Employer Further Guide to PAYE and NICs

Use from 1 September 2014
Help and guidance
You can get help and guidance from the following sources.

The internet
For help with your payroll go to,
www.hmrc.gov.uk/payerti/index.htm
For wider interactive business help go to
www.gov.uk/starting-up-a-business
Webinars are a new way of learning about your payroll. Our presentations cover a wide range of topics. For more information, go to www.hmrc.gov.uk/webinars
Any page printed from the online version of this helpbook is uncontrolled and may not be the latest version. We recommend that you always check you are referring to the latest online version.

Online services
For information and help using our Online Services, go to www.hmrc.gov.uk/online
For more help, contact the Online Services Helpdesk by:
• phone on 0300 200 3600, or
• textphone on 0300 200 3603.

Basic PAYE Tools
The Basic PAYE Tools is software that you download onto your computer. It will help you run your payroll throughout the year. It is designed for employers who have nine or fewer employees, and you can use it to calculate payroll deductions and then report payroll information online in real time.
Basic PAYE Tools will:
• record your employees’ details
• work out and record your employees’ pay, tax, NICs and any Student Loan deductions every payday
• enable you to claim your NICs Employment Allowance (up to £2,000 per year off your secondary Class 1 NICs liability)
• generate the payroll data that you need to send to HMRC in real time, including starter and leaver information
• produce an Employer Payment Record that works out how much you need to pay HMRC
• contain calculators to help you to work out statutory payments such as Statutory Sick Pay and Statutory Maternity Pay.

Employer Bulletin online
Employer Bulletins contain information and news for employers. We publish these several times a year. Go to www.hmrc.gov.uk/payerti/forms-updates/employer-bulletin/index.htm

Education services from the Digital Delivery Team
Find out more about our webinar programme at www.hmrc.gov.uk/webinars and why not take a look at our Youtube channel? You can view our video clips or listen to a recorded version of our webinars. Go to www.youtube.com/hmrcgovuk

Employer email alerts
We strongly recommend that you register to receive employer emails to prompt and direct you to:
• each new edition or news about the Basic PAYE Tools
• the Employer Bulletin
• important new information.
To register, go to www.hmrc.gov.uk/payerti/forms-updates/forms-publications/register.htm

HM Revenue & Customs (HMRC)
If you have a query about your PAYE scheme:
• phone the Employer Helpline on 0300 200 3200, or
• write to:
HM Revenue & Customs
National Insurance Contributions & Employer Office
BP4009
Chillingham House
Benton Park View
NEWCASTLE UPON TYNE
NE98 1ZZ

Please tell us your employer PAYE and Accounts Office references when you contact us. You will find them on correspondence from HMRC.

Your rights and obligations
Your Charter explains what you can expect from us and what we expect from you. For more information go to www.gov.uk/government/publications/your-charter

Yr laith Gymraeg
I lawrlytho ffurflenni a llyfrynnau cymorth Gymraeg, ewch i www.hmrc.gov.uk/cymraeg/ffurflenniathaflenni_defnydiol.htm#2 a dilyn y cysylltiad i Becyn y Cyflogwr. Os, yn eithriadol, nad oes gennych gysylltiad i’r rhyngrwyd, cysylltwch â’r Ganolfan Gyswllt Cymraeg ar 0300 200 1900.

Forms and guidance in Braille, large print and audio
For details of employer forms and guidance in Braille, large print or audio, phone the Employer Orderline on 0300 123 1074 and ask to speak to the Customer Service Team.

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Introduction

Real Time Information (RTI)
The following guidance applies to all Employers. Guidance for reporting PAYE in real time is also available at www.hmrc.gov.uk/payerti/index.htm

About this guide
Throughout this guide PAYE means Pay As You Earn and NICs stands for National Insurance contributions.
For information about the day-to-day tasks in operating PAYE and paying NICs please go to www.hmrc.gov.uk/payerti/index.htm or refer to the Employer Helpbooks.
This guide gives more detailed information and covers some less common situations. New or amended material is sidelined in black.
Please remember that you may be asked to produce evidence of how you have worked out PAYE and NICs. It is important that you keep records either in paper form or on a computer. In either case, these records must be made available to HM Revenue & Customs (HMRC) on request.
There are legal requirements that mean employers must comply with their obligations. At the time of writing, this guide sets out HMRC’s view on how these legal requirements can be met.
It will be updated annually and was last updated December 2013.
The operation of PAYE is based on the Income Tax (Pay As You Earn) Regulations 2003 and the payment of NICs is based on the:
• Social Security Contributions and Benefits (Northern Ireland) Act 1992
• Social Security Administration (Northern Ireland) Act 1992
• Social Security (Categorisation of Earners) Regulations (Northern Ireland) 1978, as amended.
You can find links to some of the legislation go to www.hmrc.gov.uk/menus/legalmenu.htm
The link for ‘Social Security Legislation for Northern Ireland’ will take you to the Department for Social Development in Northern Ireland’s website.

If you are unhappy with our service
If you are unhappy with our service, usually a phone call to the person or office you have been dealing with will allow us to put things right quickly. Their number will be on any papers they have sent.
However, if you are still unhappy, or you would like to deal with someone else, then you may want to complain. Please see our factsheet ‘Complaints and putting things right’ which is available. Go to www hmrc gov uk/complaints-appeals/how-to-complain/index.htm or contact the Complaints Manager at the office you have been dealing with.

Terms used in this guide
Gross pay
The amount the employee is due to receive before any deductions are made. What counts as gross pay for PAYE and NICs purposes is defined in more detail in Chapter 5.
Income Tax year (tax year)
A tax year is a period starting on 6 April in one year and ending on 5 April in the following year. For example, the 2014–15 tax year starts on 6 April 2014 and ends on 5 April 2015.
Income Tax weeks (tax weeks)
Tax weeks are periods of seven days which follow on from each other starting on 6 April each year. The first tax week is 6 to 12 April inclusive, the second tax week 13 to 19 April inclusive, and so on.
The odd day or days at the end of the last complete tax week in the year, (5 April or in leap years, 4 and 5 April) are treated as a whole tax week, that is tax week 53.
Income Tax months (tax months)
Income Tax months are periods following on from each other in an Income Tax year. They start on the 6th of one month and finish on the 5th of the following month. The first Income Tax month is 6 April to 5 May inclusive, the second Income Tax month is 6 May to 5 June inclusive, and so on.
For details of relevant dates within a tax year go to www hmrc gov uk/payerti/paying/deadline.htm
The period of time between one payment and the next. Pay intervals can be:
- ‘regular’, that is every week, month and so on, or
- ‘irregular’, that is with no fixed period of time between.

For example, an employee is paid after working for 10 days, then again after a further 25 days and again after a further 40 days.

A payroll record shows PAYE and NIC deductions for each of your employees. It is important that you keep payroll records, either in paper form or on a computer.

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

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

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

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

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

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

There are a wide range of PAYE (Pay As You Earn) notices, forms and returns that can be sent and received online.

PAYE Online – your filing options
You report your payroll information by submitting Full Payment Submissions (FPS) and Employer Payment Summaries (EPS). You also use an EPS to tell HMRC if you haven't paid any employees in a pay period and have no return to make. These submissions and other returns and reports are sent electronically by your payroll system to HMRC.

You can send forms and returns online using:
- our PAYE Online for employers - Internet service, choosing either
  - our free ‘Online Return and Forms - PAYE’ product (this is designed for small employers who have up to and including 49 employees and do not send large numbers of forms to us)
  - third party (commercial) payroll software
- Electronic Data Interchange (EDI) - more suitable for large employers who typically have employee numbers in the thousands and/or a very high staff turnover
- an agent or payroll bureau who can file online on your behalf, using our PAYE Online for Agents service. For more information go to www.hmrc.gov.uk/payerti/reporting/how-to-report.htm

PAYE Online – Expenses and Benefits
In addition to the above filing options, we provide a service that allows you to send your expenses and benefits information electronically, if your software doesn’t do this automatically.

For more information on completing your expenses and benefits forms go to www.hmrc.gov.uk/payerti/exb/forms.htm

PAYE Online – Direct Debit payment
When you enrol for the PAYE Online for Employers service, you are given instant access to the Direct Debit Online service. This allows you to set up a Direct Debit Instruction which you can use to pay your monthly or quarterly PAYE and NIC payments. For more information on how to pay PAYE/Class 1 National Insurance contributions/CIS go to www.hmrc.gov.uk/payinghmrc/paye.htm

Forms and returns that can be sent over the Internet are:
- Employer Alignment Submission (EAS)
- Full Payment Submission (FPS)
- Employer Payment Submission (EPS)
- Earlier Year Update (EYU)
- NI number Verification Request (NVRREQ)
- P35, P38A – Employer Annual Return/supplementary statement, used for a tax year during which you did not operate PAYE in real time
- P14 – End of Year Summary, used for a tax year during which you did not operate PAYE in real time

There are few exceptions. For more information about the exceptions go to www.hmrc.gov.uk/payerti/reporting/paper-filing.htm#1

For more information about online filing go to www.hmrc.gov.uk/payerti/getting-started/using-paye-online.htm

For more information about sending starter and leaver information online, go to www.hmrc.gov.uk/payerti/getting-started/using-paye-online.htm
More information is available at
www.hmrc.gov.uk/softwaredevelopers/rti/edi-rti.htm

Privately produced programs
If you design and operate your own computer program we provide regularly updated information to help you keep computerised payroll systems up to date with changing legislation. These updates are available on our website at

Substitute forms P60 End of Year Certificate
All substitute forms P60 End of Year Certificate, paper or electronic, must be submitted annually for HMRC approval.

Our booklet RD1 Specification for employer substitute forms P60, gives guidelines to anyone producing a new substitute P60 design or amending an existing design. We revise the booklet annually to publish any changes for the current tax year. To view the specification download the booklet using the link Download Specification for employer substitute forms P60 at www.hmrc.gov.uk/payerti/end-of-year/tasks.htm

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

To apply for HMRC approval, send a draft of the proposed form to us either by email or as a paper copy. Please email your draft (for example, PDF) to hmrc.substituteformsapproval@hmrc.gsi.gov.uk or alternatively post a paper draft to:
HM Revenue & Customs Digital Services
Room G69
100 Parliament Street
LONDON
SW1A 2HQ

Form P45 for use on computer printers
We supply four versions of the P45 for computer use:
• form P45 (Manual) – for manual completion
• form P45 (Continuous) – suitable for completion by impact printer
• form P45 (Continuous)(E) – suitable for completion by high-speed laser printers
• form P45 (Laser-Sheet) – suitable for completion by cut-sheet laser printers.
The forms can be obtained from the Employer Orderline.

Commerially produced programs
We work closely with commercial software developers and provide free technical specifications to help them create products and services suitable for use with HMRC Online Services.
HMRC will accept forms and returns sent using any of the commercial software products listed on our website.
For more information go to www.hmrc.gov.uk/softwaredevelopers/paye/rti-software-forms.htm
A list of EDI enabled software products can also be viewed.
Go to www.hmrc.gov.uk/ebu/edi/edi-software.htm

The following forms and returns can be exchanged online, using EDI:
• P11Ds – Return of Expenses and Benefit
• P11D(b) – Return of Class 1A National Insurance contributions, Return of expenses and benefits: Employer declaration
• P14 – End of Year Summary (up to 2012–13)
• P35/P38A – Employer Annual Return and supplementary statement (up to 2012–13)
• P46(Car) – Notification of car made available for private use
• P6, P6B, P9 – Coding notifications
• SL1/SL2 – Collection of Student Loans – start/stop notices
• NVREP – National Insurance number verification replies and RTI National Insurance number notices
• Employer Alignment Submission (EAS)
• Full Payment Submission (FPS)
• Employer Payment Submission (EPS)
• Earlier Year Update (EYU)
• NI Number Verification Request (NVRREQ)

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

For Online End of Year Expenses and Benefits Forms go to www.hmrc.gov.uk/payerti/exb/forms.htm

Commercially available or privately produced payrolls
The notes below tell you how to get information to enable you to use and run a computerised payroll.

Commerially produced programs
We work closely with commercial software developers and provide free technical specifications to help them create products and services suitable for use with HMRC Online Services.
HMRC will accept forms and returns sent using any of the commercial software products listed on our website.
For more information go to www.hmrc.gov.uk/softwaredevelopers/paye/rti-software-forms.htm
A list of EDI enabled software products can also be viewed.
Go to www.hmrc.gov.uk/ebu/edi/edi-software.htm

More information is available at
www.hmrc.gov.uk/softwaredevelopers/rti/edi-rti.htm
Chapter 1 – General procedures

The following guidance applies to all employers. Guidance for reporting PAYE in real time is also available at www.hmrc.gov.uk/payerti/index.htm

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

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

• engaged under a 'contract of service'. Where you pay somebody to work for you, that arrangement will normally amount to either a contract of service (employment) or a contract for services (self-employment). Almost everyone who works for an employer will be employed under a contract of service, including full-time, part-time, casual or temporary employment. A contract need not be written, but can be a verbal or implied working agreement, or
• an office holder with earnings chargeable to tax. An office holder is someone appointed to hold a titled office (including an elective office), for example, a company director, or
• engaged through an agency or some other third party. For more information, see ‘Workers supplied by agencies’ on page 50.

For PAYE purposes

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

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

For NICs purposes

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

• office cleaners
• ministers of religion
• people employed by their husband or wife or civil partner for the purpose of his or her employment
• theatrical performers/artists within the entertainment industry.

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

• go to www.hmrc.gov.uk/payerti/employee-starting/new-employee.htm or
• phone the Employer Helpline.

National Insurance numbers

1 What is a National Insurance number?

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

You are required to record an employee’s National Insurance number on payroll records. It is important, therefore, that you ask employees for their National Insurance number as soon as possible after they start working for you.

Your employees are required by law to give their National Insurance number to you, although they can start work before providing the number.

For each employee, you must:

• record their date of birth, gender and address including postcode
• arrange for them to let you know of any change of name, gender and/or address.

Temporary National Insurance numbers

We no longer accept temporary National Insurance numbers on Employer Annual Returns (for example, any National Insurance number beginning with 'TN'). This applies no matter which method you use to submit your returns. In all cases you should try to get the National Insurance number (see paragraph 4) and enter it on your payroll record.

If you are unable to get the National Insurance number you must:

• leave the National Insurance number field blank, and
• enter the date of birth and gender.

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

If the National Insurance number used by HMRC for an employee differs from the one you already hold, use the National Insurance Number given to you by HMRC. If your employee disputes this is the correct National Insurance number advise them to contact HMRC.

3 National Insurance number and identity

The National Insurance number card should not be accepted by anyone as proof of identity. HMRC no longer issue plastic National Insurance number cards but they can issue written confirmation to a person who requests a reminder of their National Insurance number. If your new employee doesn’t know their National Insurance number and you haven’t yet included them on an FPS, you should ask them if they have an old payslip or form P60 - you will usually be able to find it there.

If you can’t get a National Insurance number from a new employee, you must still send their details on the first FPS that includes a payment to them – but you must leave the National Insurance number field blank for that employee. You must not use an incorrect or ‘dummy’ National Insurance number.

When you submit the FPS HMRC will try to match the employee’s details to their National Insurance number, and where HMRC are able to match the employee’s National Insurance number with the details you provided, you will get a message through the FPS submission route telling you the correct National Insurance number.

If you do not receive a message from HMRC telling you the correct National Insurance number, continue to leave the National Insurance number field blank for that employee until notified.
The fact that a person has a National Insurance number does not mean that the person has the right to work or live in the UK. It is not a passport to employment. For more information on a person’s right to work in the UK go to www.gov.uk/employers-checks-job-applicants or phone the Home Office on 0300 123 4699.

4 How to get an employee’s National Insurance number

To find out how to get an employee’s National Insurance number, or if you want to check an employee’s National Insurance number before including it on the employee’s payroll record go to www.hmrc.gov.uk/payerti/employee-starting/verify-nino.htm

When to work out NICs and PAYE

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

If the employee is not a director, operate PAYE on the earlier of:
• when you actually make the payment
• when the employee is entitled to be paid, even if the pay is not drawn until later.

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

For NICs purposes

The point of time is that at which the earnings are placed unreservedly at the disposal of the employee. If the employee is a director, go to www.hmrc.gov.uk/nitables/ca44.pdf

You can seek advice on what to do for PAYE and NICs purposes by phoning the Employer Helpline.

Late notification of marginal items of pay

Occasionally, payroll sections do not get to know about certain marginal items of pay, for example expenses, until some time after they have been paid or treated as paid. So they include the item in a later earnings period because it is time-consuming to have to revisit the correct earnings period and recalculate the NICs due. HMRC will allow you to use a later earnings period when calculating the NICs due, even on the rare occasions when such payments are notified late and the most convenient earnings period falls within the next tax year. But the marginal item of pay must be included in the gross pay for the purposes of calculating NICs without any undue delay.

Marginal items of pay included in a later earnings period do not have to be reported to HMRC when paid. They should be reported when they are included in the later earnings period at the time that the earnings paid in that later period are paid.

You must allocate marginal items of pay to the correct earnings period and recalculate the NICs where the deferred calculation may have a material effect on an individual’s benefit entitlement. For example, where an employee earns around the lower earnings limit.

HMRC will also ask you to include the marginal item of pay in the correct earnings period and recalculate the NICs due where it appears that you are deferring the calculation to avoid or reduce NICs.

If you must allocate the marginal item of pay to the correct earnings period and recalculate the NICs, you will need to ensure that the year to date National Insurance information submitted on a Full Payment Submission reflects the correct values.

‘Marginal items of pay’ do not include amounts paid, or treated as paid, by way of securities, for example shares, share options.

If an item of pay is not marginal and your payroll section does not find out about the item in time to include it in the correct earnings period, the pay records must be adjusted to allocate the item to the correct earnings period.

National Insurance Contributions (NICs) Employment Allowance

A new annual £2,000 Employment Allowance is available from 6 April 2014 for businesses, charities and Community Amateur Sports Clubs to be offset against their employer Class 1 Secondary NICs. Businesses, charities and Community Amateur Sports Clubs may claim the Employment Allowance if the earnings they pay give rise to a secondary Class 1 NICs liability.

Employers need to take no action before 6 April 2014, but you will need to determine your eligibility. For more information, details of eligibility and how to claim the Employment Allowance see Chapter 3 Section 89 CWG2 and go to www.hmrc.gov.uk/nicsemploymentallowance

(Introduction of the Employment Allowance from 6 April 2014 is subject to Parliamentary approval of the legislation in the NICs Bill)

Class 1A NICs on taxable benefits

Class 1A NICs are due on most taxable benefits in kind. Details of when liability for Class 1A NICs arises and how they are calculated, reported and paid are included in CWG5(2014) Class 1A National Insurance contributions on benefits in kind.

For more help and advice go to www.hmrc.gov.uk/guidance/cwg5.pdf

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

Go to www.hmrc.gov.uk/guidance/ca33.pdf
How to work out NICs and PAYE for various pay intervals

The following charts will help you work out NICs and PAYE for most pay intervals. The calculators on our website at [www.hmrc.gov.uk/calcs-tools/index.shtml](http://www.hmrc.gov.uk/calcs-tools/index.shtml) can be used for those pay intervals marked * below. If you use the Basic PAYE Tools to calculate all payroll deductions and carry out real time reporting, it will handle the pay intervals marked ^ below. You can find out more about the Basic PAYE Tools at [www.hmrc.gov.uk/payerti/getting-started/payroll-system.htm](http://www.hmrc.gov.uk/payerti/getting-started/payroll-system.htm) For examples of how to calculate NICs using the exact percentage method go to [www.hmrc.gov.uk/calcs/nice.htm](http://www.hmrc.gov.uk/calcs/nice.htm)

<table>
<thead>
<tr>
<th>Pay intervals</th>
<th>To work out NICs</th>
<th>Working out PAYE using Tax Tables A - The Pay Adjustment Tables</th>
</tr>
</thead>
</table>
| Weekly* ^     | Earnings period is weekly  
Use either the appropriate weekly table or the exact percentage method to calculate NICs. | Using a code on a cumulative basis  
Use the table for the tax week that includes the date of payment.  
If a payday is in week 53, use the table for week 1 again on a non-cumulative basis. | Using a code on a week 1/ month 1 basis  
Use the table for week 1 on each payday. |
| Fortnightly* ^| Earnings period is two-weekly  
Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables:  
• divide the earnings on which NICs are payable by 2  
• look up this figure in the appropriate weekly table  
• multiply the NICs shown in the table by 2.  
This is the amount of NICs due.  
| Use the table for week 2 for the first payment after 5 April, even if the payment is made in the first week of the tax year. Use the table for week 4 for the second payment and so on up to week 52. If there is a 27th payday in the tax year use the table for week 2 again on a non-cumulative basis. | Use the table for week 2 on each payday. |
| Four-weekly* ^| Earnings period is four-weekly  
Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables:  
• divide the earnings on which NICs are payable by 4  
• look up this figure in the appropriate weekly table  
• multiply the NICs shown in the table by 4.  
This is the amount of NICs due.  
| Use the table for week 4 for the first payment after 5 April, even if the payment is made in the first, second or third week of the tax year. Use the table for week 8 for the second payment and so on up to week 52. If there is a 14th payday in the tax year use the table for week 4 again on a non-cumulative basis. | Use the table for week 4 on each payday. |
| Monthly* ^    | Earnings period is monthly  
Use either the appropriate monthly table or the exact percentage method to calculate NICs. | Use the table for the month that includes the date of payment. | Use the table for month 1 on each payday. |
| Quarterly ^    | Earnings period is quarterly  
Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables:  
• divide the earnings on which NICs are payable by 3  
• look up this figure in the appropriate monthly table  
• multiply the NICs shown in the table by 3.  
This is the amount of NICs due.  
| Use the table for month 3 for the first payment after 5 April, even if the payment is made in an earlier month. Use the table for month 6 for the second payment and so on. | Use the table for month 3 on each payday. |
| Half-yearly ^  | Earnings period is half-yearly  
Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables:  
• divide the earnings on which NICs are payable by 6  
• look up this figure in the appropriate monthly table  
• multiply the NICs shown in the table by 6.  
This is the amount of NICs due.  
<p>| Use the table for month 6 for the first payment in the tax year, and the table for month 12 for the second payment. | Use the table for month 6 on each payday. |</p>
<table>
<thead>
<tr>
<th>Pay intervals</th>
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<th>Working out PAYE using Tax Tables A - The Pay Adjustment Tables</th>
</tr>
</thead>
</table>
| **Annually**^ | **Earnings period is annually**  
Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables:  
• divide the earnings on which NICs are payable by 12  
• look up this figure in the appropriate monthly table  
• multiply the NICs shown in the table by 12.  
This is the amount of NICs due. | **Using a code on a cumulative basis**  
Use the table for month 12. | **Using a code on a week 1/month 1 basis**  
Use the table for month 12. |
| **Intervals of less than a week**^ | **Earnings period is one week**  
Add together all the payments made in an Income Tax week and if the total goes over the weekly lower earnings limit and the Primary and Secondary Thresholds, NICs are due.  
Use either the appropriate weekly table or the exact percentage method to calculate NICs from the employer and employee respectively. | **Use the table for the tax week that includes the date of payment. If a payment is in week 53, use the table for week 52 again.** | **Use the table for week 1 for each payment. Add to each payment any payments made earlier in the same Income Tax week when working out the tax to be deducted.** |
| **Irregular pay intervals of more than a week but not multiples of weeks or months** | **Earnings period is the interval the payment covers**  
You must use the exact percentage method to work out the NICs due. To do this:  
• work out the daily lower earnings limits and upper accrual point by dividing the weekly limits by 7  
• multiply the answers by the number of calendar days in the period which the payment covers  
• work out the daily Primary Threshold, Secondary Threshold and upper earnings limit by dividing the annual figures by 365  
• multiply the answers for the Primary Threshold, Secondary Threshold and upper earnings limit by the number of calendar days in the period which the payment covers.  
In all cases the resulting figures should be calculated to the nearest penny. Amounts of £0.005p or less should be disregarded. NICs are due on earnings in each interval if the earnings exceed the Primary Threshold and Secondary Threshold for employees and employers. | **Use the table for the week that includes the date of the payment. If a payment is made in week 53, use the table for week 52, unless you are given written instructions by us.** | **Use the table for the week that includes the date of payment. (Where employment started after 5 April, deduct from that the number at the date of commencement.) After that, take into account the time elapsed between payments to the employee to work out the correct basis to use. For example, if the first payment is in week 4, use the table for week 4. If the next payment is made in week 10, use the table for week 6 (10 minus 4), or if the next payment is in week 10 but the employment started in week 6, use the table for week 4 (10 minus 6). If the next payment is made in week 16, use the table for week 6 (16 minus 10).** |
| **Employees paid once only, or employees paid once only where the earnings period is one of those marked ^ (see page 7)** | **Earnings period is the length of time you employ them or one week whichever is longer**  
Follow whichever rule above applies. | **If you employ them for less than a week, follow the rule in the first row above for intervals of less than a week. If you employ them for more than a week, use the table for the week the employment ends.** | **Use the table for the week the employment ends if the employment started before the start of the tax year. If the employment started after the end of the tax year use the table for the length of the employment. For example, if the employment starts in week 5 and ends in week 9 use the table for week 4 (9 minus 5).** |
**Operation of PAYE and Class 1 NICs when the regular date for payment is a non-banking day**

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

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

For PAYE purposes the payment may be treated as having been made on the regular payday. There is a weekly/monthly chart at paragraph 6.

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

**Example - regular payday and actual payday cross a tax month**

Pay due on Monday 5 May 2014 (tax month 2) but paid on Friday 2 May 2014 (tax month 1) **may** be treated for PAYE purposes as being paid on 5 May 2014. For NICs purposes the payment **must** be treated as having been paid on 5 May 2014.

**Example - regular payday and actual payday cross a tax year**

Pay due on Sunday 6 April 2014, (tax year 2014-15) but paid on Friday 4 April (tax year 2013-14) may be treated for PAYE/NICs purposes as being paid on 6 April.

(See pages 30 and 31 for more NICs information and examples.)

**Change of pay interval to a shorter interval**

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

**For NICs purposes**

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

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

**Example 1**

A weekly paid employee changes to being monthly paid on 9 July 2014 and receives their last two weekly payments on 29 June and 6 July.

The new earnings period is a month and will coincide with the tax month which always starts on the sixth of every month. The first monthly payday is 31 July.

Work out NICs due on the first monthly pay taking into account the earnings and NICs worked out on the payment made on 6 July.

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

Amend the payroll record.

The weekly payment made on 29 June is not in the new earnings period and is not included in the calculation.

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

**Example 2**

Using the same dates as in **Example 1**, add the weekly earnings paid on 6 July to the monthly earnings paid 31 July and work out NICs on the total at the appropriate contracted-out rate(s), using the new monthly NICs thresholds.

Deduct the NICs previously paid on the 6th to determine the amount of NICs now due on the 31st. Amend the payroll record to reflect the changes to the NICs category letter and NICs thresholds.

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

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

For PAYE purposes
To find out the correct tax week/month look up the table on page 12.
If the month or week number in which you are making the payment:
• follows on from the tax month or week of the previous payment, complete your payroll record and operate PAYE in the normal way. Your next FPS should reflect the payment and tax month
• is the same as the tax month or week of the previous payment
  — treat the first ‘new date’ payment as an extra payment for the month or week
  — as only one amount of free pay can be given in a pay period the free pay due is the figure used when the previous payment was made. For paydays after the first ‘new date’ payment, complete your payroll record and operate PAYE in the normal way, send a further FPS to report the revised data.

For NICs purposes
Work out NICs using the normal earnings period on each of the paydays.

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

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

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

Example
An employee who is normally paid on a Friday receives a payment of £120 on Tuesday 4 November 2014 and NICs have been worked out on that sum.
On Friday 7 November 2014 the employee is paid a normal weekly wage of £265 making a total of £385 paid in that week.
NICs must be recalculated based on £385.

If the FPS has already been sent send a further FPS to report the revised data.

For PAYE purposes
It is important to remember that only one amount of free pay can be given (or in a K code case one amount of additional pay can be added) in any pay period.
If PAYE was operated in the normal way at the time any additional payment is made it could result in an employee receiving a tax refund and then (in effect) repaying that refund on the normal payday.
To prevent this, there are special rules if you:
• normally pay an employee weekly or at longer regular intervals, and
• make an extra payment before the normal pay for the week, month or other pay period, and
• use the employee’s code on the cumulative basis

• for cumulative suffix codes: extra payment
  — enter the extra payment for the week in which you pay it
  — calculate the tax in the usual way using the tables you would use for the next normal payment
  — if there is tax to be deducted, then deduct it from the payment as usual, but
  — if there is tax to be repaid do not repay it when you make the extra payment
  — the repayment should be added to the total tax due and used as your starting point when you next pay the employee.

• for cumulative suffix codes: main payment
  — enter the main payment for the week/month in which you pay it
  — calculate the tax in the normal way but using the same figure of ‘free pay’ used for the extra payment.

• for K codes
  — enter the extra payment for the week in which you pay it
  — the ‘additional pay’ should be added and tax worked out on this payment, taking account of the Regulatory limit for the payment if necessary
  — when you pay the employee the normal main pay do not add the ‘additional pay’ for the week or month. Add the normal pay to the total taxable pay you used when the previous payment was made. Work out the tax on this amount using Calculator Tables or Tables B to D and complete your payroll record in the normal way
  — if the K code is being operated on a week 1/month 1 basis the tax already deducted on the extra payment should be deducted from the tax due for the week/month.
Payments made in Week 53
Where you pay an employee weekly, fortnightly or four-weekly, there will be some tax years when you have either 53 weekly paydays, 27 fortnightly paydays, or 14 four-weekly paydays instead of the usual 52, 26 or 13. This extra payday is called:
• Week 53 for weekly paid employees
• Week 54 for fortnightly paid employees, or
• Week 56 for four-weekly paid employees.
When you make a ‘week 53’ payment, to submit your employee pay details to HMRC in an FPS, you should enter one of the following tax week numbers:
• ‘53’ if there are 53 weekly payments in the year
• ‘54’ if there are 27 fortnightly payments in the year
• ‘56’ if there are 14 four-weekly payments in the year.
Note: Do not change the final tax code to week 1 if the only reason you have used the WK1 table is to calculate a payment on week 53.

Week 53 and suffix codes
For employees on a Week 1 coding, simply treat the extra pay day as another Week 1 payment.
For employees on a cumulative code, take the following action. If the total free pay to date at week 52 is:
• equal to or more than the total pay for the year (that is the week 52 total plus the extra pay day amount)
  – do not deduct any PAYE from the payment to the employee
• less than the total pay for the year
  – work out how much PAYE to deduct by reference to the pay for week 53, 54 or 56 less the amount of pay adjustment (that is, free pay) shown in Tax Tables A using the table for
  – Week 1 if the employee is weekly paid
  – Week 2 if the employee is fortnightly paid
  – Week 4 if the employee is four-weekly paid.

Week 53 and K codes
Work out how much tax to deduct by reference to the pay for week 53, 54 or 56 plus the amount of pay adjustment (that is ‘additional pay’) shown in Tax Tables A using the table for:
• Week 1 if the employee is weekly paid
• Week 2 if the employee is fortnightly paid
• Week 4 if the employee is four-weekly paid.
If after following the above guidance you are approached by an employee who has been advised by HMRC that they have underpaid PAYE, you should confirm to them that you have not made an error in your payroll and advise the employee to:
• read the notes enclosed with the calculation, or
• go to www.hmrc.gov.uk/incometax/p800.htm for further information.

Standard payments made when, or after, an employee leaves
For the purposes of this guidance, ‘standard’ payments mean such items as the final payment of salary or wages, holiday pay, week in hand payments, bonuses, arrears of pay and so on. It does not mean additional one-off payments such as retirement, redundancy, lump sums and so on – these payments are dealt with on page 74.
PAYE and NICs are due in the normal way on any standard payments you make to employees when they leave or after they have left. The payments should be recorded as normal on the FPS. Ensure the revised year to date figures include the additional payment.
If the payment is made in a later tax year to the one in which the employee left, record the payments accordingly on your FPS. The year to date figures on the FPS should reflect only the additional payment.

For PAYE purposes
If you have already given an employee a form P45 you should deduct PAYE using code 0T (non-cumulatively on a week 1/month 1 basis) using the normal pay period for the employee (for example, monthly or weekly), at the time you make the payment.
Payments in connection with employment related securities, including cash payments arising from those securities, made to an employee after leaving should also be taxed using code 0T (week 1/month 1 basis non-cumulatively).
In such cases, you should provide the employee with documentary confirmation of the payment (for example by letter, payslip or other printed/printable document) giving the following details:
• the date of the payment(s)
• the gross amount of each payment
• the amount of PAYE deducted from each payment
• confirmation that the payment is a post-leaving payment.
Include the details, set the ‘Payment after leaving’ indicator and show the original date of leaving on the FPS when you make the payment. You must not give the employee another form P45.

For NICs purposes
Payment made when an employee leaves
If the payment is made when the employee leaves, work out NICs using:
• the usual earnings period
• the contributions rates and limits current at the time of payment
• the usual category letter.

Payment made after an employee leaves
If the payment is made after the employee has left, that is after their contract has ended, the earnings period to use is dependent on whether the payment is:
• a regular payment such as a final payment of salary or wage including, for example, and employee who is required to work a week in hand and receives their last pay after the contract has ended, or an expected bonus
• an irregular sum, such as
  – accrued holiday pay
  – an unexpected bonus
  – arrears of pay following a backdated pay award.
If the payment is a regular payment such as the final payment of salary or wage, work out NICs using:
• the usual earnings period
• the contributions rates and limits current at the time of payment
• the usual category letter.
Example
The final salary to a monthly paid employee leaving in the middle of the month is paid at the usual time at the end of the month. Work out NICs using a monthly earnings period even though the payment is only for part of the month.

If the payment is an irregular sum, work out NICs using:
• a weekly earnings period
• the contributions rates and limits current at the time of payment
• the usual category letter.

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

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

Two or more payments together
If an employee gets two or more payments together after leaving, the earnings period is dependent on what those payments are.
If all the payments are salary or wages (including one which may be a ‘week in hand’ payment) work out NICs on each payment separately using the usual earnings period.
If some payments are salary and others are irregular sums, add the payments together and work out NICs on the total using the usual earnings period for the payment of salary.
If all payments are irregular sums, add them together and work out NICs using a weekly earnings period.

<table>
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<th>Week number</th>
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<td>29 March to 4 April</td>
<td>52</td>
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<tr>
<td>5 April (Use the week 1 Table)</td>
<td>53</td>
</tr>
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</table>
Payments made when an employee has died

7 Death of an employee

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

For PAYE purposes
When you learn of the death of an employee you should enter a leaving date on the FPS with the last payment for the deceased, do not issue a P45.

PAYE should be deducted using the employee’s code, from any payments which were due to the deceased employee after the date the employee died but before you have completed the FPS, if they are paid in the tax year the employee died. You must provide a date of leaving on the FPS, which in this case will be the employee’s date of death.

If you make a further payment after notifying HMRC of the date of leaving on an FPS, PAYE should be deducted using code OT (on a week 1/month 1 basis). You should record the deduction on the employee’s payroll record as follows:

- If the payment is made in the same tax year as the one in which the employee died, record the details on the employee’s payroll record. The date of leaving on the FPS should be the date of death and the ‘Payment after leaving’ indicator should be set. Ensure the revised year to date figures include the additional payment.

- If the payment is made in a later tax year, record the details on the payroll record in the name of the deceased employee and include details on the FPS. The date of leaving should be the date of death and the ‘Payment after leaving’ indicator should be set. The year to date figures should only reflect the additional payment.

Check with your software provider whether the package you use will complete these calculations automatically for you. You can use HMRC’s online PAYE tax calculator to assist in your calculations.

8 Death of pension recipient

When you learn of the death of a pension recipient you should enter the leaving date on the FPS, with the last payment for the deceased, do not issue P45.

PAYE should be deducted using the pension recipient’s existing code, from any payments which were due to the deceased pension recipient, if they are made in the tax year the pension recipient died. Record details of the payments on the pension recipient’s FPS.

If such payments are made in a later tax year to the one in which the pension recipient died, refer to the two examples below:

- If the payment is made in a later tax year than the date of death but **before** you have notified HMRC of the date of leaving the FPS:
  - use the tax code for the new year that you would have used if the pensioner had still been alive; record the payment details on the payroll record in the name of the deceased pensioner
  - complete the FPS using the new tax code only showing payments made in the new tax year – payments made in the earlier tax year will be recorded on the employee’s FPS for that year.

- If the payment is made in a later tax year than the date of death and **after** you have notified HMRC of the date of leaving on the FPS:
  - use the code OT on a week 1/month 1 basis
  - record the details on the payroll record in the name of the deceased pensioner
  - set the ‘Payment after leaving’ indicator on the FPS

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

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

Change of gender
Transsexual people can legally change their recorded gender and benefit from any rights and responsibilities associated with their acquired gender.

Where you are aware (that is, because an employee has provided an interim Gender Recognition Certificate (GRC) or an employee produces, as proof of identity, a driving licence or passport) that an employee has changed gender this can be accepted and you can:

- update your records to show the employee’s acquired gender and the title by which they want to be known.

Once they provide you with the full GRC you will need to take a copy of the certificate and

- update the employee’s gender and title if you have not already done so and
- operate NICs and PAYE to reflect the acquired gender.

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

Currently the State Pension age for men is 65. State Pension age for women born before 6 April 1950 was 60 and the State Pension age for women born on or after 6 April 1950 is gradually increasing from 60 to 65 between 2010 and March 2018.

A woman born between 6 April 1952 and 5 November 1952 will reach pensionable age as follows.

<table>
<thead>
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<th>Period</th>
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<tr>
<td>6 May 1952 to 5 June 1952</td>
<td>6 July 2014</td>
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</tr>
<tr>
<td>6 October 1952 to 5 November 1952</td>
<td>6 May 2015</td>
</tr>
</tbody>
</table>

For more information and the State Pension age calculator go to [www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)

Do not review the NICs and PAYE position of the employee until you are presented with a full GRC. It is only following the issue of the Full GRC that the person is accepted as having satisfied the criteria for legal recognition in their acquired gender.

CWG2 (2014)
Mistake in the amount of NICs or PAYE deducted

If you are an employer sending information to HMRC under Real Time Information for guidance about when and how to tell us about correcting errors go to www hmrc gov uk/payerti/reporting/errors.htm

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

- If you have deducted too much NIC's or PAYE tax from your employee, simply refund the extra amount on their next payday.
- If your employee paid too little NICs or PAYE tax you must pay the underpayment to HMRC as soon as you know you have paid too little.

If you are an employer sending information to HMRC under Real Time Information, for guidance about when and how to tell us about correcting errors go to www hmrc gov uk/payerti/reporting/errors.htm

Correcting payroll reporting errors – current tax year

You must send an FPS every time you pay your employees to let HMRC know who has been paid, how much they have been paid and the deductions made for PAYE tax and NICs. If you have made a mistake in the current tax year or you discover that information you have already reported is incorrect, the action you need to take depends on when you discover the error.

If you need to correct an error in a previous tax year, you can find out how to do it by following the link below, www hmrc gov uk/payerti/reporting/errors/previous-year.htm

If you discover the error before you submit your next FPS. You can either:

- correct the error by using revised year to date figures on your next regular FPS - this is often the easiest way to handle the correction
- show the adjustment by submitting an additional FPS for the pay period for the employee(s) the error relates to

How you report a correction may depend on the payroll software you use.

However, there are special rules which allow you to recover underpayments of NICs from your employees where the error was made in good faith. This is done by making extra deductions from any later earnings you pay that employee. There are two conditions that apply to these recoveries relating to the amount and the time in which you can recover.

The first condition is that the extra deduction you make from further payments of earnings can be no greater than the employee’s contribution due on that further payment of earnings.

The second condition is that the extra deduction can be made during the remainder of the tax year in which the error occurred and the whole of the following tax year. If at the end of the second tax year you have been unable to recover the full amount under-deducted, then you may not recover any more from the employee and you must bear the cost of the loss yourself. If the employee leaves your employment after the error occurred you must bear the cost of the loss yourself.

For PAYE purposes

You should try to recover the underpaid tax by making extra deductions from any later earnings you pay that employee by the end of the tax year. You should do this by agreement with the employee. Where you are unable to recover the under-deduction by the end of the tax year you can ask us to make a direction that your employee should pay the PAYE tax. We will issue a direction if an explanation is provided which demonstrates that reasonable care was taken to operate PAYE and that the under-deduction was an error made in good faith.

For more information and examples of errors, go to www hmrc gov uk/payerti/reporting/errors.htm

If you are still unsure and you need advice, contact the Employer Helpline.

Mistake discovered after the end of the tax year

For NICs purposes

Errors in Full Payment Submissions (FPS) submitted in the previous tax year

If you discover, on or before 19 April following the end of the tax year, that you have not submitted an FPS or you have reported incorrect year to date figures, you should submit an additional FPS with corrected year to date figures as at 5 April for the previous tax year. You can find out how to do this by following the link below www hmrc gov uk/payerti/reporting/errors/previous-year.htm

If you discover the issue on or after 20 April in the following tax year, you should submit an EYU. You can find out how to do this following the links below www hmrc gov uk/payerti/reporting/errors/previous-year.htm

www hmrc gov uk/payerti/reporting/errors/previous-year.htm#3
Where you discover that you have over-deducted NICs by mistake for a tax year when you reported information using forms P35 or P14 you can ask us for a refund by writing to:
HM Revenue & Customs
National Insurance Contributions & Employer Office
Multi Refunds BP2001
Benton Park View
Longbenton
NEWCASTLE UPON TYNE
NE98 1ZZ
You will need to include a full explanation of the over-deduction, with revised earnings and NICs details, for each employee affected. HMRC will refund any overpayment of primary NICs direct to the employee(s).
You must also tell any affected employee:
• by letter showing the amendment, or
• giving them a new P60 marked ‘REPLACEMENT’
Sending amended information means that your original return was either incomplete or inaccurate and could mean that you may be charged a penalty.
As a general rule, you as the employer have to pay any underpayment of NICs arising from an error.
Guidance on how you can recover under-deducted Primary NICs from your employees is as at paragraph 9.

For PAYE purposes
Where you discover that you have under-deducted PAYE by mistake you can ask us for a direction – see the advice for Mistakes made during the tax year.

Unintentional overpayments of salary/pension
If you unintentionally overpay wages or pension, the following guidance explains what to do under RTI.
For payments prior to RTI please read paragraph 15 and 16.
Examples of unintentional overpayments are:
• an employee pay was recorded incorrectly, resulting in them receiving higher wages than they were entitled to
• an employee gets a payment of wages for the period after leaving as your payroll office does not know they left
• a pensioner dies, but pension payments continue because the pension payer had not been informed
• an employee is paid for work/overtime they did not do

Adjustments during the tax year
When an unintentional overpayment is made and the employee or pensioner continues to be entitled to employment/pension income, the mistake must be corrected in your next Full Payment Submission (FPS) by reporting the correct total payments to date and correct net tax to date. This means that the PAYE tax deducted on the overpayment can be set off by reducing your next monthly remittance to HMRC.
• You should ensure you make a note in your records to explain the reason for the adjustment
• You must keep a record of the method used to recover the net pay/pension from the individual – for instance the individual may pay you directly or you may have agreed with the individual to recover the overpayment as a post tax deduction in their future pay/pension.

Adjustments after the end of the tax year
Where an unintentional overpayment is discovered after the 19th April, you can only submit an ‘Earlier Year Update’ (EYU). You should report the correct total payments and net tax for the tax year.
• You should make a note in your records to explain the reason for the EYU
• You should have proper arrangements in place to recover net pay/pension from the individual and have evidence to demonstrate how the recovery was made/is being made
• Once HMRC have processed the EYU subject to any security checks, the overpaid tax will be available to be either set off against future liabilities or be repaid.
• You must give your employee/pensioner/representative details of the amendment either in a letter showing the amendment or in a new P60 marked ‘REPLACEMENT’.

11 Deliberate under-deductions of NICs and PAYE
In certain circumstances where we identify that an employee has received pay knowing that the employer has deliberately failed to deduct tax, a direction can be made for the employee to pay the underpayment. This will usually be where we cannot recover the PAYE from the employer. Where we also identify that an employee received pay knowing that the primary contributions had not been deducted or paid over, a decision can be made for the employee to pay those contributions.

12 Arrears of pay for closed years
Where you are obliged to pay arrears of pay to employees in respect of closed tax years (for example, where a court orders an employer to pay arrears under equal pay legislation) you should:
• proceed as follows, or
• where large numbers of employees are involved
  – phone the Employer Helpline with a view to making a special arrangement to deal with PAYE in a way that will ease matters for you.

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

For PAYE purposes (where the special arrangement referred to above does not apply)
You are not required to enter details on the employee’s payroll record. Allocate the arrears of pay between the tax years in which the payment should have been made and:
• calculate and deduct tax for each closed year as if the additional payment had been paid at week 53 for that year (see page 8)
• use the employee’s tax code for that year. We will supply the appropriate tax codes for each of the closed years if you no longer have them.

To pay over the tax deductions you should:
• phone the Employer Helpline and explain the situation, quoting this guidance
• ask to pay the tax under an ‘Employer Amendment Class 6 Settlement’.
The due date of the tax will be thirty days from the date of payment of the arrears of pay to the employees. Interest will be chargeable on late paid tax from the due date.

You must send us a list showing for each employee:
• their name
• their National Insurance number
• the pay and tax for each year.
Give each employee a letter showing the gross arrears of pay for each year and the tax deducted. Each letter should also contain the following message:

If you think that you have overpaid tax for any of the years concerned you should contact HMRC National Insurance Contributions & Employer Office

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

If an employee on a cumulative code is due a refund of tax but is not entitled to receive any payment from you in a pay period because:
• they are absent on unpaid leave, or
• they have no further entitlement to SSP, SMP, OSPP, ASPP or SAP, and
• they are not absent as the result of a trade dispute you must operate PAYE or run your payroll as if making a nil payment as long as the employee or their authorised representative has asked you to do so.

Different employer PAYE references for separate groups of your employees

You may choose to have different employer PAYE references for separate groups of your employees, for example, for wages and salaries or for separate branches of your organisation. To do this you make an election which:
• has to be made in writing
• can be made at any time before the beginning of the tax year, for example, an election received May 2014 to take effect from 6 April 2015.

Making the election results in each Employer PAYE reference being treated separately for all PAYE/NICs purposes with separate payroll records being required for each one. When calculating whether reimbursement for Small Employers is appropriate for Statutory Maternity Pay, Statutory Adoption Pay, Ordinary Statutory Paternity Pay and Additional Statutory Paternity Pay, employers with election do not have to combine the total gross NICs for each separate Employer PAYE reference. But, when you are calculating your NICs liability for recovery of Statutory Sick Pay (paid for periods of sickness up to 5 April 2014 only), you must add together your total gross NICs liability for all of your separate Employer PAYE references.

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

End of year Final Submission

At the end of the tax year, submit your final Full Payment Submission (FPS) and/or Employer Payment Summary (EPS) for the pay period as normal. You must indicate on your last FPS or EPS for the year that it is your ‘Final submission for the tax year’ and then answer the end-of-year declarations and questions. You must do this even if you have not made any deductions of PAYE tax or National Insurance Contributions (NICs) from your employees in that pay period.

Your final submission is the last FPS or EPS you submit for the tax year, regardless of whether it relates to weekly or monthly payroll.

13 No payments in final pay period

If you have not made a payment to any of your employee’s in the final pay period for the tax year then you are not required to submit an FPS. Instead you must submit an EPS indicating the following:
• No Payment for Period
• Final Submission for the tax year

Finally, complete the end-of-year declarations and questions.

If you are a limited company and wish to claim for Construction Industry Scheme (CIS) deductions suffered, you will need to complete two EPS submissions

The first should indicate ‘No Payment for Period’, and the second should indicate ‘Final Submission for the tax year’ and report ‘CIS Deductions Suffered for the tax year’.

14 Correcting a previous year’s payroll

If you make a mistake, or need to correct any of the payroll information sent on FPS for a previous tax year, you will need to send in an Earlier Year Update (EYU).

The EYU must show the difference between what you have already sent and what it should be. If you have reported incorrect information on an EPS, you must submit another EPS to report the correct total year to date figures for all recovered payments within that tax year.

Your payroll software may include this function to allow you to submit an EYU, or you can use the HMRC’s Basic PAYE Tools to do so, alongside your commercial software. For further information and guidance go to www.hmrc.gov.uk/payeiti/end-of-year/index.htm

15 Making amendments for years prior to RTI

Exceptionally, you may need to send an amended P35 return where you discover that an employee or pensioner received a payment that they were not entitled to and you wish to make a claim from HMRC for overpaid tax.

For example:
• you discover that your employee was overpaid for work/hours they did not complete
• a pension payment was made to a pensioner for a period after they died

If you need to make a claim for the overpaid tax you must send this information on a P35 and P14. We will not accept it in any other format.

In all cases:
• you must send a letter explaining the reason for the amendment
• you should keep evidence how recovery of the net pay or pension was made from the employee or pension recipient
• there is a four year time limit after the end of the tax year
• you must give your employee/pensioner/representative details of the amendment either in a letter showing the amendment or in a new P60 marked ‘REPLACEMENT’.
Sending amendments for years prior to RTI

You can make amendments
• online using your software
• by using the HMRC Online Returns and Forms – PAYE product
• on paper using approved stationery.

You must show only the amount of any amendment. For example, if your original P14 showed £100 too much tax, your amended P35/P14 must show -(minus) £100.

Employers who must file online will not get a non-filing penalty if an amendment is sent on paper and the original return was sent on time.

Chapter 2 – Special procedures

The following guidance applies to all Employers. Guidance for reporting PAYE in real time is also available at www.hmrc.gov.uk/payerti/index.htm

Pension contributions

Since the introduction of the automatic enrolment legislation on 1 October 2012 employers no longer have to offer new workers a stakeholder pension. However employers do have obligations towards workers who are already members of existing employer stakeholder schemes. There is more information on the Pensions Regulator’s website www.thepensionsregulator.gov.uk/employers/about-stakeholder-pensions#s9646

Automatic enrolment places new duties on employers to automatically enrol their eligible workers into a workplace pension scheme. It will be rolled out gradually starting with the largest employers. All employers will be included by February 2018.

You can find out what you need to do and when to do it on the Pension Regulator’s website www.thepensionsregulator.gov.uk/actnow

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

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

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

You can use the net pay arrangement if the pension scheme you have established is:
• registered by us as an occupational pension scheme, and
• you use the net pay arrangement in respect of all of your employees who pay contributions to the scheme.

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

If you wish to know more about registering a pension scheme, go to www.hmrc.gov.uk/pensionschemes or contact:
HM Revenue & Customs
Pension Schemes Services
FitzRoy House
Castle Meadow Road
NOTTINGHAM
NG2 1BD
Phone 0300 123 1079

If you are taking part in an existing group or ‘centralised’ scheme, you can use the net pay arrangement provided the scheme is registered with us and you are able to use the arrangement in relation to the scheme. In all other circumstances you must not use the net pay arrangement.
Where you deduct contributions under the net pay arrangement, remember that an employee is entitled only to tax relief, and not relief from NICs.

When completing your payroll records:
- for PAYE purposes deduct the pension contributions from the employee’s gross pay
- for NICs purposes do not deduct the pension contributions from the employee’s gross pay.

Take the following action for each employee who is in the scheme:
- to work out PAYE due, deduct the total figure of pension contributions paid in the tax year to date from the employee’s gross pay figure on the first payday following notification of registration
- if pension contributions have been paid in a previous tax year, send us a list showing the names of the employees and the contributions each employee has paid.

Occupational pension scheme contributions deducted from employees’ pay must be with the pension scheme within 19 days of the end of the month that the deductions were made.

Failure to meet this deadline could lead to civil proceedings by The Pensions Regulator.

Pension payments
Pension payments, either to former employees or dependants of deceased employees:
- are usually included in gross pay for PAYE purposes
- for NICs purposes
  - are not included in gross pay if paid out of a registered pension scheme
  - may need to be included in gross pay if paid out of an employer-financed retirement benefits scheme.

Pension payments that may be wholly or partly exempt from tax are payments which:
- have been awarded because an employee has ceased to hold an employment because of disablement attributable to the performance of the duties of the employment, and
- are not paid out of a registered pension scheme.

Contact us before you make any such payments.

Lump sum payments from pension schemes
Registered schemes
PAYE does not apply to lump sums paid under or out of a registered pension scheme, except trivial commutation payments, which are paid when small pension or annuity rights are fully commuted for a lump sum. PAYE is due on such payments (see paragraph 24).

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

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

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

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

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

Employer-financed schemes
Most lump sum payments made under or out of an employer-financed retirement benefits scheme (essentially, an unregistered scheme) should be taxed in full under PAYE. Exceptions and reductions include situations where the value underlying the sums in question was previously taxed, either at the contribution stage or when ‘earmarked’ for a specified employee or employees in the scheme. You can find more information about these schemes in the Employment Income Manual and the National Insurance Manual. They are available on our website at www hmrc gov uk manuals eimanual and at www hmrc gov uk manuals nimmanual

See
- the sections on employer-financed schemes at EIM15000 onwards, and
- employment income through third parties at EIM45000 onwards, and
- retirement benefit schemes from 6th April 2006 – payments out of employer-financed retirement benefits scheme at NIM02760 onwards, including NIM02780 and NIM02782.

In particular see retirement benefit schemes from 6th April – payments out of employer-financed retirement benefits schemes at NIM02760 onwards, including NIM02780 and NIM02782.

To find out more go to www hmrc gov uk payerti payroll pension payments paye annuity htm

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

Pension to be paid by you as the employer
If you are to pay the pension to a retiring employee:
- do not treat the employee as leaving your employment, continue paying them using the existing payroll record
- give the former employee a retirement statement, showing their previous employment details up to the date of their retirement
- include the annual amount of the occupational pension with the first pension payment, do not pro rata it from the start date
- include the tax code (see below)
- use a different Payroll ID for the pension payments and indicate on the FPS that the Payroll ID has changed, including details of the previous Payroll ID.

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

If you are to pay the pension to a dependant of a deceased employee, follow the procedures under
'Pension recipient does not give you form P45' in paragraph 23.

Pension to be paid by the trustees of a pension fund
If an employee retires and you are not going to be paying them a pension, you need to include the leaving details on the FPS when making their final payment, as you would for any employee who is leaving.

21a If a pensioner dies
If an employee dies, you must pay any final payment due to the deceased’s personal representative, who is usually the executor of their will. You should only show the deceased’s personal details on their last Full Payment Submission (FPS) - not those of their representative. There is no specific date of death field on the FPS, so you must provide a date of leaving on the last FPS for the deceased, which in this instance will be the employee’s date of death. There is no need for you to tell HM Revenue & Customs (HMRC) that your employee has died as they will receive notification of this from other government sources. You do not give the personal representative a form P45.

22 Procedures for employer of an employee starting to receive a pension whilst continuing to work for the same employer
Pension to be paid by you as the employer
If you are to pay a pension to an employee who continues in employment:
• do not treat the employee as leaving your employment
• set up a separate payroll record for the pension
• indicate ‘Yes’ in the occupational pension indicator field on the first and every payment of pension
• include the annual amount of the occupational pension with the first pension payment, do not pro rata it from the start date
• include the tax code (see below)
• use a different Payroll ID for the pension payments on the FPS from that used for their employment income.

When you start to pay the pension, deduct tax using code 0T on a week 1/month 1 basis until you hear from us. Continue to use the same code as before on the employment income.

23 Procedures for other pension and annuity payers
All pensions and annuities from, or in respect of, a registered pension scheme are PAYE pension income.

Pension recipient gives you form P45
• set up a new payroll record for them
• include the date the pension started with the first pension payment
• indicate ‘Yes’ in the occupational pension indicator field on the first and every payment of pension
• include the annual amount of the occupational pension with the first pension payment, do not pro rata it from the start date
• include the tax code (see below)
• include the Payroll ID, if you want to use one
• use the code from the P45 on a week 1/month 1 basis until you hear from us

• if we have not contacted you by 5 April (or the first pension payment is to be made after 5 April), carry forward the existing code to the new tax year but use it on a cumulative basis
• if the pension recipient gives you form P45 after the pension/annuity has started and after you have received a code from us you must destroy the P45.

Pension recipient does not give you form P45
• set up a new payroll record for them
• include the date the pension started with the first pension payment
• indicate ‘Yes’ in the occupational pension indicator field on the first and every payment of pension
• include the annual amount of the occupational pension with the first pension payment, do not pro rata it from the start date
• include the tax code - unless you are told to use a new tax code by HMRC, use the emergency tax code on a week1/month1 basis
• include the Payroll ID, if you want to use one.

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

Where such payments are made to a named beneficiary or beneficiaries you must follow the usual procedure for new pensions and annuities. Where the payments are made to a Personal Representative, Trustee or Body Corporate (that is a third party or non-individual) you must:
• operate code BR
• leave the National Insurance number field blank
• enter ‘male’ as the gender
• enter ‘RP’ as the forename
• enter the name of the recipient body as the surname
• enter the address of the recipient body
• indicate ‘Yes’ in the payment to a non individual indicator field
• do not enter a start date for the new recipient.

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

Commutation where pension payments have already started:
• treat the trivial commutation payment in the same way as the earlier pension payments, and operate PAYE in the normal way
• complete form P45 including the taxable commutation payment and the pension payments made in the year
• give the P45 to the pension recipient
• enter the date of payment as the date of leaving on their payroll record so this is sent to HMRC when you report your payroll information
• indicate the trivial commutation type on the Full Payment Submission (FPS)
  — A - Trivial lump sum (TCLS)
  — B - Other lump sum (from personal pension schemes)
  — C - Other lump sum (from lump sum from occupational/public service pension schemes)
• enter on the FPS
  — the total amount of the lump sum, or sums, paid in the ‘trivial commutation payment’ field
  — the taxable element of the lump sum, or sums, paid in the ‘taxable pay to date’ and the ‘taxable pay in this period’ fields
  — any non-taxable element of the lump sum, or sums, paid in the ‘non tax or NIC payment’ field.

Commutation payment where pension payments have not started:
• use the basic rate (BR) code on a week 1/month1 basis when putting the trivial commutation payment through your payroll
• set the occupational pension indicator
• use the date of payment as the leaving date on their payroll record so this is sent to HMRC when you report your payroll information - a starting date or an entry in the annual amount of Occupational Pension field is not required
• prepare a P45 and give it to the pension recipient
• indicate the trivial commutation type on the FPS
  — A - Trivial lump sum (TCLS)
  — B - Other lump sum (from personal pension schemes)
  — C - Other lump sum (from lump sum from occupational/public service pension schemes)
• enter on the FPS
  — the total amount of the lump sum, or sums, paid in the ‘trivial commutation payment’ field
  — the taxable element of the lump sum, or sums, paid in the ‘taxable pay to date’ and the ‘taxable pay in this period’ fields
  — any non-taxable element of the lump sum, or sums, paid in the ‘non tax or NIC payment’ field.

Sickness, Maternity, Ordinary Paternity, Additional Paternity and Adoption Pay
Employers are responsible for paying employees who satisfy the qualifying conditions:
• Statutory Sick Pay (SSP) for up to a maximum of 28 weeks at the appropriate weekly rate in any one period of incapacity for work or in any series of linked periods of incapacity for work
• Statutory Maternity Pay (SMP) for up to 39 weeks if they are not at work because of pregnancy
• Statutory Adoption Pay (SAP) for up to 39 weeks if they are not at work because they are adopting a child
• Ordinary Statutory Paternity Pay (OSPP) for 1 or 2 weeks if they take time off to care for a new-born or adopted child and/or support the mother or adoptive parent
• Additional Statutory Paternity Pay (ASPP) for up to a maximum of 19 weeks if they take time off to care for a new-born or adopted child and the mother or adopted parent has returned to work and stopped receiving SMP, SAP or Maternity Allowance. This can be for more than 19 weeks in the event of the death of the mother or the adopter.

For details on the operation of the SSP, SMP, SAP, OSPP and ASPP schemes, go to www.hmrc.gov.uk/payerti/employee/statutory-pay/index.htm

For frequently asked questions and calculators to help you work out if you have to pay SSP, SMP, SAP, OSPP and ASPP and, if so, how much, go to www.hmrc.gov.uk/payerti/employee/statutory-pay/index.htm

It will also help you to work out how much you may be able to recover for each tax month. You can only recover SSP that was paid for periods of sickness up to 5 April 2014.

25 Payments of SSP, SMP, SAP, OSPP and ASPP
For both PAYE and NICs purposes SSP, SMP, SAP, OSPP and ASPP must be included in gross pay at the time it is paid. PAYE and NICs are then worked out in the normal way.

26 Payments of SMP, SAP, OSPP and ASPP to an employee after their contract of service has ended

For NICs purposes
If you pay SMP, SAP, OSPP or ASPP to an employee after their contract of service has ended and you pay it:
• in a lump sum – work out NICs using a weekly earnings period unless the lump sum is paid with the last regular payment of earnings. In that case, add the two payments together and work out NICs using the earnings period used before the employee left
• at the same interval as regular earnings – work out NICs using the earnings period used before the employee left
• at different intervals from regular earnings – work out NICs using the interval between payments.

For PAYE purposes
Strictly speaking if the employee is dismissed or has decided not to exercise their right to return to work you should give them form P45 when they stop working for you. You should deduct PAYE using code 0T on a week1/month 1 basis from any SMP, SAP, OSPP or ASPP you pay afterwards.

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

If an employee requests a P45, you should enter as the date of leaving the date on which you last made a payment of SMP, SAP, OSPP or ASPP prior to the request and deduct PAYE using code 0T on a week 1/month 1 basis from all future payments you make.

If the employee has not been dismissed or has not told you that they do not intend to return to work, they remain your employee even after you make the final payment of SMP, SAP, OSPP or ASPP until either:
• they formally cease to be employed by you, or
• they fail to return to work on the appointed day at which time you should complete form P45.

www.hmrc.gov.uk/payerti/employee/statutory-pay/index.htm
www.hmrc.gov.uk/payerti/employee/statutory-pay/index.htm
Remember that your employee will still be entitled to additional maternity or adoption leave after the end of the SMP or SAP period.

**Payments paid 'free of tax or NICs'**

**27 All of an employee's earnings paid 'free of tax'**

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

- it is your responsibility to make sure that your employee understands and agrees with the terms under which the payment is made 'free of tax'
- payments made 'free of tax' can increase your costs
- there are extra PAYE duties involved.

For example, the tax due is worked out by reference to the 'true gross pay', not the amount your employee is actually paid. It is your responsibility to work out the 'true gross pay' figure. If you agree to make any payments that are free of tax go to [www.hmrc.gov.uk/payerti/payroll/special-pay/free-of-tax.htm](http://www.hmrc.gov.uk/payerti/payroll/special-pay/free-of-tax.htm) for guidance.

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

If you enter into an arrangement with an employee that all of his or her earnings are to be paid ‘free of tax and NICs’, you should contact the HMRC Employer Helpline for advice. You can find our contact details in the Help and Guidance page.

**29 Part of an employee's earnings paid 'free of tax'**

If you enter into an agreement with an employee that only part of his or her earnings are to be paid 'free of tax', the figure to enter on your employee’s payroll record to calculate the PAYE and NICs due is the total of:

- the ‘true gross pay’ of the ‘free of tax’ element of the earnings, and
- the actual gross pay of the part of the earnings that haven't been paid free of tax.

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

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

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

- Table B the figure is 20 - basic rate
- Table D the figure is 40 - higher rate
  or 45 - additional rate

**Example**

You enter into an agreement to pay an employee a wage of £150 and £15 ‘free of tax’ towards travelling expenses. The employee is a Table B employee.

The figure to use to calculate the PAYE and NICs due is the total of the ‘true gross pay’ of the ‘free of tax’ element

\[
\frac{15 \times 100}{(100 - 20)} = 18.75
\]

and the actual gross pay not within the ‘free of tax’ agreement = £150.00

Figure to be entered on your payroll records to calculate PAYE and NICs £168.75

For more information go to [www.hmrc.gov.uk/payerti/payroll/special-pay/free-of-tax.htm](http://www.hmrc.gov.uk/payerti/payroll/special-pay/free-of-tax.htm)

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

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

**31 Agreement to pay an employee's share of NICs**

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

**Payroll Giving – An easy way to give**

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

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

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

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

To find out more you can:

- go to Payroll Giving pages at [www.hmrc.gov.uk/payerti/payroll/pay-and-deductions/payroll-giving.htm](http://www.hmrc.gov.uk/payerti/payroll/pay-and-deductions/payroll-giving.htm)
- phone the Charities Helpline on 0300 123 1073, or
- write to us at:
  HM Revenue & Customs Charities
  New Cases S0708
  PO Box 205
  BOOTLE
  L69 9AZ
Incentive Awards

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

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

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

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

Cash awards

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

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

Awards made by voucher which can be exchanged for cash

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

Recording and reporting for cash awards and vouchers exchangeable for cash

Include the amount in the field ‘pay subject to Class 1 NICs’ on the employee’s payroll record and if it is cash, also include the amount in the field ‘taxable pay in this pay period’. Then report these figures to HMRC by sending a Full Payment Submission (FPS).

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

For PAYE purposes

If you provide the award, you can either:

- fill in the gross value of the award on form P9D or P11D, or
- account for the tax by:
  – entering into a Taxed Award Scheme (see paragraph 38) to account for tax on the value of the award grossed at the basic or higher rate of tax, or
  – entering into a PAYE Settlement Agreement (see page 70) to pay in a lump sum the tax on the value of the award grossed up by reference to the employee’s rate of tax.

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

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

For NICs purposes

Non-cash awards other than non-cash vouchers

Some non-cash awards attract Class 1 NICs and others Class 1A NICs. See under What to include as gross pay on your payroll records’ in Chapter 5, page 60 for details. You the employer are liable for any Class 1 NICs even if a third party provides the awards to your employees. But, where the award attracts a Class 1A NICs liability, the third party is liable unless you arrange or facilitate the provision of the award.

They can account for the Class 1A NICs by entering into a Taxed Award Scheme. For more advice see CWG5(2014) Class 1A National Insurance contributions on benefits in kind Part 6, ‘Third Party benefits’. Guidance on the NICs to record and report can be found at www.hmrc.gov.uk/payeriti/payroll/special-pay/incentive-awards.htm under the heading ‘NICs on non-cash awards other than non-cash vouchers’.

Non-cash vouchers

Payments made by way of non-cash vouchers, with certain exemptions (see below), attract liability for NICs. Unless exempt, a payment which is derived from the employee’s employment, made by you or by a third party under arrangement with you, must be included in gross pay and Class 1 NICs accounted for in the normal way. That is, you must add the cost to you in providing those non-cash vouchers to any other earnings paid in the earnings period and work out NICs on the total.

You must report the value of the non-cash voucher and send an FPS to report these figures to HMRC at the time the voucher is provided, even if this is before the employee’s main pay is paid.

Include the amount in the fields for both ‘pay subject to Class 1 NICs’ and ‘benefits on which Class 1 NICs are due’ on the employee’s payroll record, and send an FPS to report these figures to HMRC.

You don’t have to calculate or report any NICs for the pay period until the last payment is made in the same period. Then, you must add the value of the award to the employee’s pay that was paid in the same period the award was made and assess the NICs due on this revised figure. Deduct the employee’s share of NICs from any cash earnings you pay them, update your payroll records and send an FPS to report them to HMRC. Pay the NICs due on the revised gross pay figure.

Most non-cash vouchers provided by third parties, where the direct employer does not arrange or facilitate the provision, are excluded from Class 1 NICs. They are liable to Class 1A NICs which is payable by the third party. (See helpbook CWG5(2014) Class 1A National Insurance contributions on benefits in kind, for details.) However, vouchers provided by third parties in connection with the provision of readily convertible assets (see pages 78 to 79) always attract Class 1 liability and the direct employer is responsible for the NICs.

Employer pays an employee’s tax

If, in addition to making an award, you pay all or part of an employee’s tax due on that award, the tax paid must also be included in the employee’s gross pay when calculating Class 1 NICs. This is the case regardless of whether the tax is accounted for through a Taxed Award Scheme. You must include the amount of tax paid in the employee’s gross pay at the time the tax is paid over to the accounts office.
Third party pays an employee’s tax
You should also include tax paid on an employee’s behalf by a third party where the tax is in relation to cash payments, cash vouchers or benefits in kind subject to Class 1 NICs which the third party has provided to your employees. Follow the instructions below for how to calculate, record, and report the NICs due on the amount of tax you paid. Where the tax is in relation to benefits in kind or non-cash vouchers, which are subject to Class 1A NICs, the third party will be responsible for paying Class 1A NICs on the amount of tax paid if they have arranged or facilitated the provision of the benefit or non-cash voucher. The third party will also have to account for that payment through a Taxed Award Scheme.

Calculating, recording and reporting NICs
Include the value of the tax paid on behalf of the employee, whether it was you or someone else who paid it for them, in ‘pay subject to Class 1 NICs’ on their payroll record and report this to HMRC in an FPS. Do this when the tax is paid to HMRC, even if this is before the employee’s main pay is paid in that pay period.

You don’t have to calculate or report any NICs for the pay period until the last payment to that employee is made in the same period. Then, you must add the value of the award to the employee’s pay that was paid in the same period the award was made and assess the NICs due on this revised figure. Deduct the employee’s share of NICs from any cash earnings you pay them, update your payroll records and send an FPS to report them to HMRC. Pay the NICs due on the revised gross pay figure.

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

For more information about liability for NICs on items included in PAYE Settlement Agreements, see page 70.

Apportionment
If an award is made for the benefit of more than one employee, see paragraph 36 for details of how to apportion the award between those employees for NICs purposes.

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

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

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

The ‘cost’ in providing a non-cash voucher includes the cost of:
• buying the goods or providing the services
• selecting and testing those goods or services
• storing, distributing and installing the goods or services
• servicing and other ‘after sales’ expenses.

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

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

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

Example 1
An employer buys a retail voucher at a cost of £300. They provide the voucher to three employees with the intention that:
• employee A will receive 50% of the voucher’s value
• employee B will receive 30% and
• employee C will receive 20%.

The amount of earnings to be included in each employee’s gross pay is:
• employee A = £300 x 50% = £150
• employee B = £300 x 30% = £90
• employee C = £300 x 20% = £60.

Example 2
An employer buys a retail voucher at a cost of £300. They provide the voucher to three employees with the intention each employee will receive an equal amount of the voucher’s value.

The amount of earnings to be included in each employee’s gross pay is: £300 ÷ 3 = £100 each.

37 Non-cash vouchers exempt from NICs
The following types of non-cash voucher, provided to an employee, are exempt from NICs liability:
• provided to an employee of a passenger transport undertaking so long as
  — arrangements for the provision were in operation on 25 March 1982 and
  — the employee is earning at a rate of less than £8,500 in the year, and
  — the voucher enables the employee to obtain transport for leave travel facilities for members of Her Majesty’s forces
• for use to obtain fuel for a company car where a car fuel tax charge arises on that provision
• for motoring expenses for a van provided for private use where a tax charge arises on that provision
• for sports and recreational facilities so long as those facilities are available generally to all employees
• long service awards so long as
  – the length of service is not less than 20 years, and
  – the cost of providing the voucher is not more than £50 for each year of service and
  – the employee concerned has not received another long service award within the preceding 10 years
• social functions, such as a Christmas party, so long as:
  – the function is open to all employees, and
  – the cost of providing the voucher is not more than £150 a head
• for travel by any means between home and work by an employee who is disabled
• for the hiring of a cycle or cyclist's safety equipment so long as
  – the facility is available to all employees and
  – the cycle or equipment is used mainly for journeys from home to work
• until the 5th April 2011, the first £55 a week of childcare vouchers provided to cover all or part of the cost and expenses of childcare where all conditions are met
  – the childcare is for a child or children up to 1 September after their 15th birthday (or 1 September after their 16th birthday if the child is disabled)
  – the childcare is for a child of the employee or a child who lives with the employee for whom they have responsibility
  – the childcare is registered or approved childcare
  – the childcare vouchers are provided as part of a scheme available to all of your employees or all of your employees at a location where the scheme is offered.
From 6 April 2011 changes were made to the rules about providing vouchers to employees for childcare. For those new to a childcare voucher scheme from that date the amount that is disregarded for NICs purposes is £55 a week for ordinary rate tax payers £28 for higher rate tax payers and £25 for additional rate tax payers.
From April 2011 employer supported childcare is exempt from NICs in line with the tax treatment under S318 and S318A – D ITEPA 2003. So long as the qualifying conditions are satisfied, NICs are only payable on the cost of the childcare which exceeds the exempt amount.

It is the responsibility of the employer to determine the tax liability of the employee before awarding vouchers so that they know how much can correctly be disregarded. For more information go to

www.hmrc.gov.uk/thelibrary/esc-qa.htm

• for meals provided on your premises or canteen so long as
  – the meals are provided on a reasonable scale, and
  – are available to all employees and are not provided as part of a salary sacrifice or flexible remuneration arrangement
• for a car, motorcycle or bicycle parking space at or near an employee’s place of work
• to obtain goods or services in connection with a car provided for private use and on which a tax charge arises
• for travel between home and work on a work’s bus so long as
  – the bus service is available to all employees, and
  – the main use of the service is for home to work or between workplaces, and
  – the service must largely be used by the employees or their children, and
  – the service must be provided by a bus with a seating capacity of 12, or a minibus with a seating capacity of nine or more
• for use in connection with additional travelling and subsistence costs incurred as a result of disrupted public transport
• for use by an employee for any necessary travel and accommodation costs in connection with the transfer between the mainland and an offshore oil or gas rig, or platform
• for late night journeys between home and work so long as
  – the employee is only occasionally required to work late and it is not simply at the end of the usual shift, and
  – by the time they can go home, public transport has stopped or it is unreasonable to expect them to use it
• for use where normal car sharing arrangements have broken down due to unforeseen or exceptional circumstances
• as an award under a suggestion scheme so long as the conditions for exemption from tax are satisfied. Ask us for details
• for incidental overnight expenses so long as
  – the amount does not exceed prescribed limits - £5 a night for an overnight stay in the UK or £10 a night outside of the UK, and
  – other conditions are satisfied. For more details see booklets 480(2014) Expenses and benefits and CWG5(2014) Class 1A National Insurance contributions on benefits in kind

• to obtain gifts (but not cash) so long as
  – the voucher is provided by a third party who is not connected to you, and
  – you have not directly or indirectly procured the voucher, and
  – the voucher is not being provided in recognition of the employee’s past or future performance, and
  – the amount does not exceed £250
• provided by a third party where that provision has not been arranged or facilitated by you. But a Class 1A NICs liability will arise in such circumstances, which liability is that of the third party. For more details, see CWG5(2014) Class 1A National Insurance contributions on benefits in kind.

38 Taxed Award Schemes

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

Incentive Award Unit
Specialist Employer Compliance SO733
PO Box 3900
GLASGOW
G70 6AA

Phone 03000 577 340
Fax 01236 783 706
Email incentive.awards@hmrc.gsi.gov.uk
Under a Taxed Award Scheme (TAS), providers will have to:
- agree in advance how the awards are to be valued
- sign a contract with us under which they have to account for tax on the value of the awards grossed up at the appropriate rate
- make returns on the awards. Please note that the returns differ for basic rate and higher rate schemes. Less information is needed for higher rate schemes
- give each employee receiving an award under a higher rate scheme a certificate showing the value of the award and the amount of tax paid on it. For basic rate schemes certificates need only be given to employees who request them.

Employers who use the TAS arrangements for incentive awards, and third parties who provide such awards, can report liability for Class 1A NICs and account for the NICs through the TAS arrangements. See CWG5(2014) Class 1A National Insurance contributions on benefits in kind and the explanatory notes in the TAS information pack.

For more guidance on incentive award schemes, see the Employment Income Manual (at EIM11200 onwards) which is available on our website go to www.hmrc.gov.uk/manuals/eiman

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

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

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

Do not include in gross pay:
- the cost of holiday pay stamps or credits which are issued under a scheme approved by us
- any holiday pay that is paid under an approved scheme by the fund itself. In these cases the fund will deduct tax on this at the basic rate and give the employee a Certificate of Tax Deducted and make their own end of year return to HMRC.

For NICs purposes
For NICs purposes employers in the construction industry who use such schemes were permitted (until 30 October 2012 only) to disregard amounts either when paying into the savings scheme or when they paid out the holiday pay to their employee.

Employment law now instructs employers in the obligation of providing paid holidays to their employees, so each employer must now calculate and pay their employee the payment due to them when taking holiday during the period of that employment.

How to work out NICs on holiday pay is described at paragraph 43.

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

41 Holiday pay from a holiday credit scheme
For holiday pay from a holiday credit scheme when money is set aside each payday to be paid in a lump sum when your employees take their holidays, for both PAYE and NICs purposes, include these amounts in gross pay:
- at the time they are set aside if your employees have a right to be paid the money at any time, or
- when the payment is actually made if your employees can only have the money when they take their holiday.

In both cases, the figures must be included in their payroll record and sent to HMRC in your Full Payment Submission (FPS) when you report your payroll information.

42 Working out PAYE on holiday pay
You should normally work out PAYE using the tax tables for the week in which the holiday pay is paid and record it on the employee’s payroll record.

However, if the effect of the holiday pay is that the employee gets two or more weeks’ pay in one week and no pay in the following week(s) then you should account for PAYE tax in the following way:

For employees with a cumulative tax code
If your employee is on a cumulative tax code, calculate and record the PAYE tax using the free pay for the last week in which no pay is received. For example, if an employee is on holiday in weeks 16 and 17, the wages for those weeks are paid in week 15, together with the pay for week 15, PAYE tax should be calculated on the holiday pay using week 17. You must report the payment on the FPS in the week you make the payment. For the ‘Number of earnings period(s) covered by the payment’ on your FPS, in this example, you would enter ‘3’.

For employees with a week1/month1 tax code
Where PAYE is being worked out on a week 1 or month 1 basis, split the pay equally between the full weeks of the holiday and work out and record PAYE on each amount separately for each week. You should report the payment on an FPS in the week that you make the payment. The total amount of PAYE due for these weeks is the amount you should deduct from the total holiday pay.
For employees leaving employment after their holiday
If your employee will be leaving or retiring straight after their holiday, then work out the PAYE tax due on their holiday pay using the free pay for the week in which you pay it to them. You should report the payment on an FPS in the week that you make the payment.

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

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

Example
On the last payday before their holiday, you pay employees their ordinary weekly wage plus two weeks’ holiday pay.
Work out NICs on each week’s pay separately and record them in the corresponding weeks on the employee’s payroll record.

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

Example
On the last payday before their holiday, you pay employees their ordinary weekly wage plus two weeks’ holiday pay.

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

Exact percentage method used to work out NICs
Any of the following methods for calculating NICs is acceptable:
1 apply the three-weekly Lower and Upper Earnings Limits, Upper Accrual Point and Primary and Secondary Thresholds to the total payment and round the resulting NICs figures to the nearest penny, rounding down exact amounts of £0.005, in the normal way, or
2 divide the total payment by three to establish the average weekly earnings, work out the weekly NICs figures, round to the nearest penny, rounding down exact amounts of £0.005, then multiply the answers by three to get the total NICs due, or
3 divide the total payment by three to establish the average weekly earnings, work out the weekly NICs figures, multiply the answers by three, then round to the nearest penny, rounding down exact amounts of £0.005, to get the total NICs due.

Method B can also be used:
• for employees who are paid at intervals which are multiples of a week, for example fortnightly or four-weekly, but if you use the exact percentage method to work out NICs you must use method A
• even if the employee does not take the holiday but carries on working.

Method B cannot be used:
• for monthly paid employees
• if holiday pay is from a holiday pay scheme in the construction industry or similar scheme.

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

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

If Method A was used:
• add together the pay now due and the holiday pay already paid for that week and work out NICs on the total amount
• subtract from the amount of NICs calculated the NICs already paid on the holiday pay for that week to get the amount of NICs now due
• amend the employee’s payroll record to reflect the new figures.

If Method B was used:
• do not add the holiday pay to the pay due for working but
• work out and record NICs separately on the pay due for working in the normal way.

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

Holiday pay in advance or arrears
If holiday pay is paid in advance or arrears and the actual date of payment and the usual payday are in different tax years and you are using Method A, see page 31 under ‘Working out NICs for employees not paid on their usual payday’.

44 NICs on payments due to be paid during a holiday period
If payments are due to be paid during a holiday period, the NICs due on the payment are dependent on how NICs were worked out on the holiday pay for the week in which payment is due to be made.

For example, an employee is due to be paid for overtime worked but because of the payroll arrangements the overtime does not become payable until the employee is on holiday.

25 Chapter 2 CWG2 (2014)
If Method A was used to work out NICs on the holiday pay, regardless of the week in which the payment is actually made:

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

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

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

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

Examples

These examples are based on 2014–15 contribution rates and limits for an employee paying NICs under category letter A. NICs are worked out using the exact percentage method.

**Example 1** Method A

Based on the employee being paid the overtime payment on 22 August

On payday of 1 August NICs are due

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Employer’s contribution</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£205 (wages)</td>
<td>7.18</td>
<td>6.24</td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td>0.28</td>
<td>0.24</td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td>0.28</td>
<td>0.24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7.74</strong></td>
<td><strong>6.72</strong></td>
</tr>
</tbody>
</table>

On 22 August the employee is paid the overtime of £80. As the employee was due to receive this on 8 August, the £80 has to be added to the holiday pay for the week 2 – 8 August and NICs worked out again.

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Employer’s contribution</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£205 (wages)</td>
<td>7.18</td>
<td>6.24</td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td>0.28</td>
<td>0.24</td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td>0.28</td>
<td>0.24</td>
</tr>
<tr>
<td>+ £80 (overtime)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>£235</strong></td>
<td><strong>11.32</strong></td>
<td><strong>9.84</strong></td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td>0.28</td>
<td>0.24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18.78</strong></td>
<td><strong>16.32</strong></td>
</tr>
</tbody>
</table>

On the payday of 22 August, as the overtime payment has already been accounted for, NICs are only due on the wages for that week as follows

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Employer’s contribution</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£205 (wages)</td>
<td>7.18</td>
<td>6.24</td>
</tr>
</tbody>
</table>

**Example 2** Method B

Based on the employee being paid the overtime payment on 8 August

On payday of 1 August NICs are due

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Employer’s contribution</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£205 (wages)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>£515 ÷ 3 =</td>
<td></td>
<td></td>
</tr>
<tr>
<td>£171.67 per week</td>
<td>2.58</td>
<td>2.24</td>
</tr>
<tr>
<td>×3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>£7.74</td>
<td></td>
<td>£6.72</td>
</tr>
</tbody>
</table>

On 8 August, the employee is paid the overtime of £80. NICs must be worked out on this separately from the holiday pay payment of £155 for that week and therefore the NICs due are

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Employer’s contribution</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£80 (overtime)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
For PAYE purposes

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

PAYE and tronc schemes

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

If HMRC are satisfied that there is a tronc scheme for sharing tips/gratuities and service charges then we will set up a PAYE scheme in the troncmaster’s name. The troncmaster is responsible for operating PAYE on all payments made from the tronc, including any share of cash tips. The troncmaster, or someone on their behalf, will need to operate a computerised payroll system and report payroll information to HMRC when or before the payments are made to employees.

For NICs purposes

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

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

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

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

- know the amount being paid and the date(s) of payment,
- include the payments in gross pay when working out NICs, and
- update the employee’s payroll record accordingly and ensure the information is reported to HMRC.

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

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

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

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

Further guidance can be found at www.gov.uk/expenses-and-benefits-tips-and-service-charges

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**Example 3 Method B**

Based on the employee being paid the overtime payment on 22 August

On payday of 1 August NICs are due

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Employer’s contribution</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£205 (wages)</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td>2.58</td>
<td>2.24</td>
</tr>
<tr>
<td>£155 (holiday pay)</td>
<td>x3</td>
<td>x3</td>
</tr>
<tr>
<td>£171.67 per week</td>
<td>£7.74</td>
<td>£6.72</td>
</tr>
</tbody>
</table>

On 22 August, the employee is paid the overtime of £80 in addition to the wages due for that week. Add the overtime payment to the wages and work out NICs on the total. NICs due are therefore

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Employer’s contribution</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>£205 (wages) + £80 (overtime) = £285</td>
<td>£18.22</td>
<td>£15.84</td>
</tr>
</tbody>
</table>
48 **Tips/gratuities/voluntary service charges**

flowchart

Tips paid by the customer

Does the employee keep the tip without involving the employer or tronc?  

Yes

No

Does the employee have a contractual right to a precise amount of money sourced from tips and receive no more or less than they are contractually entitled to?  

Yes

No

Does the employer decide which employees will get the money and how much each employee will get?  

Yes

No

NICs are due

No NICs are due

Employees involved in a trade dispute or lock-out

49 **When the special procedures apply and what they entail**

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

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

The special procedures for such employees are as follows:

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

50 **How to decide if an employee is involved in a trade dispute or lock-out**

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

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

Where an employee produces such written confirmation:

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

51 **Working out PAYE during the trade dispute**

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

If you do put off working their PAYE:

• you will not be able to deduct from your payments to the accounts office (see paragraph 52 below) any refunds you have withheld
• where during the dispute an employee leaves your employment or dies, you must work out his or her particular PAYE in the normal way, and:
  – pay any refund due including any refund withheld in a previous tax year
  – complete form P45 in the usual way.

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

• make the PAYE calculations in the normal way
• where the PAYE calculations:
  – show that a tax refund is due, withhold the refund from the employee
  – show that tax is deductible, make the deduction from any pay the employees are receiving. Any tax deductible should be reduced by any tax refund that you are already withholding from the employee.

Remember, however, to reduce the amount of refund owed to the employee by the amount used by the set-off.

52 **Payments to the accounts office during the trade dispute**

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

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

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

• the end of the dispute, or
• when you complete your final submission for the tax year.
You can then deduct the refunds from the payments to the accounts office and/or claim what you are owed back from the accounts office, who will deal with the matter urgently.

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

- you may deduct from your payments to the accounts office, any refunds you actually make to employees because they are no longer involved in the trade dispute. (Remember, however, not to deduct from your accounts office payment any amount of withheld refund you have previously deducted under the procedure below)
- you may deduct from your payment to the accounts office, but only for the month (or quarter if appropriate) in which the refund arises, any refunds calculated but withheld
- where the amount of withheld refunds exceeds the tax due for that month (or quarter) you may deduct the excess from any payment of NICs due
- where the amount of withheld refunds exceeds the tax and NICs due for that month (or quarter), the excess refunds cannot be deducted from any subsequent payment to the accounts office or be claimed back from the accounts office until the refunds have actually been made to the employees.

53 Trade dispute ends in the same tax year it began

If the trade dispute ends in the same tax year it began, take the following action:
- pay any refunds that you have withheld as soon as possible after the employees return to work
- follow the procedure at paragraph 55 for any employee whose withheld refund you cannot pay
- work out how much you owe to, or are owed by, the accounts office. Remember to allow for any deductions from payments to the accounts office that you have already made
- where your calculations show that you are owed by the accounts office you can either:
  - deduct the amount you are owed from future payments you make to the accounts office, or
  - claim the money back from the accounts office who will deal with your claim urgently. Your claim must be in writing and show how you have worked out the amount you are claiming.

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

You must take the following action at the end of the tax year if the dispute has not ended:
- fill in the normal final submission for the year as if you had actually paid the refunds you are withholding
- complete form P60 to give to the employee, by 31 May and, either:
  - enter a single figure of tax deducted on form P60 and give the employee a statement of tax withheld on form P61, or
  - give a separate statement on form P60 of the tax withheld and give the employee a form P62
- continue, for the following tax year, to
  - carry out normal PAYE calculations
  - withhold the tax refunds for as long as the employee is involved in the trade dispute.

You can get forms P61 or P62 from HMRC National Insurance Contributions & Employer Office.

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

Where an employee does not return to work at the end of the trade dispute, and you do not know where he or she is, you will not be able to pay the withheld refund to the employee. You should take the following action in such circumstances:
- pay to the accounts office any tax you have not refunded to an employee within 42 days of the end of the trade dispute
- include the figure of tax not refunded on the FPS
- where the final FPS for a year has been submitted you will need to submit an EYU showing the amount of tax which has not been refunded.

56 - 59 not used - reserved for future use.
Chapter 3 – National Insurance only procedures

The following guidance applies to all Employers. Guidance for reporting PAYE in real time is also available at, www hmrc gov uk/payerti/index html

Earnings periods for NICs purposes

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

Paragraphs 60 to 64 describe how to decide what the earnings period is in different circumstances. The rules described in those paragraphs ordinarily do not apply to directors. For details on the earnings period to use for directors see CA44 National Insurance for Company Directors. Go to www hmrc gov uk/nitables/ca44.pdf

60 Employees paid at regular intervals

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

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

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

See the chart on pages 7 and 8.

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

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

Example

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

See the chart on pages 7 and 8.

62 Employees paid at irregular intervals

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

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

• of the previous payment to the date of the current payment, or
• the employment began to the date of the first payment.

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

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

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

63 More than one set of regular payments

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

Example

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

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

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

64 Working out NICs when you first pay an employee

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

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

Example

A new employee starts work on 6 October and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first payday is 31 October. Work out NICs using a monthly earnings period.

If the interval between an employee starting work and the first payday spans two or more earnings periods, and each period is in the same tax year, work out NICs on the amounts due for each of those earnings periods separately using the normal earnings period.

Example

A new employee starts work on 9 June and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first payday is 31 July. The employee receives £2,250 gross pay which is made up of:

£750 for the period 9 June to 30 June
£1,500 for the period 1 July to 31 July.

Work out NICs separately on the payment:

• for June of £750 and record NICs on the employee’s payroll record in tax month 3
• for July of £1,500 and record NICs on the employee’s payroll record in tax month 4.
Employees with more than one job

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

Example
An employee is paid monthly on submission of a timesheet. The employee submits timesheets for February 2014, March 2014 and April 2014 during May 2014. Work out NICs on the payments due for February and March separately using the 2014–15 contribution rates and limits. Record the NICs separately in tax month 2. Work out NICs on the payments for April and May separately and record the NICs in tax months 1 and 2 respectively.

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

Changing the method of working out NICs

You may work out NICs using either:

- the Contribution Tables supplied by us, or
- the exact percentage method. This is when you apply the appropriate percentage rates to the gross pay for the earnings period.

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

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

Employees with more than one job

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

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

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

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

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

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

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

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

Working out NICs for employees not paid on their usual payday

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

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

**Example**
Two separate weeks’ wages for weeks ending 6 June and 13 June are paid on 13 June. Work out NICs separately on each week’s payment. Record the NICs information for the late 6 June payment on the employee’s payroll record in tax month 1 of 2014–15 and record NICs on the employee’s payroll record in tax month 1.

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

**Example**
Two separate weeks’ wages for weeks ending 30 March 2014 and 6 April 2014 are paid on 30 March. Work out NICs on each set of earnings separately using the usual earnings period, but record the total NICs for both the early 6 April 2014 payment and the 30 March 2014 payment together on the employee’s payroll record for 30 March and report it to HMRC on or before the date of payment.

(See the guidance on page 9 if the payment is due to be made on a non-banking day.)

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

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

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

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

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

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

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

We consider the following points if we review your decision:

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

If you would like more detailed information on the ‘not reasonably practicable’ test, please refer to section 10009 of the National Insurance Manual at www.hmrc.gov.uk/manuals/nimmanual/nim10009.htm or contact us for advice.

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

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

See paragraph 71 Reporting NICs when earnings from separate jobs are added together and see the guidance at www.hmrc.gov.uk/payerti/employee-starting/special-situations/multiple-jobs.htm

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

This applies if all the jobs are in the same Contracted-out Salary Related (COSR) scheme. Work out NICs on the total earnings based on the shortest earnings period.

See paragraph 71 Reporting NICs when earnings from separate jobs are added together and see the guidance at www.hmrc.gov.uk/payerti/employee-starting/special-situations/multiple-jobs.htm

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

This applies if an employee is a member of a Contracted-out Salary Related (COSR) scheme in one job and a different COSR scheme in another job.

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

See paragraph 71 for guidance on how to report payroll information to HMRC and see the guidance at www.hmrc.gov.uk/payerti/employee-starting/special-situations/multiple-jobs.htm

In addition to completing a payroll record, keep a separate record for each job showing the earnings between the Lower Earnings Limit and Upper Accrual Point for each job.

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

If you are required to aggregate the earnings for separate jobs when working out NICs, see paragraphs 68 to 71 for guidance on how to calculate and report aggregation in real time. For more information go to www.hmrc.gov.uk/payerti/employee-starting/special-situations/multiple-jobs.htm
NICs are due at the contracted-out rate in one job and the not contracted-out rate in another.

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

The examples on pages 34 to 44 explain what you need to do.

The examples use the rates and limits applicable to the 2014–15 tax year. NICs are worked out using the exact percentage method. For more information on using the exact percentage method, go to www hmrc gov uk/calcs/nice htm

The order in which to calculate reduced rate NICs is:

- First, on earnings on which NICs are payable under category letter E if the employee belongs to the company's Contracted-out Salary Related (COSR) scheme.
- Then, on earnings on which NICs are payable under category letter B if the employee is in a not contracted-out employment.

The order in which to calculate standard rate NICs is:

- First, on earnings on which NICs are payable under category letter D if the employee belongs to the company's COSR scheme
- Then, on earnings on which NICs are payable under category letter A if the employee is in a not contracted-out employment.

If you feel that sections 65 to 71 apply to you, and you need more information or help in this area, contact us. You can find our address and phone number in the help and guidance page or go to www hmrc gov uk/local/employers/index htm
This example tells you how to work out NICs when earnings from more than one job are added together, and
• NICs are due at the contracted-out rate in some jobs, and
• the not contracted-out rate in others.

Work out NICs on the total earnings based on the shortest earnings period of the contracted-out employment(s).
For example, if a person has two jobs, one of which is weekly paid not contracted-out employment, and the other is weekly paid contracted-out employment. NICs are worked out using a weekly earnings period.

Example 1
Contracted-out earnings do not reach the Lower Earnings Limit (£111 weekly), but total earnings do

The employee’s earnings are:
• £70 a week from the contracted-out job
• £85 a week from the not contracted-out job
£155 a week total earnings from both jobs
The earnings period is weekly and NICs are due as follows

<table>
<thead>
<tr>
<th>Employee’s contributions are due at:</th>
<th>Employee’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>the appropriate not contracted-out percentage rate on earnings above the Primary Threshold (£153) up to and including the Upper Earnings Limit (£805)</td>
<td>£155 - £153 (PT) = £2 £2 x 12% = £0.24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employer’s contributions are due at:</th>
<th>Employer’s contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>the appropriate not contracted-out percentage rate on the total earnings above the Secondary Threshold (£153)</td>
<td>£155 - £153 (ST) = £2 £2 x 13.8% = £0.28</td>
</tr>
</tbody>
</table>

Total employee’s and employer’s NICs due = £0.24 + £0.28 = £0.52
This example tells you how to work out NICs when earnings from more than one job are added together, and
• NICs are due at the contracted-out rate in some jobs, and
• the not contracted-out rate in others.

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

**Example 2**
**Contracted-out earnings exceed the Lower Earnings Limit (£481 monthly), but do not reach the Secondary Threshold (£663 monthly)**

The employee’s earnings are:
- £483 a month from the contracted-out job
- £394 (£98.50 p/w x 4 weeks) a month from the not contracted-out job

**£877** a month total earnings from both jobs.

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

<table>
<thead>
<tr>
<th><strong>Employee’s contributions</strong> are due at:</th>
<th><strong>Employee’s contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• the appropriate not contracted-out percentage rate on not contracted-out earnings above the Primary Threshold (£663) up to and including the Upper Earnings Limit (£3,489).</td>
<td><strong>£877 – £663 (PT) = £214</strong></td>
</tr>
<tr>
<td></td>
<td>**£214 x 12% = <strong>£25.68</strong></td>
</tr>
<tr>
<td><strong>Employee’s NIC rebate on contracted-out earnings</strong></td>
<td><strong>£483 – £481 (LEL) = £2</strong></td>
</tr>
<tr>
<td></td>
<td><strong>£2 x 1.4% = <strong>£0.03</strong> (to be added to employer’s rebate as no contracted-out NICs due)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Employer’s contributions</strong> are due at:</th>
<th><strong>Employer’s contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• the appropriate not contracted-out percentage rate on the total earnings above the Secondary Threshold (£663)</td>
<td><strong>£877 – £663 (ST) = £214</strong></td>
</tr>
<tr>
<td></td>
<td>**£214 x 13.8% = <strong>£29.53</strong></td>
</tr>
<tr>
<td><strong>Employer’s NIC rebate on contracted-out earnings</strong></td>
<td><strong>£483 – £481 (LEL) = £2</strong></td>
</tr>
<tr>
<td></td>
<td><strong>£2 x 3.4% = £0.07</strong></td>
</tr>
<tr>
<td></td>
<td>Plus Employee’s NIC rebate of £0.03 = <strong>£0.10</strong> (Category letter D NICs)**</td>
</tr>
</tbody>
</table>

**Total employee’s and employer’s NICs due = £25.68 + £29.43 = £55.11**
This example tells you how to work out NICs when earnings from more than one job are added together, and
• NICs are due at the contracted-out rate in some jobs, and
• the not contracted-out rate in others.

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

Example 3
Contracted-out earnings exceed the Primary and Secondary Threshold (£663 monthly) but do not reach the Upper Accrual Point (£3,337 monthly)

The employee's earnings are:
• £1,048 a month from the contracted-out job
• £800 (£200 p/w x 4 weeks) a month from the not contracted-out job
£1,848 a month total earnings from both jobs.

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

Employee's contributions are due at:
• the appropriate contracted-out percentage rate on the contracted-out earnings above the Primary Threshold (£663)
  (Category letter D)
£1,048 - £663 (PT) = £385
£385 x 10.6% = £40.81

• the appropriate not contracted-out rate on the not contracted-out earnings until the total earnings reaches the Upper Earnings limit (£3,489)
  (Category letter A)
£200 x 4 = £800
£800 x 12% = £96.00

Employee's NIC rebate
£663 (PT) - £481 (LEL) = £182
£182 x 1.4% = £2.55

Net employee's NICs due = Category letter D £40.81 - £2.55 = £38.26
Category letter A = £96.00

Employer's contributions are due at:
• the appropriate contracted-out percentage rate on the contracted-out earnings above the Secondary Threshold (£663)
  (Category letter D)
£1,048 - £663 (ST) = £385
£385 x 10.4% = £40.04

• the appropriate not contracted-out percentage rate on the balance of total earnings.
  (Category letter A)
£200 x 4 = £800
£800 x 13.8% = £110.40

Employer's NIC rebate
£663 (ST) - £481 (LEL) = £182
£182 x 3.4% = £6.19

Net employer's NICs due = Category letter D £40.04 - £6.19 = £33.85
Category letter A = £110.40

Total employee's and employer's NICs due = Category letter D £38.26 + £33.85 = £72.11
Category letter A £96.00 + £110.40 = £206.40
This example tells you how to work out NICs when earnings from more than one job are added together, and
- NICs are due at the contracted-out rate in some jobs, and
- the not contracted-out rate in others.

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

### Example 4
**Contracted-out earnings exceed the Upper Accrual Point (£3,337 monthly) but do not reach the Upper Earnings Limit (£3,489 monthly)**

The employee’s earnings are:
- £3,380 a month from the contracted-out job
- £72 (£18 p/w x 4 weeks) a month from the not contracted-out job

£3,452 a month total earnings from both jobs

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

<table>
<thead>
<tr>
<th>Employee’s contributions</th>
<th>Employee’s contribution</th>
</tr>
</thead>
</table>
| the appropriate contracted-out percentage rate on the contracted-out earnings above the Primary Threshold (£663) up to and including the Upper Accrual Point (£3,337) | £3,337 (UAP) - £663 (PT) = £2,674  
£2,674 x 10.6% = **£283.44** |
| the appropriate not contracted-out rate on the contracted-out earnings above the Upper Accrual Point | £3,380 - £3,337 (UAP) = £43  
£43 x 12% = **£5.16** |
| the appropriate not contracted-out rate on the not contracted-out earnings until the total earnings reaches the Upper Earnings Limit. | £18 x 4 = £72  
£72 x 12% = **£8.64** |

**Employee’s NIC rebate**
- £663 (PT) - £481 (LEL) = £182  
£182 x 1.4% = **£2.55**

**Net employee's NICs due**
- Category letter D £288.60 - £2.55 = **£286.05**  
Category letter A = **£8.64**

<table>
<thead>
<tr>
<th>Employer’s contributions</th>
<th>Employer’s contribution</th>
</tr>
</thead>
</table>
| the appropriate contracted-out percentage rate on the contracted-out earnings above the Secondary Threshold (£663) up to and including the Upper Accrual Point (£3,337) | £3,337 (UAP) - £663 (ST) = £2,674  
£2,674 x 10.4% = **£278.10** |
| the appropriate not contracted-out percentage rate on the balance of total earnings. | £3,380 - £3,337 (UAP) = £43  
£43 x 13.8% = **£5.93** |
| | £18 x 4 = £72  
£72 x 13.8% = **£9.94** |

**Employer’s NIC rebate**
- £663 (ST) - £481 (LEL) = £182  
£182 x 3.4% = **£6.19**

**Net employer’s NICs due**
- Category letter D £284.03 - £6.19 = **£277.84**  
Category letter A = **£9.94**

**Total employee’s and employer’s NICs due**
- Category letter D £286.05 + £277.84 = **£563.89**  
Category letter A £8.64 + £9.94 = **£18.58**
This example tells you how to work out NICs when earnings from more than one job are added together, and
- NICs are due at the contracted-out rate in some jobs, and
- the not contracted-out rate in others.

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

### Example 5
**Contracted-out earnings reach or exceed the Upper Earnings Limit (£3,489 monthly)**

The employee’s earnings are:
- £4,170 a month from the contracted-out job
- £800 (£200 p/w x 4 weeks) a month from the not contracted-out job

£4,970 a month total earnings from both jobs.

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

<table>
<thead>
<tr>
<th><strong>Employee’s contributions</strong></th>
<th><strong>Employee’s contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>the appropriate contracted-out percentage rate on the contracted-out earnings above the Primary Threshold (£663) up to and including the Upper Accrual Point (£3,337)</td>
<td>£3,337 (UAP) - £663 (PT) = £2,674</td>
</tr>
<tr>
<td>the appropriate not contracted-out percentage rate on the contracted-out earnings above the Upper Accrual Point up to and including the Upper Earnings limit (£3,489)</td>
<td>£3,489 (UEL) - £3,337 (UAP) = £152</td>
</tr>
<tr>
<td>2% on earnings above the Upper Earnings Limit.</td>
<td>£4,970 - £3,489 (UEL) = £1,481</td>
</tr>
</tbody>
</table>

Employee’s contribution

Net employee's NICs due = £301.68 - £2.55 + £29.62 = **£328.75**

**Employer’s contributions** are due at:
- the appropriate contracted-out percentage rate on the contracted-out earnings above the Secondary Threshold (£663) up to and including the Upper Accrual Point (£3,337)
- the appropriate not contracted-out percentage rate on the balance of total earnings.

<table>
<thead>
<tr>
<th><strong>Employer’s contributions</strong></th>
<th><strong>Employer’s contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>the appropriate contracted-out percentage rate on the contracted-out earnings above the Secondary Threshold (£663) up to and including the Upper Accrual Point (£3,337)</td>
<td>£3,337 (UAP) - £663 (ST) = £2,674</td>
</tr>
<tr>
<td>the appropriate not contracted-out percentage rate on the balance of total earnings.</td>
<td>£3,489 (UEL) - £3,337 (UAP) = £152</td>
</tr>
</tbody>
</table>

Employer’s contribution

Net employer’s NICs due = £278.10 + £20.98 - £6.19 + £204.38 = **£497.27**

Total employee's and employer's NICs due = £328.75 + £497.27 = **£826.02**
Reporting NICs when earnings from separate jobs are added together

If an employee has one payroll identity add together all the payments made in one earnings period under one category and report NICs data on the total amount.

Example 1
Employee has one payroll ID and is paid on the same day for both jobs using one payroll identity — 2014-15 rates

Robert has two jobs with a hotel; one as a barman and one as a lifeguard. He earns £200 per week as a barman and £100 per week as a lifeguard. The payments are made under one payroll ID.

You must add together all the payments made in one earnings period and calculate NICs due on the total amount.

Week 4 – assume same weekly pay each week

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Description</th>
<th>Hotel</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>NI category</td>
<td>A</td>
</tr>
<tr>
<td>79A</td>
<td>Gross earnings for NICs year to date</td>
<td>£1,200</td>
</tr>
<tr>
<td>79B</td>
<td>Gross earnings for NICs Pay period</td>
<td>£300</td>
</tr>
<tr>
<td>82</td>
<td>Earnings at the LEL Year to date</td>
<td>£444</td>
</tr>
<tr>
<td>82A</td>
<td>Earnings at LEL to PT Year to date</td>
<td>£144</td>
</tr>
<tr>
<td>83</td>
<td>Earnings PT to UAP Year to date</td>
<td>£588</td>
</tr>
<tr>
<td>84</td>
<td>Earnings UAP to UEL Year to date</td>
<td>£0.00</td>
</tr>
<tr>
<td>86A</td>
<td>Employer NICs Year to date</td>
<td>£81.60</td>
</tr>
<tr>
<td>86Aa</td>
<td>Employer NICs this pay period</td>
<td>£20.29</td>
</tr>
<tr>
<td>86B</td>
<td>Employee NICs Year to date</td>
<td>£70.56</td>
</tr>
<tr>
<td>86Ba</td>
<td>Employee NICs this period</td>
<td>£17.64</td>
</tr>
<tr>
<td>49</td>
<td>Aggregated earnings indicator</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Employee has two different payroll IDs

If an employee receives payments under two different payroll identities, you must use the following procedure:

- Every time you pay the employee, record and report the pay and employee NICs in this pay period for each job in the usual way.
- In addition, on one of the payroll records, you must also:
  - Step 1 add together the earnings from each job (the total is the ‘aggregated earnings’)
  - Step 2 calculate and record the employer NICs due on the aggregated earnings for the pay period
  - Step 3 calculate and record the employee NICs due on the aggregated earnings, and so find out any additional employee NICs due (over and above what’s already been recorded for the two jobs separately for earnings paid in the same earnings period)
  - Step 4 pay HMRC all the employee and employer NICs due on the aggregated earnings
  - Step 5 update the year-to-date NICs figures on the payroll record for the employee, to reflect the NICs data for the aggregated earnings
  - Step 6 set the Aggregated Earnings Indicator on the payroll record
  - Step 7 report the payroll information to HMRC.

You will need to decide under which Payroll ID you want to record the data for the aggregated earnings. This reference will be the one under which HMRC will expect payment for both the employer NICs and employee NICs to be made.

- For the other job or jobs, update the employee’s payroll record:
  - Step 1 put ‘0.00’ for the year-to-date NICs fields
  - Step 2 put ‘0.00’ for the employer NICs in this period
  - Step 3 set the Aggregated Earnings Indicator.
Example 2
Employee has two jobs with same employer, paid using two payroll IDs

Dev has two jobs with the County Council – one with the Planning Department and one with the Education Department. Each department has a separate payroll, and so different PAYE references. With the Planning Department, Dev earns £3,000 per month and with the Education Department he earns £250 per month. The National Insurance category letter for both jobs is ‘D’.

The Council adds together Dev’s earnings for NICs purposes so that Dev and the Council pay employee and employer NICs on earnings of £3,250 per month. These are the aggregated earnings and NICs must be calculated using the guidance in the following pages.

The Council must record Dev’s earnings every month and send the information to HMRC when they report their payroll information an FPS for each job.

For the job with the Planning Department the Council will record and report:
• taxable pay and pay subject to NICs of £3,000 every month
• any employee NICs deducted from Dev’s earnings in the pay period
• ‘Yes’ for the Aggregated Earnings Indicator
• National Insurance category letter ‘D’.

For the employment with Education Department the Council will record and report:
• taxable pay and pay subject to NICs of £250 every month
• any employee NICs deducted from Dev’s earnings in the pay period
• ‘Yes’ for the Aggregated Earnings Indicator
• National Insurance category letter ‘D’.

The Council decides to show the aggregated earnings on the job with the Planning Department. The records are updated to show:
• the employer NICs due on the aggregated earnings for the pay period
• any additional employee NICs due, as a result of aggregating the earnings and calculating the employee NICs due on the total, reflected in the year to date totals
• the year to date NICs data figures on the payroll record for the employee, to reflect the NICs data for the aggregated earnings.

The Education Department shows ‘0.00’ for year to date and Employer NICs in the pay period.

Summary of data items — Month 1

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Description</th>
<th>Payroll ID 1</th>
<th>Payroll ID 2</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>NI category</td>
<td>D</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>79A</td>
<td>Gross earnings for NICs year to date</td>
<td>£3,250</td>
<td>£0.00</td>
<td>Pay under LEL for ID 2 – no need to report (if reported for tax). If over LEL (report actual pay).</td>
</tr>
<tr>
<td>79B</td>
<td>Gross earnings for NICs Pay period</td>
<td>£3,000</td>
<td>£250.00</td>
<td></td>
</tr>
<tr>
<td>82</td>
<td>Earnings at the LEL Year to date</td>
<td>£481</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>82A</td>
<td>Earnings at LEL to PT Year to date</td>
<td>£182</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>83</td>
<td>Earnings from PT to UAP year to date</td>
<td>£2587</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>84</td>
<td>Earnings from UAP to UEL year to date</td>
<td>£0.00</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>86A</td>
<td>Employer NICs Year to date</td>
<td>£262.86</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>86Aa</td>
<td>Employer NICs this pay period</td>
<td>£262.86</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>86B</td>
<td>Employee NICs Year to date</td>
<td>£152.67</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>86Ba</td>
<td>Employee NICs this period</td>
<td>£152.67*</td>
<td>Actual if any*</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Aggregated earnings indicator</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

* Employer may choose to deduct primary (employee) NICs from either or both employments in the pay period, but must ensure the ‘year to date’ data is all reported under one employment.
Example 2
See calculation example 3 Page 36; NICs due at Contracted Out rate in one job (monthly paid) and Not Contracted out for other (weekly paid)

Weekly paid job
You must report payment ‘on or before’ every weekly pay, and may deduct NICs. You do not need to report year to date NICs data on this employment, since this will be reported on the monthly FPS.

Assume week 1

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>NI category</td>
<td>A</td>
</tr>
<tr>
<td>79A</td>
<td>Gross earnings for NICs year to date</td>
<td></td>
</tr>
<tr>
<td>79B</td>
<td>Gross earnings for NICs Pay period</td>
<td>£200</td>
</tr>
<tr>
<td>82</td>
<td>Earnings at the LEL Year to date</td>
<td></td>
</tr>
<tr>
<td>82A</td>
<td>Earnings at LEL to PT Year to date</td>
<td></td>
</tr>
<tr>
<td>83</td>
<td>Earnings PT to UAP Year to date</td>
<td></td>
</tr>
<tr>
<td>84</td>
<td>Earnings UAP to UEL Year to date</td>
<td></td>
</tr>
<tr>
<td>86A</td>
<td>Employer NICs Year to date</td>
<td></td>
</tr>
<tr>
<td>86Aa</td>
<td>Employer NICs this pay period</td>
<td>£6.49</td>
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<tr>
<td>86B</td>
<td>Employee NICs Year to date</td>
<td></td>
</tr>
<tr>
<td>86Ba</td>
<td>Employee NICs this period</td>
<td>£5.64</td>
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<tr>
<td>49</td>
<td>Aggregated earnings indicator</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Example 3
Earnings paid on one payroll identity, report on one FPS

At the end of the monthly earnings period, you should:

- aggregate all earnings paid in that earnings period (including either 4 or 5 weekly payments), and calculate total NICs due
- report the aggregated earnings and NICs on the monthly FPS.

If additional payments are made in the period, an additional FPS can be sent.

How you report the aggregated earnings depends on whether you pay using one payroll ID or two.

Month 1 — Final FPS in month

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Description</th>
<th>Payroll ID 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>NI category</td>
<td>D</td>
</tr>
<tr>
<td>79A</td>
<td>Gross earnings for NICs year to date</td>
<td>£1,048</td>
</tr>
<tr>
<td>79B</td>
<td>Gross earnings for NICs Pay period</td>
<td>£1,048</td>
</tr>
<tr>
<td>82</td>
<td>Earnings at the LEL Year to date</td>
<td>£481</td>
</tr>
<tr>
<td>82A</td>
<td>Earnings at LEL to PT Year to date</td>
<td>£182</td>
</tr>
<tr>
<td>83</td>
<td>Earnings from PT to UAP year to date</td>
<td>£385</td>
</tr>
<tr>
<td>84</td>
<td>Earnings from UAP to UEL year to date</td>
<td>£0.00</td>
</tr>
<tr>
<td>86A</td>
<td>Employer NICs Year to date</td>
<td>£40.04</td>
</tr>
<tr>
<td>86Aa</td>
<td>Employer NICs this pay period</td>
<td>£40.04</td>
</tr>
<tr>
<td>86B</td>
<td>Employee NICs Year to date</td>
<td>£40.81</td>
</tr>
<tr>
<td>86Ba</td>
<td>Employee NICs this period</td>
<td>£40.81</td>
</tr>
<tr>
<td>49</td>
<td>Aggregated earnings indicator</td>
<td>Yes</td>
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</table>

Final FPS in year — assuming 12 equal monthly payments and 48 equal weekly payments

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Description</th>
<th>Payroll ID 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>NI category</td>
<td>D</td>
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<tr>
<td>79A</td>
<td>Gross earnings for NICs year to date</td>
<td>£12,576</td>
</tr>
<tr>
<td>79B</td>
<td>Gross earnings for NICs Pay period</td>
<td>£1,048</td>
</tr>
<tr>
<td>82</td>
<td>Earnings at the LEL Year to date</td>
<td>£5,772</td>
</tr>
<tr>
<td>82A</td>
<td>Earnings at LEL to PT Year to date</td>
<td>£2,184</td>
</tr>
<tr>
<td>83</td>
<td>Earnings from PT to UAP year to date</td>
<td>£4,620</td>
</tr>
<tr>
<td>84</td>
<td>Earnings from UAP to UEL year to date</td>
<td>£0.00</td>
</tr>
<tr>
<td>86A</td>
<td>Employer NICs Year to date</td>
<td>£480.48</td>
</tr>
<tr>
<td>86Aa</td>
<td>Employer NICs this pay period</td>
<td>£40.04</td>
</tr>
<tr>
<td>86B</td>
<td>Employee NICs Year to date</td>
<td>£489.72</td>
</tr>
<tr>
<td>86Ba</td>
<td>Employee NICs this period</td>
<td>£40.81</td>
</tr>
<tr>
<td>49</td>
<td>Aggregated earnings indicator</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Example 3
Reporting aggregated earnings data for employers using two separate payroll IDs

See instruction above for step by step instructions.

Month 1 — final FPS in pay period

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Description</th>
<th>Employment A Monthly Paid</th>
<th>Employment B Weekly Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>NI category D</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>79A</td>
<td>Gross earnings for NICs year to date £1,048</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>79B</td>
<td>Gross earnings for NICs Pay period £1,048</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>82</td>
<td>Earnings at the LEL Year to date £481</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>82A</td>
<td>Earnings at LEL to PT Year to date £182</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>83</td>
<td>Earnings PT to UAP Year to date £385</td>
<td>£800.00</td>
<td></td>
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<tr>
<td>84</td>
<td>Earnings UAP to UEL Year to date £0.00</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>86A</td>
<td>Employer NICs Year to date £40.04</td>
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</tr>
<tr>
<td>86Aa</td>
<td>Employer NICs this period £40.04</td>
<td>£110.40</td>
<td></td>
</tr>
<tr>
<td>86B</td>
<td>Employee NICs Year to date £40.81</td>
<td>£96.00</td>
<td></td>
</tr>
<tr>
<td>86Ba</td>
<td>Employee NICs this period £40.81</td>
<td>£96.00</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Aggregated earnings indicator Yes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Employer may deduct an amount of primary (employee) NICs from either earnings, but must ensure ‘year to date’ shows aggregated totals.

Final FPS in year — assuming 12 equal monthly payments and 48 equal weekly payments

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Description</th>
<th>Employment A Monthly Paid</th>
<th>Employment B Weekly Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>NI category D</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>79A</td>
<td>Gross earnings for NICs year to date £12,576</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>79B</td>
<td>Gross earnings for NICs Pay period £1,048</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>82</td>
<td>Earnings at the LEL Year to date £5,772</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>82A</td>
<td>Earnings at LEL to PT Year to date £2,184</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>83</td>
<td>Earnings PT to UAP Year to date £4,620</td>
<td>£9,600</td>
<td></td>
</tr>
<tr>
<td>84</td>
<td>Earnings UAP to UEL Year to date £0.00</td>
<td>£0.00</td>
<td></td>
</tr>
<tr>
<td>86A</td>
<td>Employer NICs Year to date £480.48</td>
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<tr>
<td>86Aa</td>
<td>Employer NICs this period £40.04</td>
<td>£110.40</td>
<td></td>
</tr>
<tr>
<td>86B</td>
<td>Employee NICs Year to date £489.72</td>
<td>£1,152.00</td>
<td></td>
</tr>
<tr>
<td>86Ba</td>
<td>Employee NICs this period £40.81</td>
<td>£96.00</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Aggregated earnings indicator Yes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Deferment of the payment of employee's contributions for employees with more than one job

Employees with more than one employment, who anticipate earning in excess of the Upper Earnings Limit (UEL) in one, or in a number of employments, can apply to the National Insurance Contributions & Employer Office for permission to defer some of their contributions liability. Where permission is granted the employee will pay a reduced main employee rate of 2 per cent on all earnings from the Primary Threshold (PT) to the UEL and the additional employee rate of 2 per cent on all earnings above the UEL in the deferred employments.

If an application is allowed, our Deferment Services will send form CA2700 to the employer(s) concerned authorising them to deduct primary (employee) NICs at a rate of 2 per cent on all earnings above the PT. Employer’s contributions are still payable at the full standard rate. An application for deferment is required each year.

If you receive form CA2700 for an employee, use the appropriate category letter as follows:

- Category letter ‘J’ for Not contracted-out employment
- Category letter ‘L’ for Contracted-out Salary Related (COSR) employment.

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

If you have already deducted employee’s contributions:

- Recalculate the employee NICs due at 2 per cent on all earnings above the PT
- Refund to the employee the difference between the NICs paid and the amount now due
- Adjust your next payment to the accounts office as long as it is for the same tax year
- Adjust the category letter under which the NICs are due on the employee's payroll record to the appropriate category letter for deferment (as indicated above)
- Report the correct year to date information on your next FPS
- Keep a record of earnings on which employee NICs would have been deducted.

Employees with more than one job who want to know about deferment of Class 1 NICs should read Guidance Notes for form CA72A which you can find using 'Find a form' at www.hmrc.gov.uk/allforms.shtml or phone Deferment Services on 0300 056 0631.

Employers with occupational pension schemes - contracted-out rate NICs

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

Employees pay primary NICs at the appropriate contracted-out rate on earnings above the PT up to and including the UAP, at the appropriate not contracted-out rate on earnings above the UAP up to and including the UEL, and at 2 per cent on earnings above the UEL.

Employers pay secondary NICs at the contracted-out rate on earnings above the Secondary Threshold (ST) up to and including the UAP and at the not contracted-out rate on earnings above the UAP.

Employers operating contracted-out occupational pension schemes can, from their overall NICs payments, make a deduction to reflect the rebate that would have applied to employer’s and employee’s NICs on earnings between the Lower Earnings Limit (LEL) up to and including the PT and ST. This is known as the NICs rebate.

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 NICs Tables for contracted-out pension schemes 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 PT. The employee is entitled to that portion of their own rebate that can be offset against their 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 calculated on earnings between the LEL and the ST. The employer is entitled to their own rebate plus any balance of employee’s NIC rebate not offset.

We will send you a certificate giving you the right to work out and pay NICs at the contracted-out rate(s) for those employees covered by the certificate.

If you have such a certificate, you will have been allocated an Employer Contracting-out Number (ECON) and Scheme Contracted-out Number (SCON) by Pension Schemes Services. You will need these numbers for your payroll records.

Employees do not have to join or stay in their employer’s occupational pension scheme. If an employee chooses to opt out of their employer’s scheme or a new employee decides not to join, not contracted-out rate NICs are payable for them.
Example
Employee earns £153 per week (category letter D)
Employee's NICs = Nil (earnings below PT)
Employee's NICs rebate = £153 - £111 = £42 x 1.4% = £0.59
Employer's NICs rebate = £153 - £111 = £42 x 3.4% = £1.43
The employee is not entitled to any of their NIC rebate and their NIC liability is nil.
£0.00 is the figure to be entered on the payroll record.
The employer is entitled to the full employee rebate of £0.59, plus their own NIC rebate of £1.43 = £2.02.
R2.02 is the figure to be entered on the payroll record.
(Negative figures should be shown by an 'R' immediately before the entry on the payroll record.
You can find more information in the:
· CA39 National Insurance Contributions Tables
· CWG2 (2014) Employer Further Guide to PAYE and NICs under ‘occupational pension schemes’.

73 Working out NICs payable at the contracted-out rate
Contracted-out NICs are payable under either category letter D, E or L, (or mariners’ equivalents).
For a COSR scheme use category letter:
• D for all employees who pay NICs at the standard contracted-out rate
• E for married women or widows who have the right to pay reduced rate NICs. See page 47 for more information
• L for employees for whom you hold form CA2700 issued by the National Insurance Contributions & Employer Office. See previous section on deferment of payment for more information (page 45).
The appropriate earnings limits/Upper Accrual Point, thresholds and percentage rates for the 2014-15 tax year can be found on our website at www.hmrc.gov.uk/payerti/forms-updates/rates-thresholds.htm
For guidance on using the exact percentage method go to www.hmrc.gov.uk/calcs/nice.htm

74 Contracted-out status starts whilst in employment
NICs for employees who become contracted-out while they are employed by you and whose earnings go over the employee’s PT and employer’s ST, are due at the relevant contracted-out rate(s) from the first payment you make to them on or after the date they become contracted-out. This is the case even if the payment was earned before that date.

75 Contracted-out status stops but employment continues
NICs for employees who stop being contracted-out but continue to be employed by you, whose earnings go over the employee’s PT and employer’s ST, are due at the relevant not contracted-out rate from the first payment you make to them on or after the date they stop being contracted-out. This is the case even if the payment was earned before that date.

76 Retrospective membership of an occupational pension scheme
It may be decided that one or more of your employees can become retrospective members of your occupational pension scheme. This includes employees who have been reinstated retroactively.
You and the employee(s) will be entitled to a refund of the difference between the not contracted-out NICs paid and the contracted-out rate NICs due since the retrospective membership date.
Retrospective membership is dependent on:
• the rules of the occupational pension scheme, and
• whether or not the employment in question is excluded from the contracting-out certificate issued by us.
Your occupational pension scheme will provide the information you need.
If a refund is due for the current tax year, amend your next payment to the accounts office and amend your pay records accordingly. See page 49 ‘Overpayment of employee’s contributions’.
If a refund is due for a tax year which has ended and you have submitted information using P35 or P14’s, contact:
HM Revenue & Customs
National Insurance Contributions & Employer Office Payments Reconciliation Team
Benton Park View
NEWCASTLE UPON TYNE
NE98 1ZZ
not used - reserved for future use.

More information

For more information about the procedures to be followed when a person leaves contracted-out employment, see CA14 Termination of Contracted-out Employment Manual for Salary Related Pension Schemes on the National Insurance Services To Pensions Industry (NISPI) forms page under Pension Schemes go to www hmrc gov uk nic coeg htm

For advice about the assessment of NICs at the contracted-out rate, contact the Employer Helpline.

If you have any queries about the contracting-out arrangements, contact:
HM Revenue & Customs
National Insurance Contributions & Employer Office
National Insurance Services To Pensions Industry
Room BP3007
Benton Park View
NEWCASTLE UPON TYNE
NE98 1ZZ
Phone 0300 200 3507

Special rules for some married women and widows

Some married women and widows have the right to pay reduced rate NICs. If an employee has such a right she must give you a valid ‘certificate of election’ before you can deduct NICs at the reduced rate.

Certificates of election

A certificate of election gives you the authority to deduct reduced rate NICs and you must keep the certificate until the woman:
• stops working for you, or
• becomes liable to pay standard rate NICs, or
• reaches State Pension age.

If you deduct reduced rate NICs without a valid certificate of election, you are responsible for any underpayment. It is also your responsibility to ensure the certificate of election you receive from your employee is valid. Check carefully any certificates you are given.

The only valid certificates of election are:
• form CA4139 or CF383 unless
  – either box A or box B shows a date which has passed, or
  – the employee has not earned enough to pay NICs in any two consecutive tax years since 6 April 1978 and has not been self-employed
• form CF380A as long as the woman has worked for you continuously since 5 April 1980 and has paid reduced rate NICs throughout that time.

Getting a valid certificate of election

If an employee gives you a certificate of election which is not valid, return it to her. If she says that she is still entitled to pay reduced rate NICs, she must write to HMRC National Insurance Contributions & Employer Office at the address shown in paragraph 84 and ask for a replacement to be issued.

If an employee has more than one job, she must get a separate certificate to give each employer.

Giving up the right to pay reduced rate NICs

A woman who wishes to give up her right to pay reduced rate NICs must:
• ask her employer to return the certificate to her
• complete
  – part 1 of the certificate
  – form CF9 (if she is a married woman) or CF9A (if she is a widow)
  – send the certificate and completed form CF9 or CF9A to the address in paragraph 84.

Forms CF9 and CF9A can be obtained from www.hmrc.gov.uk/allforms.shtml or by writing to the address in paragraph 84.

If your employee would like more advice she should:
• go to www.hmrc.gov.uk/ni/reducedrate/marriedwomen.htm
• phone the National Insurance enquiries for Individuals Helpline on 0300 200 3500.

Losing the right to pay reduced rate NICs

A woman loses her right to pay reduced rate NICs if she:
• gets divorced or her marriage is annulled
• becomes a widow but is not entitled to Bereavement Benefit after an initial period
• loses her right to Bereavement Benefit, for a reason other than remarriage
• has not, in any two consecutive tax years since 6 April 1978
  – had any earnings on which Class 1 NICs are payable or treated as paid (for instance where, since 6 April 2000, the earnings are between the LEL and PT), or
  – been self-employed.

Whilst no NICs are payable between the LEL and PT, they are treated as having been paid and her election remains valid. As such, a married woman or widow will not lose her right to pay reduced rate NICs.

Divorce or annulment

Your employee is required by law to:
• tell you when she is no longer entitled to pay NICs at the reduced rate, and
• return her certificate of election to the National Insurance Contributions & Employer Office at the address shown in paragraph 84.

As the employer, you are required by law to return the certificate of election to the employee when asked to do so. You may consider it worthwhile to have arrangements in place:
• so that your employee knows who, or which part of your organisation, she should inform that she is no longer entitled to pay reduced rate NICs and whether you require this to be done in writing
• to check any notification of change of surname or remarriage or civil partnership as this may mean that there has been a divorce or annulment
• to issue a periodic reminder to employees for whom you hold a certificate of election, advising them of the need to tell you if
  – their marriage ends by divorce or annulment
  – they are no longer entitled to pay reduced rate NICs.
Although all cases will be considered individually on their merits, you will be liable for any underpayment of NICs unless:

- the employee was at fault (this might mean, for example, that she failed to tell you that she was no longer entitled to pay reduced rate NICs under the laid-down procedures you may have, or she failed to ask for the return of the certificate of election), and
- the underpayment was not due to any negligence on your part (for example, you may be considered negligent if you have inadequate or no arrangements in place for your employee to tell you that she is no longer entitled to pay NICs at the reduced rate).

82 When to return a certificate of election

You must return a certificate to your employee when she:

- leaves your employment
- tells you that her marriage has ended in divorce or by annulment
- reaches State Pension age
- has not, in any two consecutive tax years since 6 April 1978:
  - had any earnings on which Class 1 NICs are payable or treated as paid, or
  - been self-employed
- has changed her name
- remarries
- asks for it back
- becomes widowed.

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

When you have returned a certificate, if the woman still works for you, deduct standard rate NICs unless she has:

- given you a new certificate of election
- reached State Pension age and has provided you with proof of that (see paragraphs 84 and 85).

If you cannot return a certificate of election to an employee who has left, send it with a note of explanation to the National Insurance Contributions Office at the address shown in paragraph 84.

83 Adjusting NICs

You must reassess and adjust any NICs already deducted if your employee:

- gives you a valid certificate of election part way through the tax year
- is late in telling you that she is no longer entitled to pay reduced rate NICs.

Overpayment of NICs

If an overpayment of NICs occurs in the current year as a result of your receiving a valid certificate of election part of the way through the year:

- refund the amount overpaid to the employee
- amend the employee’s payroll records and report corrected information on the next FPS
- adjust your next payment to the accounts office.

To get a refund of an overpayment in a tax year which has ended when you have reported information using forms P35 or P14, the employee must write, quoting her NI number, to:

HM Revenue & Customs
National Insurance Contributions & Employer Office
Central Output Resolution Team
Benton Park View
NEWCASTLE UPON TYNE
NE98 1ZZ

Underpayment of NICs

If as a result of the employee being late in telling you that she is no longer entitled to pay reduced rate NICs an underpayment has occurred, follow the rules on page 14.

84 More information

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

- phoning the Employer Helpline, or
- contacting us at the following address

HM Revenue & Customs
National Insurance Contributions & Employer Office
Individuals Group
Lindisfarne House
Benton Park View
NEWCASTLE UPON TYNE
NE98 1ZZ

Payment of NICs for employees over State Pension age

Employees over State Pension age do not have to pay employee’s contributions.

Employer’s contributions are still due and are payable at the not contracted-out rate, even if you operate a contracted-out scheme, NIC category letter C applies.

Employer’s contributions are due at the not contracted-out rate from the first payment you make to your employee on or after the date they reach State Pension age.

Currently the State Pension age for men is 65. For women born before 6 April 1950 the State Pension age was 60. From April 2010 the State Pension age for women born on or after 6 April 1950 and before 6 April 1953 is gradually increasing from 60 to 63 between 2010 and March 2016.

A woman born between 6 April 1952 and 5 November 1952 will reach pensionable age as follows.

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Payment Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 April 1952 to 5 May 1952</td>
<td>6 May 2014</td>
</tr>
<tr>
<td>6 May 1952 to 5 June 1952</td>
<td>6 July 2014</td>
</tr>
<tr>
<td>6 June 1952 to 5 July 1952</td>
<td>6 September 2014</td>
</tr>
<tr>
<td>6 July 1952 to 5 August 1952</td>
<td>6 November 2014</td>
</tr>
<tr>
<td>6 August 1952 to 5 September 1952</td>
<td>6 January 2015</td>
</tr>
<tr>
<td>6 September 1952 to 5 October 1952</td>
<td>6 March 2015</td>
</tr>
<tr>
<td>6 October 1952 to 5 November 1952</td>
<td>6 May 2015</td>
</tr>
</tbody>
</table>

For more information and the State Pension age calculator go to [www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)
As the employer you are responsible for ensuring that the correct contributions are paid, and before you stop deducting employee’s contributions you must have seen proof that the employee has reached State Pension age. This can be a birth certificate, passport or certificate of exception, issued by DWP.

You should keep a copy of the proof you have seen because if you stop deducting employee’s contributions without seeing proof, or continue to pay employer’s contributions at the contracted-out rate, you are responsible for any underpayment. The employee’s birth certificate or passport should be used as proof of age as HMRC no longer issue age exception certificates.

There will be very rare instances where an employee is reluctant to provide the employer with a birth certificate as it may contain sensitive information that they do not wish to disclose. If this happens they should write to HMRC advising the reason why they can’t use the birth certificate. HMRC will investigate these and provide a letter confirming they have reached state pension age where this is the case. The address to write to is:

HM Revenue & Customs
National Insurance Contributions & Employer Office
Individuals Group
Lindisfarne House
Benton Park View
NEWCASTLE UPON TYNE
NE98 1ZZ

85 Certificates of age exception

Your employee may give you a certificate of age exception issued by DWP instead of showing you their passport or birth certificate.

The certificate shows a ‘valid from’ date and is proof that the employee has reached State Pension age and will not be liable to pay any further employee’s contributions on any payment of earnings made on or after that date. You should keep the certificate for as long as the employee works for you.

86 not used - reserved for future use

87 When to return a certificate of age exception

If you hold an existing certificate of age exception that was issued by HMRC you may be asked to return the certificate to us. Certificates of age exception belong to the employee when their employment ends. If you are unable to return the certificate direct to the employee, send it, with a note of explanation, to us at the address shown in paragraph 84.

Always return a certificate of age exception to your employee when their employment ends. If you are unable to return the certificate direct to the employee, send it, with a note of explanation, to us at the address shown in paragraph 84.

88 Adjusting NICs

If you are given proof of the date on which your employee reached State Pension age and that date has passed, you will need to reassess and adjust any NICs wrongly paid.

Overpayment of employee’s contributions

If an overpayment has occurred in the current tax year as a result of employee’s contributions being wrongly deducted:

• refund the employee’s contributions to the employee
• amend the employee’s payroll record and report correct values on the next FPS
• adjust your next payment to us.

If an overpayment has occurred in a previous tax year when you have reported information using forms P35 or P14, to get a refund the employee must write to:

HM Revenue & Customs
National Insurance Contributions & Employer Office
Central Output Resolution Team
Benton Park View
NEWCASTLE UPON TYNE
NE98 1ZZ

Underpayment of employer’s contributions

An underpayment of employer’s contributions will happen if these contributions are paid at the contracted-out rate. Employer’s contributions must be paid at the not contracted-out rate.

If an underpayment occurs in the current tax year:

• amend the employee’s payroll record and report the correct information on your next FPS
• adjust your next payment to us.

If an underpayment occurred for a previous tax year, contact the HMRC National Insurance Contributions & Employer Office at the address shown at paragraph 84 for advice.

89 National Insurance Contributions (NICs)

Employment Allowance

A new annual £2,000 allowance is available from 6 April 2014 for all businesses, charities and Community Amateur Sports Clubs to be offset against their employer Class 1 Secondary NICs. Businesses, Charities and Community Amateur Sports Clubs may claim the Employment Allowance if the earnings they pay give rise to a secondary Class 1 NICs liability.

In the case of a business, this could be a company, a partnership or a self-employed individual, if they have employees whose earnings give rise to a secondary Class 1 liability.

The Employment Allowance is not available for domestic employers (eg of a nanny, care support worker, chauffeur), public authorities (unless a charity) and employers already claiming through a connected business or charity. Service Companies are not able to claim in respect of deemed payments of employment income.

The NICs Employment Allowance will be straightforward to claim. You can do this as part of the normal payroll process through Real Time Information (RTI) within your software package or using the Basic PAYE Tools which are free to download from the HMRC website.

You will need to determine whether you are eligible for the Employment Allowance. Your software should require you to specify if you wish to claim the Employment Allowance and you should select the appropriate response. Alternatively, the Employment Allowance can be claimed through the Basic PAYE Tools if your software does not enable this.
However you claim, you only need to claim the Employment Allowance once and it will continue from tax year to tax year.

The Employment Allowance can be offset against payments of secondary Class 1 NICs when they are due to be paid, until the full £2,000 Employment Allowance is used up or the tax year ends, whichever is soonest.

**Example 1**

An employer is claiming the Employment Allowance and has secondary Class 1 NICs liabilities of £500 per month. The employer claims the Employment Allowance at the start of the tax year. This means that the employer will claim £500 per month Employment Allowance and the maximum annual Employment Allowance of £2,000 will be exhausted by month 4. This means that the £500 secondary Class 1 for months 5 to 12 will continue to be due to be paid to HMRC. Additionally, the employer must continue to pay over to HMRC the PAYE income tax due each month.

**Example 2**

A second employer claiming the Employment Allowance has secondary Class 1 NICs liabilities of £100 per month. The employer claims the Employment Allowance at the start of the tax year. This means that the employer will not claim the full £2,000 Employment Allowance by month 12 and the maximum annual Employment Allowance claimed will be £1,200 with no further entitlement in that tax year. Additionally, the employer must continue to pay over to HMRC the PAYE income tax due each month.

Employers need to take no action before 6 April 2014 but you will need to determine your eligibility. For more information, details of eligibility and how to claim the NICs Employment Allowance go to www.hmrc.gov.uk/nicsemploymentallowance

(Introduction of the Employment Allowance from 6 April 2014 is subject to Parliamentary approval of the legislation in the NICs Bill)

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**Chapter 4 – Special types of employee**

The following guidance applies to all Employers. Guidance for reporting PAYE in real time is also available at www.hmrc.gov.uk/payerti/index.htm

**Part-time or casual employees**

You must follow the same PAYE and NICs procedures for part-time or casual employees as you follow for full-time or permanent employees. You must also include their details on their FPS when you pay them.

For more information go to www.hmrc.gov.uk/payerti/employee-starting/special-situations/temps.htm

**Workers supplied by agencies**

At the time of publication this guidance covering “Agency Workers” is subject to parliamentary approval after which time, if any updates are required, they will be published in the latest online version of this guidance.

**Tax & NICs**

When a person, for example a worker, provides their services to a client through one or more agencies (or third parties) and they are neither an employee of the client or the agency, then the agency may be responsible for operating PAYE & paying Primary & Employer’s Class 1 NICs, as explained below.

The agency directly contracting with the client is responsible for the operation of PAYE and the payment of NICs when all of the following conditions are satisfied:

- the worker personally provides, or is personally involved in the provision of services to the client, and
- there is a contract between the client and an agency under or in consequence of which – (1) the services are provided, or (2) the client pays, or provides other consideration for the services, and
- someone has the right, even if not exercised, to supervise, direct or control the way the work is done, and
- the worker receives remuneration (from any person) as a consequence of providing, or being involved in the provision of the services.

When the agency is based outside the UK and contracts directly with a client in the UK, then the client is responsible for paying the tax and acting as the secondary contributor for NICs.

The agency is not responsible for the operation of PAYE and the payment of NICs when any of the following conditions are satisfied:

- the worker is legitimately providing their services in a self employed capacity, in which case the agency is responsible for providing evidence to prove that is the case, or
- the worker is providing their services wholly in their own home, or
- the worker is providing their services at premises which are not controlled or managed by the client, unless the nature of the services being provided to the client dictates they must be undertaken at such premises, or
- the worker is providing their services as an actor, singer, musician or other entertainer or as a fashion, photographic or artist’s model, or

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90 - 109 not used - reserved for future use.
• it can be shown that the manner in which the worker's provides their services, or the manner of the worker's involvement in the provision of the services, is not subject to (or to the right of) supervision, direction or control by any person, or
• the remuneration the worker receives (from any person) as a consequence of providing, or being involved in the provision of the services, has not already been treated for income tax purposes as earnings from an employment, or
• the agency merely acts as a job-finding agency which introduces the worker to the client and plays no part thereafter in the worker's engagement with the client. Please refer to the HMRC Employment Status Manual for more guidance on this subject. Go to home.inrev.gov.uk/esmmanual/ESM2000.htm

An agency ceasing to employ an agency worker should issue form P45, at the earlier of:
• the end of the relationship, between the agency and the worker
• the end of a period of three months during which the agency makes no payments to the worker.

An agency should, in respect of any agency workers for whom it is required to operate PAYE, issue form P45 at the earlier of:
• the end of the relationship between the agency and the worker
• the end of a period of three months during which the agency makes no relevant payments to the worker.

Student employees
If you employ students you must treat them, for payroll purposes, in exactly the same way as any other employee.

Information for farmers

Harvest casuals
For PAYE purposes
There are special rules that apply only to casual employees, taken on for harvest work and shoots, who are not members of your family. For NICs purposes, the special rules apply to casual harvest work only, not shoots.

You must follow the normal procedures on page 50 for any part-time or casual employees:
• that you take on for non-harvest work
• who are members of your family, regardless of the type of work they do.

Remember:
• if earnings do not exceed the Primary Threshold (PT) or Secondary Threshold (ST) no NICs are payable
• if earnings reach or exceed the Lower Earnings Limit (LEL) but do not exceed the PT the employee is treated as having paid NICs when claiming benefit
• if earnings exceed the PT, Class 1 NICs are payable by the employee. If earnings exceed the ST, Class 1 NICs are payable by the employer.

For further information on completing your payroll submissions for these employees, go to www.hmrc.gov.uk/payerti/employee-starting/special-situations/temps/harvest-casuals.htm

If you are an employer who is not filing on line, for further information, phone the Employer helpline.
Labour Providers or contractors engaged to carry out specific jobs

Employment Business is the generic name used instead of Gangmaster, Labour Provider, Contractor or Agency. If you engage a gangmaster or a contractor who is not one of your own regular employee’s, to carry out specific jobs such as:

- supplying own machinery or equipment for threshing, ploughing, haulage and so on
- supplying workers for potato, fruit or other crop picking or processing
- supplying part time drivers to deliver packages.

The Employment Business is usually responsible for operating PAYE and accounting for the NICs due for any worker he or she provides.

In such cases you must:

- still record details of all payments you make to the Employment Business as we may ask for them at the end of the tax year
- keep your record of payments for at least three years after the end of the tax year to which they relate.

If one of your own regular workers acts as a gangmaster or Employment Business, you may be responsible for operating PAYE. In such circumstances you should contact us for advice on PAYE.

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

Employees coming to or leaving the UK – treatment for NICs purposes

In this section:

- UK means England, Scotland, Wales and Northern Ireland. People living in the Isle of Man are usually treated as living in the UK
- European Economic Area means Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the UK
- countries with which the UK has a full reciprocal agreement covering both NICs and benefits are Barbados, Bermuda, Guernsey, Israel, Jamaica, Jersey, Mauritius, Philippines, Turkey, USA, and the Federal Republic of Yugoslavia including Serbia and Montenegro/Bosnia-Herzegovina and Macedonia
- countries with which the UK has a Double Contributions Convention (DCC) which covers NICs liability only and does not contain a provision for benefits are Canada, the Republic of Korea and Japan
- the UK also has reciprocal agreements which are benefit related and do not contain a provision for NICs with Canada and New Zealand. The insurability of workers coming to the UK from New Zealand will come under UK domestic legislation while those from Canada will come under the separate DCC covering NICs (see above).

You can get more information about these arrangements from

HM Revenue & Customs
National Insurance Contributions & Employer Office
International Caseworker
Room BP2002
Benton Park View
Longbenton
NEWCASTLE UPON TYNE
NE98 1ZZ
Phone: 0300 200 3506 (if calling from within the UK)
and go to www.hmrc.gov.uk/international/ni-abroad.htm

Resident, present or having place of business in the UK

Whether you are resident, present or have a place of business is a question of fact and may depend on how your business operates.

Generally, an employer can be said to be resident, present or in the UK if the registered office of the company is in the UK, even if no actual business is carried on there.

Generally, an employer can be said to have a place of business in the UK if:

- they have a fixed address or occupy premises where they are, or are present with the consent of the lawful owner or tenant, and
- an activity takes place which need not necessarily be remunerative in itself, but is in furtherance of the purposes of the business. The business does not need to be of a trading or commercial nature.
Some pointers to look for when considering if you have a place of business include:
• a name plate displayed on the door or premises
• headed letter paper
• a listing in a phone directory
• a lease or rent agreement or some sort of financial transaction for the use of the premises
• a registered office
• a listing in a phone directory
• a lease or rent agreement or some sort of financial transaction for the use of the premises
• a registered office
• registration as a company incorporated outside the UK but with a place of business here for the purpose of the Companies Act 1985
• other premises in the UK.
From 1 May 2010 new European Community regulations treat certain employers in European Economic Area countries as having a place of business in the UK for all Class 1 National Insurance purposes in relation to their employees who become liable to UK National Insurance on or after 1 May 2010.

At the time of going to press the countries signed up to the new regulations are: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, The Netherlands, Norway, Poland, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia, Spain, Sweden and Switzerland but some other countries may follow suit.

Before someone from abroad starts working for you, you must check that they are eligible to work in the UK. To check if someone can work in the UK go to www.gov.uk/legal-right-to-work-in-the-uk

For more details and an up-to-date position please see the National Insurance pages on our website, go to www.hmrc.gov.uk/nic/work/new-rules.htm

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

You do not have to pay Class 1 NICs for employees who:
• have come from a country
— in the European Economic Area, or
— with which the UK has a Reciprocal Agreement or a Double Contributions Convention, and
• they hold a certificate issued by the other country showing that they are entitled to pay contributions only in that other country for the period covered by the certificate.

Once the period of exception shown on the certificate has elapsed:
• if you are resident, present or have or are treated as having a place of business in the UK, then Class 1 NICs (both employer’s and employee’s contributions) must be paid on the first payment that you make to them on or after that date
• if you are not resident, present or do not have or are not treated as having a place of business in the UK, you do not have to pay employer’s contributions but the employee’s contribution must still be paid.

If the employee does not have a certificate exempting them from the payment of UK NICs you must deduct UK NICs.

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

If you are resident, present or have a place of business in the UK
The general rule is that Class 1 NICs (employer’s and employee’s contributions) must be paid for an employee who has come to work in the UK from a country outside the EEA and with which the UK does not have an RA or DCC covering NICs. NICs are payable from the date they start work in the UK. This is the case even if the employee is supplied by an agency whose place of business is not in the UK.

Exceptions
NICs are not payable for the first 52 weeks starting from the first Sunday after the employee arrives in the UK for an employee who does not normally live or work in the UK, but who is sent to work here temporarily by their overseas employer who has a place of business outside the UK even if that employer also has a place of business in the UK.

When the 52-week period finishes you pay NICs for that employee and the normal rules about working out, paying and recording NICs apply.

If you are not resident, present or do not have a place of business in the UK (and not treated as having a place of business)
You do not have to pay employer’s contributions but the employee’s contribution must still be paid.

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

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

Further information can be found at www.hmrc.gov.uk/nic/work/emps-abroad.htm
Liability to pay NICs for employees going abroad

If you have employees who work outside the UK, the basic National Insurance rules for you and your employees are explained online, go to [www.hmrc.gov.uk/nic/work/abroad-index.htm](http://www.hmrc.gov.uk/nic/work/abroad-index.htm)

For more information go to [www.hmrc.gov.uk/payerti/employee(changes/work-abroad.htm](http://www.hmrc.gov.uk/payerti/employee(changes/work-abroad.htm)

If you need advice we recommend you contact:
HM Revenue & Customs
National Insurance Contributions & Employer Office
International Caseworker
Room BP2002
Benton Park View
Longbenton
NEWCASTLE UPON TYNE
NE98 1ZZ

- Phone: 0300 200 3506 (if calling from within the UK) and
- Go to [www.hmrc.gov.uk/international/ni-abroad.htm](http://www.hmrc.gov.uk/international/ni-abroad.htm)

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

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

Details are in the PAYE Manual, PAYE82003 (EP Appendix 7A) and PAYE82004 (EP Appendix 7B). The arrangements allow certain employers to apply to pay NICs and complete a full payment submission at the normal time using a best estimate of the earnings and benefits, and later submit a minor correction to the amount of Class 1 or Class 1A NICs, without then attracting a penalty. The idea is to help businesses with internationally mobile workers, by giving them a little longer to identify and account for minor benefits and payments that were not paid from the UK payroll. Conditions apply.

For more information go to [www.hmrc.gov.uk/manuals/pommanual/PAYE81500.htm](http://www.hmrc.gov.uk/manuals/pommanual/PAYE81500.htm)

Employees coming to or leaving the UK – treatment for PAYE purposes

Employees who are not resident in the UK

Where, because work is performed both in the UK and abroad, it is unclear at the time of making a payment how much of the payment will ultimately be assessable as PAYE income, the whole payment should be subjected to PAYE unless we have directed otherwise.

Such a direction may be possible where you consider it necessary to determine by apportionment what proportion of a payment is assessable to tax. You can ask us for a direction that PAYE need only be applied to a certain proportion of the payment(s) made.

The direction may cover more than one employee and any number of years, provided these details are specified in the direction. Most commonly such a direction will be appropriate in a situation where a payment is made to an employee who is not resident in the UK and that payment comprises of earnings which relate to duties in the UK and abroad.

Employees on short-term business visits to the UK

Where an employee is likely to qualify for protection from UK Income Tax under the Dependent Personal Services Article of a Double Taxation Convention it may be possible to relax the strict PAYE requirements that arise.

Certain information will need to be provided and the criteria in the Dependent Personal Services clause met. In the latter respect normally:

- the employee must be present in the UK for a period not exceeding in aggregate 183 days in the calendar or fiscal year concerned
- the remuneration is paid by, or on behalf of, an employer who is not a resident of the UK, and
- the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the UK.

Write to us for more details in these cases. (See the Help and guidance page for our address.)

Employee seconded to work in the UK

If you employ someone who comes to work for you from abroad, you’re usually responsible for PAYE tax on their earnings, just as you are for any other employee. So you set up their payroll record and then record and report their earnings, and pay any PAYE tax due on those earnings in the usual way.

But if an employee from abroad falls within the definition of a ‘seconded employee’, you are still responsible for PAYE tax on their earnings – but the rules for what tax code to use and what to include in their payroll record are different. These are explained below.

A seconded employee includes:

- individuals working wholly or partly in the UK for a UK employer on assignment whilst remaining employed by an overseas employer
- individuals assigned to work wholly or partly in the UK at a recognised branch of their overseas employer’s business
- all individuals included by an employer within a dedicated expatriate PAYE scheme
- all individuals included by an employer within an expatriate modified PAYE scheme.
For further information on 'What to include in the payroll record for a seconded employee', and 'Using the right tax code for a seconded employee' go to [www.hmrc.gov.uk/payerti/employee-starting/special-situations/from-abroad.htm](http://www.hmrc.gov.uk/payerti/employee-starting/special-situations/from-abroad.htm)

119 Employees going abroad

The normal PAYE system applies to all employees of a UK employer even if the employees are working abroad for all or part of the time.

When you send an employee to work abroad you should provide the employee with a letter giving the following details:

- the date the employee went abroad
- the gross pay and tax deducted whilst in your employment for the period from 6 April last to the date the employee was sent abroad.

If the employee goes abroad to work full time and you move them to a payroll with a different employer reference you should submit an FPS with a date of leaving, and a subsequent FPS with starter information, to confirm the change.

If an employee is intending to work in full-time employment abroad for more than a complete tax year you should ask them to complete a P85. They should send the completed P85 to HMRC who will consider if an NT code can be operated.

If the employee is leaving the UK to work overseas full time for a UK based employer for a period which includes a full tax year, then the P85 should be completed to request an NT tax code. This applies whether the employee files a Self Assessment return or not.

The P85 should be sent to HMRC no earlier than 8 weeks before the date the overseas work is due to commence and be accompanied by a letter requesting the NT tax code.

We will tell you if you can operate code NT and the period for which it can apply. NT tax codes will also be issued to the UK employer even if the employees are working abroad through intermediaries.

You should not operate an NT tax code before receiving formal notice from us as this may result in you sending an incorrect FPS and may incur penalties.

The letter confirming that you can use code NT will explain that any PAYE tax that the employee paid prior to leaving the UK cannot be repaid until after the end of the tax year. As an alternative, for the year of leaving the UK, you can run two separate payroll records for the employee (each one operating cumulatively). One on the UK pay the employee was paid up to departure and the other for the earnings for work done abroad after departure. This will allow you to repay some of the UK tax that the employee paid prior to departure in each pay period until the end of the tax year. If you do decide to do this you should let us know and separate payroll IDs will be necessary for each record.

You can also operate a similar procedure for the tax year the employee returns to work in the UK but you must always tell us that the employee has returned to work in the UK and you should immediately stop using code NT.

120 Employees working in offshore areas

You must operate PAYE for employees working offshore, but there are exceptions. Before employees start working in these areas, write to us for further information. (See the Help and guidance page for our address.)

121 Coding for payroll purposes for non-resident employees who have never been resident in the UK

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

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

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

An FPS is not required and there is no liability for NICs.

If the residency position of the employee or the place the duties are performed change so that the employee becomes liable to UK tax, you should immediately stop using code ‘NT’ and follow the procedure for ‘Employees coming to the UK from abroad’. For further information go to [www.hmrc.gov.uk/payerti/employee-starting/special-situations/from-abroad.htm](http://www.hmrc.gov.uk/payerti/employee-starting/special-situations/from-abroad.htm)

Workers providing their services through intermediaries

This section deals with the following:

- workers paid by intermediaries which do not meet the definition of Managed Service Companies (IR35’ rules)
- workers paid by Managed Service Companies
- IR35: At the end of the tax year
- Offshore Employment Intermediaries.
Workers paid by intermediaries which do not meet the definition of Intermediaries Legislation (IR35 rules)

The Intermediaries legislation (also known as ‘IR35’) applies to income earned from engagements (known as relevant engagements) where:

- a worker provides services to a client under a contract between the client and one or more intermediaries and
- the worker is an office-holder of the client or, but for the presence of the intermediary, the income arising under the contract would have been treated as coming from an employment or an office held by the worker, as if the worker had contracted directly with the client.

The existing rules which outline the boundary between employment and self-employment for tax or NICs purposes, continue to be used to determine whether an office or employment would have existed but for the use of an intermediary.

For more information on how to decide whether someone is employed or self-employed, please go to www.hmrc.gov.uk/payerti/employee-starting/status.htm

An individual working through a service company is treated as a worker for the purposes of the legislation if he or she has:

- beneficial ownership of, or entitlement to acquire rights entitling him or her to receive, more than 5 per cent of the ordinary share capital of the service company, or
- possession of, or entitlement to acquire rights entitling him or her to receive more than 5 per cent of any distribution made by the company, or
- received, or could have received, payments or benefits from the company which are not salary but could reasonably be taken to represent payment for the services he or she provides to clients.

The ‘IR35’ rules don’t apply where the worker is only entitled to receive income from the intermediary which is all taxed as PAYE income and liable to Class 1 NICs, and has no other rights to income or capital from the intermediary.

The ‘IR35’ rules also apply to engagements where the intermediary is a partnership. However, they only apply if:

- an individual worker, or persons connected with him or her, is entitled to 60 per cent or more of the partnership profits, or
- all or most of the partnership’s income in the relevant tax year is derived from the provision of services, in a form which would fall within the definition of relevant engagements, to a single client or associate of that client, or
- the profit sharing arrangements in the partnership provide for the income of any of the partners to be based on the amount of income generated by those partners through relevant engagements.

Where the worker would have been an employee or an office holder of the client, but for the presence of the service company or partnership, the service company or partnership may pay the worker a salary which is liable to PAYE and NICs. If the salary actually paid is less the income received by the service company or partnership, from a relevant engagement with a client, less certain deductions. If the salary actually paid is less than this amount, then the balance will be deemed to have been paid to the worker as a deemed employment payment on the last day of the tax year.

The intermediary will be responsible for operating PAYE and paying NICs as follows:

Intermediaries which are companies

Where a company intermediary receives income in respect of relevant engagements:

- the intermediary must operate PAYE and pay NICs on payments of salary to the worker during the year, in the normal way
- if at the end of the tax year, the total of the worker’s employment income from the intermediary, including benefits in kind, amounts to less than the intermediary’s income from all that worker’s relevant engagements, then the difference (net of allowable expenses described below) will be deemed to have been paid to the worker as earnings on 5 April (earlier in certain circumstances), and tax and NICs must be paid accordingly
- where salary is deemed in this way appropriate deductions will be allowed in calculating Corporation Tax profits and no further tax or NICs will be due if the worker subsequently withdraws the money from the company.

Intermediaries which are partnerships

Where a partnership intermediary receives income in respect of relevant engagements:

- income of the partnership from all relevant engagements in the year (net of allowable expenses described below) will be deemed to have been paid to the worker on 5 April as earnings from a deemed employment held by the worker. The partnership will be required to operate PAYE and pay NICs on any deemed employment payment
- any amount deemed employment payment taxed as PAYE income, will not be included when calculating the worker’s share of partnership trade profits
- our current practice of including small amounts of PAYE income in the calculation of trade profits will also apply in these cases.

The HMRC office dealing with the partnership accounts can advise you on whether PAYE income can be regarded as small, in this context.
Expenses
In computing the deemed employment payment, the following deductions shall be allowed against income from relevant engagements:
• all expenses otherwise eligible for deduction under the normal expense rules, plus
• any employer pension contributions made to an approved scheme which are allowable under normal rules, plus
• a flat rate 5 per cent of the gross income from the relevant engagements, plus
• certain capital allowances, plus
• the amount of the employer’s NICs paid during the year, plus any due on the deemed payment.
A deemed employment calculator is available on the HMRC website at www.hmrc.gov.uk/ir35/ir35.xlt

Payment of tax and NICs on the deemed payment
Chapter 1 of this guide explains how to work out PAYE and NICs for various pay intervals. But where regular payments have been made to the worker in question throughout the tax year, the deemed employment payment should be treated as a week 53 payment - see page 11 of this guide.

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

Where the provisions of the Intermediaries Regulations apply to the worker from the beginning of the tax year, the worker will have an annual earnings period. Where a later start date applies the worker is prescribed a pro rata annual earnings period. See also CA44 National Insurance for Company Directors, go to www.hmrc.gov.uk/nitables/ca44.pdf

For more information about the legislation:
• go to www hmrc gov uk/ir35 or
• phone the IR35 Helpline on 0300 200 3885.

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

A Managed Service Company (MSC) is a company through which a worker provides their personal services and:
• the worker’s entire income is not treated as employment income, and
• there is a person who carries on a business of promoting or facilitating the use of service companies (an MSC Provider), and
• the MSC Provider exercises influence or control over the company, or benefits financially on an ongoing basis from the provision of the worker’s services, or promotes an undertaking to make good a tax loss.

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

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

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

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

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

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

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

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

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

Payment of tax and NICs on the deemed payment
Chapter 1 of this guide explains how to work out PAYE and NICs for various pay intervals. But where regular payments have been made to the director or employee in question throughout the tax year, the deemed payment should be treated as a week 53 payment - see page 11 of this guide.

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

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

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

The third parties include:
• the MSC’s director or other office holder or an associate of the MSC
• the MSC Provider, its directors or other office holders or associates
• a person who encouraged or was actively involved in the provision of the worker’s services through the MSC.

For more information about the legislation go to www hmrc gov uk/employment-status/msc.htm
IR35 – At the end of the tax year

The normal end of year payment rules apply to the PAYE and NICs on the deemed employment payment made under the Intermediaries Legislation.

If the intermediary is able to finalise the calculation the employer should declare that it is their final FPS for the year and answer ‘End of Year’ declarations and question(s) including those relating to service companies. The calculation of the deemed employment payment should be reported on an FPS on or before 5 April 2015.

If the intermediary is not able to calculate the actual amount of the deemed employment payment and the PAYE and NICs due for 2014-15 by 5 April 2015, a payment on account of the estimated tax and NICs due should be made by 19 April 2015 supported by a provisional calculation of the deemed payment reported on the final FPS submitted on or before 5 April 2015.

Where a provisional payment of tax and NICs has been made because it was not possible to accurately calculate the deemed payment and deductions on time, any adjustments should be reported via an Earlier Year Update (EYU) submitted to HMRC after the end of the tax year between 20 April 2015 and on or before the following 31 January 2016.

Where HMRC does not receive the EYU and balancing payment by the following 31 January 2016, the last FPS submitted will be considered to be the final and correct details.

Interest will be charged on late payments made after 19 April 2015 (when the payment was due), but no penalties will be charged for sending the final EYU figures late if:

- the final FPS was received on or before 5 April 2015 with the relevant questions relating to intermediaries completed correctly and showing remuneration paid during the year, plus an amount on account of the provisional deemed employment payment, with tax and NICs correctly calculated on that additional figure
- payment of tax and NICs is made by 19 April 2015, including an amount paid on account of the provisional deemed employment payment, and
- an EYU is submitted notifying the correct final amount for the deemed employment payment and the tax and NICs due are sent to us by 31 January 2016, and
- any additional tax and NICs due as a result of the EYU are paid by 31 January 2016.
Offshore Employment Intermediaries

Subject to Parliamentary approval, the Treasury will look to introduce new legislation to the Social Security Contributions and Benefits Act (SSCBA) 1992 and the SSCBA (Northern Ireland) 1992 from 6th April 2014 making existing anti-avoidance legislation stronger.

Until it’s introduction, you should continue to check HMRC’s website for further information.
## Chapter 5 – Pay, expenses and benefits

### What to include as gross pay on your employee’s payroll record

The chart which follows tells you what to include as gross pay for PAYE and Class 1 NICs purposes. It lists the main type of payments that can be made to employees.

Some entries will refer you to more detailed information elsewhere. This is because there may be special conditions for that type of payment.

**Important**

Even if the payment does not need to be included on your employee’s payroll record it may need to be shown on forms P9D or P11D for tax and Class 1A NICs purposes. For details of what to include on forms P9D or P11D see page 66 and the chart at paragraph 136 (pages 67 to 69).

<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Include on payroll record for NICs</th>
<th>Include on payroll record for PAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car/van fuel supplied for private motoring when the fuel is supplied using your credit card, garage account or an agency card</td>
<td>No, if the conditions outlined below and over for credit cards, charge cards and so on are satisfied, but there may be Class 1A liability – see the booklet CA33 <em>Class 1A National Insurance contributions on Car and Fuel Benefits</em></td>
<td>No</td>
</tr>
<tr>
<td>Car parking fees for business-related journeys paid or reimbursed to employees</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Cars or vans made available for private use</td>
<td>No, but there may be Class 1A liability – see the booklet CA33 <em>Class 1A National Insurance contributions on Car and Fuel Benefits</em></td>
<td>No</td>
</tr>
<tr>
<td>Childcare vouchers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For people using a childcare voucher scheme before 6 April 2011 they can be included in a scheme and receive vouchers up to £55 a week if certain conditions were met</td>
<td>No, only any excess above £55 to be shown</td>
<td>No</td>
</tr>
<tr>
<td>Where conditions were not met</td>
<td>Yes, the whole amount of all vouchers</td>
<td>No</td>
</tr>
<tr>
<td>For people new to a childcare vouchers scheme from 6 April 2011 and conditions are met the amount available depends on the tax position of the individual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ordinary rate taxpayer</td>
<td>Yes, on any excess above £55 a week</td>
<td>No</td>
</tr>
<tr>
<td>higher rate taxpayer</td>
<td>Yes, on any excess above £28 a week</td>
<td>No</td>
</tr>
<tr>
<td>additional rate tax payer</td>
<td>Yes, on any excess above £25 a week</td>
<td>No</td>
</tr>
<tr>
<td>Where conditions are not met</td>
<td>Yes the whole amount of all vouchers</td>
<td>No</td>
</tr>
<tr>
<td>Christmas boxes in cash</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Clothing or uniforms:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• clothing or uniforms provided by you</td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>• payments to employees for non-durable items such as tights or stockings</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• other payments to employees to purchase clothing or uniforms which can be worn at any time</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>• other payments to employees to purchase clothing or uniforms which can be worn only at work</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Type of payment</td>
<td>Include on payroll record for NICs</td>
<td>Include on payroll record for PAYE</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>-----------------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td><strong>Council tax</strong> on employee’s living accommodation:</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• employee provided with accommodation which is within one of the categories where the value does not have to be included for tax purposes on form P9D or P11D (see the chart on pages 67 to 69)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• all other circumstances</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Credit cards, charge cards</strong> and so on – employees use your card to purchase <strong>goods or services bought on your behalf</strong>:</td>
<td>No, but there may be a liability for Class 1A, see booklet CWG5(2014)</td>
<td>No</td>
</tr>
<tr>
<td>• prior authority given by you to make the purchase and the employee explained in advance of the contract being made, and the supplier accepts that the purchase is made on your behalf</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>• above condition not <strong>fully</strong> satisfied</td>
<td>See page 78</td>
<td>See page 78</td>
</tr>
<tr>
<td><strong>Credit cards, charge cards</strong> and so on – employees use your card for expenditure <strong>other than</strong> goods or services bought on your behalf:</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• payments relating to business expenses actually incurred</td>
<td>See page 78</td>
<td>See page 78</td>
</tr>
<tr>
<td>• readily convertible assets</td>
<td>Yes, at the date you decide not to seek reimbursement</td>
<td>No</td>
</tr>
<tr>
<td>• any other payments not reimbursed to you</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Credit card reward payments</strong> made to employees for detecting and withdrawing lost or stolen cards:</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• made by you to your own employees</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• made to your employees by a third party</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Damages or similar payment</strong> made to an employee injured at work:</td>
<td>Yes, on the overdrawn (or additional overdrawn) amount</td>
<td>No</td>
</tr>
<tr>
<td>• there is a contractual liability to make it</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>• all other circumstances</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Director’s personal bills</strong> charged to loan account:</td>
<td>Yes, on the overdrawn (or additional overdrawn) amount</td>
<td>No</td>
</tr>
<tr>
<td>• the transaction makes the account overdrawn (or more overdrawn) and it is normal practice for you to pay the director’s earnings into the same account</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>• all other circumstances</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Director’s remuneration</strong>, salary, bonuses, fees and so on, including any advance or anticipatory payments paid, voted or credited</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Dividends</strong> from shares</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Employee liability insurance – reimbursements of payments made by employees for insurance cover or uninsured liabilities (such as legal costs) for claims against the employee arising out of his or her work</strong></td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Employment income provided through third parties - when taxable under ‘disguised remuneration’ rules in Part 7A ITEPA 2003</strong></td>
<td>Yes, see pages 81 to 83</td>
<td>Yes, see pages 81 to 83</td>
</tr>
<tr>
<td><strong>Employment Tribunal Awards</strong></td>
<td>See page 77</td>
<td>See page 77</td>
</tr>
<tr>
<td><strong>Eyecare vouchers</strong> to obtain:</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• an eyesight test</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• corrective appliance (for example, glasses or contact lenses) which the test shows are necessary where</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• the eyesight test is required under Health and Safety at Work regulations, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• the eyesight test and corrective appliance are available generally to employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of payment</td>
<td>Include on payroll record for NICs</td>
<td>Include on payroll record for PAYE</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Expenses payments or reimbursements covered by a dispensation</td>
<td>See page 70</td>
<td>See page 70</td>
</tr>
<tr>
<td>Guarantee payments under the Employment Rights Act 1996</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Holiday pay</td>
<td>See page 24</td>
<td>See page 24</td>
</tr>
<tr>
<td>Honoraria</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Incidental overnight expenses (IOEs)</td>
<td>See page 21</td>
<td>See page 21</td>
</tr>
<tr>
<td>Inducement payment such as ‘golden hello’ to recruit or retain employees</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Insurance premiums for pension (but see page 46), annuities, or health cover (but see page 68) and so on, paid or reimbursed by you where the contract is between: • you and the insurance provider • employee and the insurance provider</td>
<td>No, but there may be a liability for Class 1A, see booklet CWG5(2014) See ‘Personal bills paid’ on page 63</td>
<td>No See ‘Personal bills paid’ on page 63</td>
</tr>
<tr>
<td>Loans</td>
<td>No, but there may be a liability for Class 1A, see booklet CWG5(2014)</td>
<td>No</td>
</tr>
<tr>
<td>Loans written off</td>
<td>Yes, at time of write off</td>
<td>No</td>
</tr>
<tr>
<td>Long service awards: • awards in the form of cash or cash vouchers • other awards</td>
<td>Yes, No, if they satisfy certain conditions. Ask us for details</td>
<td>Yes See table on page 68</td>
</tr>
<tr>
<td>Lost time payments: • payments made by a third party or by you on behalf of a third party such as payments for jury service • all other circumstances</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Maternity suspension payments made under the Employment Rights Act 1996 to an employee suspended from work on maternity grounds</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Meal allowances and vouchers: • cash payments for meals • vouchers redeemable for food and drink or a cash alternative • vouchers provided for food and drink provided on your business premises or any canteen where meals are generally provided for your staff • vouchers redeemable for meals only (all values)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Medical suspension payments made under the Employment Rights Act 1996 to an employee suspended from work on medical grounds</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Mobile phone vouchers to obtain one mobile phone for private use</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mortgage payments met directly by you for employees: • mortgage provided by you or mortgage contract is between you and mortgagee • mortgage contract is between employee and mortgagee</td>
<td>No, but there may be a liability for Class 1A, see booklet CWG5(2014) Yes</td>
<td>No</td>
</tr>
<tr>
<td>Parking fees at or near the normal place of employment paid for or reimbursed to employees</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Type of payment</td>
<td>Include on payroll record for NICs</td>
<td>Include on payroll record for PAYE</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td><strong>Payments in kind</strong> (but not readily convertible assets - see page 69)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• which can be turned into cash <em>by surrender</em> such as Premium Bonds, and so on</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• which can be turned into cash only <em>by sale</em> such as furniture, kitchen appliances, holidays and so on</td>
<td>No, but there may be a liability for Class 1A, see booklet CWG5(2014)</td>
<td>No</td>
</tr>
</tbody>
</table>

| **Payments you make to an employee** whilst he or she pursues a claim for *damages against a third party* for loss of earnings following an accident: |  |  |
| • employee must repay you, even if the claim for damages is unsuccessful | No | No |
| • employee not required to repay you | Yes, but if the employee later receives damages and repays you, NICs can be refunded | Yes |

| **Pensions** from: |  |  |
| • registered pension schemes | No | Yes |
| • employer-financed retirement benefits schemes | No, if the payment satisfies certain conditions. Ask us for details | Yes |

| **Personal bills paid** for goods and services supplied to employees, club memberships and so on: |  |  |
| • contract to supply goods and services is between you and the provider | No, but there may be a liability for Class 1A, see CWG5(2014) | No |
| • contract to supply goods and services is between the employee and the provider |  |  |
| – payment made direct to the provider | Yes | No |
| – payment made or reimbursed direct to the employee | Yes | Yes |

| **Phone calls and/or rental cost**: Employer is the subscriber |  |  |
| **Employee is the subscriber but, employer meets the cost of calls and/or rental:** |  |  |
| • phone used exclusively for business use | No | No |
| • phone used exclusively for private use | Yes |  |
| • phone used for both business and private use | Rental: yes – on the full amount of the rental Calls: yes – on the full amount of the cost of private calls. Any amount in respect of business calls, supported by appropriate evidence, can be excluded | No |

| **Premiums** for health cover, pensions, annuities and so on | See ‘Insurance premiums’ | See ‘Insurance premiums’ |
| **Prize money** paid in cash to employees for competitions you run in connection with your business, which are not open to the public | Yes | Yes |

| **Readily convertible assets**: remuneration provided in non-cash form such as stocks and shares, gold bullion, commodities, fine wine and so on | See pages 78 to 79 | See pages 78 to 79 |

| **Redundancy payments** | See page 74 | See page 74 |
| **Relocation payments** | See page 73 | See page 73 |

<p>| <strong>Retirement benefits schemes – payments you make into such schemes</strong> |  |  |
| • registered pension schemes | No | No – but also see paragraph 167 |
| • employer-financed schemes | No – but also see paragraph 166 | No – but also see paragraph 166 |</p>
<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Include on payroll record for NICs</th>
<th>Include on payroll record for PAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement benefits schemes – lump sum payments out of such schemes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• registered pension schemes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• employer-financed retirement benefits schemes</td>
<td>No - but also see paragraph 167</td>
<td>No - but also see paragraph 166</td>
</tr>
<tr>
<td>Round sum allowances</td>
<td>See page 73</td>
<td>See page 73</td>
</tr>
<tr>
<td>Securities or interests in securities</td>
<td>See ‘readily convertible assets’</td>
<td>See ‘readily convertible assets’</td>
</tr>
<tr>
<td>Sickness, maternity and other absence from work payments</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP), Statutory Adoption Pay (SAP), Ordinary Statutory Paternity Pay (ASPP)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Stocks and shares</td>
<td>See ‘readily convertible assets’</td>
<td></td>
</tr>
<tr>
<td>Subscriptions or fees to professional bodies paid by you which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• are allowable tax deductions under s343 and s344 ITEPA 2003</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• are not allowable tax deductions under s343 and s344 ITEPA 2003</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Subscriptions or fees to professional bodies reimbursed by you which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• are allowable tax deductions under s343 and s344 ITEPA 2003</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• are not allowable tax deductions under s343 and s344 ITEPA 2003</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Suggestion schemes awards to employees</td>
<td>No, if the award satisfies the conditions for exemption from tax. Ask us for details If you make awards in the form of benefits, see also booklet CWG5(2014)</td>
<td>Awards which satisfy the conditions for certain conditions are exempt from tax. Ask us for details.</td>
</tr>
<tr>
<td>Third party payments made to your employees</td>
<td>Where such payments originate with the employer (and the employee then has access to payments - such as through an Employee Benefit Trust) then these payments are earnings or are to be treated as earnings from the employment – see paragraph 167</td>
<td>See paragraph 166</td>
</tr>
<tr>
<td>Tips and service charges</td>
<td>See page 27</td>
<td>See page 27</td>
</tr>
<tr>
<td>Training – payments for such things as course fees, books and so on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• training is work-related or is encouraged or required by you in connection with the employment</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• training is provided for an employee who is leaving to enable them to find alternative employment</td>
<td>See page 76</td>
<td>See page 76</td>
</tr>
<tr>
<td>• all other circumstances</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Giving us details of your employees’ benefits and expenses

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

- Paragraph 130 tells you about the form P46(Car) you must send during the tax year, to give us the details we need about certain employees who are provided with a car which is available for private use.
- Paragraphs 131 to 133 tell you about the forms P9D, P11D and P11D(b) you must send at the end of the tax year, to give us the details we need about the expenses you have paid and the benefits provided for your employees during the tax year and the amount of Class 1A NICs you are due to pay. You must send these forms in time to reach the HMRC National Insurance Contributions & Employer Office by 6 July.

### Form P46(Car)

Complete a form P46(Car) or online equivalent to give details of all employees/directors for whom form P11D is appropriate, who are provided with a car which is available for private use.

The completed form P46(Car) must be sent within 28 days of the end of the quarter to 5 July, 5 October, 5 January or 5 April in which any of the following takes place:

- the employee/director is first provided with a car which is available for private use
- the employee/director is provided with a second or further car which is available for private use
- a car provided to the employee/director is withdrawn and not replaced
- an employee/director provided with a car available for private use who was previously an employee for whom form P9D was appropriate, becomes an employee for whom form P11D is appropriate.

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

- CWG5(2014) Class 1A National Insurance contributions on benefits in kind
- CA33 Class 1A National Insurance contributions on Car and Fuel Benefits.

### Form P11D

Complete a form P11D to give details of all expenses payments and the cash equivalent of any benefits provided for the following types of employees, or their families, dependants and guests.

- Employees who earn at a rate of £8,500 or more in the year. Where an employee has more than one employment with you or with any other business under the same control, you must fill in form P11D if the total of his or her earnings from all such sources are at a rate of £8,500 or more in the year. To work out whether an employee has earned at a rate of £8,500 or more in the year:
  - take the employee's annual rate of gross pay
  - deduct any payments to which the employee is entitled to tax relief under the 'Net pay arrangement', that is contributions to a registered pension scheme; authorised donations to a payroll giving scheme for charities
  - add all expenses payments and benefits provided.
- Employees who are directors of another company under the same control.

---

<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Include on payroll record for NICs</th>
<th>Include on payroll record for PAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transport vouchers</strong>, such as season tickets and so on, provided for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• employees of a passenger transport undertaking under arrangements in operation on 25 March 1982 where the employee is earning less than £8,500 in the year</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>• any other employee</td>
<td></td>
<td>No (and see page 21)</td>
</tr>
<tr>
<td><strong>Travelling time payments</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Trivial commutations</strong> from registered pension schemes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Vouchers</strong> which can be redeemed or exchanged for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• both goods and cash or cash alone</td>
<td>Yes</td>
<td>Yes (and see page 21)</td>
</tr>
<tr>
<td>• goods alone (but not readily convertible assets)</td>
<td>Yes</td>
<td>No (and see page 20)</td>
</tr>
<tr>
<td>• use of sporting or recreational facilities</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• readily convertible assets</td>
<td>See pages 78 to 79</td>
<td>See pages 78 to 79</td>
</tr>
<tr>
<td><strong>Wages, salaries, fees, overtime, bonuses, commission and so on</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

If the chart does not show the type of payment you are making or if you are not sure whether to include the payment on your employees payroll record, phone the Employer Helpline. You can also go to [www.hmrc.gov.uk/payerti/exb/a-z/a/index.htm](http://www.hmrc.gov.uk/payerti/exb/a-z/a/index.htm)
• Directors of a company or business – excluding directors covered by the exemption below – but including:
  - anyone who manages the affairs of a body or society
  - anyone on whose instructions directors usually act, but not those who are only professional advisers.
You do **not** have to fill in a form P11D for either full-time working directors or directors of a non-profit making body, if they satisfy all of the following conditions.
• They earn at a rate of less than £8,500 in the year.
• They do not have a material interest in the company.
  Broadly speaking they do not directly or indirectly control more than 5 per cent of the share capital.
• They do not have any other directorships with another business under the same control as yours, for which a P11D is needed.

P11Ds are also used to help you calculate the amount of Class 1A NICs that may be due on taxable benefits you provide to your employees. See CWG5(2014) *Class 1A National Insurance contributions on benefits in kind*. Guidance on what to enter on form P11D is given at paragraph 134.

**132 Form P11D(b)**

Complete a form P11D(b):
• to confirm that by 6 July all forms P11D you should have completed have been sent to us
• to declare the total amount of Class 1A NICs you are due to pay.
The return date for both the P11D and the P11D(b) is 6 July following the end of the year in which the benefits and expenses have been provided.
The P11D(b) can also be used to make adjustments to the total benefits liable to Class 1A NICs taken from forms P11D.

**133 Form P9D**

Complete a form P9D to give details of the expenses payments and benefits of more than £25 that have not been treated as pay for employees who:
• are not directors, and
• earned at a rate of less than £8,500 in the year.

Paragraph 131 shows you how to work out whether an employee has earned at a rate of less than £8,500 in the year.

Class 1A NICs are not payable on benefits you report on forms P9D.

 Guidance on what to enter on form P9D is given at paragraph 134.

**134 What to enter on form P9D or P11D**

Complete form P9D or P11D to give us details of your employees’ benefits and expenses. The chart at paragraph 136 (pages 67 to 69):
• sets out the various types of expenses that could be paid to employees and benefits that could be provided to them
• tells you whether or not you should enter the particular type of expense or benefit on form P9D or P11D.

### Reporting termination packages where amounts over £30,000 are taxable

You need to report packages which are taxable only on amounts over £30,000. You do not need to do this if the package consists of cash only or, where it includes non-cash benefits, if it has an estimated value of £30,000 or less.

You should make a report to the Employer Technical Team, Employer Office, Room BP4102, Benton Park View, NEWCASTLE UPON TYNE, NE98 1ZZ, at the latest by 6 July following the tax year in which the termination takes place, if a package is provided, which includes non-cash benefits and is estimated, over its lifetime, to exceed £30,000. In working out the cash equivalents of non-cash benefits for future years, so as to determine whether a report is needed or not, you only need make reasonable estimates using the rules in force in the year in which termination occurs.

You do not need to wait until 6 July if you want to send the report earlier. You can send it at any time after the termination has occurred.

You can prepare your report in whichever way suits you best. There is no prescribed form or format.

A copy should always be given to the employee.

If you make a report it must contain the following information:
• the total estimated value of the package
• details of the cash payments made and the cash equivalents of non-cash benefits provided in the year in which the termination took place (where the report is made in the tax year best estimates should be supplied)
• an estimate of the cash payments to be made in future years
• an estimate of the total lifetime of the package with details of any contingency factors (for example, payments or benefits ceasing if the employee finds alternative employment)
• details of the type of benefits to be provided after the first year and the terms of their provision (for example, car for three years, medical insurance for ten years and so on).

If, after you have made your report there is a variation in the package and the total value increases by more than £10,000 you will need to make another report. This has to be made by 6 July following the end of the tax year in which the variation takes place. The report should only contain details of the variation.

A report will also need to be made if, having originally decided that you do not need to make a report, there is a variation in the package so that it includes non-cash benefits and exceeds £30,000.

In these circumstances, you should send a report to the address shown above at the latest by 6 July following the end of the tax year in which the change takes place. The report, however, should be for the year in which termination occurred as if one had been required in the first place.

If you make such a late report remember to provide a copy to the employee.
**Important**

This chart gives general guidance only. It does not cover all expenses or benefits. Booklet 480(2014) *Expenses and Benefits - A Tax Guide*, gives more information as does the P11D Guide. If you are not sure what to enter on P9D or P11D contact us.

Expenses and benefits can also attract a Class 1 or Class 1A NICs liability. Guidance on Class 1A NICs can be found in CWG5(2014) *Class 1A National Insurance contributions on benefits in kind*.

The chart on pages 75 to 76 also gives information on when Class 1A NICs may be due on payments of expenses and benefits.

<table>
<thead>
<tr>
<th>Type of expense or payment</th>
<th>P9D</th>
<th>P11D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets given to the employee, or transferred at less than market value</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Assets provided for the employee’s use such as yachts, aircraft, furniture, kitchen appliances and so on</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Benefits or payments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• which could be turned into money</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• any other benefit</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Business expenses met wholly or partially by you</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Car or van fuel supplied for private motoring in company vehicles</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>All Car or van fuel and all other benefits supplied for private vehicles</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Car parking facilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• at or near the place of work</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• elsewhere</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Cars or vans made available for private use</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Childcare help provided by:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Childcare vouchers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• up to the relevant exempt amount where the qualifying conditions are met</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• over the relevant exempt amount where the qualifying conditions are met</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• childcare vouchers (any amount) not meeting the qualifying conditions</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• places in qualifying nurseries or playschemes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• other registered or approved childcare up to the relevant exempt amount</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• other registered or approved childcare over the relevant exempt amount</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• any other means</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For details of the relevant exempt amount, see booklet 480(2014), appendix 11, paragraph 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Credit cards, charge card payments made by you or credit account payments made by you</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Entertaining allowances</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Expenses in providing any pension, annuity, lump sum, gratuity or similar benefit</strong></td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>which is given to an employee or to his or her spouse, civil partner, children or other dependants on retirement or death</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses payments or reimbursements:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• covered by a dispensation</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• not covered by a dispensation</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Food, groceries, farm produce and so on</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Goods or services</strong> (including professional services) supplied at less than their full cost</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Type of expense or payment</td>
<td>P9D</td>
<td>P11D</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------</td>
<td>-----</td>
<td>------</td>
</tr>
<tr>
<td><strong>Holidays</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Incidental overnight expenses (IOEs)</strong></td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• within the terms of the special exemption (see booklet 480(2014))</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>• in all other circumstances</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Income Tax paid but not deducted from a director</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Income Tax paid in respect of a readily convertible asset or in respect of employment income through third parties (‘disguised remuneration’ – see pages 81 to 83) if the tax is not recovered from the employee within 90 days</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Living or other accommodation provided by you</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• services provided with it such as heat, light, repairs, domestic services</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• value of the accommodation itself</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>‒ where there is a special threat to the security of the employee who lives there as part of special security arrangements</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>‒ where it is necessary for the employee to live in that accommodation to do his or her job properly or it is provided so that the employee can do his or her job better and it is customary for employers to provide living accommodation for this type of job</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• in all other circumstances</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Loans</strong> that are:</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• interest-free or at low interest (including notional loans, that is, securities acquired for less than market value)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• written off (not including notional loans)</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>If loan advanced to employee as part of a third party arrangement, see pages 81 to 83 on employment income through third parties (‘disguised remuneration’ rules)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Long service awards</strong> in the form of:</td>
<td>No - see page 65</td>
<td>No - see page 78</td>
</tr>
<tr>
<td>• cash or cash vouchers</td>
<td>No - see page 78</td>
<td>Ask us</td>
</tr>
<tr>
<td>• readily convertible assets</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• non-cash awards which satisfy certain conditions</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• other awards</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Meals provided by you:</strong></td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• at a canteen open to your staff generally</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• on your business premises, on a reasonable scale and all employees are able to get free or subsidised meals or meal vouchers - as long as not provided as part of a salary sacrifice or flexible remuneration arrangement</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• in all other circumstances</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Meal vouchers given:</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• which cannot be transferred to another person, are used only for meals</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• in all other circumstances</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Medical, dental treatment or insurance</strong> to cover the cost of such treatment:**</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• outside the UK for treatment necessary while an employee was abroad</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• in all other circumstances</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Mobile phones</strong>, meaning one mobile phone used by an employee for private calls</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>NICs</strong> (employee’s share) borne by you</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Office accommodation, supplies or services</strong> such as ordinary office accommodation, equipment, typists, stationery and so on provided for an employee on your premises and only used by the employee in doing his or her job</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Private expenses</strong> met wholly or partially by you</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Private phone</strong> rental and costs of calls</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Relocation</strong> expenses payments and benefits:</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• expenses which are not exempt</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• exempt expenses of £8,000 or less</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• exempt expenses in excess of £8,000</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Retirement benefits schemes (employer-financed)</strong> – payments by employer</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Type of expense or payment</td>
<td>P9D</td>
<td>P11D</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------</td>
<td>-----</td>
<td>------</td>
</tr>
<tr>
<td>Round sum allowances</td>
<td>See page 73</td>
<td>See page 73</td>
</tr>
<tr>
<td>Scholarships awarded to students because of their parents' employment</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Security measures provided by you</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Social functions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• annual functions such as Christmas dinners, summer parties and so on, open to staff generally where the cost per head of the function is £150 or less. (Where more than one such function is held in a year and the aggregate cost per head of the functions is more than £150 per head, exclude details of any function(s) that total £150 or less and include details of all other functions)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• any other type of function</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sporting facilities such as shooting, fishing and horse racing:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• covered by special exemption</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• all other circumstances</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Subscriptions and professional fees paid by you</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Subscriptions and professional fees reimbursed by you</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Third party payments to discharge employee's personal liability</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Transport vouchers, tickets, passes and so on of any description which provide transport by any passenger transport undertaking given to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• employees of passenger transport undertakings under arrangements in operation on 25 March 1982</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• any other employee or director</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Vouchers, meaning any voucher, stamp or similar document which can be exchanged for money, goods or services except vouchers on which PAYE has already been operated. Do not include vouchers that can only be used to provide benefits that are exempt from tax. For example, any non-cash vouchers or credit tokens provided with a 'qualifying mobile phone' to facilitate its use.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Dispensations

137 What is a dispensation?
A dispensation is a notice we send to you if we have authorised you not to report expenses payments and any benefits on forms P11D. We will issue a dispensation if we are satisfied that:
• your employees would be able to get a deduction for the expenses or benefits in arriving at their tax liability, and
• payments are properly controlled by you.
A dispensation can cover any type of expense payments and most benefits in kind. For instance:
• qualifying travel expenses
• reasonable scale rate payments for subsistence
• entertaining
• subscriptions to professional bodies or learned societies.
The following cannot be included in a dispensation:
• company cars and company vans that are taxable
• private medical insurance
• cheap loans
• round sum allowances
• mileage allowance payments to those who use their own cars for business travel.

138 How to apply for a dispensation
To apply for a dispensation you can either:
• complete a form (P11DX) and send it to your HMRC office
• write to your HMRC office setting out:
  — the employees or groups of employees for whom you would like a dispensation
  — the types and amounts of expenses payments or reimbursements which you wish to be covered by the dispensation
  — your system for controlling and authorising payments of expenses and reimbursements.
Your HMRC office will then let you know what further information, if any, is needed for your request to be considered.
For more information and an application form P11DX go to www.hmrc.gov.uk/payerti/exb/schemes/dispensation.htm

139 Using a dispensation for NICs purposes
If you have a dispensation for tax purposes, you may also take it into account for NICs purposes provided that the conditions under which it was issued have not changed. When you take account of a dispensation for NICs purposes, we will accept it as evidence that the payments it covers:
• are expenses incurred in carrying out the employment, and
• do not need to be included in gross pay for NICs purposes.
Class 1A NICs are not payable on benefits in kind included in a dispensation.

140 Information and guidance for holders of a dispensation
Note that:
• a dispensation is only valid in relation to:
  — the circumstances disclosed before it was issued
  — the types of expenses payment or reimbursements it covers
• you must inform us if:
  — your system for controlling payments alters, or
  — the amount(s) of any scale rate payments included in the dispensation change
• a dispensation normally continues to be effective until we withdraw it.

PAYE Settlement Agreements
A PAYE Settlement Agreement (PSA) is an agreement between you and your HMRC office under which you agree to pay the tax in a lump sum on certain expenses payments and benefits in kind you give to your employees. You do not have to include items covered by a PSA on form P9D or P11D.
In addition to making lump sum payments of tax, you can also make lump sum payments of NICs on items included in PSAs by paying Class 1B contributions.
PSAs normally apply to items which are:
• minor
• given by you on an irregular basis, or
• where it is impracticable for you to apply PAYE to them or include them on forms P9D or P11D.
PSAs do not apply, for example, to wages and salaries.
To find out more go to www.hmrc.gov.uk/payerti/exb/schemes/psa.htm

More information about Class 1B NICs
Class 1B NICs are payable on PSAs at the same time as tax, using the same payment slip.
Class 1B NICs are payable at the appropriate secondary employer’s percentage rate on the total value of:
• all items covered by the PSA which would give rise to a Class 1 or Class 1A NICs liability, and
• the tax payable by the employer under the PSA.
For more details, go to www.hmrc.gov.uk/payerti/exb/schemes/psa.htm

If one of your employees fails to qualify for SSP, SMP, SAP, OSPP or ASPP because their average weekly earnings are too low, you will need to reassess their average weekly earnings taking account of items covered by a PSA which would have given rise to a Class 1 NICs liability.
For more information on calculating an employee’s average weekly earnings for SSP, SMP, SAP OSPP or ASPP purposes, go to www.hmrc.gov.uk/payerti/employee/statutory-pay/index.htm
NICs on motoring expenses payments

There is a statutory amount which can be paid to employees who use their own cars, vans, motorcycles or cycles for business travel without incurring a NICs liability. If you pay more than the statutory NICs free amount, the excess amount must be added to any other earnings the employee receives in the earnings period in which you make the motoring expense payment. Class 1 NICs are then calculated on the employee's total earnings.

To work out whether NICs are due, you must multiply the amount of business miles travelled by the statutory mileage rate and compare that figure to the amount that you have paid. For privately owned cars and vans, the rate to use is the one which applies to the first 10,000 business miles.

This rate is shown in the table below and must be used irrespective of the number of business miles actually travelled. In working out whether NICs are due, you must include in the calculation of the NICs free amount all business miles travelled, even if you do not pay the employee for all of his business mileage. For employees who use their own motorcycles and cycles for business travel, or who carry passengers, use the appropriate rates in the table below.

The rules for:
• paying the new passenger rate and
• what counts as business travel
are the same for both tax and NICs.

More guidance on these rules for NICs, including examples of how NICs are calculated on motoring expenses payments, is included in booklet 490 Employee travel – A tax and NICs guide for employers.

Taxation of mileage expenses payments

(See paragraph 141 for the NICs treatment of motoring expenses payments and passenger payments.)

You can pay up to an ‘approved amount’ tax-free to employees using their own vehicles for business travel. This is calculated as follows:

<table>
<thead>
<tr>
<th>Kind of vehicle</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car or van</td>
<td>45p per mile for the first 10,000 business miles</td>
</tr>
<tr>
<td></td>
<td>25p per mile after that</td>
</tr>
<tr>
<td>Motorcycle</td>
<td>24p per business mile</td>
</tr>
<tr>
<td>Cycle</td>
<td>20p per business mile</td>
</tr>
</tbody>
</table>

There are two main conditions for payments to be free of tax:
• they must be paid to the employee (not merely for the benefit of the employee) for the expenses of business travel in the employee's privately owned car, van, motorcycle or cycle
• they must not exceed the number of business miles multiplied by the appropriate mileage rate.

Payments that meet these two tests are known as approved mileage allowance payments (AMAPs).

If you pay more than the approved amount, all payments are tax-free AMAPs. You do not need to include them on form P9D or form P11D.
Evidence
To prove that they are expenses actually incurred by employees in carrying out their work you must be able to provide evidence of the actual business expense.

The type of evidence will depend on the item of business expenditure. For example, evidence could include:

• a log of business phone calls or visits
• credit card bills
• receipts
• work diaries showing the employee’s engagements
• HMRC dispensations
• a representative survey of the costs involved (that is a scale rate).

This is not a complete list and any evidence will be considered.

Using a scale rate
Payments based on a scale rate, which covers the costs likely to be incurred, should not be included in gross pay.

For scale rate payments to be excluded from gross pay the scheme you operate must satisfy all the following conditions:

• the scheme must not have an overall profit element
• the payments must be based on an accurate survey of the costs involved
• the scheme must allow for a movement in prices
• the payments must be reasonable in relation to the employment involved
• the employee must make a claim for each payment made.

Details of the scheme and its provisions must be available for inspection. NICs will be charged on all payments made under the scheme if the scheme is not supported by written evidence or is not considered sound.

If the payment you make is higher than the established scale rate include the excess in gross pay.

Payments towards additional household costs incurred by employees who work from home

For both PAYE and NICs purposes
Do not include in gross pay any payments made in respect of reasonable additional household expenses incurred by employees in carrying out duties of their employment at home.

You may pay up to £4 per week (£18 per month) without supporting evidence of the costs. If you choose to pay more, you must retain supporting evidence to show that the payment is wholly in respect of additional household expenses incurred by the employee in carrying out the duties at home.
Round sum allowances
If you pay a round sum allowance to an employee, you must treat the payment as follows.

For NICs purposes
Where a specific and distinct business expense is identified, do not include the business expense element of the allowance in gross pay.
If you cannot identify the business expense include the whole allowance – whether or not an expense is actually incurred – in gross pay.

For PAYE purposes
Include the whole allowance in gross pay. Where a round sum allowance is clearly meant to do no more than reimburse an employee for an expense actually incurred in doing his or her job, and the expense was incurred only because of the job, we may be prepared to authorise you to pay the expense without deducting PAYE. However, before doing this we will need to be satisfied that the allowance is equivalent to the reimbursement.
If you pay a round sum allowance which you believe may qualify to be paid without deduction of PAYE, you should let us have details of the amount you pay and what the allowance is intended to cover.
Where we agree that you may pay some or all of an allowance without deducting PAYE, you must:
• nevertheless include the allowance when completing form P9D or P11D
• notify HMRC of any change to:
  – the amount of the allowance
  – the circumstances in which the allowance is paid.

Travel and subsistence payments
The rules on the tax and NICs treatment of business travel by employees are explained in detail in booklet 490 Employee travel – A tax and NICs guide for employers.
Chapter 9 of booklet 490, covers employers’ reporting requirements and explains when you need to operate PAYE on payments for travel and subsistence.
Chapter 6 of booklet 490 explains the limited circumstances in which you need to account for NICs on travel and subsistence payments.

Relocation allowances or expenses
Payments you make to or for an employee who has to move residence as a result of being relocated in the UK by you, should be treated as follows.

For PAYE purposes
Do not include in gross pay any exempt relocation expenses payments.
What constitutes an exempt expense payment is described at Chapter 5 of booklet 480(2014) Expenses and benefits – A tax guide.
Include in gross pay any expenses that are not exempt. Amongst other things this will include any payments not listed as eligible in Appendix 7 of booklet 480(2014), Expenses and benefits – A tax guide.
Allowances or expenses to employees relocating abroad

For both PAYE and NICs purposes
Do not include in gross pay any exempt allowances and expenses paid to employees relocating abroad.

Allowances or expenses to employees working abroad

For both PAYE and NICs purposes
Treat payments of expenses to employees working abroad like other expenses payments. In addition, include in gross pay:
- payments described as compensation for working abroad
- sums paid as an inducement to work abroad
- any bonus paid for working abroad.

If you pay an employee a general allowance to compensate for the higher cost of living abroad, commonly known as a cost of living allowance/cost of living addition, that sum must be included in gross pay.

But do not include in gross pay any payment you make towards expenses incurred in:
- providing an employee with medical treatment outside the UK where the need for the treatment arises while the employee is outside the UK working for you
- providing insurance for the employee against the cost of such treatment.

Phone the Employer Helpline if you pay the travelling expenses for employees and/or their families returning to the UK on home leave.

Payments you make when an employee stops working for you

The guidance below tells you what you should do if you make additional one-off payments such as on redundancy or retirement. Guidance on ‘standard’ payments such as salary, wages, Statutory Maternity Pay, Statutory Adoption Pay, Ordinary Statutory Paternity Pay, Additional Statutory Paternity Pay and so on is given on page 19.

Type of payment

The treatment of a payment made when an employee stops working for you varies according to the type of payment. This is true for both PAYE and NICs purposes.

A single payment is often made up of more than one element. For example, one payment might cover:
- redundancy pay
- accrued holiday pay, and
- a payment in lieu of notice.

Each element must be considered separately. First decide the appropriate tax and NICs rules to apply to each element. Then add these separate results together.

For PAYE purposes
Most payments fall into one of the following three categories.
- The payments are taxable in full.
- The payments are taxable only on amounts over £30,000.
  - If there is more than one sum in this category, you must total all such payments before applying the £30,000 limit.
  - If payments are made by instalments, the exemption does not just apply to the year in which the termination takes place. Any unused balance after setting off both cash payments and non-cash benefits may be carried forward to set against payments in a later year.
- The payments are completely tax-free.

For NICs purposes
Payments are either included or not included in gross pay.

Action to take when you make such payments

The chart on pages 75 to 76 lists the most common elements included in a leaving payment, and tells you what the appropriate tax and NICs treatments are.

If you need more information about how to value non-cash benefits, see Chapter 27 of booklet 480(2014) Expenses and benefits – A tax guide.

Contact us for guidance on calculating the taxable amount if:
- you intend to provide anything other than cash when an employee leaves – for example, an asset (such as a car) or the use of an asset
- any payment (or part payment) is to be paid by a third party, for example, another employer.
<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Include in gross pay for NICs purposes</th>
<th>Include in gross pay for PAYE purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Payment made under terms and conditions of employment – unless the payment is listed separately later in this chart</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Terms or conditions means anything governing the employment relationship so, as well as any written contract, verbal terms, Handbooks and Agreements may well be included. For example:</td>
<td></td>
</tr>
<tr>
<td>• compensation for loss of office provided for under terms or conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• accrued pay due</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• pay during a period of notice.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If it is your normal practice to make a payment on termination, it should be treated in the same way as one made under terms or conditions (even if there is no legal obligation to pay it). Note: Payments in lieu of notice:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• paid under a legal entitlement (or paid automatically)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• paid under an employer’s discretion which is in terms and conditions</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• paid as damages.</td>
<td>See 7</td>
<td>See 7</td>
</tr>
<tr>
<td>Redundancy payments are dealt with at 6 below.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Lump sums paid on retirement or death from:</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• a pension scheme registered by HMRC, or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• an employer-financed retirement benefits scheme.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Other lump sums paid on retirement</td>
<td>Include only earnings received from the employment</td>
<td>Yes in full but see paragraph 150</td>
</tr>
<tr>
<td>4. Other lump sums paid on the death of an employee</td>
<td>No</td>
<td>Yes in full but see paragraph 150</td>
</tr>
<tr>
<td>5. Lump sums to compensate for loss of employment through disability, injury or ill health which prevents the employee carrying out the duties of the employment. Where such a payment is over £30,000, you may wish to agree with us before you pay the whole amount tax-free</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>6. Payments for redundancy</td>
<td>No</td>
<td>On amounts over £30,000 only. See also paragraphs 148 and 151</td>
</tr>
<tr>
<td>• due under statutory redundancy payment rules, or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• paid from your non-statutory scheme to compensate for loss of employment by reason of redundancy. Redundancy has a special legal meaning. Broadly, there must be a reduced need for employees which causes the termination of the employment. This would not include, for example, a payment in lieu of notice provided for by such a scheme. The redundancy may be indirect. For example, an employee leaves as a result of a reduced need for employees elsewhere in the business.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Payments made as damages if the termination was a breach of contract. For example:</td>
<td>No</td>
<td>On amounts over £30,000 only. See also paragraphs 148 and 151</td>
</tr>
<tr>
<td>• you did not give the employee proper notice, and there was no entitlement or option to make payment in lieu of notice. A payment in lieu then made is damages for the breach.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• you agree, or the Courts or an Employment Tribunal rule, that the employee was unfairly or wrongly dismissed. If you pay something which is due under the terms or conditions of employment, it will not be damages. For example, you may be ordered, or agree as part of a settlement of damages, to pay wages due under such terms. In these circumstances that element of the payment must be included in gross pay for NICs and PAYE purposes.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Payments for the employee giving a restrictive covenant. A restrictive covenant is an undertaking which restricts the employee’s conduct.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Type of payment</td>
<td>Include in gross pay for NICs purposes</td>
<td>Include in gross pay for PAYE purposes</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------</td>
<td>---------------------------------------</td>
<td>---------------------------------------</td>
</tr>
<tr>
<td><strong>9. Employee’s legal costs.</strong> These are costs incurred in bringing a claim to compensation for loss of employment.</td>
<td>No</td>
<td>May be tax-free. ask us about Section 413A ITEPA 2003</td>
</tr>
<tr>
<td><strong>10. Cost of ‘outplacement counselling’.</strong> This includes such things as:</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• a course or advice to assist the employee in finding new employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• a course to help the employee adjust to the termination of employment <strong>provided that the counselling</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• is generally available to employees. Reimbursed costs and associated travelling expenses are treated in the same way.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>11. Cost of retraining courses.</strong> This covers the payment or reimbursement of retraining course expenses for an employee who is about to leave, or who has recently left your employment. The course must be:</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>• full-time, or substantially fully</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• last for no more than one year, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• be designed to provide the employee with skills or knowledge which will help them to find alternative employment (including self-employment). There are further conditions relating to the time when the employee starts the course, and the period for which the employee has worked for you. Ask us for details.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>12. Pension</strong></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>registered pension schemes</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>employer-financed retirement benefit schemes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**For NICs purposes**

If you make payment:

• **when the employee leaves,** work out NICs based on the regular earnings period for the employment

• **after the employee has left,** work out NICs based on a weekly earnings period unless it is a final payment of salary or wage where the usual earnings period, category letter and rates and thresholds at the time of payment should be used. Go to the guidance on page 11.

**For PAYE purposes**

Where no tax is due (because the payment is not taxable or the payment is a ‘taxable on amounts over £30,000’ payment below this limit) do not include in gross pay on your employee’s payroll record.

Where tax is due (because the payment is taxable in full or the payment is a ‘taxable on amounts over £30,000’ payment above this limit), and:

• you make the payment to the employee **when or before the employee leaves**
  – include the taxable amount in gross pay on the employee’s payroll record and operate PAYE in the normal way
  – include the taxable amount on the Full Payment Submission (FPS)
  – complete a form P45 to give to the employee

• you make the payment to the employee **after the employee leaves**
  – include the taxable amount in gross pay on the employee’s payroll record for the tax week or month number in which you make payment
  – enter code 0T as the amended code on the employee’s payroll record
  – include the details, set the ‘Payment after leaving’ indicator and show the original date of leaving on the FPS when you make the final payment
  – operate PAYE by using code 0T (on a week 1/month1 basis)
  – do not issue a further form P45. Instead give the employee a letter showing the date of the payment, the gross amount, and the PAYE tax you have deducted, and confirmation that the payment is a post-leaving payment.

Guidance on reporting termination packages where amounts over £30,000 are taxable is given at paragraph 135.
Lump sum payments on retirement or death which are not from registered schemes

A lump sum retirement or death payment will be tax-free if it is from an employer-financed scheme, and:
- in the past the employee has been charged to tax on the employer contributions which funded the lump sum and no employer contributions have been made since 5 April 2006, or
- it is a payment on death which happened as a result of an accident whilst the person was an employee (including accidents outside work), or
- it is for ill-health or disablement during service.

Where a lump sum retirement or death payment is not tax-free and it is paid to any person or body other than an individual (for example, to a club or society) the payer is charged to tax at 50 per cent and PAYE does not apply.

Certain payments from overseas retirement benefit schemes may be tax-free. If you think this may apply, ask us about Extra Statutory Concession A10.

Foreign service

A payment which is ‘taxable on amounts over £30,000’ may qualify for an additional Income Tax relief. This relief applies if, during the employment, there was ‘foreign service’. Broadly, this means that the employee was not ‘resident’ in the UK at some time during the employment. If you think this relief may apply, you may wish to speak to us before taking account of any relief.

Employment Tribunal Awards

The guidance below tells you what you should do if an Employment Tribunal (in Northern Ireland, an Industrial Tribunal) requires you to make payments to an employee under:
- a reinstatement order or a re-engagement order, or
- an order for the continuation of employment, or
- a protective award.

Payments due under such awards count as gross pay for both NICs and PAYE purposes. See paragraphs 152 to 154 for details.

You must calculate Class 1 NICs and PAYE tax on the full amount of the award. That is, on the amount awarded before any deductions ordered by the tribunal. If you do not know the full amount of an award, contact the Clerk to the tribunal that made the award.

If the actual amount you have to pay the employee is less than the amount of NICs and PAYE tax due on the full amount of the award, see paragraph 11 on page 14 of this guide. This gives guidance about recovering underpayments of NICs and PAYE tax from an employee.

Reinstatement order or re-engagement order

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

For NICs purposes

Payment made to an employee

Where you make a payment under an order to an employee:
- you must treat it as a separate payment and not add it to any other payment of earnings you make to the employee at the same time
- assess the amount of NICs due on the payment using an earnings period which is the longer of
  - the period to which the order relates, or
  - a week.

Use this earnings period no matter how you make the payment, that is, in a lump sum or by instalments.
- Use the category letter, NI percentage rates and earnings limits current at the time you make payment (or when the payment is due to be made if nothing is actually paid because of adjustments to the gross amount by the tribunal).
- Record the payment, NICs details etc, on the employee’s payroll record in the tax week/month in which you make payment. This means that if you make another payment of earnings to the employee at the same time, you will have two lots of entries for the same tax week/month.

Payment made to a director

Where you make a payment under an order to a director:
- add the amount of the payment to any other earnings paid to date in the year
- assess the amount of NICs due on the total amount of earnings to date
- use the earnings period which you are using to assess NICs on any other payments you make to the director that is, an annual earnings period or a pro-rata annual earnings period. For more information, see the booklet CA44 National Insurance for Company Directors, go to www.hmrc.gov.uk/nitables/ca44.pdf
- use the category letter, NI percentage rates and earnings limits current at the time you make payment
- record the payment, NICs details etc, on the payroll record in the normal way.

For PAYE purposes

- Treat the employee as a new employee – go to www.hmrc.gov.uk/payerti/employee-starting/new-employee.htm
- Operate PAYE procedures at the week or month number that you make any payment(s) – do not include their previous earnings and tax deducted to date on the FPS.

Order for the continuation of employment

A tribunal may order that:
- an employee’s employment must continue whilst it deals with a complaint of unfair dismissal, and
- specify the amount that the employer must pay the employee.

Such amounts count as gross pay for both NICs and PAYE purposes.

For NICs purposes

Follow the guidance in paragraph 152 under ‘Payment made to an employee’ or ‘Payment made to a director’, as appropriate.
For PAYE purposes
- Treat the employee as a new employee:
  - go to www.hmrc.gov.uk/payeti/employee-starting/new-employee.htm
- Operate PAYE procedures at the week or month number that you make any payment(s)
  - do not include their previous earnings and tax deducted to date on the FPS.

**154 Pay due under a protective award**
A tribunal may decide that an employer has broken some rules in making, or proposing to make, an employee redundant. If so, it can order the employer to pay the employee for a certain period. This is called the ‘protected period’.

Amounts paid under a protective award count as gross pay for both NICs and PAYE purposes.

For NICs purposes

**Payment made to an employee**
Where you make a payment under a protective award to an employee:
- you must treat it as a separate payment and not add it to any other payment of earnings you make to the employee at the same time
- assess the amount of NICs due on the payment using an earnings period which is the longer of
  - that part of the protected period in respect of which the payment is made, or
  - a week.
- use this earnings period no matter how you make the payment, that is, in a lump sum or by instalments

**Example**
An employee is made redundant on 31 October. The employer pays their wages up to 30 November.

A tribunal decides:
- the protected period is 31 October to 31 December (62 days)
- the employer must pay the employee their wages for the period 1 December to 31 December (31 days).

Assess the amount of NICs due on the wages paid for the period 1 November to 31 December using a 62-day earnings period, as this is the longer period of:
- the protected period, or
- that part of the protected period in respect of which the payment is made, or
- a week.

For guidance on how to work out the NICs using this 62-day earnings period, see page 8 of this guide.

**Payment made to a director**
Where you make a payment under a protective award to a director:
- add the amount of the payment to any other earnings paid to date in the year
- assess the amount of NICs due on the total amount of earnings to date
- use the earnings period which you are using to assess NICs on any other payments you make to the director that is, an annual earnings period or a pro-rata annual earnings period. For more information, see the booklet CA44 National Insurance for Company Directors, go to www.hmrc.gov.uk/nitables/ca44.pdf
- use the category letter, NI percentages rates and earnings limits current at the time you make payment
- record the payment, NICs details etc, on the payroll record in the normal way.

For PAYE purposes
For tax purposes these payments are taxable on amounts over £30,000 only. Apply PAYE to the excess. See paragraph 148.

**Providing an employee with a non-cash payment**
The following paragraphs provide a guide to operating PAYE where assets other than cash are provided to an employee and are treated as earnings of the employee. In general PAYE and NICs will have to be operated where the asset is a ‘readily convertible asset’ (RCA) or where certain cash sums are paid in connection with securities even where those securities are not RCAs.

**155 ‘Readily Convertible Asset’ (RCA)**
A ‘readily convertible asset’, for the purposes of this Guide, is one which:
- is capable of being sold on a recognised investment exchange, the London Bullion Market or the New York Stock Exchange. For example, stocks, shares and other financial instruments, gold bullion and other precious metals and so on, or
- is a right over a money debt. For example, trade debts assigned by an employer to an employee, or
- is subject to a fiscal warehousing regime, such as a bonded warehouse. For example, oriental carpets stored in ‘bond’, or
- gives rise to a right to enable an employee to obtain money. For example, an interest in trust which comes to an end shortly after being assigned to an employee, resulting in an automatic right to cash, or
- is subject to a trading arrangement, either at the time of provision or likely to come into existence in future under an arrangement or understanding in place when the asset is provided. For example, shares or jewellery which can be sold either under an arrangement existing at the time of provision or under future arrangements for which steps have been taken at the time the shares or jewellery are provided, or
- is already owned by the employee and whose value is enhanced by the employer. For example, an employer may pay an additional premium to an employee’s life assurance policy, considerably increasing the value of the policy, or
• is an asset consisting in securities which are not shares that are ‘Corporation Tax deductible’ (Part 12 of Corporation Tax Act 2009). (Most shares will already be RCA under one of the criteria above.) ‘Securities’ include shares of any body, corporate or government loan stock, and other securities defined in Chapter 1, Part 7 of ITEPA 2003.

Shares cannot be ‘readily convertible assets’ if:
• they represent the exercise of rights obtained before 27 November 1996, or
• they represent the exercise of rights from an approved Savings Related Share Option Scheme, or
• they represent the exercise of rights from an approved Company Share Option Plan and exercise occurs between 3 and 10 years from the date of grant or less than 3 years from grant by reason of injury, disability, redundancy or retirement.

156 Valuation of assets
Payments in the form of readily convertible assets must be included in gross pay for both PAYE and NICs purposes. The amount on which PAYE should be operated and NICs assessed is the best estimate that can reasonably be made of the amount of income on which the employee is likely to be chargeable to tax in respect of the provision of the asset.

For most assets, including shares or other securities provided directly to an employee, the value to be ascertained is ‘money’s worth’, with reference to:
• the cost of the asset to the employer
• the value of the asset when it was awarded
• where the employee has already sold the asset, the amount received for it – if known
• where the employee has contributed towards the cost of the asset – the amount of that contribution should be deducted.

Where, however, the event is one charged to tax under the securities legislation in Part 7 of ITEPA 2003 (for example, exercise of option or lifting of restriction on a security) the market value must be obtained by reference to the Capital Gains Tax (CGT) value (see Sections 272 and 273 TGCA 1992).

If income is provided in the form of unquoted or restricted shares employers may wish to check whether the amount on which they propose to operate PAYE is reasonable. They can do this by writing, with full details of the transaction, to:

Shares & Assets Valuation (PAYE Valuation)
Ferrers House
PO Box 38
Castle Meadow Road
NOTTINGHAM
NG2 1BB

Any difference between the employer’s ‘best estimate’ and a finally agreed value will be dealt with through the employee’s Self Assessment tax return.

Shares and other securities

157 Securities options
PAYE and NICs will normally be due where:
• securities are acquired by an employee (or associated person) pursuant to an employment-related securities option, or
• such an option is assigned or released for consideration (even if the security is non-RCA, if the consideration is cash or an RCA then PAYE and NICs will be due), or
• the employee (or associated person) receives a benefit in cash or money’s worth in connection with the option (for example, compensation for loss of option following takeover).

In most cases there is no charge on the grant of securities options. The exception to this general rule is explained in the Employment-Related Securities Manual.

Tax advantaged schemes
If the shares acquired from HMRC tax advantaged schemes do not satisfy the scheme rules for tax relief, then PAYE and NICs will be due if the shares are RCAs. If the shares are non-RCAs then the Income Tax payable is to be included in the person’s Self Assessment tax return.

Company Share Option Plan (CSOP)
While a CSOP scheme remains approved, the gain made when a share option is exercised at least 3 years but not later than 10 years after the date it was granted, is generally exempt from PAYE and NICs liability.

If an approved option is assigned or released for cash or an RCA, then PAYE should be operated as for non-approved arrangements (see above).

No tax charge arises if the CSOP scheme allows for options to be exercised when employment ceases within three years of the date the options are granted for one of the following reasons:
• injury
• disability
• redundancy, and
• retirement.

Where Income Tax liability is due PAYE and NICs must be accounted for on any gain if the shares acquired are RCAs.

Save As You Earn (SAYE)
When a share option is exercised in accordance with the rules of an HMRC approved scheme at least 3 years after the date on which it was granted, or within 6 months of leaving employment by reason of injury, disability, redundancy or retirement. The gain is exempt from PAYE and NICs liability. If a taxable charge arises, any Income Tax payable is to be included in the employee’s Self Assessment tax return.

Enterprise Management Incentives (EMI)
There is no Income Tax or NICs liability on the grant of a qualifying EMI option. Income Tax and NICs liability may arise on the exercise of the EMI option if:
• the option price is less than market value of the shares when the option was granted
• the shares under option are free, or
• there is a disqualifying event.

PAYE and NICs liability must be accounted for on any gain if the shares acquired are RCAs. For more details about the tax rules that apply to EMI options please see the Employee Share Schemes Unit Manual.

Share Incentive Plans (SIP)
Shares acquired by employees under a SIP are generally
exempt from PAYE and NICs liability when awarded or withdrawn from the plan provided the shares have been held in the plan for five years. Shares that are RCAs and held for a shorter period may be subject to PAYE and NICs liability in some circumstances. If the shares are not RCAs and an Income Tax charge arises then the tax is to be included in the person’s Self Assessment tax return.

Restricted shares (conditional shares pre-16 April 2003)

Up to 16 April 2003
If a conditional share (one where the value is liable to forfeiture in whole or in part) was issued before 16 April 2003, then it remains within the old scheme of taxation on its full value (less anything already paid or charged to tax) when the forfeiture condition is lifted. PAYE and NICs should be operated accordingly (subject to the share being an RCA).

Conditional shares awarded before 9 April 1998 do not incur a further NICs charge when the conditions are lifted.

From 16 April 2003
Securities (including shares) are restricted if they are subject to forfeiture or have other restrictions which means that the market value of those securities is less, due to the restriction. If securities are subject to a forfeiture provision that lasts for less than five years then Income Tax will not arise at the time of acquisition unless an election has been entered into to disregard the restriction. PAYE and NICs should be operated accordingly (subject to the security being an RCA). If there is no election then Income Tax will arise at the time when the forfeiture condition ceases to apply and PAYE and NICs applied if securities are an RCA. For restricted securities without a forfeiture restriction, Income Tax will arise at the time of acquisition on the value of the securities taking into account the value of the restrictions. Further charges to Income Tax will arise when those restrictions are lifted. It is also possible to enter into an election to disregard the restrictions at the time of acquisition in order to avoid further charges to Income Tax. PAYE and NICs should be applied if securities are RCAs.

Special charges on employment-related securities

The following charges are subject to PAYE and NICs where the securities are RCAs.
- Chargeable events in relation to restricted securities.
- Chargeable events in relation to convertible securities.
- Charge on acquisition where market value of securities is artificially depressed.
- Charge where market value of securities is artificially enhanced.
- Charge on discharge of notional loan where securities are acquired for less than market value (but not the annual charge).
- Charge where securities are disposed of for more than market value.
- Chargeable benefits from securities.

Even if the securities are not RCAs, if the consideration takes the form of cash or an RCA then PAYE and NICs should be operated.

Securities and security options provided through third parties
There are new rules which may apply where arrangements use third parties to reward employees, including by way of securities and security options. See paragraph 166.

Employee Shareholder Scheme
The Employee Shareholder employment status came into effect from 1 September 2013 (although those who take advantage of the scheme will remain employed earners for NICs purposes). Employee Shareholders will have different employment rights to employee’s, and in consideration for their agreement to adopt this status they will be awarded by their employing company at least £2,000 worth of shares.

There are tax reliefs for Employee Shareholder shares, and these apply from 1 September 2013. Income Tax and NICs will usually not be chargeable on the first £2,000 of share value received by an Employee Shareholder. This is because the Employee Shareholder is deemed to have made a payment of £2,000 for the Employee Shareholder shares. If shares having a market value of less than £2,000 are acquired, on the first or only day that shares are acquired in consideration of an Employee Shareholder agreement, then the payment of £2,000 will not be deemed to have been made. The deemed payment by the employee only applies on the first occasion on which they acquire qualifying shares under an Employee Shareholder agreement.

For the Employee Shareholder agreement to have legal effect the employee must receive advice from a relevant legal adviser on the terms and effect of the Employee Shareholder agreement. The company is required to pay reasonable costs for that advice whether the individual accepts the job or not. When an employer funds the cost of independent legal advice received by a person considering an Employee Shareholder position, this will not be treated as a taxable benefit and there will be no Class 1A NICs liability. Also, payments to the individual to reimburse any reasonable costs of advice will not give rise to any income tax liability and will be disregarded in the calculation of earnings for the purposes of earnings related NICs.

Practical considerations on non-cash payments

PAYE and NICs on RCAs
Payment in the form of readily convertible assets must be included in gross pay for both PAYE and NICs purposes. The amount on which PAYE should be operated and NICs assessed is the amount of income which counts as employment income for Income Tax purposes. Include such notional payments in gross pay for the pay period the payment is deemed as paid. Work out PAYE in the normal way. If the employee is on a K code, ignore the 50 per cent overriding limit when calculating the PAYE due on the payment.

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

Recover from the employee the PAYE due on the non-cash payment by deducting it in the following way:
- first, from any net wages, salaries, commission, fees and so on paid at the same time as non-cash payment, even if this reduces the employee's pay to nil
- then from any later payments made in that pay period until the full amount of PAYE due on the non-cash payment has been recovered.

Any PAYE which you do not recover from the employee, must be made good by the employee within 90 days of receipt of the non-cash payment.

If the employee does not do this, then you must show the unrecovered amount as further remuneration on forms P9D and P11D after the end of the tax year.

162 Deducting NICs from certain non-cash payments

Where you make non-cash payments of earnings to an employee or an ex-employee you have the right to recover an employee's share of NICs from subsequent cash payments of earnings in the same tax year where an under-deduction occurred because there were not enough cash earnings.

When you recover such underpayments of NICs:
- you can only recover the employee's share of NICs in the same tax year from any further cash payments of earnings to the employee, and
- the amount recovered cannot exceed the contribution due on that further payment.

If non-cash payments of earnings are made and you could not deduct the employee's share of NICs because there were not enough cash earnings, if the payment:
- has been made by an intermediary, or
- comprises a beneficial interest in shares, or
- comprises of securities or an interest in securities, you
- have until the end of the tax year, following the one in which the non-cash payments of earnings were made, to recover the employee's share of NICs, and
- there is no limit on the amount that you can recover from subsequent earnings to recover the under-deduction.

Intermediary is defined as:
- a person acting on behalf of the employer and at the expense of the employer, or
- a person connected with him, or trustees holding property for any person who include, or class of persons which includes, the employee.

The rules do not affect your responsibility to account for NICs at the time payment is made.

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

PAYE payments are due by the 19th, or 22nd if paying electronically, of the month following the end of the tax month or quarter to which it relates.

You can pay quarterly if you estimate over the full tax year that your total payment will be, on average, less than £1,500 per month.

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

164 Recording a non-cash payment

Regardless of whether or not the employer has borne the PAYE and employee's share of NICs you must include the value of the non-cash payment of earnings with the related PAYE and NICs due, on your payroll records for the employee, Full Payment Submission (FPS) and P60 as appropriate.

If the employee leaves your employment during the year in which the non-cash payment of earnings was made, include the value of the asset and all PAYE due when updating the payroll information.

165 P9D/P11D

Readily convertible assets liable to PAYE should not be reported on forms P9D and P11D, but tax not recovered from the employee may need to be reported on form P9D or P11D, see paragraph 161.

166 Employment income provided through third parties (‘Disguised Remuneration’ rules)

Overview

The rules on employment income made available through third parties deal with arrangements which:
- involve third parties (including trusts or other vehicles used to reward employees), and
- attempt to avoid or delay payment of Income Tax.

These rules are sometimes called the “disguised remuneration” rules or the ‘Part 7A’ rules (which refers to the part of ITEPA 2003 where most of the law is located).

The law also deals with pension schemes which are not registered pension schemes.

Broadly speaking, if third party arrangements are used to make available what is in substance a reward or recognition, or a loan, in connection with the employee’s current, former, or future employment, then an Income Tax charge arises.

The rules contain detailed exclusions. These stop the law from catching certain arrangements. Generally the exclusions are targeted at arrangements which are not tax avoidance arrangements.

If the law applies, it deems an amount to count as employment income.

The amount that counts as employment income is specifically brought within the scope of PAYE.

Special rules deal with, for example, the interaction with the remittance basis.

General approach to whether a transaction is affected by the rules on employment income provided through third parties

Is there a third party involved?

This is a very important starting point in working out whether the rules on employment income through third parties (‘the Part 7A rules’) apply. If the employer is providing something directly to the employee, and there is no third party involved, then these rules will not apply.
There are three exceptions to this general rule.

- The rules can apply where the employer is acting as a trustee rather than as an employer.
- The rules can also apply as a result of steps taken by an employer when there is an agreement that contributions will be paid to a relevant third person comprising an unregistered pension arrangement.
- The rules can apply where the employee concerned is acting as a trustee instead of in their capacity as an employee or individual.

**If there is a third party, is it a group company?**

If the employer is a company that belongs to a group of companies, the Part 7A rules will not apply to payments and other items provided to the employee by other companies in that group.

This depends on four conditions.

1. The employer and the company in question must both be members of the group of companies at the time the relevant step is taken.
2. The test about membership of the same group must be satisfied.
   - To decide whether both companies are members of the same group, you apply the rules for Corporation Tax on chargeable gains (go to www.hmrc.gov.uk/manuals/cgmanual and look at CG54100 onwards of our Capital Gains Manual). However, there is one change. The chargeable gains test is a 75 per cent test.
   - But when you apply the test for under the rules on employment income through third parties, you change '75 per cent' to '51 per cent' throughout.
3. The group company must not be acting as a trustee.
4. The step taken by the group company must not be part of a tax avoidance arrangement.

In practice routine arrangements, where a group company provides employment-related benefits or other parts of the normal pay package, will fall outside the scope of the Part 7A rules and will continue to be taxed as before.

Similar rules apply if the employer is a limited liability partnership, which has a wholly-owned company that provides benefits or part of the pay package to employees of the limited liability partnership.

**What if a third party is involved in a transaction with your employees? Scope of Part 7A rules**

A person who counts as a third party following the rules outlined above is referred to as a ‘relevant third person’. When a relevant third person provides something to your employees, then the Part 7A rules may apply. The Part 7A rules will only apply if all of the following conditions are satisfied.

- There is an arrangement that is potentially within the scope of the Part 7A rules in the first place (an arrangement to provide your employee - or former or prospective employee - with rewards, recognition or loans in connection with the employment).
- A relevant third person has taken a defined ‘relevant step’. (Note: not all transactions count as ‘relevant steps’ under Part 7A. For example, normal temporary provision of use of an asset available that is provided as an employment benefit, such as a company car, would not count as a relevant step).
- The step is connected with the arrangement in question.

However, you still need to work out if the transaction is specifically excluded from the application of the rules.

**Specific exclusions from the Part 7A rules**

If an arrangement has met the tests for potentially coming within the scope of the Part 7A rules, that does not necessarily mean that it has given rise to Part 7A income. There are a number of specific exclusions that cut down the scope of Part 7A considerably. Check carefully to see if at least one of the exclusions applies.

The exclusions cover a range of circumstances including:

- relevant steps taken ‘under’ or ‘for the purpose of’ tax-advantaged share schemes
- relevant steps taken under a registered pension scheme
- commercial transactions where the relevant third person is simply providing your employees with something that they provide on the same terms to members of the public in the ordinary course of their business
- certain transactions carried out as part of employee benefit packages
- certain transactions relating to deferred pay and share plan arrangements
- Employee Car Ownership Schemes.

Generally these exclusions are subject to specified conditions.

**Part 7A income**

If the step in question has met the test for coming within the scope of Part 7A and is not covered by any of the exclusions, then it will give rise to Part 7A income.

The Part 7A income:

- counts as employment income of the employee, and
- is deemed to be PAYE income paid by the employer.

The general rule is that the amount of the Part 7A income will be the value of the relevant step. But there are rules which in certain circumstances will adjust this value, possibly down to nil.

Where an amount is deemed to be PAYE income paid by the employer, apply the guidance on practical considerations on non-cash payments at paragraph 160 onwards.

Employment income provided through third parties ('Disguised Remuneration' rules) for NICs purposes.

Regulations to reflect the equivalent tax changes described in paragraph 166 apply where the arrangements attempt to avoid, reduce or delay payment of NICs.

Where a payment is made through third party arrangements (such as through an Employee Benefit Trust) consider whether the payment is earnings under ordinary rules before applying the disguised remuneration rules. Where the payment is not earnings and it is treated as employment income for income tax purposes under the disguised remuneration rules set out in paragraph 166, it is treated as earnings for Class 1 NICs purposes.

If the disguised remuneration rules treat an amount as earnings, the amount of earnings should be included in gross pay for Class 1 NICs purposes, on the date the relevant step is taken, as set out in paragraph 166.

So, for example, if a loan is made to an employee, the date the loan is made to the employee, is the date the earnings are paid.

If:
- there is an amount treated as earnings under the Part 7A rules, (for example, the value of a loan), and
- at some later date some or all of that amount is a payment of earnings for NICs purposes, for example because the employee is not required to repay the loan NICs are not due on the amount already included in gross pay when it was treated as earnings under the Part 7A rules. But if the amount that is earnings is more than the amount treated as earnings under the Part 7A rules, the extra amount should be included in gross pay for NICs purposes.

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‘Golden hello’

Goods or services, at less than cost

Gratuities, tips and service charges

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Gross pay

Guarantee payments

Gross pay

Change of

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