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Happy New (Tax) Year Payroll Changes

With the new tax year fast approaching, it is important to ensure that your employer clients are ready for the changes to come. There are potential penalties for failing to complete the year end procedures on time. Also take care that the employer is still eligible to claim the Employment Allowance.

Minimum wage rates increase from 1 April and new tax codes and income tax bands taking effect from 6 April there is lots to get to grips with. For 2017/18 the Scottish Parliament has also set different income tax bands to those applying in the rest of the UK.

The Apprenticeship Levy and the new rules on apprenticeship funding mean that employers may want to consider taking on new apprentices. Tax-free childcare is to be rolled out from the end of April 2017 with eligible parents being asked whether they want to make the switch from the current employer supported childcare (normally salary sacrifice for childcare vouchers).

Make sure both you and your clients are aware of the changes ahead. Here we consider six things that employers, or those processing their payroll, need to be aware of.

Tax year end FPS and P11Ds

It is time to make the final Full Payment Submission (FPS) or Employer Payment Summary (EPS) of the tax year.

Employers need to send their last FPS of the year on or before their employees' last payday for the tax year. They also need to put 'Yes' in the 'Final submission for the year' field. This tells HMRC that this is the final payroll for the tax year ending 5 April 2017.

Some commercial payroll software does not allow the 'Yes' indicator on an FPS. If this is the case then send the last FPS and then send an EPS with the indicator ticked.

Employers can also send an EPS with the indicator ticked to report the payroll is final if no employees are paid in the final pay period of the tax year.

Employers also need to give their employees a P60 if they are still in their employment on 5 April 2017 (by 31 May 2017).

Correcting errors

If you notice an error on an FPS, these can be corrected by sending another FPS (up to 19 April). HMRC advise employers to use the late reporting reason code H (if you need to make a correction to a previous submission where the payment date on the FPS is earlier than the date you submit the latest FPS).

If you notice the mistake after 19 April you still need to correct it, but you will have to use an Earlier Year Update.

April 2017 electronic payment deadline falls on a weekend

In April the electronic payment deadline of the 22nd falls on a Saturday.

To make sure the payment for that month reaches HMRC on time, an employer needs to have cleared funds in HMRC's account by Friday 21st unless they are able to arrange a Faster Payment to clear on the payment deadline.

Penalties apply for failing to make the returns and payments on time.

Reporting expenses and benefits

Employers also need to report details of any expenses, which fall outside the exemption introduced from 6 April 2016, and benefits provided to employees during the tax year ending 5 April 2017.

Employers who are payrolling expenses and benefits should complete:

- forms P11D for any benefits not payrolled
- form P11D(b) to report the Class 1A NICs due on all benefits (including the payrolled ones).

Employers will also need to provide employees with details of the benefits that have been payrolled, advising them the amount of the benefit.

Where an employer is not payrolling expenses and benefits complete:

- forms P11D for all benefits (and give copies to employees)
- form P11D(b).

Where an employer has a reminder to send a P11D/P11D(b) but they did not provide any benefits, you can either:

- submit a 'nil' return
- complete the '2016/17 Employer – No return of Class 1A' form (available from 6 April 2017).

Avoiding a penalty

The deadline for filing your expenses and benefits reports is the 6 July 2017. If you file late you may receive late filing penalties.

NMW and NLW rates update

Employers need to ensure they are paying their employees at least the appropriate National Minimum Wage (NMW) or National Living Wage (NLW) rate. The rates increase from 1 April 2017.

	From 1 October 2016	From 1 April 2017
NLW rate for workers aged 25 and over	£7.20*	£7.50
the main rate for workers aged 21-24	£6.95	£7.05
the 18-20 rate	£5.55	£5.60
the 16-17 rate for workers above school leaving age but under 18	£4.00	£4.05
the apprentice rate **	£3.40	£3.50

* introduced and applies from 1 April 2016

**for apprentices under 19 or 19 or over and in the first year of their apprenticeship

Going forward the NMW and NLW rates will be reviewed annually in April.

HMRC cite common errors:

- not paying the right rate, perhaps missing an employee's birthday
- making deductions from wages which reduce the employee's pay below the NMW/NLW rate
- including top ups to pay that do not qualify for NMW/NLW
- failure to classify workers correctly, so treating them as interns, volunteers or self employed and
- failure to include all the time a worker is working, for example time spent 'shutting up shop' or waiting to clear security.

What are the penalties for non-compliance?

The penalties imposed on employers that are in breach of the minimum wage legislation are 200% of arrears owed to workers. The maximum penalty is £20,000 per worker. The penalty is reduced by 50% if the unpaid wages and the penalty are paid within 14 days. HMRC also name and shame employers who are penalised.

Apprenticeship Levy

From April 2017 a new charge will apply to some employers, the Apprenticeship Levy. The Levy will generally only impact on large employers with an annual 'pay bill' in excess of £3 million. Although the Levy is 0.5% of the pay bill there is an annual allowance to offset against the amount due of £15,000.

Pay bill means the total earnings upon which Class 1 employer National Insurance contributions (NIC) are calculated. The Levy will not be charged on other payments for employees such as benefits.

Calculations of any Levy liability need to be reported, via RTI, within 14 days of the end of each tax month, and generally paid by 22nd following the tax month if paying electronically.

The calculation is done on a cumulative basis for the year giving a proportion of the £15,000 annual allowance for each tax month. There will only be a need to report the Levy if the employer had a pay bill of £3 million in the previous tax year, or considers that the pay bill will be over £3 million in the current tax year. So most employers will not only have no liability to pay the Levy there will also be no reporting requirements.

Connected employers and charities

Some employers, who are connected will have to share the levy allowance of £15,000 and therefore may be liable on payrolls with a paybill of less than £3 million. The connection rules follow those criteria used for sharing the Employment Allowance.

Also check whether the payroll software requires employers to claim the levy allowance. This claim may be needed to ensure that any levy due is calculated correctly.

Although many employers will not pay the Levy, there will be significant additional amounts available for the funding of apprenticeships for all employers. The government estimates the Levy will raise £2.7 billion in 2017/18. Of this, Scotland is expected to receive £221 million, Wales £128 million, Northern Ireland £76 million with the balance going to England.

The UK government has issued the policy for the funding of apprenticeships in England, which will apply for new apprenticeships started from 1 May 2017. Employers in other parts of the UK will be paying the Levy but each devolved government will be drawing up their own policy.

For more details on the Apprenticeship Levy and to advise your clients of the changes and the changes to funding in England see our letter and blog.

Changes in tax codes

The personal allowance for the tax year starting 6 April 2017 will be increased to £11,500 and the tax code for emergency use will be 1150L. As a result there will be a general uplift of tax codes with suffix 'L' of 50. HMRC will also issue individual tax codes for the tax year starting 6 April 2017 for some employees and employers should have received these by the end of March 2017. Full instructions on what to do for both employees with or without a tax code can be found on form P9X(2017). The general uplifts to tax code are as follows:

- add 50 to any tax code ending in L, for example 1100L becomes 1150L
- add 55 to any tax code ending in M
- add 45 to any tax code ending in N.

The Scottish rate of income tax was implemented on 6 April 2016 and the Scottish Parliament have set Scottish income tax bands for 2017/18 for Scottish residents. Scottish resident taxpayers should have an 'S' tax code (based on the taxpayer's home address that HMRC hold on their system). Where employees have moved home recently they should be advised to tell HMRC their new address. This can be done online at **www.gov.uk/tell-hmrc-change-of-details** or through their Personal Tax Account. Making sure the address is up to date is important as from 6 April Scottish resident taxpayers who pay tax at above the basic rate will pay more income tax than taxpayers in the rest of the UK due to the lower amount of the basic rate band available.

Rate	2016/17 (£)	2017/18 Rest of UK (£)	2017/18 Scotland (£)
20%	0 - 32,000	0 - 33,500	0 - 31,500
40%	32,001 - 150,000	33,501 - 150,000	31,501 - 150,000
45%	Over 150,000	Over 150,000	Over 150,000

Tax-Free Childcare rollout from 28 April 2017

Tax-Free Childcare, the new government scheme to help working parents with the cost of childcare, will be launched from 28 April 2017.

For every £8 a parent pays in, the government will pay in an extra £2. Parents can receive up to £2,000 per child, per year, towards their childcare costs making a total amount of £10,000. Higher limits of £4,000 and £20,000 apply for disabled children.

To qualify for Tax-Free Childcare all parents in the household must generally meet a minimum income level, based on working 16 hours a week (on average £120 a week) and each earn less than £100,000 a year.

The scheme will be available for children up to the age of 12, or 17 for children with disabilities. All eligible parents will be able to join the scheme by the end of 2017. Parents will be able to apply for all their children at the same time although the government rollout will start with the youngest children first. Parents will need to open an online account, which they can use to pay for childcare (from a registered provider).

A calculator is available on GOV.UK so that parents can check their eligibility for the new scheme and other government provided childcare available at **https://www.childcarechoices.gov.uk/**

For those employers who currently offer Employer Supported Childcare, usually in the form of childcare vouchers, these schemes can remain open to new entrants until April 2018. Existing members will have the option to remain in their existing scheme or change over to Tax-Free childcare as their child becomes eligible.

Employment Allowance restriction

From 6 April 2016, limited companies where the sole director is the only employee paid earnings above the Secondary Threshold (ST) for Class 1 NICs of £156 a week (for 2016/17), are no longer able to claim the Employment Allowance of up to £3,000.

The company is no longer eligible for the allowance if:

- only one employee (or director) in the limited company is paid above the ST
- that employee is a director of the limited company.

Companies with several employees, where the director is the only employee paid above the ST, are no longer eligible for the Employment Allowance.

Review whether your clients are still eligible as the guidance on this issue was unclear at the start of 2016/17.

For more details on the eligibility for Employment Allowance visit **https://www.gov.uk/government/publications/employment-allowance-more-detailed-guidance**

You may be interested in.....

Online Training and Client Letter

One hour Specialist Webinar - an update of key issues in Payroll, some of which are covered in this download.

Client letter on Apprenticeship Levy and Apprenticeship Funding.