



## Pay As You Earn (PAYE) update

We take a look at developments in Pay As You Earn since our last Active Practice Update on this topic.



### Real Time Information (RTI)

Between April and October 2013, almost all employers must make the switch to submitting their PAYE returns using RTI. This applies even to the smallest employers. RTI usually means that PAYE information must be reported to HM Revenue & Customs (HMRC) 'on or before' the point the payment is made.

RTI means that you must submit a full breakdown of your payroll every time you run the payroll. This is usually completed automatically by the payroll software.

Employers who must comply with RTI should have received a letter from HMRC setting out the requirements.

In recent months, some further details have emerged about RTI:

- A new system of penalties is to be introduced for non or late compliance. This will not apply until the 2014/15 tax year, but you should establish all necessary disciplines before then. Other penalties still apply for late payments or returns.
- The P38(S) student declaration system can no longer be used from 6 April 2013. This

allowed students who worked only in the main vacations and earned less than the annual personal allowance not to have tax deducted at source. Now they will have tax deducted and may be able to claim it back after the year-end.

- HMRC has confirmed that expatriate employees must have their PAYE accounted for under RTI. This applies even where the payment comprises solely of an annual bonus. There are some practical issues in operating RTI for expatriate employees on which we can advise.



Talk to us about preparing for RTI.

### Pensions

From 6 April 2014, the annual limit for pension tax relief reduces from £50,000 to £40,000. The lifetime limit reduces from £1.5 million to £1.25 million.

Any excess in the value of your pension benefits over the lifetime allowance is subject to a 25 per cent rate if taken as taxable pension or a 55 per cent rate if taken as a lump sum.

For employees in occupational schemes, these limits include the employer's contributions. In a final salary pension scheme, a pay rise as small as £3,000 a year could exceed this lower annual limit. For those who have already built up large pension funds it may be possible to apply for fixed protection which, subject to certain conditions, could allow you to preserve a higher lifetime allowance.

In a more wide-ranging review of pensions, it is planned to introduce a new single-tier state pension from 2016. One of the changes involved includes ending the contracted-out rebate for national insurance on defined benefit occupational pension schemes. Affected employees and their employers will pay more national insurance.

The change will also end the state second pension.



## Income tax rates

The personal allowance will increase to £9,440 from 6 April 2013. It was announced in Budget 2013 that the personal allowance will increase again in 2014 to the Government's stated target of £10,000.

Against this, the basic rate band is again being reduced. This means that more employees will find themselves paying the higher rate tax.

From 6 April 2013, the additional rate of tax is reduced from 50 per cent to 45 per cent. Such employees who receive childcare vouchers may now receive up to £25 a week tax-free instead of £22.

## Residence

A new statutory test of residence is introduced from 6 April 2013. This is designed to introduce some certainty into an area where significant amounts of tax can be involved.

The test has three parts:

1. First you consider some tests to see if a person is automatically regarded as non-resident.
2. If this is not conclusive, you next consider further tests to see if the person is automatically resident.
3. If neither result is conclusive, you should then consider how many UK 'ties' apply to the person and the number of days the person spent in the UK.

There are tables that determine how many factors must be met for the various bands of UK presence, which will subsequently establish your UK residence status.

The concept of 'ordinary residence' is abolished, but overseas workday relief is retained.

HMRC has published detailed guidance on this subject. We can advise on how these provisions apply to your workforce.

## Company cars and fuel

From 6 April 2013, there are increases in the percentages used to calculate the tax charge for company cars.

There is an increase in the car fuel multiplier from £20,200 to £21,100.

These increases can mean that many employees will be better off not having a company car but being paid more in salary. We can advise on this.

The taxation of company cars and fuel benefit uses a percentage based on the car's carbon dioxide emissions.

From 6 April 2013, the company van fuel benefit charge will also increase from £550 to £564.

## Employee benefits

The Government plans a package of measures to simplify tax-advantaged share schemes for employees. Some measures have already been enacted. In particular, the provisions for the Enterprise Management Incentive (EMI) scheme have been relaxed.

Luncheon vouchers lose their 15p a day tax relief from 6 April 2013 (postponed by one year). This rate has been unchanged since 1948.

The Office of Tax Simplification is considering a review of employee benefits, including abolishing some small reliefs and trying to bring PAYE and national insurance rules closer together.

## Payroll giving

Payroll giving allows employees to make donations to charity through the payroll. Currently only two per cent of employers offer such a scheme. The Government has announced a package of measures designed to simplify the administration of the scheme to encourage greater use.

## Statutory sick pay (SSP)

Two changes are planned for SSP:

1. First, the government will discontinue refunds where SSP paid exceeds 13 per cent of national insurance.
2. Second, a new advisory service is planned in respect of employees who are off work sick for more than four weeks. The service is to be introduced from April 2014 with a view to getting employees back to work sooner.

## New category of attachment

A new category of attachment order is being introduced to recover debts. The Direct Earnings Attachment (DEA) allows the Department for Work and Pensions to require employers to make deductions from their employees' earnings.

The DEA is being tested in pilot schemes during 2013/14 with a view to being adopted nationally from 2014.

## New category of employment

The government is introducing a new category of employee shareholder. Such employees must be given shares which attract some tax reliefs. However the employees will lose some of their employment rights.

## Other matters

HMRC is only accepting PAYE payments at Cumbernauld for tax months from April 2013. Employers who currently make payments to Shipley should change for the new tax year.

In a similar vein, HMRC stresses the importance of entering the correct account number on forms submitted to them. Forms which do not set out the number correctly, such as by incorrect use of spaces, risk rejection.



Talk to us about how these changes to the PAYE system affect you.