Guide to Legislation Changes

April 2016

Contents

Dear Customer

All standard rates and parameters for Tax/NI/Statutory Payments/Pensions etc. have been updated in the payroll software for the 2016 – 2017 tax year.

Click **here** to view/print the **Legislation Fact Sheet for 2016 - 2017**

This guide details other legislation resulting in changes to the payroll software. For details of how these will be applied, please see your Release Notes.

Tax

Scottish Rate of Income Tax (SRIT)

The Scottish Rate of Income Tax (SRIT) is a new power introduced in the Scotland Act 2012, allowing the Scottish Parliament to alter the amount of income tax paid by Scottish taxpayers. It will be administered by HMRC as part of the UK-wide income tax system and applied to the non-savings income of those defined as Scottish taxpayers.

The Scottish Parliament will be able to set the rates of income tax lower, higher or the same as the rates that apply in the rest of the UK. If they set a different rate, it will apply to all the main income tax rates – the basic rate, the higher rate and the additional rate.

The SRIT will be calculated by reducing basic, higher and additional income tax rates by 10p in the pound and adding the new SRIT. It will apply for full tax years and will be based on the employee's main place of residence.

The definition of a Scottish taxpayer is based on where the individual lives; a Scottish taxpayer is someone who is resident in the UK for tax purposes and:

- Has their main place of residence in Scotland for the greater part of the tax year, **or** (if they cannot identify a main place of residence)
- Spends more days in Scotland than in the rest of the UK in the tax year, **or**
- Is a Scottish Parliamentarian

HMRC will tell employers whom they should treat as a Scottish taxpayer by allocating them a tax code with a prefix letter S, that is, a Scottish Tax Regime Indicator. From April 2016 all residents of Scotland will be identified with a Regime Indicator and be subject to potential new rates and parameters for their tax calculation. The current proposal is that new starters will default to a UK tax code where no P45 is supplied, however this is under review.

The Scottish portion of tax deducted need not be reported separately under RTI or on P60s.

National Insurance

Employers NI for under 25 Apprentices

From April 2016 employers will not be required to pay Class1 secondary NICs on earnings up to a new Apprentice Upper Secondary Threshold (AUST) for apprentices under the age of 25. The new NI letter 'H' has been introduced to cater for this. Employees will still be required to pay NI.

Removal of COSR NI Rates

The government is abolishing contracted-out workplace pension schemes with effect from April 2016. As a result, NI letters D, E, L, I and K will be removed from use, as will SCON and ECON numbers. The earnings bands used in the NI calculation will no longer include the Upper Accrual Point.

When changing tax years from 2015 – 2016 to 2016 – 2017 any employees on COSR NI letters will be moved automatically as follows:

2015 – 2016 COSR NI Letter	2016 – 2017 Equivalent NI Letter
D – Contracted Out	A - Normal
E – Reduced Contracted Out	B - Reduced
L – Contracted Out Deferral	J - Deferral
I – Under 21 Contracted Out	M – Under 21
K – Under 21 Contracted Out Deferral	Z – Under 21 Deferral

Deferral NI Rates

The only deferral rates in use from 2016 - 2017 are J and Z (under 21). All others are no longer in use due to the removal of contracted out pension schemes.

An employee on a deferral NI rate must spend the whole tax year on that rate; the only exception is when an employee becomes a pensioner in the year and changes from J to C.

Statutory Payments

Additional Statutory Paternity Pay

Additional Statutory Paternity Pay ceased being payable to employees where the baby due or placement date was before 5 April 2014. It continued to be payable in 2015 - 2016 for those who had already qualified, but will not be paid in tax year 2016 – 2017. It has now been completely removed from the payroll software.

Student Loans

New Student Loan deduction type

Income Contingent Repayment Plan Type 2

This is in addition to the existing student loan repayment (now known as Plan 1) and is for:

- Loans taken out by students whose home address was in England or Wales and their university or higher education course started 01 September 2012 or later

Or

- The new 24+ Advanced Learning Loans available for mature students in England

The repayment threshold for these Loans is £21,000.

Student loan deductions can only be made on one plan type at any time and can change between plan types in-year. Employees with both plans will complete repayment of one before repayment of the subsequent one begins.

SL1 and SL2 forms will change to support the new Plan Type 2 student loan deductions from April 2016.

Student Loan Threshold Increasing

The threshold for the original Student Loan deduction (now Plan Type 1) is increasing to £17495.

RTI Changes

Full Payment Submission changes

The new schema has been added to the payroll software for the 2016 – 2017 tax year.

Changes include:

- Flexible Pension Rights
    - From April 2015 people aged 55 and above have been allowed to access their money purchase pension savings as they wish. This can be reported via RTI in your payroll software in 2016 – 2017
- Pension Death Benefit
    - Some death benefits will now be tax-free and from April 2016 certain pension lump sum death benefits will be taxed at the recipient's marginal rate of tax rather than the current 45% flat rate. From April 2016 these payments will be reported via RTI in your payroll software
- SCON, ECON and NI Letters D, E, L, I, K removed
- NI Letter H added
- Scottish Tax Regime
- For tax year 2015 - 2016 the Questions and Declarations section of the FPS will be disabled, and instead carry text indicating that these are no longer required by HMRC. This warning, and the Questions and Declarations section, will be removed for the 2016 – 2017 tax year

Employer Payment Summary changes

The Employer Payment Summary (EPS) has been updated to match the 2016 – 2017 schema.

For tax year 2015 - 2016 the Questions and Declarations section of the EPS will be disabled, and instead carry text indicating that these are no longer required by HMRC. This warning, and the Questions and Declarations section, will be removed for the 2016 – 2017 tax year.

Earlier Year Update changes

The new schema has been added to the payroll software for any Earlier Year Update (EYU) submissions for tax year 2015 - 2016. Any EYU submissions made for 2014/2015 tax year will use the current schema.

Pensions

Re-enrolment

The process of automatically putting workers back into pensions is known as 'automatic re-enrolment'. Re-enrolment occurs approximately three years after staging and then every three years after that. At the re-enrolment date automatic enrolment assessment will occur for all the employees that previously opted out or ceased contributions more than a year before the re-enrolment date. The only difference to auto enrolment is that re-enrolment cannot be postponed.

For re-enrolment a new letter type L1R will be published to the IRIS OpenEnrol element of the IRIS AE Suite™.

Other Legislative changes

Direct Earnings Attachments (DEAs)

Direct Earnings Attachments (DEAs) are notices issued to employers, by the Department of Work and Pensions, requiring them to make deductions from an employee's pay to recover outstanding debts to DWP. In 2015, Government decided that where an overpayment is a result of fraudulent activity, the debt should be recovered at a higher rate than those arising due to genuine mistakes.

The new regulations include four tables, rather than the current two. The notice issued will make it clear which table to use. It is anticipated that the number of higher rate cases will not be greater than 1% of total DEAs issued.

The payroll software will include a new Higher DEA deduction allowing you to apply the higher rates.

New Higher Rate DEA Tables

Weekly Pay Frequency

Amount of NET Earnings	Deduction (% Of NET Earnings)
£100 or less	5
Exceeding £100 but not exceeding £160	6
Exceeding £160 but not exceeding £220	10
Exceeding £220 but not exceeding £270	14
Exceeding £270 but not exceeding £375	22
Exceeding £375 but not exceeding £520	30
Exceeding £520	40

Monthly Pay Frequency

Amount of NET Earnings	Deduction (% Of NET Earnings)
£430 or less	5
Exceeding £430 but not exceeding £690	6
Exceeding £690 but not exceeding £950	10
Exceeding £950 but not exceeding £1160	14
Exceeding £1160 but not exceeding £1615	22
Exceeding £1615 but not exceeding £2240	30
Exceeding £2240	40

Increase Employment Allowance to £3000

Employment Allowance was introduced in tax year 2014 - 2015 and allows employers to offset up to £2000 per year of their Employer's NI against their liability to the HMRC at the end of each month. The maximum amount of Employment Allowance is increasing to £3000 per year from April 2016.

Flexibly Accessing Pension Rights and Pension Death Benefit

From April 2015 people aged 55 and above have been allowed to access their money purchase pension savings as they wish.

The inclusion of this data item in Full Payment Submission (FPS) will become mandatory from 2016/2017.

There have also been changes to how death benefits are paid and taxed. In particular, some death benefits will now be tax-free and from April 2016 certain pension lump sum death benefits will be taxed at the recipient's marginal rate of tax rather than the current 45% flat rate.

Additional Software and Services Available

IRIS AE Suite™

The IRIS AE Suite™ works seamlessly with all IRIS payrolls to easily manage auto enrolment. It will assess employees as part of your payroll run, deduct the necessary contributions, produce files in the right format for your pension provider* and generate the necessary employee communications.

IRIS OpenPayslips

Instantly publish electronic payslips to a secure portal which employees can access from their mobile phone, tablet or PC. IRIS OpenPayslips cuts payslip distribution time to zero and is included as standard with the IRIS AE Suite™.

IRIS Auto Enrolment Training Seminars

Choose from a range of IRIS training seminars to ensure you understand both auto enrolment legislation and how to implement it within your IRIS software.

Useful numbers

HMRC online service helpdesk	HMRC employer helpline
Tel: 0300 200 3600	Tel: 0300 200 3200
Fax: 0844 366 7828	Tel: 0300 200 3211 (new business)
Email: helpdesk@ir-efile.gov.uk	

Contact Sales (including stationery sales)

For IRIS Payrolls	For Earnie Payrolls
Tel: 0844 815 5700	Tel: 0844 815 5677
Email: sales@iris.co.uk	Email: earniesales@iris.co.uk

Contact support

Your Product	Phone	E-mail
IRIS PAYE-Master	0844 815 5661	payroll@iris.co.uk
IRIS Payroll Business	0844 815 5661	ipsupport@iris.co.uk
IRIS Bureau Payroll	0844 815 5661	ipsupport@iris.co.uk
IRIS Payroll Professional	0844 815 5671	payrollpro@iris.co.uk
IRIS GP Payroll	0844 815 5681	support@gppayroll.co.uk
IRIS GP Accounts	0844 815 5681	gpaccsupport@iris.co.uk
Earnie or Earnie IQ	0844 815 5671	support@earnie.co.uk