45.

If a new employee doesn't give you a P45

If the employee does not give you a P45 when they first start work you will have to follow a different set of steps. You can find this information on page 22 of this Help Book.

What is a P45?

The P45 is a certificate providing details from your employee's previous employment. An example of the P45 is given on page 20.

The **P45** is a four-part form. Your employee should give you Parts 2 and 3.

If the employee gives you Part 1A of form P45, return it to them to keep.

Example of a completed form P45

Inland Revenue		Details of employee leaving work		P45	
		Copy for new employer		Part 2	
1 Previous PAYE Reference	Office number	Reference number			
	131	V30			
2 Employee's National Insurance number	AB 12 34 56 C				
3 Surname	JOHNSON MR				
First name(s)	PETER ANDREW				
4 Leaving date	Day	Month	Year	5 Continue Student Loan Deductions(Y)	Week 1 or Month 1
	13	5	2005		
6 Tax Code at leaving date. 'X' in the box means Week 1 or Month 1 basis applies.	Code 456L				
7 Last entries on Deductions Working Sheet (P11) If there is an 'X' at item 6, there will be no entries here.	Week or month number	Total pay to date			
	6	£ 1765 50 p			
		Total tax to date			
		£ 244 39 p			

To the employee

This form is important to you. Take good care of it. Copies are not available. Keep Parts 2 and 3 of the form together and do not alter them.

Going to a new job
Give this form (Parts 2 and 3) to your new employer, or you will have tax deducted using the emergency code and may pay too much tax. If you do not want your new employer to know the details on this form, send it to your Inland Revenue office immediately with a letter saying so and giving the name and address of your new employer. The Inland Revenue office can make special arrangements, but you may pay too much tax for a while as a result.

Going abroad
If you are going abroad or returning to a country outside the UK ask for *Income Tax form for those Leaving the United Kingdom* (form P85) from any Inland Revenue office or Enquiry Centre.

Becoming self-employed
You must register with the Inland Revenue within 3 months, or you could incur a penalty. To register, get a copy of *Thinking of working for yourself* (leaflet P/SE/1) from your Inland Revenue office or call 08459 154515.

Claiming Jobseeker's Allowance
Take this form to the Benefit Office. They will pay you any tax refund you may be entitled to when your claim ends, or at 5 April if this is earlier.

Not working and not claiming Jobseeker's Allowance
If you have paid tax and wish to claim a refund ask for *Claim for income tax repayment* (form P50) from any Inland Revenue office or Enquiry Centre.

To the new employer

Check this form, complete items 8 to 17 in Part 3 and prepare a *Deductions Working Sheet* (form P11). Follow the instructions in the Employer's Help Book 'Day-to-day payroll, E13' for how to prepare a P11.

Detach Part 3 of this form and send it to your Inland Revenue office immediately. Keep Part 2.

What you will need

In addition to the P45 you will need a form P11, *Deductions Working Sheet*, or equivalent record. You will also need your

- *Pay Adjustment Tables, Tables A*
- *Calculator Tables or Taxable Pay Tables, SR + B to D Tables, and*
- *NI Tables.*

Step 1 Checking form P45

- Check if the employee's NI number is entered at item 2 of the P45. If item 2 is blank, or the NI number is not in the format described on the previous page, see 'Tracing National Insurance numbers' on page 24 for help on how to find an employee's NI number and return to this page.

You can continue to pay an employee who does not give you a NI number. You must make sure that you keep records and record the NI number as appropriate once it has been traced.

- Check if items 6 and 7 of Part 3 agree with the corresponding entries on Part 2 of the P45. **If they do not agree** contact your Inland Revenue office immediately.

Step 2 Preparing a form P11

Fill in boxes A to J at the top of the form P11 by using the information provided on the P45 such as the employee's name, address, National Insurance number and date of birth, and your own details. For help on completing Box K see the next step below.

Step 3 Deciding which tax code to use

This part of the process may be subject to Budget change and is therefore detailed in the PAYE section on page 2 of the current Employer's Help Book E12, *PAYE and NICs rates and limits for 2005-2006*.

Use the guidance shown there and then return to this page to continue with **Step 4**.

Step 4 Deciding which rate of NICs to deduct

- All employees aged 16 or over and below State Pension age are liable to pay a standard rate of NICs known as contribution Table letter 'A' unless certain conditions apply.
- To help you decide the right rate of National Insurance that applies to your new employee look at the flowchart on page 31, then return to this page.
- Enter the appropriate contribution Table letter under which NICs are due in the 'End of Year Summary' section on the reverse side of the form P11.

Step 5 Which week or month number to use for the employee's first payment

- The weekly and monthly charts on page 21 will help you identify which week or month pay period number you should use for the first payment to your new employee.
- Look at these charts now and identify which pay period number **includes the date of payment**. This is the period to use. Now go to Step 6.

Weekly chart				
Period				Week number
6	Apr	to	12 Apr	1
13	Apr	to	19 Apr	2
20	Apr	to	26 Apr	3
27	Apr	to	3 May	4
4	May	to	10 May	5
11	May	to	17 May	6
18	May	to	24 May	7
25	May	to	31 May	8
1	Jun	to	7 Jun	9
8	Jun	to	14 Jun	10
15	Jun	to	21 Jun	11
22	Jun	to	28 Jun	12
29	Jun	to	5 Jul	13
6	Jul	to	12 Jul	14
13	Jul	to	19 Jul	15
20	Jul	to	26 Jul	16
27	Jul	to	2 Aug	17
3	Aug	to	9 Aug	18
10	Aug	to	16 Aug	19
17	Aug	to	23 Aug	20
24	Aug	to	30 Aug	21
31	Aug	to	6 Sep	22
7	Sep	to	13 Sep	23
14	Sep	to	20 Sep	24
21	Sep	to	27 Sep	25
28	Sep	to	4 Oct	26
5	Oct	to	11 Oct	27
12	Oct	to	18 Oct	28
19	Oct	to	25 Oct	29
26	Oct	to	1 Nov	30
2	Nov	to	8 Nov	31
9	Nov	to	15 Nov	32
16	Nov	to	22 Nov	33
23	Nov	to	29 Nov	34
30	Nov	to	6 Dec	35
7	Dec	to	13 Dec	36
14	Dec	to	20 Dec	37
21	Dec	to	27 Dec	38
28	Dec	to	3 Jan	39
4	Jan	to	10 Jan	40
11	Jan	to	17 Jan	41
18	Jan	to	24 Jan	42
25	Jan	to	31 Jan	43
1	Feb	to	7 Feb	44
8	Feb	to	14 Feb	45
15	Feb	to	21 Feb	46
22	Feb	to	28 Feb	47
1	Mar	to	7 Mar	48
8	Mar	to	14 Mar	49
15	Mar	to	21 Mar	50
22	Mar	to	28 Mar	51
29	Mar	to	4 Apr	52
5	April		(Use the table on a week 1 basis).	53

Monthly chart				
Period				Month number
6	Apr	to	5 May	1
6	May	to	5 Jun	2
6	Jun	to	5 Jul	3
6	Jul	to	5 Aug	4
6	Aug	to	5 Sep	5
6	Sep	to	5 Oct	6
6	Oct	to	5 Nov	7
6	Nov	to	5 Dec	8
6	Dec	to	5 Jan	9
6	Jan	to	5 Feb	10
6	Feb	to	5 Mar	11
6	Mar	to	5 Apr	12

Step 6 Entering the P45 details on form P11

If the P45 is for the 2005-2006 tax year and there is an 'X' in box 6

- enter 'NIL' as the previous pay and tax details in Columns 3 and 6 of the P11 on the line above the one you will use for the employee's first payment.

If there is no 'X' in box 6

- enter in column 3 of the P11 on the line *immediately above the one you will use for the employee's first payment*, the 'Total pay to date' shown at item 7 of the P45.
- do not enter the 'Total tax to date' figure, shown at item 7 of the P45, in column 6 of the P11. Instead, using the
 - week or month number shown on the P45
 - the appropriate code number (from step 3) and
 - the figure of 'Total pay to date',
 work out the tax due according to the *Calculator Tables* or *Tax Tables SR + B to D* and complete columns 4a, 5 and 6 of the P11. You can find out how to do this on pages 5 to 8 of this Help Book.

If the tax code starts with a 'K' complete columns 4b, 5 and 6 using the lower of the

- P45 tax figure, or
- tax due as shown by *Calculator Tables* or in *Tax Tables SR + B to D*.
- To work out the 'total taxable pay to date' for column 5 and 'total tax due to date' for column 6, see Part 1 of this Help Book then return to this page.

If the P45 is for an earlier tax year

- enter 'Nil' as the previous pay and tax details in columns 3 and 6 of the P11.

If there is a 'Y' in item 5, Continue Student Loan Deductions (for whatever year)

- Enter '✓' in Box J of the form P11.
- Start making Student Loan Deductions, if appropriate, from the first pay day. See Part 9 of this Help Book.

Step 7 Fill in Part 3 of the form P45

- Start at item 8 of the P45
 - Item 8 - enter your PAYE reference (now known as Employer's PAYE reference)
 - Item 10 - only tick this box if you use works/payroll numbers and want that information to appear on any tax code notifications
 - Item 12 - enter the code you are using *if it is not the same as the one shown on the P45*
 - Item 13 - enter the figure of tax due *if it is not the same as the amount shown at item 7 of the P45*.
- Send **Part 3** to your Inland Revenue office that deals with you as an employer **immediately** after you have completed the above actions.
- Keep **Part 2** of the P45 for **at least three years** after the end of the tax year it is for.

You can now start working out any tax and NICs due.

To find out how to work out and record tax on form P11, turn to Part 1 of this Help Book. To find out how to work out and record NICs on form P11, turn to Part 2 of this Help Book.

A new employee doesn't give you a form P45

If a new employee does not have a P45 you and your employee will probably need to complete a form P46. The P46 is the form you use to tell the Inland Revenue about an employee who does not have a P45.

But if a new employee is going to work for you for one week or less and before the end of that week you do not arrange to keep the employee on beyond that week, or arrange for the employee to work for you again, you do not need to fill in a P46. Instead, follow the advice on page 24 of this Help Book 'Taking on a new employee – for one week or less'.

If a new employee is going to work for you for more than one week and does not have a P45

- ask your employee to contact their previous employer to get a P45 if they have worked in the UK in the current tax year, *unless a P45 has already been given to the employee, who has then lost it*
- follow the steps below.

Step 1 Filling in form P46

An example of a completed form P46 is shown below.

Ask your employee to

- read statements A, B and C
- tick each box that applies (if any) and
- sign and date Section 1

Ask your employee to fill in their NI number in Section 2 of the form P46. If the employee doesn't know their NI number, turn to page 24 of this Help Book 'Tracing National Insurance numbers'. You can

Example of a completed form P46

- A new employee must read statements A, B and C, tick each box that applies and sign and date the form.

Note: the National Insurance number is very important and must be inserted if known.

- Use full names for example Robert not Bob.

send in a P46 without a NI number if you have followed the steps on page 24.

Then find the tax code to use in the table below.

On the form P46	Tax code to use
Statement A only ticked	* cumulative
Statements A and B ticked	* cumulative
Statement B only ticked	* week 1 or month 1
Statement C only ticked	BR cumulative
Statements A and C ticked	BR cumulative
Statements B and C ticked	BR cumulative
Statements A, B and C ticked	BR cumulative
No statement ticked	BR cumulative

* Use the emergency tax code as shown in the Employer's Help Book E12, *PAYE and NICs rates and limits for 2005-2006*

For more information on tax codes, see page 3 of this Help Book and then return to this page to continue action.

Put the code in the box 'Code operated for this employee' on the P46 and fill in the rest of the form.

If you will be operating a tax code on a week 1 or month 1 basis, make sure that you enter 'X' in the box immediately below.

Inland Revenue

PAYE – notice of new employee

Send in on the first pay day for employees who

- do not have a form P45, or
- were previously paid below the PAYE threshold.

Section 1 - to be completed by the EMPLOYEE

Read each statement carefully. Tick each one that applies to you. Only sign this form if you have ticked one or more of the boxes for Statement A, Statement B or Statement C.

Statement A
This is my first regular job since leaving full-time education. I have not claimed Jobseeker's Allowance, or Income Support paid because of unemployment since then.

Statement B
This is my only or main job.

Statement C
I receive a pension as well as the income from this job.

I confirm that I have ticked the statements that apply to me.

Signed R I Williams Date 6 / 6 / 2005

Section 2 - to be completed by the EMPLOYER

Your Employer's Help Book Day-to-day payroll, E13 tells you how to complete this form. See Part 4 under 'A new employee doesn't give you a form P45'

Employee's details

National Insurance number A, B 1, 2 3, 4 5, 6 C

Surname Williams

Title Mr Mrs Miss Ms Other

First name(s) (in full) Robert Ian

Address 25 Saville Street
London
Postcode W11 6PD

Date of birth 8 / 8 / 1970

Male/Female (enter M/F) M F

Works/payroll number, if any 1592

Department/branch, if any

Job title Fitter

Date employment started 6 / 6 / 2005

Coding information

Existing employee now above PAYE threshold (enter X if this applies)

New employee who has signed statement (enter the letter of the statement ticked) C

New employee who has not signed a statement (tick box if this applies)

Code operated for this employee BR

Enter X in box if code operated on week 1/month 1 basis

Employer's details

Employer's PAYE reference 131/V30

Name VFM Ltd

Address 36 Soho Gardens
Postcode W1V 4LD

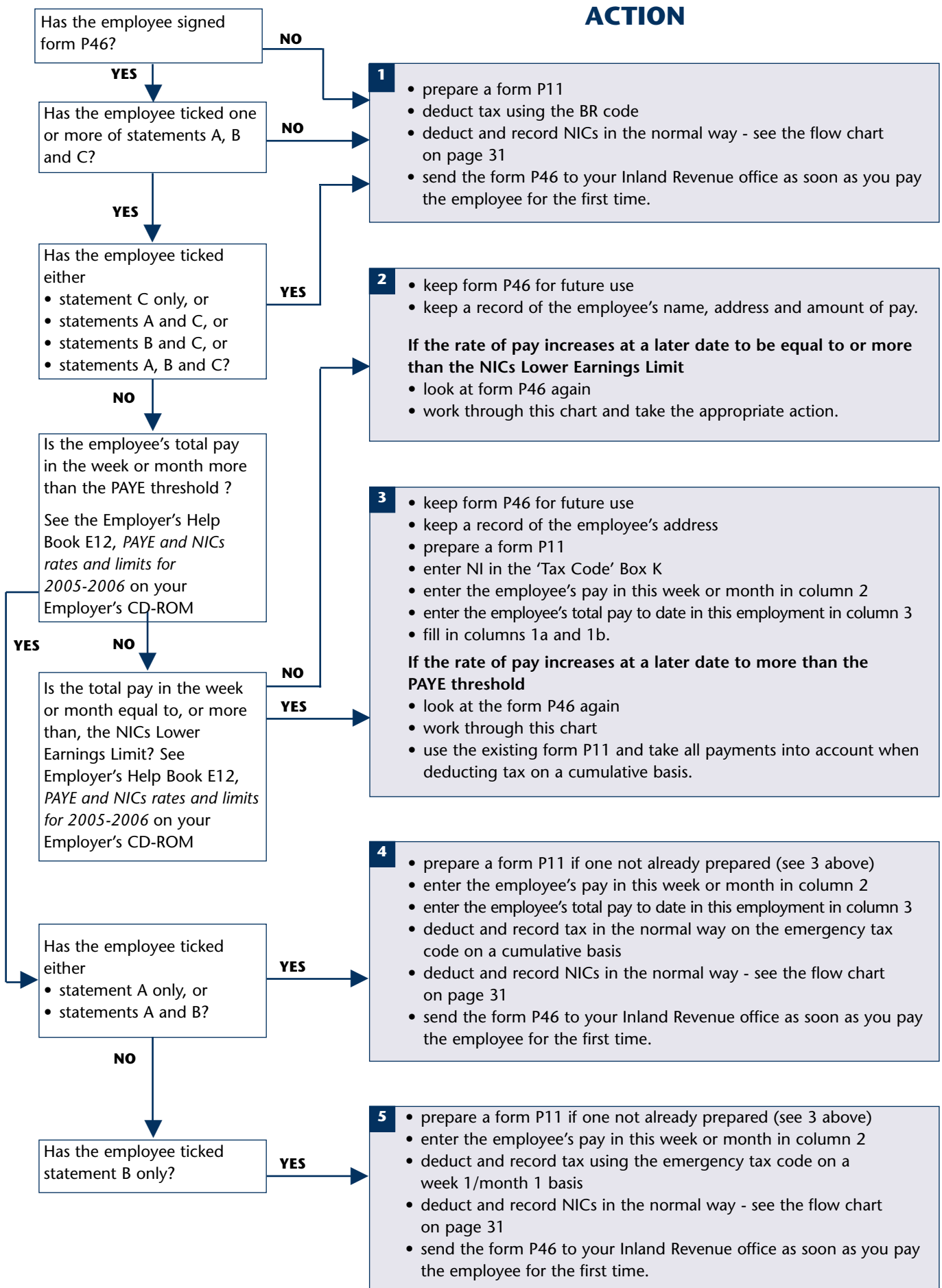
Date this form was completed 10 / 6 / 2005

P46 85 06/04

Note: you must complete Section 2 before sending form P46 to your Inland Revenue office.

Also enter 'B' if more than one statement ticked.

Step 2 Deciding what to do with the completed and signed form P46



Step 3 Preparing a form P11

- Using the information provided on the P46, such as the *employee's name, address, National Insurance number and date of birth*, and your details, fill in the boxes A to J at the top of the form P11.
- Put the tax code in **Box K** of the P11.

Employee gives you a form P45 after the first pay day

If an employee gives you a P45 after the first pay day follow steps 1 to 7 of the section headed 'A new employee gives you a form P45' starting on page 19.

On the next pay day unless the tax code is to be operated on a week 1/month 1 basis, add up the entries in columns 3 and 6 of the P11 including those

- from form P45, and
- any pay and tax details since they started work for you.

Taking on a new employee – for one week or less

If the employee is going to work for you for 1 week or less

- do not complete a form P46
- take the following action, depending on what the circumstances are, **but if you are a farmer** first see the CWG2, *Employer's Further Guide to PAYE and NICs*, under 'farmers'.

Total pay in the week is more than the PAYE threshold* and you know the employee has other employment

- Fill in a form P11.
- Deduct tax using code BR.
- Work out NICs due, see Part 2 of this Help Book.
- Issue a form P45 at date of leaving.

Total pay in the week is more than the PAYE threshold* and you do not know if the employee has other employment

- Fill in a form P11.
- Deduct tax using the emergency tax code on a week 1/month 1 basis.
- Work out NICs due.
- Issue a form P45 at date of leaving.

Total pay in the week is less than the PAYE threshold* but equal to or more than the National Insurance Lower Earnings Limit*

- Fill in a form P11.
- Enter NI in the tax code Box K.

Total pay in the week is less than the National Insurance Lower Earnings Limit*

You do not have to complete a form P11 but keep a record of the employee's name, address and amount of pay.

* Details of the PAYE threshold and National Insurance Lower Earnings Limit are included in the Employer's Help Book E12, *PAYE and NICs rates and limits for 2005-2006*, on your Employer's CD-ROM. If you are reading this section after the end of April 2005 see the revised version on your CD-ROM Budget Pack Edition.

Tracing National Insurance numbers

If the employee can't remember or find their NI number

- check any documentation you may have for the employee which shows the NI number, for example form P45, or a certificate of election form CA4139(CF383).

If you are unable to find your employee's NI number

- keep a record of their full name – surname and first name(s) – address, date of birth, gender and
- if you have to send a form P46 to your Inland Revenue office take no further action as they will automatically trace the employee's NI number and tell you what it is. If the NI number cannot be traced, your Inland Revenue office will ask the Inland Revenue National Insurance Contributions Office to carry out a clerical trace, which may involve writing to your employee.

If the NI number is traced the Inland Revenue National Insurance Office will confirm to you what it is on form P46-5, and confirm to your employee what it is on form P217.

If the NI number cannot be traced, see **Employee with no NI number**.

If you do not have to send form P46 you can ask your Inland Revenue office to trace a NI number or, use the National Insurance number tracing service.

To use the National Insurance number tracing service you can either fill in form CA6855, which you can get from

- the Employer's Orderline on **0845 7 646 646**
- any Inland Revenue or Department for Work and Pensions office
- your Employer's CD-ROM

or prepare your own schedule.

Preparing your own schedule to trace NI numbers

This should clearly set out the information in the following order

- 1 Employee's title
- 2 Surname
- 3 First name(s)
- 4 Address
- 5 Date of birth
- 6 Gender
- 7 Works/payroll number
- 8 Date employment started
- 9 Date employment ended (if applicable)
- 10 Employer's PAYE reference.

Where to send form CA6855 or schedule

Inland Revenue
National Insurance Contributions Office
Additional Business Workstream
Room H3002
Benton Park View
Newcastle Upon Tyne
NE98 1ZZ

On receipt of the form or schedule of employees, the Inland Revenue National Insurance Contributions Office will trace the employee's NI number.

They will return form CA6855 or the schedule, showing the correct National Insurance number for each employee, or indicate where an NI number cannot be traced (see **Employee with no NI number**).

When form CA6855 is returned to you, you should record the NI number on all relevant pay records and tell the employee what their NI number is.

Employee with no NI number

If your employee has never had an NI number or the National Insurance Contributions Office is unable to trace their number

- keep a record of their full name (surname and first name(s)), address, date of birth, gender, **and**
- tell them to contact their nearest Jobcentre Plus office (Jobcentre Plus is part of the Department for Work and Pensions).

Your employee must arrange an interview with the Jobcentre Plus office in order to complete an application form to be issued with a NI number. They will be told what evidence to take with them to the interview, to establish identity.

After the interview they should make sure they are given the front page of their application form, CA5400, *Your National Insurance Number*. This front page confirms that they have applied for a NI number and provides a reference number in case they need to get back in touch with the Department before they receive their NI number card.

For certain types of employment, the Department for Work and Pensions will offer a 'fastpath' route for registering the employee with a NI number. Which employers and employment are suitable will depend on many things, including the employer's recruitment process. For more information go to the Department for Work and Pensions website www.dwp.gov.uk

Part 5 What to do when an employee leaves

Which forms you have to complete

Form P11

Enter the date of leaving in Box I on the page of the P11 that you are using.

Form P45

- Fill in a form P45
 - even if the employee says they will not be working when they leave you
 - for any employee leaving for whom you have completed a form P11, **unless you have used the P11 to record only NICs or working tax credit.**
- When filling in a form P45 make sure you use a four-part version, use CAPITALS and make sure all parts are legible.

- If you have been told to make Student Loan Deductions enter a 'Y' in Box 5 'Continue Student Loan Deductions' of the form P45. However, if you have received a Stop notification for this employee **do not** enter 'Y' in the box.
- Give Parts 1A, 2 and 3 of form P45 to your employee when they leave.
- Send Part 1 to your Inland Revenue office **immediately.**

Example of a completed form P45

When filling in form P45 make sure you use a four-part version, use CAPITALS and make sure all parts are legible.

The totals at item 7 are the employee's pay and tax details for the whole of the current tax year. They are made up of the pay and tax details

- in your employment, *and*
- in the previous employment, **if** the employee started with you after 6 April **and** you were notified of these details on either form P45 or P6.

Do not enter any details if the employee is on a week1/month 1 basis code at the date of leaving.

You must enter the employee's address if known.

Inland Revenue		Details of employee leaving work Copy for Inland Revenue office		P45 Part 1
1 PAYE Reference	Office number	Reference number		
	131	V30		
2 Employee's National Insurance number	AB 12 34 56 C <small>(Mr Mrs Miss Ms Other)</small>			
3 Surname (in CAPITALS)	JOHNSON			
First name(s) (in CAPITALS)	PETER ANDREW			
4 Leaving date (in figures)	Day	Month	Year	5 Continue Student Loan Deductions(Y)
	13	5	2005	
6 Tax Code at leaving date. If Week 1 or Month 1 basis applies, write 'X' in the box marked Week 1 or Month 1.	Code 456L <small>Week 1 or Month 1</small>			
7 Last entries on Deductions Working Sheet (P11). Complete only if Tax Code is cumulative. Make no entry here if Week 1 or Month 1 basis applies. Go to item 8.	Week or month number	Week	Month	
	6			
8 This employment pay and tax. No entry is needed if Tax Code is cumulative and amounts are the same as item 7 entry.	Total pay to date	£ 1765 50 p		
	Total tax to date	£ 244 39 p		
	Total pay in this employment	£ p		
	Total tax in this employment	£ p		
9 Works number/ Payroll number	1603		10 Department or branch, if any	
11 Employee's private address and Postcode	16 BARCLAY STREET LONDON SE17 6PB			
12 I certify that the details entered above in items 1 to 10 are correct.	Employer's name, address and Postcode VFM LTD, 36 SOHO GARDENS LONDON W1V 4LD Date 13/5/2005			
To the employer		Please complete with care *		
<ul style="list-style-type: none"> • Complete this form following the instructions in the Employer's Help Book, 'Day-to-day payroll', E13. • Make sure the details are clear on all four parts of this form. Make sure your name and address is shown on Parts 1 and 1A. • Detach Part 1 and send it to your P45 		<ul style="list-style-type: none"> • Inland Revenue office immediately. • Hand Parts 1A, 2 and 3 (unseparated) to your employee when he or she leaves. • If the employee has died, write 'D' in this box and send all four parts of this form (unseparated) to your Inland Revenue office immediately. 		

Enter your PAYE Reference (now known as Employer's PAYE reference).

You must enter the employee's NI number if known.

Enter the last tax code shown on form P11.

The totals at item 8 are the amounts of employee's pay and tax deducted for your employment in the current year.

If the 'Total tax in this employment' figure is nil, enter £0.00 in this box. Do not enter any refund made.

This part **must** be completed in all cases where the employee, at the date of leaving, is on

- week 1/month 1 basis code, *or*
- cumulative basis code **and** the figures are different from those you have entered at item 7.

Other points to note

Employee pays reduced rate NICs

If the employee is a woman who has been paying the reduced rate of employee's NICs (for example, contribution Table letter B, E or G) complete the form CA4139 (CF383) or CF380A with the information requested on the form and return it to her.

Employee receives Working Tax Credit

You must not pay Working Tax Credit for any day after the employee's date of leaving. If you do so in error, for example because at the time you did the payroll you did not know that the employee was leaving, contact the Employer's Helpline on **0845 7 143 143**.

Employee has been sick in the eight weeks before they leave you

If the employee has been sick in the eight weeks before they leave you, issue form SSP1(L), leaver's statement or your own version of the form, only if

- your employee asks you to, **and**
- SSP was payable for at least one week in the eight weeks before the date they finished working for you.

Employee receiving SSP and still sick

If the employee is receiving SSP and is still sick when they leave

- return any original medical evidence that continues after the date they leave to the employee, keeping a copy for your own records
- issue form SSP1, or your own version of the form, so that the employee can claim benefit.

If we find that you have dismissed an employee to avoid paying SSP we can decide that you are still liable to pay SSP as if the contract had continued.

For further information see the Employer's Help Book E14, *What to do if your employee is sick*.

Employee receiving SMP

Your liability to pay SMP does not end when your employee leaves. You must continue to pay her the SMP until the end of the Maternity Pay Period, and to record the SMP in column 1g and include it in column 2 on the P11.

For further information see the Employer's Help Book E15, *Pay and time off work for parents*.

Employee receiving SPP

If you have already started paying SPP and your employee leaves you must carry on paying for the 2 weeks they are entitled to. Record the SPP in column 1h and include it in column 2 on the P11.

For further information see the Employer's Help Book E15, *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, *Pay and time off work for adoptive parents* if your employee is entitled to SPP because a child is being adopted.

Employee entitled to or receiving SAP

Your liability to pay SAP does not end when your employee leaves. You must pay them the SAP, and record it in column 1i and include it in column 2 on the P11.

For further information see the Employer's Help Book E16, *Pay and time off work for adoptive parents*.

Form P45 lost or incorrect

If a former employee loses their P45 or you find out later you have made a mistake, tell the former employee to contact their Inland Revenue office immediately.

You must never complete a further form or amend a P45.

Payment to a former employee

If you make a payment to a former employee or there is still a payment due to a deceased employee, see the CWG2, *Employer's Further Guide to PAYE and NICs*, under 'employees – leaving', or 'employees – death'.

When you no longer have employees

Tell your Inland Revenue office when

- you cease in business or
- you do not expect to employ anyone for one year or more from the start of the next tax year.

If yours is a limited company and you no longer have employees, the Inland Revenue office will ask for special information before deciding whether or not to cancel your PAYE scheme.

Part 6 Employee's tax code changes in the tax year

If your employee's tax code changes during the tax year your Inland Revenue office will send you a form P6.

Example of a form P6

		Employer's PAYE reference 131/V30 <small>Please use this reference if you write or call. It will help to avoid delay.</small>
Issued by Inland Revenue Minster Government Buildings High Street Minster MR2 8QT		
VFM Ltd 36 Soho Gardens London W1V 4LD		
<p>Here is a notice of your employee's tax code (or amended code) and previous pay and tax. You should use this tax code for the tax year shown below.</p>		
Employee's name	JONES MR B	
National Insurance number	A B 1 2 3 4 5 6 C	
Works or payroll number	1624	
Tax code This employee's code is amended to	510L <small>Please use this tax code from the next pay day</small>	
for the year to 5 April	2006	
<small>Please read the notes on the back of this form.</small>		
Previous pay and tax	Previous pay £ 1788 00	Previous tax £ 236 42
P6	BS1/04	

When you receive form P6, use the new code from the first pay day after you receive it, unless your Inland Revenue office tells you otherwise.

If a refund of tax is due when you operate the code make the refund **unless** the new code is NT. In this case, only make a refund if your Inland Revenue office asks you to do so.

In Box L of the P11 enter the new code and the week/month it is applied and cross out any previous code.

Code changed from week 1/month 1 basis to a cumulative basis code

- Add up the pay and tax shown on form P11, columns 2 and 7, including any from previous employment in the tax year.
- On the line of the last payment you made, enter in columns 3 and 6 the total pay and tax you have just added up.
- Follow the guidance, in Part 1, pages 3 to 8, appropriate to the amended code on the first pay day you use it.

Code changed from a cumulative basis to a week 1/month 1 basis

- Follow the guidance, in Part 1, pages 3 to 8, appropriate to the amended code on the first pay day you use it.
- Disregard any previous pay and tax details when you work out the tax to deduct from the first payment.

Code changes from a K code on a cumulative basis to a suffix code on a cumulative basis

On the first pay day

- complete the entries for columns 3 to 6 as shown in Part 1, page 5, under suffix code cases
- leave columns 6a and 6b blank
- take the figure in column 6 and compare it with the amount in column 6 for the previous pay day
- **deduct** the lower amount from the higher amount and add to the result any entry in column 8 for the previous pay day. Enter the figure calculated in column 7, 'Tax deducted or refunded in the week or month'.

If the amount in column 6 for the previous pay day is the lower amount, the amount you have just entered in column 7 is the tax deductible this week/month.

If the amount in column 6 for the previous pay day is the higher amount, the amount you have just entered in column 7 is the tax to refund this week/month and should be marked 'R'.

The exception to this is where the amount in column 8 for the previous pay day is greater than the difference between the higher and lower amounts in column 6, when a tax deduction is to be made.

For pay days after the first pay day

Complete all entries as shown in Part 1, pages 5 to 8, appropriate to the tax code.

Part 7 Changes that may affect an employee's NICs

During their working life there will be times when an employee's circumstances change. These may lead to the need to change the contribution Table letter under which you are making deductions of NICs. This section will help you to identify what action you need to take.

The table on page 31 of this Help Book and the flowchart at the beginning of the NI tables will also help you to identify which contribution Table letter and set of tables you should use.

Main changes

The main changes that may happen are an employee

- reaches age 16
- is a married woman or widow with the authority to pay reduced rate NICs who tells you that they want to pay full rate
- is a married woman who pays a reduced rate of NICs who tells you she is divorced
- joins or leaves your contracted-out occupational pension scheme
- has more than one job with different employers
- has more than one job with the same employer
- becomes a director
- goes abroad to work
- reaches State Pension age (60 for women and 65 for men) and continues to work
- dies.

If any of the above applies to an employee take action as described in the relevant following paragraphs.

An employee reaches age 16

If an employee is aged under 16 there is no NICs liability for the employee or for you as an employer.

Liability for employee's and employer's NICs starts from a person's 16th birthday. If an employee reaches age 16 while working for you and

- their earnings are equal to or exceed the Lower Earnings Limit and
- you do not already use a P11 to record their earnings you should prepare a form P11, or equivalent record, in the same way as when you take on a new employee. You must start to make deductions of NICs from their pay and record the employee's and employer's NICs on the P11 or equivalent record.

Enter the appropriate contribution Table letter in the 'End of Year Summary' section on the reverse of the P11.

You will also have to start paying your employer's share of NICs.

A married woman or widow who is entitled to pay reduced rate NICs

Prior to 1977 some married women or widows were able to choose to pay NICs at a lower rate. Provided they applied prior to 1977 they may still be able to pay at the reduced rate. The authority for them to do so is given by the Inland Revenue National Insurance Contributions Office in the form of a 'certificate of election'. This will be form CA4139(CF383) or CF380A. If your employee says that they pay the reduced rate they must give you a valid certificate of election.

You must deduct the full rate of NICs until you are given the certificate of election.

Your employee wishes to pay full rate

If a woman tells you she now wishes to pay full rate, return her certificate of election to her and deduct full rate, using the appropriate contribution Table letter.

Divorce

A married woman with the authority to pay reduced rate NICs loses this right if she gets divorced or her marriage is annulled. If she tells you she is divorced you must

- deduct the full rate NICs on pay she receives on or after the date of her decree absolute or decree of nullity and
- return the certificate of election to her when asked to do so.

You should have a procedure in place to let your employees know that they must notify you of their divorce if they are paying reduced rate NICs and you should remind them of this on a regular basis.

For more help see CWG2, *Employer's Further Guide to PAYE and NICs*, under 'married women and widows'.

An employee joins or leaves your pension scheme

Occupational pension schemes which satisfy certain legal requirements can contract-out of the State Second Pension. There are three methods of contracting-out of State Second Pension,

- Contracted-out Salary Related (COSR) scheme
- Contracted-out Money Purchase (COMP) scheme
- Contracted-out Money Purchase Stakeholder Pension (COMPSHP) scheme.

If you hold a contracting-out certificate (CA7000 or SHP305) and an employee is a member of your occupational pension scheme, you should deduct NICs at the appropriate contracted-out rate.

When an employee joins, or leaves, a pension scheme look at the quick guide on page 31, or the flowchart at the beginning of the NI Tables, to check which contribution Table letter you should use.

If you operate more than one pension scheme an employee may choose to move between schemes during the tax year. In addition to identifying the correct contribution Table letter to use if an employee changes from a COSR to a COMP pension scheme, or between COMP schemes, you will also have to ensure the employee's record reflects the correct Scheme Contracting-Out Number (SCON).

An employee may also change from an Appropriate Personal Pension (APP) or APP Stakeholder Pension scheme to your occupational contracted-out scheme. This will also change the contribution Table letter under which you deduct NICs.

For further information see CWG2, *Employer's Further Guide to PAYE and NICs*, under 'occupational pension schemes'.

An employee has more than one job

An employee has more than one job with different employers

An employee may tell you that they have another job where they are already paying NICs and that you should only deduct NICs at 1% from the salary that you pay them.

If an employee with more than one job thinks that they will earn in excess of the weekly or monthly UEL in one, or a combination of more than one, of their jobs, they can ask the Inland Revenue National Insurance Contributions Office for permission to defer paying some of the NICs in their other jobs.

The Inland Revenue National Insurance Contributions Office will send you form CA2700 if it agrees that the employee may defer some of the NICs they would otherwise have to pay on the earnings they receive from you. This form authorises you to deduct employee contributions at 1% on **all** earnings you pay to the employee that exceed the ET, including any earnings above the UEL.

You must still pay your employer's share of the NICs under the appropriate contribution Table letter – for help in identifying the right contribution Table letter see the table on page 31.

Until you receive the CA2700 form, continue to deduct employee's contributions at the appropriate rates.

For further information see CWG2, *Employer's Further Guide to PAYE and NICs*, under 'deferment of payment of employee's contributions'.

An employee has more than one job with the same employer

There are special rules about calculating NICs in these circumstances. For further information see CWG2, *Employer's Further Guide to PAYE and NICs*, under 'National Insurance contributions (NICs)'.

An employee becomes a director of your company

When you make an employee a director or a new director starts work, there are special rules that apply to the calculation of NICs. You can find these rules in the booklet CA44, *National Insurance for Company Directors*, which you can get from the Employer's Orderline on **0845 7 646 646**.

An employee goes abroad to work

If you have an employee who goes abroad to work, see the booklet CWG2, *Employer's Further Guide to PAYE and NICs*, 'Chapter 4'.

An employee reaches or is over State Pension age

If an employee reaches or is over State Pension age (60 for women, 65 for men) they no longer have to pay NICs.

You must still pay your employer's share of NICs.

Before you stop deducting employee NICs from the employee's wages, you must see some proof of their date of birth, for example a passport or birth certificate, to show that they have reached State Pension age. It would be helpful if you keep a record of the proof you have seen. Alternatively, they can provide you with one of the following certificates of age exception – CA4140, or CF384.

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

For further information see CWG2, *Employer's Further Guide to PAYE and NICs*, under 'State Pension age'.

An employee dies

If an employee dies while working for you, and a payment is due on or after the date of death that would normally attract a deduction of NICs, there is no liability for either employee or employer NICs.

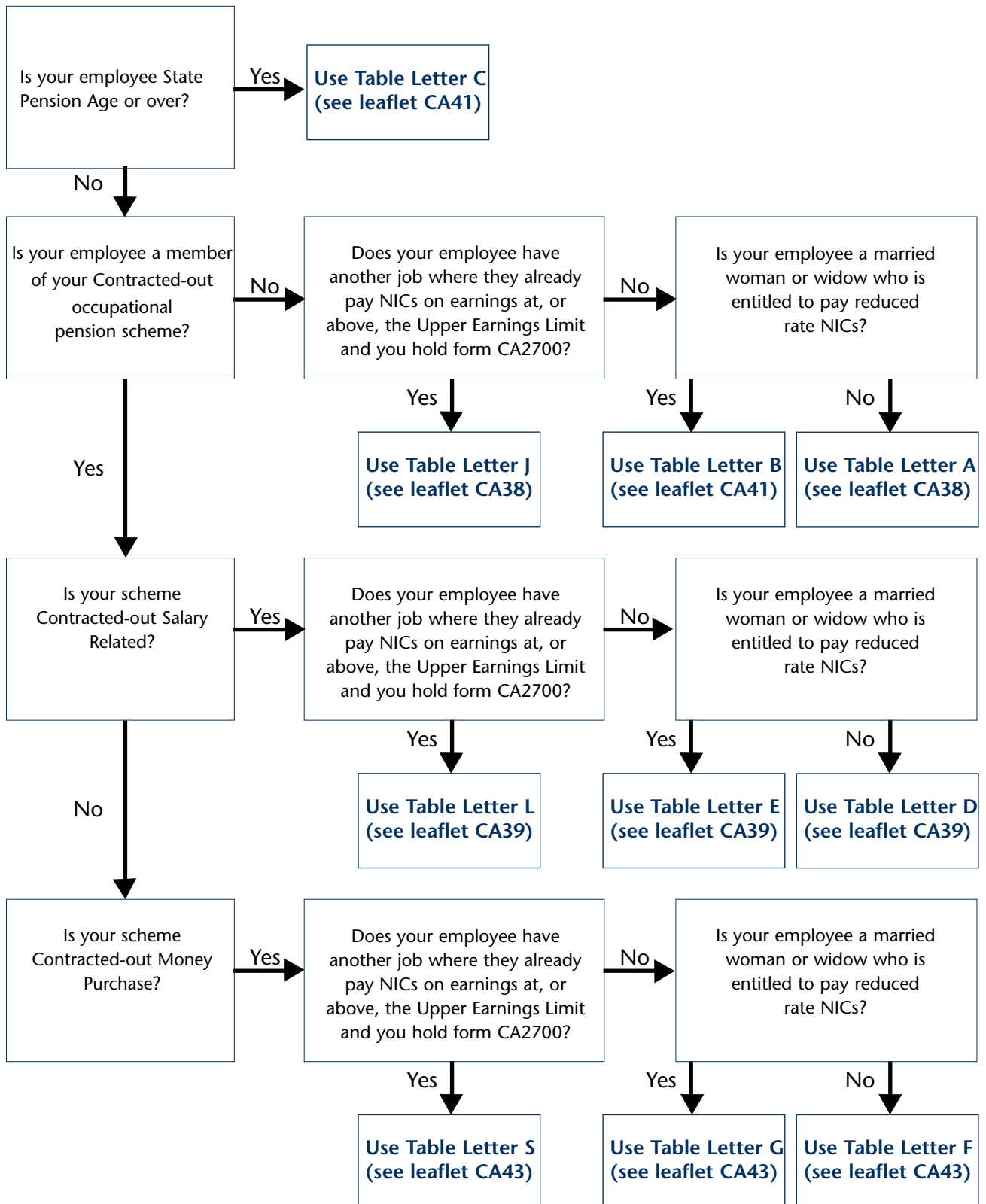
For further information see CWG2, *Employer's Further Guide to PAYE and NICs*, under 'death of employee'.

Which National Insurance Tables to use

You must use the correct Tables in calculating the NICs due on your employee's earnings

Check you are using the Tables for 2005-2006.

If your employee is under 16 years of age there is no NICs liability.



If you employ mariners, the CA42, *National Insurance Tables*, give details of category letters, rates and limits to use.

Important - please note:

NIC Tables are renewed every Tax Year. These are available on your Employer's CD-ROM or can be requested from the Employer's Orderline on **0845 7 646 646**.

Check you are using the Tables for 2005-2006.

You must use the correct Tables when calculating the NICs due on you employee's earnings.

Recalculating NICs following changes

If you do not deduct the correct amount of NICs at the proper time, because of a change to the employee's circumstances that you were unaware of, you can

- recover any underpaid NICs for the current tax year by making extra deductions from later earnings in the same tax year, or
- refund any overpaid NICs.

The action you take to recalculate NICs will depend on whether you will be making adjustments to the NICs from

- a current date, or
- a previous date
 - within the same tax year, or
 - in a previous tax year.

If you are adjusting the NICs from a **current date**

- draw a line across the P11 columns 1a to 1e under the last entry for the original contribution Table letter
- enter the totals of columns 1a to 1e 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
- enter the new contribution Table letter on the next line of the 'End of Year Summary' section.

If you are recalculating NICs from a **previous date within the same tax year**. 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 1e 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.

If as a result of the change NICs have been overpaid, refund the difference to the employee.

If you adjust the NICs and find that the employee has underpaid NICs you can recover the arrears by making extra deductions from your employee's earnings for the remainder of the tax year. The extra deductions can only be

- to recover NICs due on the current tax year, and
- as much as the contributions due on later earnings.

For example, if NICs of £5 are due on the later earnings, the employer can deduct no more than £5 extra towards the arrears due.

If arrears are still outstanding at the end of the tax year you **must not** recover them from later earnings in the following tax year.

If you are adjusting NICs from a **date in a previous tax year** amend the form P11 for the current year only by

- drawing a line through each of the entries that you are adjusting so that the original entry can still be read, and recording the right amounts alongside
- drawing a line through the contribution Table letter in the 'End of Year Summary' section and entering the new contribution Table letter alongside.

If NICs have been overpaid for the **previous tax year**

- and you have not yet sent in your *Employer's Annual Return* and final payment to your Accounts Office, make a refund of the difference to the employee and adjust your final payment, or
- if you have sent in your *Employer's Annual Return* and final payment, you must apply for a refund to the Inland Revenue National Insurance Contributions Office.

Where you do not find out that the NICs have been underpaid for a tax year that has finished until after you have sent in your *Employer's Annual Return*, and final payment to your Accounts Office

- provide a written statement of how the underpayment happened and has been calculated
- send the statement with a payment for the underpaid NICs to the Inland Revenue National Insurance Contributions Office.

For further help on what to do if a mistake is discovered during the tax year or after the tax year has ended (including errors made in good faith) see CWG2, *Employer's Further Guide to PAYE and NICs*, under 'mistakes in amount of NICs or PAYE'.

Part 8 Working Tax Credit paid with wages

Knowing when to pay Working Tax Credit

When we want you to pay Working Tax Credit to an employee we will send you a form TC700, *Start Notice*.

The TC700 is printed on watermarked paper, blue on the left and right sides, fading to pink down the centre of the page. The background pattern is of small crowns, with a large crown surrounded by the words 'Inland Revenue' in letters of various sizes in the centre. Security features include watermarks down the centre of the page with small square blocks containing the letters 'IR' and 'TC'.

If you receive a start notice which does not have these features please return it to the address shown at the top of the TC700.

The TC700 will show

- the employee's details
- the start date from which you are responsible for paying Working Tax Credit (this will be at least 42 days after the date we send you the TC700)
- the daily rate of Working Tax Credit payable and
- a daily rate table showing the daily rate multiplied by 1-31 to help you work out how much to pay in each pay period.

Do I have to pay Working Tax Credit?

You are required by law to pay Working Tax Credit to the employee from the date shown on the TC700 unless

- the employee stops working for you before the start date on the TC700, or
- you do not expect to pay the employee for at least three consecutive pay periods starting with the pay period that includes the start date or
- you are not currently deducting PAYE tax or NICs from the pay of any of your employees.

In these circumstances you should tick the relevant box on the TC700 and return it to the Tax Credit Office.

Funding Working Tax Credit payments

You should fund Working Tax Credit payments by using the PAYE, NICs, Student Loan and Construction Industry Scheme deductions you are accountable for in each pay period.

If you don't expect to make sufficient deductions to cover the amount of Working Tax Credit payable you can apply for funding from the Inland Revenue by completing a form TC711, *Tax Credit Funding Application*. This will be sent to you with the first form TC700, *Start Notice*.

You can complete and print off extra copies of the form TC711 from your Employer's CD-ROM or order them from the Employer's Orderline on **0845 7 646 646**.

You will be sent a funding notification, form TC712, each month that will tell you how much funding you will be receiving for the following funding period. A standard funding period runs from the 6th of a month to the 5th of the following month.

A form TC717 is sent with the first TC712 and you can use this to tell us if any of the information given in your application for funding has changed.

Return forms TC711 as soon as possible to your usual Accounts Office. You may send them by post or by fax using one of the following numbers

Accounts Office Cumbernauld **0845 6023519**

Accounts Office Shipley **0845 6023517**

To ensure that you receive funding in time, you should apply **at least nine working days** before you need it. If you have not applied this far in advance we will do our best to get the funding to you as soon as possible.

All payments will be made by direct automated credit transfer into your bank or building society account so that they are available to be drawn from the 6th of each month to pay Working Tax Credit in the period 6th of the month to the 5th of the next month. The one exception to this is the initial payment, which covers the first two funding periods.

Paying and accounting for Working Tax Credit

Working Tax Credit is not subject to PAYE tax or NICs.

Before working out and paying tax credits, it may help if you complete Box M on form P11 using the start date and daily rate details shown on the TC700.

You must pay Working Tax Credit at the same frequency and for the same period as you pay wages/earnings, for example, weekly, fortnightly or monthly. Working Tax Credit is payable for every calendar day in a pay period, not just working days.

The first time you pay Working Tax Credit to an employee you must pay the daily rate for the start date itself and for each calendar day up to and including the last day of the pay period in which the start date falls. The TC700 table shows examples of how this works. On each subsequent pay day you must pay Working Tax Credit for each calendar day in the pay period.

Example of Working Tax Credit paid in arrears

Employer pays wages every Wednesday, 1 week in arrears for work done in previous week. Pay period Monday to Sunday.

Working Tax Credit start date (on TC700) is Friday 14th. Daily rate is £5.50.

On Wednesday 19th (when paying wages for the period 10th – 16th) employer pays 3 days Working Tax Credit (£16.50) (for Friday 14th, Saturday 15th and Sunday 16th).

On each subsequent pay day employer pays 7 days Working Tax Credit (£38.50) for the whole pay period.

Every time you pay Working Tax Credit to an employee you must

- pay the Working Tax Credit as an addition to the employee's net pay
- show the amount of Working Tax Credit paid as a separate item on your employee's payslip
- record the amount of Working Tax Credit paid on the form P11 in column 9 at the appropriate week/month.

If, by mistake, you pay the wrong amount of Working Tax Credit, for guidance on how to correct the mistake see E6(2005), *Working Tax Credit paid with wages*, under 'Mistakes in payment'.

If, exceptionally, you have not been required to prepare form P11 (or equivalent record) for the employee for PAYE and NICs purposes, you should prepare one to record the Working Tax Credit paid. There is no need, however, to record wages/salary on form P11 if you are preparing the form solely for Working Tax Credit purposes.

Even if the pay in the period is not made up of earnings but for example SSP, SMP or a tax refund, you must still pay the Working Tax Credit for that pay period.

In the case of a paid holiday where wages/salary are paid in advance Working Tax Credit should also be paid in advance.

If we want you to amend the daily rate of Working Tax Credit that you pay we will send you a form TC701, *Amendment Notice*. We will always give you 42 days notice before you have to start paying Working Tax Credit at the amended daily rate.

At the end of each month or quarter you will have to reflect, in the payment you make to your Accounts Office, the amount of Working Tax Credit you have paid to your employees. Making payments to the Inland Revenue is covered at pages 15 - 17 of this Help Book.

Stopping Working Tax Credit payments

You can stop paying Working Tax Credit only if

- we tell you to by sending you a form TC702, *Stop Notice*, giving you 42 days notice
- we agree with you a stop date with less than 42 days notice (in which case a form TC703, *Emergency Stop Notice*, will be issued to confirm this)
- you are not due to pay the employee any wages, SMP, SPP, SAP or SSP in a pay period, in which case you do not have to make up a pay packet simply to pay the Working Tax Credit. If this is the case, please call the Employer's Helpline for advice, on **0845 7 143 143**
- the employee leaves or dies.

It may help if you complete Box M on form P11 using the stop date shown on the TC702 or TC703.

Where to get further help and advice

There is more detailed guidance in the booklet E6(2005), *Working Tax Credit paid with wages*. You can see a copy of the booklet on our website at www.inlandrevenue.gov.uk/leaflets/credit.htm or on your Employer's CD-ROM or you can get a copy from the Employer's Orderline on **0845 7 646 646**.

There is a step by step teach yourself Working Tax Credit package on your Employer's CD-ROM.

Part 9 Student Loan Deductions

We are responsible for collecting repayments of Student Loans. In the majority of cases the employer will collect these repayments by making deductions from pay.

Start notification

At any time during the year the Inland Revenue may send you a Start notification to begin making Student Loan Deductions from an employee.

If you receive a Start notification

- enter '✓' in Box J, headed 'Student Loan Deductions case' on the employee's form P11
- keep the Start notification in your wages records
- use the calculator on your Employer's CD-ROM or the SL3, *Student Loan Deduction Tables*, to start making Student Loan Deductions, if appropriate, from the first pay day after the start date shown on the Start notification.

You can view and print off a copy of the SL3, *Student Loan Deduction Tables*, from your Employer's CD-ROM or order one from the Employer's Orderline on **0845 7 646 646**.

Working out and paying over Student Loan Deductions

If you employ a borrower who also has an Attachment of Earnings Order refer to the booklet Employer's Help Book, E17, *Collection of Student Loans*, before making Student Loan Deductions.

You can view and print off a copy of the guide from your Employer's CD-ROM or order one from the Employer's Orderline on **0845 7 646 646**.

Working out pay for Student Loan Deduction purposes

Use the same amount of gross pay for Student Loan Deduction purposes as you have used to calculate NICs.

For further information on gross pay see page 9 of this Help Book.

At the end of each pay period

Each pay day

- work out the employee's gross pay for Student Loan Deduction purposes
- use the SL3, *Student Loan Deduction Tables*, to work out the amount of Student Loan Deductions
- enter the amount of the Student Loan Deduction on the employee's P11 in column 1j at the appropriate week or month.

At the end of each tax month or quarter

See page 15 of this Help Book.

Stop notification

When you receive a Stop notification from the Inland Revenue

- stop making Student Loan Deductions from the employee's pay – the notice will give a period of 42 days from the date of issue for you to put it into effect
- keep the Stop notification in your wages records.

Where to get further help and advice

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

You can view and print off a copy of the guide from your Employer's CD-ROM or order one from the Employer's Orderline on **0845 7 646 646**.

There is a step by step teach yourself Student Loan Deductions package on your Employer's CD-ROM.

Notes

