

Members: Mrs B S Blakey FCA, J Q Bury FCA, D J Robertson FCA, R G Robinson FCA, D R Shawcross FCA, N P Upton FCA

Associates: J Dale ACCA, A Dewing FCCA, ACA, Ms P Robinson FCCA, ACA, Mrs H Wilson ACA

Anderson Barrowcliff Limited Liability Partnership - Registered No. OC334152 (England and Wales)

Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

Employer update 2014

It has been a momentous year in the world of PAYE. In the biggest change to the PAYE system since its inception, Real Time Information (RTI) has been implemented without too many glitches. HMRC have operated a 'light touch' in this first full year, with no penalties for late filing, but there are a few points to note.

RTI update for the small employer

HMRC are aware that some small employers may not have been fully ready for RTI and so created some short-term flexibility in the system.

During 2013/14 an existing business with less than 50 employees, who have found it difficult to report every payment made to employees at the time of the payment, have been allowed to send information to HMRC by the date of their regular payroll run but no later than the end of the tax month. To quote HMRC:

'This is a temporary relaxation to give some extra time to small businesses that pay weekly (or more frequently) but who only run their payroll (or use an agent to run their payroll) at the end of the month.'

However, HMRC are clear that this will come to an end from April 2014 unless an existing employer has nine or fewer employees and they still need more time to adapt. These micro businesses will be able to report PAYE information on or before the last payday in the tax month until April 2016, so if you have any problems or concerns please get in touch with us as soon as possible.

Irregular payments

As detailed above, one of the main issues with RTI is that payments to employees must be reported to HMRC on or before the date of payment. A slightly different piece

of law, not to be confused with the above, also allows a relaxation to the 'on or before' rule for any employer. Broadly this applies where payments:

- are made to employees for work done on the day of payment before they leave the place of work
- it was not reasonably practicable to calculate the payment due before the completion of the work and
- it was not reasonably practicable for it to be reported 'on or before' the time of payment.

In this situation details must be sent to HMRC within seven days of the day on which the payment was made. There are some other further limited exceptions to the 'on or before' payment rule. We will be happy to discuss whether any of these situations could apply to you.

RTI penalties

HMRC have stated that there will be no penalties for late filed RTI returns for 2013/14 provided that the employer reports the final payments made to employees by 19 May 2014.

However, the gloves may well be off from April 2014. Changes in tax law this year allow HMRC to impose late filing penalties on a monthly basis for each PAYE scheme where an employer fails in a given month to

make a return on or before the filing date. The first tax month of failure will be ignored with the exception of an employer operating an annual scheme. The draft Regulations sets the level of penalties by reference to the number of employees and/or the number of previous penalties for late filing incurred in the same tax year. This means that where returns are required monthly due to employees being paid at least monthly, late returns could result in eleven penalties!

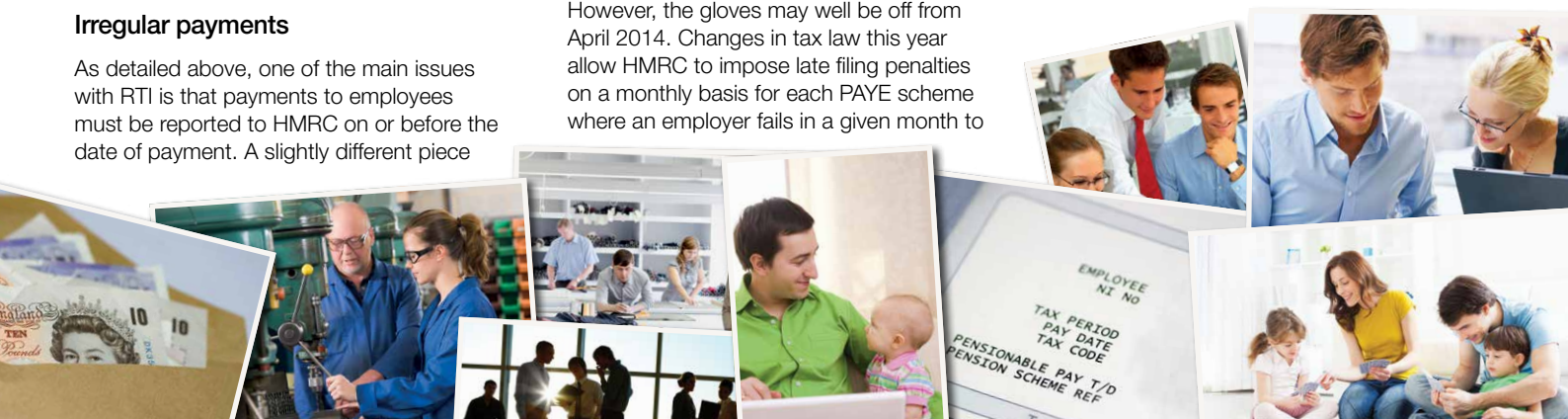
The penalty levels proposed are:

- £100 for schemes with 1 – 9 employees
- £200 for schemes with 10 – 49 employees
- £300 for schemes with 50 – 249 employees and
- £400 for schemes with 250 or more employees.

As can be seen, there is still lots to think about, so please get in touch with us if you require help with your PAYE system.

Benefit-in-kind changes ahead

The benefit-in-kind rules do not change very often but there are two changes ahead which are worth noting.



Loans

The first is the exemption from the rules on interest free/low interest loans. There is a minimum trigger. Broadly, where the total outstanding balances on all employer provided loans do not exceed £5,000 at any time in the tax year there is no tax charge. From 6 April 2014 this will be increased to £10,000. Certain qualifying loans are also exempt from the charge. Please contact us for further information.

Childcare

In a change which may have a broader impact, the Government are proposing a change to the rules on childcare. In simple terms, for many years there has been an exemption from tax and National Insurance contributions (NIC) for certain forms of employer-provided childcare and childcare vouchers of £55 per week. Changes in more recent years limit the tax relief available for higher earners.

It appears that these older forms of tax and NIC relief will be replaced by Tax-Free Childcare, which will operate in a different manner altogether:

- the Government will provide 20% of working families' childcare costs, subject to an annual tax limit of £1,200 (£6,000 x 20% cost) per child
- parents will register with a voucher provider and open an online account and the Government will then match payments into this account with 20p for every 80p that families pay in, subject to the above limit
- households in which all parents work but do not receive support through tax credits will be eligible for Tax-Free Childcare as long as neither parent is an additional rate taxpayer and
- Tax-Free Childcare will be phased in from autumn 2015. In the first year of operation, all children up to age five, and disabled children under the age of 17 will be eligible. Scheme eligibility will increase by one year, each year, until all children under 12 are eligible.

Over this period, existing Employer-Supported Childcare will be phased out. This appears to mean that the current tax and NIC advantages for such childcare may be removed, so employers which currently offer childcare vouchers or directly contracted childcare will have to consider what they wish to do in the future. The provision of a workplace nursery is unaffected by the proposals. Of course, we will keep you informed as more details become available.

The £2,000 employment allowance

The Government has announced that it will introduce an allowance of up to £2,000 per year for many employers to be offset against their employer Class 1 NIC liability from 6 April 2014.

There are some exceptions for certain Class 1 liabilities which include liabilities arising from:

- a person who is employed (wholly or partly) for purposes connected with the employer's personal, family or household affairs and
- employer NIC contributions deemed to arise under IR35 for personal service companies.

There are also rules to limit the employment allowance to a total of £2,000 where there are 'connected' employers. An example of a connected employer would be where one company controls the other company. If you consider this may be relevant to you please contact us for further guidance.

The allowance is limited to the actual employer Class 1 NIC liability. If that is less than £2,000, it is not deductible against PAYE liabilities or the NIC the employer has deducted from the employee.

Draft arrangements have recently been published detailing how an employer can claim and receive the allowance. This will first involve the employer giving notice to HMRC of the PAYE scheme from which the deductions are to be made. The employer's payment of PAYE and NIC will then be reduced each month to the extent that it includes an employer Class 1 NIC liability until the £2,000 allowance limit has

been reached. This will be achieved through the activation of an employment allowance indicator within payroll software or the HMRC Basic PAYE Tools package.

What's in a code?

The PAYE tax code determines the amount of tax that HMRC deduct from an employees' pay each month. The idea behind the system is that the correct coding should result in approximately the right amount of tax being deducted from the pay over the tax year.

Codes from 2014/15

From April 2014 the personal allowance is set to increase to £10,000 which means for the majority of individuals, with straightforward affairs, their tax code should increase from 944L to 1000L.

However, the tax coding can also be used to collect tax on benefits, underpaid tax from earlier years, the new High Income Child Benefit Charge and tax due on untaxed income.

Unpaid tax – latest developments

The Government has been consulting on reforming HMRC's ability to collect debts via the tax code. The current limit of £3,000 per year will be replaced with a graduated scale introducing higher limits for those with higher earnings, up to a £17,000 limit for those earning £90,000 or more.

The High Income Child Benefit Charge

The charge has applied since 7 January 2013 where child benefit is claimed and there is a higher earner in the household (with income in excess of £50,000). HMRC can collect the charge via a coding notice deduction.

As you can see for some individuals, the code may contain a number of adjustments so it is important that the employee, or their advisor, checks the code to ensure that the correct amount of tax is collected.

Costly Sick Pay

The Percentage Threshold Scheme (PTS), which allows employers to reclaim Statutory Sick Pay in certain circumstances, is abolished from 6 April 2014.

Under PTS an employer has been able to reclaim SSP where the SSP paid is more than 13% of the gross employer's and employees Class 1 NIC for the month. Employers are not entitled to recover any of the SSP paid to their employees unless they qualify for the reimbursement scheme.

From 6 April 2014 employers will be unable to recover SSP. However, employers will be able to make late claims for earlier periods, for example where they were unaware they were entitled to claim a refund.

Example	
Aitchoo Limited has a number of employees on sick leave in March 2014. The payroll information shows:	
Gross NIC £3,704.29 x 13% =	£481.56
SSP paid =	£693.60
SSP recoverable =	£212.04
If for April 2014 Aitchoo Ltd has the same NIC bill and SSP paid no recovery will be due!	

The Government has announced that the current PTS funding will be moved into a new scheme to help employees who have been incapacitated for four weeks or more, get back to work. This scheme is expected to be available later this year.

Please contact us if you require any further information or advice.