

Social Insurance Contribution Collection in Great Britain

This paper outlines the social insurance contribution collection arrangements in Great Britain. The system differs from that currently operating in China, but may be relevant for inclusion in policy considerations.

National Insurance contributions, which are the British social security contributions, are collected together with income tax by Her Majesty's Revenue and Customs¹ (HMRC) (the tax administration responsible for the collection of direct and indirect taxes). However, a similar system could operate if collection was undertaken by the Department for Work and Pensions (the Social Security Ministry). Collection of income tax and social security contributions together by HMRC was intended to simplify the administrative arrangements and, therefore, administrative costs for Government and also to simplify compliance activity, because only one single Government Department is involved in enforcement. It was also intended to simplify arrangements for employers who have to deal with only one Government Department and have each month (or, for certain employers with a small aggregate liability, every three months) to make a single payment to one relevant Government Department².

This paper explains the position in respect of payment of National Insurance contributions (NICs), but does not cover the calculation and payment of income tax by the employer after deduction from employees' pay. Although it explains how an employer calculates and makes payments manually, most employers undertake the calculation and make payments electronically.

¹ Her Majesty's Revenue and Customs was formed from a statutory amalgamation of the Inland Revenue, which collected direct taxes eg income tax, and national insurance contributions and Customs and Excise, which collected indirect taxes, eg value added tax and excise duties on alcohol and tobacco products.

² Nb Employers must, however, have to make a separate payment to Revenue and Customs in respect of value added tax, if they are liable to pay it.

There are six classes of National Insurance contributions (NICs).

Class of National Insurance Contribution	Description
Class 1	<p>Class 1 contributions are payable by people who work as “employed earners” (ie employees and persons treated as such) and their employers. They consist of:</p> <ul style="list-style-type: none"> ♦ Primary Class 1 contributions payable by employed earners. The rate of contributions is 11% of weekly earnings between the current threshold of £105 (£110 from 6 April 2009) and the “upper earnings limit” of £770 (£844 from 6 April 2009)³ and 1% of earnings above the “upper earnings limit”. However, if the employed earner is “contracted out”, ie is a member of the employer’s occupational pension scheme (enterprise annuity equivalent) which meets a statutory standard⁴, the Primary Class 1 contribution percentage is reduced to 9.4% of weekly earnings between the threshold of £105 (£110 from 6 April 2009) and the “upper earnings limit” of £770 (£844 from 6 April 2009), but remains at 1% above that limit; and ♦ Secondary Class 1 contributions paid by their employers. The rate of contributions is 12.8% of an employee’s weekly earnings above the threshold of £105 (£110 from 6 April 2009). However, the Secondary Class 1 contribution percentage is reduced to 9.1% of weekly earnings between the threshold of £105 (£110 from 6 April 2009) and the “upper earnings limit” of £770 (£844 from 6 April 2009), but remains at 12.8% of earnings above that limit.
Class 1A ⁵	Class 1A contributions are paid by employers at the same rate as Class 1 contributions if they provide certain directors and employees with benefits in kind which are available for private use, for example, cars and fuel.
Class 1B	Class 1B contributions are paid only by employers at the same rate as Class 1 contributions in respect of expenses and other benefits if they enter into a Settlement Agreement with HMRC for tax purposes.
Class 2	Class 2 contributions are paid by people who are self-employed. They are payable at a weekly flat rate of £2.30 (£2.40 from 6 April 2009). However, self-employed persons with annual earnings below £4,825 (£5,075 from 6 April 2009) may apply for a “small earnings exception” to remove their Class 2 contribution liability.
Class 3	Class 3 contributions may be paid voluntarily by persons who wish to protect their entitlement to the state old age pension or bereavement benefit but who have not paid enough Class 1 or Class 2 contributions in a relevant year to satisfy the contribution conditions for the pension. The Class 3 contribution rate is £8.10 per week (£12.05 from 6 April 2009).
Class 4	Class 4 contributions are payable by self-employed people ⁶ in addition to

³ Or in each case the monthly equivalent.

⁴ Where an employee has been contracted-out and paid reduced rate NI contributions, the State Retirement Pension to which he or she will be entitled is restricted to the Basic Pension rate, with the State additional pension not payable.

⁵ Class 1A and Class 1B contributions were introduced to overcome the practice of employers trying to avoid Class 1 contribution liability by paying benefits in kind to directors and employees instead of cash wages or salaries on which Class 1 contributions are levied.

⁶ Class 4 contributions were introduced to ensure that higher income self-employed earners paid a level of

	Class 2 contributions. They are payable at a rate of 8% of earnings between a “lower profits limit” of £5,435 per year (£5,715 from 6 April 2009) and an “upper profits limit” of £40,040 per year (£43,875 from 6 April 2009) and of 1% of earnings above the upper profits limit. Class 4 contributions do not count towards benefit entitlement.
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Anyone who is aged between 16 and state pension age – currently 60 for a woman⁷ and 65 for a man - has a liability to pay National Insurance contributions if he or she:

- works for an employer (an employed earner), and so must pay Class 1 National Insurance contributions; or
- works for him- or herself (self employed), and so must pay Class 2 and Class 4 National Insurance contributions.

Employers must pay secondary Class 1 National Insurance contributions for each person they employ who is aged 16 or over and whose earnings are above the statutory threshold. So where an employee is liable to pay primary Class 1 National Insurance contributions, his or her employer is liable to pay secondary Class 1 National Insurance contributions. However, employers continue to be liable to pay secondary Class 1 National Insurance contributions if they employ employees who are aged above state pension age, even though their employees are no longer liable for primary Class 1 contributions.

Anyone who is over state pension age does not have to pay primary Class 1, Class 2 or Class 4 National Insurance contributions, except on earnings that should have been paid before state pension age. However, although employed earners aged over state pension age are no longer liable for National Insurance contributions, their employers continue to be liable to pay secondary Class 1, Class 1A and Class 1B contributions in respect of them. This is to avoid a distortion to the labour market, which would arise if employers could avoid their National Insurance liability by employing elderly workers.

The amount of contributions that individuals have to pay depends on whether they are employed earners or self employed; and the amount they earn and whether the earnings are above a statutorily defined threshold. There may be occasions when a person works for an employer and also works as a self-employed person at the same time. In these instances the worker may have to pay more than one class of contribution, subject to an overall ceiling.

A person who is not liable to pay National Insurance contributions may be able to pay certain contributions on a voluntary basis (normally Class 3 National Insurance contributions). These contributions are payable to safeguard or improve benefit entitlement for Basic State Retirement Pension and Bereavement Benefits. Persons over state pension age are not permitted to pay Class 3 contributions.

contributions appropriate to their earnings. This option was adopted instead of increasing the flat-rate Class 2 contributions, which would have a disproportionate impact on low income self-employed workers.

⁷ Women’s pensions is due to increase gradually from 60 – 65 between 2010 and 2020.

Contributions give entitlement to benefits as follows (provided sufficient contributions of the relevant Class have been paid)⁸:

Class of National Insurance Contribution	Benefits to which they give entitlement
Class 1	Primary Class 1 contributions give entitlement to the basic and additional ⁹ State Retirement Pension and bereavement benefits and benefits for incapacity and unemployment. Secondary Class 1 contributions paid by employers do not give any benefit entitlement.
Class 1A	Class 1A contributions do not give any benefit entitlement.
Class 1B	Class 1B contributions do not give any benefit entitlement.
Class 2	Class 2 contributions give entitlement to the Basic State Retirement Pension and bereavement benefits and benefit for incapacity but do not give entitlement to benefit for unemployment.
Class 3	Class 3 contributions give entitlement to the Basic State Retirement Pension and bereavement benefits but do not give entitlement to benefits for incapacity and unemployment.
Class 4	Class 4 contributions paid by self-employed earners do not give any benefit entitlement. (However, self-employed earners may qualify for benefits by paying Class 2 contributions.)

There are modifications to the contribution liability for persons employed or self-employed outside the United Kingdom. In practice, most workers outside the United Kingdom and their employers cease to be liable to pay Class 1 contributions after one year, but may pay Class 2 or Class 3 contributions.

Employers are entitled to deduct Primary Class 1 contributions from the pay of their employees at the time of payment or may offset the liability later in the tax year. If they fail to do so, they may in certain circumstances remain liable for Primary Class 1 contributions.

All employers are under a statutory obligation to register with the HMRC (the tax authority). They must register as soon as they begin employing anyone, or have taken on sub-contractors, and the earnings of any employee are equal to, or above, the income tax threshold or the National Insurance “lower earnings limit” of £90 or the monthly equivalent. They may register up to four weeks in advance of the first payday for any employee. As an alternative to providing registration details in writing, employers may register by e-mail or by telephone.

To register, employers must provide the following information to HMRC:

- Their business name
- Their trading address
- The employer’s actual name and address
- The employer’s National Insurance number and taxpayer reference

⁸ Entitlement to benefits in respect of work injury or industrial diseases and entitlement to medical treatment under the National Health Service do not depend on the satisfaction of contribution conditions.

⁹ Primary Class 1 contributions paid at the reduced “contracted out” rate do not give entitlement to the additional State Retirement Pension. Instead the employed earner will on retirement receive an occupational pension (equivalent to “enterprise annuity”) from the employer’s pension scheme for the period of “contracting out”.

- Their contact telephone number
- Their contact e-mail address if registering by e-mail
- The nature of their business
- If a limited company, its registered office, company registration number and the date of incorporation.
- The names, addresses, private telephone numbers, National Insurance numbers and taxpayer references of the company directors.
- The date the employer took on (or will be taking on) the first employee(s)
- How many employees the employer will have
- The date the employer intends to pay them for the first time
- How often the employer intends to pay them (eg weekly or monthly)
- The address from which the employer's payroll is run
- The name, address and telephone number of anybody who looks after the payroll

The HMRC sends to every registered employer, either in paper format accompanied by a CD-ROM, or electronically, details of the procedures to be followed and calculation tables for the calculation of social insurance liability for employee and employer contributions. HMRC prefer compliance to be achieved online on the basis that this is more reliable and efficient than using paper and cuts down on storage, post and administration. Employers with 250 or more employees are required to complete the appropriate documentation and make payments electronically. Employers may comply by Electronic Data Interchange (EDI), or by an "Online Return and Forms" product provided free to employers by HMRC, or by 3rd party payroll software that has been approved by HMRC.

Forms that can be sent manually or electronically include:

- ◆ Notification of an employee starting work for the employer
- ◆ Notification of an employee leaving work for the employer
- ◆ Monthly NIC deductions working sheet (for use where employees are paid monthly)
- ◆ Weekly NIC deductions working sheet (for use where employees are paid weekly)

Employers must complete a deduction working sheet to cover each employee whose earnings are at least the "lower earnings limit" of £90 (£95 from 6 April 2009) or the monthly equivalent, even though the contribution threshold is £105 (£110 from 6 April 2009). (This is because persons earning between the lower earnings limit and the contribution threshold are treated for benefit purposes as though they had paid contributions on their earnings. This enables very low earners to qualify for a pension without unnecessarily reducing their earnings by the deduction of contributions. The lower earnings limit and contribution threshold are increased annually at least in line with price inflation.) For a Chinese equivalent, the system would be considerably simpler, as there would not be different contribution percentages according to earnings, nor would there be earnings which count for pension entitlement even though no contributions have been paid.

As the contribution threshold and upper earnings limit are increased annually in line with inflation (or in some cases higher), each year HMRC sends to all employers updated documentation, either electronically or in printed format, to take account of the increases.

Earnings for this purpose include salaries or wages, overtime payments, special payments for night work, if any, and special bonuses.

The employer works out and records the NIC liability electronically or on a manual form (form P11) – or this is achieved directly by the employer’s payroll system - on the basis of the earnings period (ie week or month), employees’ gross pay and the applicable table (eg if the employee is over state pension age or “contracted out” (see above), there are separate tables respectively excluding employee contributions for which there is no liability or providing for liability at the reduced rate). There is no need for HMRC to inform employees each week or month how much they must deduct from employees’ pay as employees’ contributions, how much they must themselves pay in secondary Class 1 contributions and how much in aggregate they must pay to HMRC. The electronic programme or the printed tables will inform them of those amounts.

The form or electronic file to be returned to the HMRC has boxes to cover:

- ♦ Employer’s name
- ♦ HMRC office name (to which payment is made)
- ♦ Employee’s surname
- ♦ Employee’s given name
- ♦ Employee’s national insurance number – this is given automatically to individuals at age 16, or later, on application, to persons entitled to hold a national insurance number
- ♦ Employee’s date of birth
- ♦ Employee’s works/payroll number
- ♦ Date of starting work
- ♦ Date of leaving work
- ♦ The table used for calculating contributions (eg for persons respectively under state pension age, or over state pension age, where only Secondary Class 1 contributions are payable, or for persons and employers with reduced rate contribution liability under the “contracting-out” procedure).

The current UK form (P11) is unnecessarily complicated for a Chinese comparison, as it includes, not only employees’ earnings and the employer’s and employees’ National Insurance liability, but also employees’ income tax payment details, takes account of the NIC contribution threshold, and different contribution percentage rates (eg for persons over state pension age and those who are “contracted out”). However, the NIC elements of the form or electronic equivalent may be relevant for a Chinese context. Employers may either calculate the exact contribution percentages or use the relevant tables (separate for employees under, and over, state pension age and “contracted out”) which specify against each amount of gross pay the aggregate NIC contributions and the employee’s contributions which the employer must pay to HMRC. If the income tax references were deleted and NI contribution liability did not have a threshold and so would match the Chinese situation, the P11 form would look like the following.

Week or	Employee’s	Total of	Total	of
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month number		gross earnings	employer's and employee's contributions	employee contributions
1	1			
2				
3				
4				
5	2			
6				
7				
8				
1	1			
5	1			

The amount that the employer must pay in respect of the week or month is the figure in the column headed "Total of employer's and employee's contributions".

Employers must pay NI contributions (in the United Kingdom, together with employees' income tax) to the relevant HMRC office by the 19th of the following month (or to reach HMRC by the 22nd of the month if payment is made electronically or by bank transfer – as there may be a delay of possibly 3 days for the transfer to be made, in practice the payment must be made on 19th). Employees may make an electronic payment through their own bank. If an error is discovered it may be put right in a succeeding payment within the same year. Employers must notify employees of the amount of NICs (and tax) deducted from their pay when they give a pay slip to their employees.

If a late payment is made following the end of the year to which it relates, the HMRC charges interest. They may also impose a surcharge on employers if the monthly payment is late.

At the end of each month (or for small employers, the end of each three months), the employer must account for all tax and national insurance payments due and send the payment to the relevant HMRC Accounts Office.

HMRC has the right to inspect an employer's records to ensure that the employer has paid all the NICs due and regularly does so.

If an employee leaves the employment, the employer must complete a form (P45), with a copy to the former employee, informing him or her of the tax and NI contributions paid during that tax year while in the employment, so that he or she may pass the form to the next employer.

If an employer has paid to employees benefits in kind, which are liable to Class 1A

contributions, the employer must annually complete for each employee a form P11D, which specifies the cash value of the benefit in kind and the amount of contributions that have to be paid. This return must be sent to HMRC, together with the contribution payment by 6 July of the year following that to which it refers.

Class 1B contributions are payable by an employer when an employer makes an agreement with HMRC on tax liability. Payment is made together with the employer's tax liability.

Self-employed persons are liable for Class 2 and Class 4 National Insurance Contributions (unless they have been granted a small earnings exception for Class 2 and are below the Class 4 lower profits limit). Payment of Class 2 contributions may be made monthly or annually in advance by cheque at a post office, or monthly by direct debit from the self-employed person's bank account. The HMRC encourage payment by direct debit. Class 4 contributions are paid together with the self-employed person's income tax. Most persons in the United Kingdom are required annually to complete a self-assessment form for income tax purposes. Included on the form are details of any income from self-employment. Completion of the form requires the taxpayer to calculate (or permits HMRC to calculate on the taxpayers behalf) both the income tax and Class 4 national insurance contributions, for which he is liable. Payment of Class 4 contributions must be made half-yearly together with the individual's income tax. Failure to pay Class 4 contributions by the requisite time leads, not only to interest being charged on the unpaid debt, but also an increasing charge imposed each month, with ultimately criminal or civil proceedings for recovery.

Individuals may apply to pay voluntary Class 3 contributions. They are permitted to do so only if payment would give them any, or additional, benefit entitlement. Payment of Class 3 contributions is either by cheque through the post office or by direct debit in the same way as Class 2 contributions are payable.

The administrative arrangements require employers to calculate the national insurance contribution liability for themselves and their employees in accordance with manual tables or electronic systems provided by HMRC. There is therefore no requirement for employers to approach HMRC to find out how much they need to pay in NI contributions. This releases officials of the tax authority from the need to wait at the local office to tell callers representing employing enterprises and self-employed persons how much they have to pay by way of National Insurance contributions. As a result the officials, released from waiting for, and speaking to, callers, are freed to visit employers from time to time to confirm whether employers are deducting contributions at the correct rate and so ensure compliance.

The procedure in relation to National Insurance contributions is as follows:

- 1) Each year the HMRC sends to all employers in advance of the start of the tax year electronic and/or manual tables to enable the employers to calculate the National Insurance contributions

for which they and their employees are liable during the relevant tax year.

- 2) Each new employee must provide to the employer details of contributions (and tax) deducted from his/her gross pay from the previous employment on a form (P45) provided by the previous employer. The form will include details of the employee's National Insurance number. (If the new employee's number is not known, the employer can approach HMRC to obtain details. If the employee does not have a National Insurance number¹⁰, he/she must obtain one from the Department for Work and Pensions, but a number will be provided only if the individual has the right to work in the United Kingdom.)
- 3) The employee must send part of the P45 form to the HMRC to notify that the new employee has started work for the employer. (There is an alternative procedure using form P46, where the new employee does not have a form P45, eg because it is the employee's first job, or he/she has previously been unemployed or long-term sick.)
- 4) Each month¹¹ the employer must send to the HMRC either electronically or, if a small employer, manually, details of weekly wages or monthly salaries paid to each employee with details of the National Insurance contributions deducted from employees' gross pay and the aggregate employer and employees' National Insurance contributions (see above re form P11). The calculation may be undertaken either electronically or manually following the amount specified in the Tables provided by the HMRC. At the same time the employer must make the payment to the appropriate accounts office of the HMRC. Any delay in making the payment may lead to the imposition of interest and a surcharge by the HMRC (or, if persistent, legal proceedings may be taken).

The HMRC issues a leaflet to explain to employers how to calculate and deduct income tax and national insurance contributions. The following extracts in the Appendix relate to the guidance provided in the form as it relates to NI contributions for the year 2008-2009.

¹⁰ All UK schoolchildren are automatically allocated a National Insurance number by HMRC at age 16 and are given a card with the number on it.

¹¹ Small employers may take this action every 3 months instead of monthly.

Working out and recording NICs on Form P11¹²

How Class 1 NICs are made up

Class 1 NICs are made up of two elements:

- **Employee's contribution** (also known as the primary contribution) which you are liable to pay in the first instance but which can be deducted from your employee's pay and
- **Employer's contribution** (also known as the secondary contribution) which you are liable to pay.

Employee's contribution

An employee's contribution is payable if the employee:

- is aged 16 or over and under State Pension age (60 for women, 65 for men), and
- earns more than the Earnings Threshold (ET).

An employee's contribution is payable on all earnings above the ET.

Employer's contribution

An employer's contribution is payable if the employee:

- is aged 16 or over and
- earns more than the ET.

An employer's contribution is payable on all earnings above the ET, even if the employee is over State Pension age or otherwise excepted from paying their employee's contribution.

How to work out NICs

To work out NICs you must first decide:

- the correct earnings period
- the amount of gross pay due to the employee within that earnings period, and
- the contribution Table letter.

¹² Form P11 is the form to be completed by employers and sent to Her Majesty's Revenue and Customs (the tax authority) to provide details of payments of tax and NI contributions paid by, and in respect of, their employees.

Earnings period

You must work out NICs on a payment by payment basis.

NICs are worked out on the employee's gross pay above the ET using the appropriate percentage rates, and are based on the period of time for which the earnings are paid.

If you pay an employee weekly, the earnings period is one week.

If you pay an employee monthly, the earnings period is one month.

Gross pay

Gross pay for NIC purposes is known as **earnings**.

Gross pay is the amount due to the employee **before** any deductions.

Gross pay includes such things as:

- salaries
- wages
- overtime
- bonus payments, commission and so on.

Contribution category letter

NICs are divided into classes and there are differing rates for Class 1 NICs, identified by category letters¹³. It is important to know which rate or rates apply to each employee.

Each category is allocated a contribution category letter.

This letter corresponds with the letters shown in the National Insurance Tables and is referred to as a **contribution Table letter**.

Methods of working out NICs

There are two methods of working out NICs. You can use either the NI tables or the exact percentage method.

The same earnings limits and rates are used in both methods.

To help you to calculate the amount of NICs due on your employee's earnings you can use:

¹³ Different letters apply for instance where contributions are paid at the "contracted out" rate or where the employed earner is aged over state pension age.

- payroll software
- the P11 Calculator on your Employer CD-ROM
- the National Insurance contribution Calculators on your Employer CD-ROM, or
- the manual National Insurance contribution Tables.

The P11 Calculator and the NICs Calculators both use the exact percentage method to calculate the NICs due.

Directors' NICs

There are special rules for calculating NICs for directors.

There is a calculator on your CD-ROM which will calculate directors' NICs for you. Go to the 'Calculators Section', select 'National Insurance contribution Calculators', then 'Directors' Annual Earnings Period 2008-2009.

Calculating NICs

If you are not using payroll software, the easiest and quickest way to calculate NICs is to use the P11 Calculator on your CD-ROM.

Using the Employer CD-ROM

P11 Calculator

The P11 Calculator will work out the amount of NICs to deduct from your employee's pay and record it on the P11 on your CD-ROM.

Note: You must install your CD-ROM to use the P11 Calculator.

National Insurance contributions Calculators

The National Insurance Contributions Calculator calculates the amount of NICs to deduct from your employee's pay and tells you which entries to make on your employee's form P11 Deductions Working Sheet.

Using the National Insurance contributions Tables

You must use the correct NI Tables to work out the NICs due on your employee's earnings. The NICs are worked out using whole pounds only.

In the NI Tables earnings are based on steps of £1 (weekly) and £4 (monthly) between the Lower Earnings Limit (LEL) and Upper Earnings Limit (UEL). With the exception of the LEL, Earnings Threshold (ET) and UEL, NICs are worked out on the mid-point of each step. For example, in the weekly table, NICs for earnings between £109 and £109.99 are worked out on £109.50.

If you use the NI Tables to work out NICs, you and your employee may pay slightly more or less than if you used the exact percentage method.

Each set of NI Tables gives help on how to use them.

Filling in the form P11 using the NI Tables

If you use the NI Tables to work out the NICs payable you can use the same table to help you fill in the form P11.

Copy the figures in columns 1a to 1e of the table to the columns 1a to 1e of the form P11 on the line next to the tax week or month in which the employee is paid.

Exact percentage method

If you decide to use this method the NICs must be worked out using the employee's gross pay – pounds and pence.

Each element of the employee's and employer's contributions must be worked out separately.

To work out the employee's contribution

Work out the employee's gross pay due and the earnings period.

Employee's NICs are only payable when the employee's earnings exceed the weekly, monthly or equivalent ET. NICs are due on earnings between the ET and UEL at the appropriate main employee's percentage rate. If the employee's earnings exceed the UEL, NICs are also due at the additional employee's percentage rate on all earnings above the UEL.

Earnings are above the ET but do not exceed the UEL¹⁴:

- Deduct the weekly or monthly ET from the earnings and multiply the result by the appropriate main employee's percentage rate to work out the NICs due.

Round the calculation to the nearest penny, disregarding £0.005 or less.

¹⁴ The calculation is more complex than would be needed in China because of the threshold and the reduction in the rate of contributions above the upper earnings limit (UEL).

Earnings exceed the UEL¹⁵

- Deduct the weekly or monthly ET from the weekly or monthly UEL, and multiply this amount by the appropriate main employee's percentage rate.
- Deduct the weekly or monthly UEL from the total earnings and multiply this amount by 1% (the additional employee's percentage rate).
- Add both amounts together to work out the employee's NICs due.

Round the calculation to the nearest penny, disregarding £0.005 or less.

To work out the employer's contribution

Use the same gross pay due and earnings period to work out the employer's contribution.

The appropriate employer's percentage rate is used to work out the NICs due on all earnings above the ET, including those above the UEL.

If the employee is a member of your contracted-out occupational pension scheme, NICs are worked out using

- the appropriate employer's contracted-out percentage rate on earnings above the ET, up to and including the UEL
- the employer's not contracted-out percentage rate on the earnings above the UEL.

The two amounts are added together before recording the NICs due on the form P11.

Contracted-out occupational pension schemes¹⁶

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 NI Tables for contracted-out pension schemes or use the calculators on your Employer CD-ROM, the 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

This is not relevant only for China as there is no equivalent of "contracting out".

¹⁵ Here again the complexity caused by a different percentage for earnings above the upper earnings limit would not need to apply if the system were to be adopted in China.

¹⁶ This and the two subsequent paragraphs would not be relevant to the Chinese context.

Employer's NIC rebate

This is not relevant only for China as there is no equivalent of "contracting out".

Filling in a form P11 – NICs

NICs¹⁷

If, during any earnings period in the year, the employee earns below the LEL, do not enter these earnings in columns 1a to 1c of the P11.

When an employee's earnings are at or above the LEL at any time during the year, you must fill in the National Insurance (NI) section of the form P11 or equivalent record, **even if the employee does not pay any NICs**. You must report this information at the year end. This is to protect the employee's entitlement to benefits, which is linked to earnings at or above the LEL.

Enter all the details of earnings at or above the LEL, and NICs in the appropriate columns 1a to 1e that corresponds to the week or month number in which you make a payment to an employee.

Where an employee's earnings exceed the UEL, only record in column 1c of the P11 the earnings from the ET up to and including the UEL. You should not include the amount of earnings in excess of the UEL, even though the NICs payable on these earnings will be included in the total NICs figure recorded in column 1d.

Earnings details

Column 1a - Earnings at the LEL¹⁸

If the employee earns at or above the Lower Earnings Limit (LEL), enter the LEL figure.

If the earnings do not exceed the LEL there will be no NICs payable and columns 1b to 1e will be left blank.

¹⁷ If China adopted a similar system, there would be a simpler form designed for the purpose and the paragraph would explain how to complete that form.

¹⁸ This would be applicable in China only if there was a contribution threshold.

Column 1b - Earnings above the LEL, up to and including the Earnings Threshold

Enter any earnings above the LEL, up to and including the Earnings Threshold (ET)¹⁹. If the earnings are constantly above the ET, the figure entered here will be the same each earnings period.

If NI Tables are used, the amount entered will be in whole pounds only. If the exact percentage method is used, the amount entered will be in pounds and pence, unless earnings reach or exceed the ET in which case the entry will be in whole pounds only.

If the earnings do not exceed the ET there will be no NICs payable and columns 1c to 1e will be left blank.

Column 1c - Earnings above the Earnings Threshold, up to and including the UEL

Enter any earnings above the ET, up to and including the Upper Earnings Limit (UEL).

If the earnings are constantly above the UEL, the figure entered here will be the same in each earnings period.

Do not include those earnings above the UEL.

If NI Tables are used, the amount entered will be in whole pounds only. If the exact percentage method is used, the amount entered will be in pounds and pence, unless earnings reach or exceed the UEL in which case the entry will be in whole pounds only.

Contribution details

Column 1d - Total of employee's and employer's contributions payable

Enter the combined total of both the employee's and employer's NICs, not just the employer's NICs. Where NICs are due under contribution Table letter D, F, L or S²⁰, the amount to be entered is the combined total after deduction of any employee's and employer's NIC rebates.

¹⁹ This provision, which would not be relevant in China applies because earnings above the lower earnings limit (LEL), but below the contributions threshold (ET) are taken into account for pension purposes even though no contributions are payable.

²⁰ This letters apply to different contribution percentages, eg, whether full contributions are payable, contributions are payable at the "contracted-out" rate, or the employed earner is over state pension age.

Column 1e - Employee's contribution payable on earnings in 1c

This column should show only the employee's NICs payable included in column 1d. Include any employee's NICs payable on earnings above the UEL, where appropriate.

If there are no employee's NICs payable, leave blank.

If contribution Table letter D, F, L or S is used, the amount entered should be the employee's NICs payable after deducting the employee's NIC rebate. If this amount is zero enter '0.00'.

Making payments to HM Revenue & Customs

When to make payment

Each tax month you must pay your Accounts Office all the amounts due for that tax month for:

- *Income tax and certain other payments and*
- National Insurance contributions (NICs).

The day your payment needs to reach us depends on what payment method you use.

- If you pay electronically or through your bank or Post Office, your cleared payment for the full amount due must reach our account no later than 22nd of the month.
- Where the 22nd falls on a weekend or is a bank holiday, your cleared payment must reach us on the previous bank working day.
- Employers who are not subject to the mandatory electronic payment rules and who continue to pay by post must ensure that payment reaches us no later than 19th of the month.

When paying electronically you need to allow enough time for your payment to reach us. Except for CHAPS which is a same day payment transfer facility, it normally takes three bank working days for payment to reach us. Some banks and building societies take longer. You will need to check how long your bank or building society takes and what their cut-off time is for initiating payment. Billpay payment reaches us on the third bank working day after your transaction.

Interest and surcharge

We charge interest on:

- any payment made electronically or through your bank or Post Office that clears our bank account after 22 April following the end of the tax year, and

- for employers not subject to the mandatory electronic payment rules any cheque payment that reaches us after 19 April following the end of the tax year.

Large employers who are subject to the mandatory electronic payment rules are liable to surcharge if any portion of their monthly PAYE²¹/NIC payment is late.

Payslip booklet

You need a payslip booklet to pay through your bank, a Post Office or if you post us a cheque. You do not need a payslip booklet if you pay us electronically.

To stop us issuing booklets for future years:

- follow the guidance on our How to Pay pages
- contact your Accounts Office.

If you do not pay electronically and do not receive your P30BC Payslip Booklet in time to make your payments, contact your Accounts Office immediately.

Quarterly payment option for small employers

If your average monthly payments of PAYE²², deductions from subcontractors²³, *certain other payments* and/or NICs for the current year are likely to be less than £1,500, you can choose to pay your Accounts Office quarterly rather than monthly.

The tax quarters end on:

- 5 July
- 5 October
- 5 January, and
- 5 April

which means your cleared electronic payments are due by 22nd of the month in which the quarter ends or, if you pay by cheque, by the earlier date of the 19th of that month.

How the payments are calculated

In most cases the payments will be calculated for each month/quarter by:

- adding together all the employees' and employer's NICs due, and

²¹ ie income tax.

²² ie income tax liability

²³ To avoid non-compliance by construction workers, construction industry contractors must deduct tax and NI contributions before making payments to sub-contractors.

- subtracting²⁴ any:
 - SSP you are entitled to recover
 - SMP/SPP/SAP and/or NIC compensation you are entitled to recover.

Correcting an error

If you make a mistake when working out how much to pay to your Accounts Office, you can put it right by adjusting your next payment.

If you discover a mistake after the tax year has ended, contact:

- the Employer Helpline by calling 08457 143 143 for advice about NICs,

Keeping records

We may ask to inspect your records to make sure that you have paid all the tax and NICs due. If you have not, we may make estimates that you will have to pay. Both the P32 Employer Payment Record and the P30BC, Payslip Booklet, pages 4 and 5, are designed to:

- help you make the calculations referred to above
- record your payments.

You only need to use one of these forms to keep your records.

There is an on screen version of the form P32 on your CD-ROM. It shows you how much PAYE tax, National Insurance Contributions and Student Loan deductions are due to HMRC each month for all your employees entered on the P11 Calculator. It can also act as a record of payments made.

These forms will also help you fill in your P35, Employer Annual Return, at the end of the year.

Making a payment

Large employers, those who have 250 or more employees whom we have notified, have to make their monthly payments electronically.

We accept payment by a range of methods but we recommend payment is made electronically through your bank's internet/telephone banking service, by BACS Direct Credit or CHAPS. You can also pay by debit card over the internet. Go to www.billpayment.co.uk/hmrc and follow the guidance. If you sign up with the BillPay service, you will be able to view your payment

²⁴ Small employers are entitled to subtract from their overall income tax and NI contribution liability payments that they have made to employees in relation to statutory sick pay (SSP), statutory maternity, paternity or adoption pay (SMP, SPP or SAP). However, this would not be relevant in China.

transaction and a history of your payments made via BillPay. Electronic payments are generally more efficient and secure than payment by post.

We also treat as electronic any payment made by Bank Giro or at the Post Office. If paying by Bank Giro, take your payslip, P30B, with payment to your own bank branch. Other banks may refuse to accept it or charge you for this service. Again, payment made by these methods is more secure than a payment sent in the post.

Where a payment is made by post, please send it with your completed payslip, P30B, to the Accounts Office in one of the envelopes we sent you.

For more information about how to pay please:

- visit the How To Pay area
- contact your Accounts Office:
 - *There then follows details of the address and telephone numbers of the relevant Accounts Offices.*

When you pay by Bank Giro, at a Post Office, or by post you must complete a payslip, P30B:

- for the correct 'period ending' (see top right of P30B)
- showing the total amount due in the Amount due box.

Use the information from the P32, or the table on pages 4 and 5 of your P30BC, to fill in the P30B as follows:

P30B box heading	P30BC or P32 column number
Amount due	14

If, at the end of a month/quarter:

- you have no payments to make, you should inform HM Revenue & Customs. Unless you tell us on or before the payment date that nothing is due, a payment reminder may be issued. You can let us know by:
 - completing the online 'No PAYE/NIC Payment due form'. The online 'No PAYE/NIC Payment due' form is a new service and the most convenient and cost effective way to let us know that no payment is due
 - returning a signed payslip, form P30B, for the correct month marked 'Nil due'
 - phoning **0845 366 7816** to say no payment is due for a particular month/quarter, quoting your Accounts Office reference number.
- the total recoverable NIC compensation claimed is more than the NICs payable, enter the excess in column 13 of your P32 or P30BC with the letter 'M' (for minus) in front. Where

you are paying by Bank Giro, at a Post Office, or by post, put the total amount of tax and NICs into the single 'Amount due' box.

- the 'Amount due' in column 14 of your P32 or P30BC is a minus figure, recover the amount you are owed from the following month's/quarter's payment and let us know that no payment is due.

If it is not possible to recover the amount you are owed from the following month's/quarter's payment, write to your Accounts Office, explaining how you have worked out the amount owed and ask for it to be paid to you.

Quote your Accounts Office reference shown on the front of your P30BC Payslip Booklet or P30B letter.

Further information about payments and payslips

There are special rules about making payments during a **trade dispute**²⁵. For details see the CWG2, Employer Further Guide to PAYE and NICs, under 'trade disputes'.

If you need to post a payment to the Accounts Office and do not have a payslip (for example, if the payment is for an earlier year), please send your cheque with a covering letter showing:

- your address and telephone number
- your Accounts Office reference, shown on the front of your P30BC, Payslip Booklet, or on the P30B letter
- the period the payment is for
- the amount of NICs you are paying.

A reference checker is available which you will find useful if you are paying electronically through your bank's internet or telephone banking service or by BACS Direct Credit. It will help ensure your payment is allocated correctly, particularly if your payment is for an earlier year.

Taking on a new employee - including someone who has worked for you before

Who to treat as an employee

An employee is anyone you employ under a contract of service, and includes full-time and casual workers.

If the employee does not give you a form P45 because they claim to be self-employed, look at the terms on which you took them on.

Please see more information on how to decide whether someone is employed or self-employed.

²⁵ Eg during a strike.

If you are in any doubt, ask your HM Revenue & Customs office for help, and treat them as an employee in the meantime.

If your new employee tells you they have previously been claiming Jobseekers Allowance²⁶, tell them that to stop claiming they should contact the Jobcentreplus office²⁷ on **0845 60 00 643** or send back their ES40JP²⁸.

The Home Office²⁹ has introduced identity checks for all new employees in order to safeguard you from employing someone illegally.

For more information:

- phone the Home Office on **0845 01 06 677**, or
- Visit the Employing Migrant Workers website

National Insurance numbers

Importance of National Insurance numbers

The HM Revenue & Customs National Insurance Contributions Office issues National Insurance (NI) numbers to those approaching 16 years of age and to those working or claiming benefit so that NICs and credits can be correctly recorded on each person's National Insurance account, and other records.

You should ask your employee for their NI number and they must let you know what it is, if known, when you ask for it. It is essential that you show the full and correct NI number on all documents on which you record NICs.

Anyone who does not have an NI number must apply for one when they start work by contacting Jobcentreplus on 0845 600 0643.

The NI number is important because it helps to link the information you will send us at the end of the year to your employee's National Insurance account, Income Tax and other records. This in turn helps to protect your employee's entitlement to benefits such as basic State Pension.

²⁶ This is the United Kingdom form of unemployment benefit

²⁷ This is the office of the social security agency responsible for payment of benefits for incapacity and unemployment.

²⁸ This is the form held by persons claiming jobseeker's allowance.

²⁹ The Home Office is the equivalent of the Ministry of Civil Affairs. It requires checks to be made of new employees to make sure that they are not illegal immigrants.

Identifying the NI number³⁰

NI numbers consist of two letters, followed by six numbers, followed by one letter, A, B, C or D. No other format is acceptable.

It will look something like this: AB123456C.

This NI number is only an example and should not be used where an employee does not provide their NI number.

If the NI number is not shown on the P45³¹ in this format or the employee can't remember their NI number, see:

- Tracing National Insurance numbers

A new employee gives you a form P45

Form P45 is available to send online. For more information visit the PAYE Software Forms pages.

This section will take you step-by-step through the actions you need to take when you take on a new employee and they give you a form P45.

If a new employee doesn't give you a P45

If the employee does not give you a P45 when they first start work you will have to follow a different set of steps.

What is a P45?

The P45 is a certificate providing details from your employee's previous employment.

The **P45** is a four-part form. Your employee should give you Parts 2 and 3.

If the employee gives you Part 1A of form P45, return it to them to keep.

What you will need

In addition to the P45 you will need a form P11 Deductions Working Sheet, or equivalent record.

³⁰ The National Insurance (NI) number is the individual's social insurance and tax reference number. The Chinese equivalent is the identity number.

³¹ P45 is a form provided by an employer to an employee, when the employee leaves the employment. It will include details of income tax and national insurance contributions paid during the current tax year and will include the employee's name and national insurance number.

There is a P45 checker on your CD-ROM which you can use to check the figures on the P45. You can use this if you are using a paper form P11 Deductions Working Sheet or equivalent record, or creating a P11 using the P11 Calculator on your Employer CD-ROM.

If you are not using the P45 Checker on your CD-ROM, you will need to check the P45 figures yourself using your manual tables. If you are going to calculate the tax and National Insurance contributions using the manual tables you will need:

- Pay Adjustment Tables, Tables A
- Calculator Tables or Taxable Pay Tables B and D, and
- NI Tables.

Then follow **Step 1**

Using the P45 Checker on your CD-ROM

The P45 Checker will check the P45 figures for you and give you the figures to enter on the:

- P11 Deductions Working Sheet, or equivalent record, or
- Employer Database when creating a P11 using the P11 Calculator on your Employer CD-ROM.

If you are going to use the P45 Checker you must follow the instructions in **Step 1** first.

- After checking the figures on the form P45 using the P45 Checker, if you are using a paper P11 Deductions Working Sheet or equivalent record you will need to return to **Step 2**.

If you are creating a P11 using the P11 Calculator on your CD-ROM follow Step 3 to find out which tax code to use then Step 7 for help completing the P45 Part 3.

Step 1 Checking form P45

- Check if the employee's NI number is entered at item 2 of the P45. If item 2 is blank, or the NI number is not in the format described on the previous page, see 'Tracing National Insurance numbers' for help on how to find an employee's NI number and return to this page.
You can continue to pay an employee who does not give you a NI number. You must make sure that you keep records and record the NI number as appropriate once it has been traced.
- Check if items 6 and 7 of Part 3 agree with the corresponding entries on Part 2 of the P45.
If they do not agree contact your HM Revenue & Customs office immediately.

Step 2 Preparing a form P11

Fill in boxes A to J at the top of the form P11 by using the information provided on the P45 such as the employee's name, address, National Insurance number and date of birth, and your own details. If your employee has worked for you previously in the tax year you must complete a new form P11 for their latest spell of employment. For help on completing box K see the next step below.

Step 3 Deciding which tax code to use

This is relevant only for income tax and is not relevant for national insurance contributions

Step 4 Deciding which rate of NICs to deduct

- All employees aged 16 or over and below State Pension age are liable to pay a standard rate of NICs known as contribution Table letter 'A' unless certain conditions apply.
- To help you decide the right rate of National Insurance that applies to your new employee look at the NI Tables flowchart (PDF 43K), then return to this page.
- Enter the appropriate contribution Table letter under which NICs are due in the 'End of Year Summary' section on the reverse side of the form P11.

Step 5 Which week or month number to use for the employee's first payment

- The weekly and monthly charts (PDF 39K) will help you identify which week or month pay period number you should use for the first payment to your new employee.
- Look at these charts now and identify which pay period number **includes the date of payment**. This is the period to use. Now go to **Step 6**.

Step 6 Entering the P45 details on form P11

This is relevant only for income tax and is not relevant for national insurance contributions

If the P45 is for an earlier tax year

This is relevant only for income tax and is not relevant for national insurance contributions.

Step 7 Fill in Part 3 of the form P45

- Start at item 8 of the P45

- Item 8 - enter your PAYE reference³² .
- Item 10 - only tick this box if you use works/payroll numbers and want that information to appear on any tax code notifications
- Send **Part 3** to the HM Revenue & Customs office that deals with you as an employer **immediately** after you have completed the above actions.
- Keep **Part 2** of the P45 for **at least three years** after the end of the tax year it is for.

You can now start working out any tax and NICs due. To find out how to work out and record NICs on form P11, see Part 3 of this Helpbook.

A new employee doesn't give you a form P45

If a new employee does not have a P45 you and your employee will probably need to complete a form P46.

The P46 is the form to tell HMRC about an employee who does not have a P45.

You can send forms P46 to us online using the internet.

You can also use the interactive form P46 or print blank copies from the 'Forms and Helpbooks' section of your Employer CD-ROM.

From April 2008, when a P45 is not provided, and you file your P46 forms online, your employee will not necessarily have to complete the form P46. If you file your P46 forms online you may obtain the information required by the form P46 from your employee, either online or on your own stationery. It is up to you to decide how to obtain the relevant information required by the P46 and whether you require a signature from your employee, for your own purposes. You can obtain the necessary information in a way that best suits your business need as long as you keep a record of where it came from.

If a new employee is going to work for you for one week or less and before the end of that week you do not arrange to keep the employee on beyond that week, or arrange for the employee to work for you again, you do not need to fill in a P46. Instead, follow the advice in the section - Taking on a new employee – for one week or less.

If a new employee is going to work for you for more than one week and does not have a P45

- ask your employee to contact their previous employer to get a P45 if they have worked in the UK in the current tax year, unless a P45 has already been given to the employee, who has then lost it
- ensure that Section one of form P46 is completed in time for your employee's first payday.

³² "PAYE reference" is a reference to the employer's or employee's tax reference number. "PAYE" means "pay-as-you-earn", which is the current form of income taxation.

Filling in form P46³³

- The P46 is a two-sided form.

Section one

There are four parts to Section one.

From April 2008 you have two options for how to complete Section one.

You can either:

- give the form to your employee and ask them to complete Section one, or if filing online:
- ask your employee to supply the relevant information to enable you to complete Section one on their behalf.

If you complete Section one on behalf of your employee it will be up to you to decide

- how to obtain the relevant information required on the form P46 (for example you could use your own stationery or email.) You **must** keep an adequate audit trail to confirm how this information was obtained, and - whether you require a signature from your employee for your purposes.

Your details

Your employee **must** provide their personal details. If your employee does not know their NI number, follow the guidance under Tracing National Insurance numbers. You can send in a P46 without a NI number if you have followed this guidance.

Date of birth From April 2009 you must show the date of birth on all forms P46. We strongly recommend that you start collecting this information from your employees now.

Male or female From April 2009 you must show the gender on all forms P46. We strongly recommend that you start collecting this information from your employees now.

Your present circumstances

Your employee **must**:

- read statements A, B and C and tick the one that applies, or if filing online
- provide you with information so that you can indicate which statement applies.

³³ Form P46 is a form for details of a person's national insurance and tax position where the new employee did not previously have an employer in the particular tax year.

Signature and date

- If your employee is completing the form they must sign and date Section one of the form.
- If you are completing the form on behalf of your employee because you are filing online, it is up to you to decide whether you need a signature for your purposes.

Section two – to be completed by the employer.

You must complete Section two of the form. Tell us the date your employee started to work for you and provide us with your Employer details. You should complete the Works/payroll number as you would like it to appear on any tax code notifications.

You must send in a P46 for all cases on the employee's first pay day. Prepare a form P11 when you first pay your employee.

When you have completed Section two continue in accordance with the instructions given below.

What to do with the completed P46

1. Employee ticked box A or box B and earnings in the week or month are less than the NICs Lower Earnings Limit:

- keep form P46 for future use
- keep a record of the employee's name, address and amount of pay.

If the rate of pay increases at a later date to be equal to or more than the Lower Earnings Limit:

- look at the form P46 again
- take appropriate action based on the instructions below.

2. Employee ticked box A and earnings in the week or month are equal to or more than the NICs Lower Earnings Limit

- prepare a form P11
- enter the employee's pay in this week or month in column 2
- enter the employee's total pay to date in this employment in column 3
- deduct and record NICs in the normal way
- send the P46 to your HM Revenue & Customs office on your employee's first pay day.

3 . Employee ticked box B and earnings in the week or month are equal to or more than the NICs Lower earnings Limit prepare a form P11

- enter the employee's pay in this week or month in column 2

- deduct and record NICs in the normal way
- send the P46 to your HM Revenue & Customs office on your employee's first pay day.

4. Employee ticked box C

- prepare a form P11 when you first pay the employee
- enter the employee's pay in this week or month in column 2
- deduct and record NICs in the normal way
- send the P46 to your HM Revenue & Customs office on your employee's first pay day.

Preparing a form P11

- Using the information provided on the P46, such as the employee's name, address, National Insurance number and date of birth, and your details, fill in the boxes A to J at the top of the form P11.
- If your employee has worked for you previously in the tax year you **must** complete a new form P11 for their latest period of employment.
- Enter the tax code in **Box K** of the P11.

Employee gives you a form P45 after the first pay day

If an employee gives you a P45 after the first pay day and you have already received the employee's code from your HM Revenue & Customs office, destroy the P45. In all other circumstances follow steps 1 to 7 of the section headed A new employee gives you a form P45.

Taking on a new employee – for one week or less

If the employee is going to work for you for one week or less:

- do not complete a form P46
- take the following action, depending on what the circumstances are, **but if you are a farmer** first see the CWG2 Employer Further Guide to PAYE and NICs, under 'Farmers'.

Total pay in the week is equal to or more than the National Insurance Lower Earnings Limit* and you know the employee has other employment:

- Fill in a form P11.
- Work out NICs due.
- Issue a form P45 at date of leaving.

Total pay in the week is equal to or more than the National Insurance Lower Earnings Limit* and you do not know if the employee has other employment:

- Fill in a form P11.
- Work out NICs due.
- Issue a form P45 at date of leaving.

Total pay in the week is less than the National Insurance Lower Earnings Limit*

You do not have to complete a form P11 but you must keep a record of the employee's name, address and amount of wages paid each pay period, for example weekly/ monthly/four weekly.

* Details of the National Insurance Lower Earnings Limit are included in the Employer Helpbook E12 PAYE and NICs rates and limits for 2008-09, on your Employer's CD-ROM.

Tracing National Insurance numbers

If the employee can't remember or can't find their NI number:

- check any documentation you may have for the employee that shows the NI number, for example, form P45, or a certificate of election form CA4139(CF383).

If you are unable to find your employee's NI number:

- keep a record of their full name – surname and first name(s) – address, date of birth, gender, and
- if you have to send a form P46 to your HM Revenue & Customs office, take no further action as they will automatically trace the employee's NI number and tell you what it is. If the NI number cannot be traced, your HM Revenue & Customs office will ask the HM Revenue & Customs National Insurance Contributions Office to carry out a clerical trace, which may involve writing to your employee.

If the NI number is traced, the HM Revenue & Customs National Insurance Contributions Office will confirm to you what it is on form P46-5, and confirm to your employee what it is on form P217.

If the NI number cannot be traced, see Employee with no NI number.

If you do not have to send a form P46, you can ask your HM Revenue & Customs office to trace a NI number or, use the National Insurance number tracing service.

To use the National Insurance number tracing service you can either fill in form CA6855, which you can also get from:

- your Employer CD-ROM
- the Employer Orderline

or prepare your own schedule.

Preparing your own schedule to trace NI numbers

This should clearly set out the information in the following order:

1. Employee's title.
2. Surname.
3. First name(s).
4. Address.
5. Date of birth.
6. Gender.
7. Works/payroll number.
8. Date employment started.
9. Date employment ended (if applicable).
10. Employer's PAYE reference.

If you require this information to be sent to your company agent, please make sure form 64-8 (Authorising your agent) has been completed.

Where to send form CA6855 or schedule

HM	Revenue	&	Customs
National	Insurance	Contributions	Office
Newcastle		upon	Tyne

On receipt of the form or schedule of employees, the HM Revenue & Customs National Insurance Contributions Office will trace the employee's NI number.

They will return form CA6855 or the schedule, showing the correct National Insurance number for each employee, or indicate where an NI number cannot be traced.

When form CA6855 is returned to you, you should record the NI number on all relevant pay records and tell the employee what their NI number is.

Employee with no NI number

If your employee has never had an NI number or the National Insurance Contributions Office is unable to trace their number:

- keep a record of their full name (surname and first name(s)), address, date of birth, gender, and
- tell them to contact the Jobcentreplus office on **0845 600 0643** to arrange an interview in order to complete an application form to be issued with a NI Number. They will be told what evidence to take with them to the interview to establish their identity and if necessary their right to work in the UK.

After the interview they should make sure they are given the front page of their application form, CA5400 Your National Insurance Number. This front page confirms that they have applied for a NI number and provides a reference number in case they need to get back in touch with the Department.

For certain types of employment, the Department for Work and Pensions will offer a 'fastpath' route for registering the employee with a NI number. Which employers and employment are suitable will depend on many things, including the employer's recruitment process. For more information go to the Department for Work and Pensions website.

What to do when an employee leaves

Which forms you have to complete

Form P11

Enter the date of leaving in Box I on the page of the P11 that you are using.

If you have used the P11 Calculator on your Employer CD-ROM you must enter the leaving date in the Employer Database.

Form P45

Form P45 is available to send online.

For more information visit the PAYE Software Forms pages.

- Fill in a form P45
 - even if the employee says they will not be working when they leave you
 - for any employee leaving for whom you have completed a form P11.
- Do not fill in a form P45
 - when the employee is a student. Instead complete the 'Employer's statement' on form P38(S) and retain for 3 years, or longer if you are asked to do so, as these forms must be made available for inspection by us if required.

- When filling in a form P45 make sure you use a four-part version, use CAPITALS and make sure all parts are legible.
- Give Parts 1A, 2 and 3 of form P45 to your employee when they leave.
- Send Part 1 to your HM Revenue & Customs office **immediately**.

Other points to note

Form P45 lost or incorrect

If a former employee loses their P45 or you find out later you have made a mistake, tell the former employee to contact their HM Revenue & Customs office immediately.

You must never complete a further form or amend a P45.

Payment to a former employee

If you make a payment to a former employee or there is still a payment due to a deceased employee, see the CWG2 Employer Further Guide to PAYE and NICs, under 'Employees – leaving', or 'Employees – death'.

When you no longer have employees

Tell your HM Revenue & Customs office when:

- you cease in business, or
- you do not expect to employ anyone for one year or more from the start of the next tax year.

If yours is a limited company and you no longer have employees, the HM Revenue & Customs office will ask for special information before deciding whether or not to cancel your PAYE scheme.

Changes that may affect an employee's NICs

During an employee's working life there will be times when their circumstances change. This may mean that there is a need to change the contribution Table letter under which you are deducting NICs. This section will help you to identify what action you need to take.

The table and the NI Tables flowchart at the beginning of the NI tables will also help you to identify which contribution Table letter and set of tables you should use.

Main changes

The main changes that may happen are an employee:

- reaches age 16
- legally changes their recorded gender
- joins or leaves your contracted-out occupational pension scheme
- has more than one job with different employers
- has more than one job with the same employer
- becomes a director
- goes abroad to work
- reaches State Pension age (60 for women and 65 for men) and continues to work
- dies.

If any of the above applies to an employee take action as described in the relevant following paragraphs.

An employee reaches age 16

If an employee is aged under 16 there is no NICs liability for the employee or for you as an employer.

Liability for employee's and employer's NICs starts from a person's 16th birthday. If an employee reaches age 16 while working for you and:

- their earnings are equal to or exceed the Lower Earnings Limit and
- you do not already use a P11 to record their earnings you should prepare a form P11, or equivalent record, in the same way as when you take on a new employee. You must start to make deductions of NICs from their pay and record the employee's and employer's NICs on the P11 or equivalent record.

Enter the appropriate contribution Table letter in the 'End of Year Summary' section on the reverse of the P11.

You will also have to start paying your employer's share of NIC.

An employee legally changes their recorded gender

This provision is not relevant to China

An employee joins or leaves your pension scheme

Occupational pension schemes which satisfy certain legal requirements can contract-out of the State Second Pension.

If you hold a contracting-out certificate and an employee is a member of your occupational pension scheme, you should deduct NICs at the appropriate contracted-out rate.

As China does not have any equivalent to “contracting out”, this paragraph is not relevant to China.

An employee has more than one job

An employee has more than one job with different employers

An employee may tell you that they have another job where they are already paying NICs and that you should only deduct NICs at 1% from the salary that you pay them.

If an employee with more than one job thinks that they will earn in excess of the weekly or monthly UEL in one, or a combination of more than one, of their jobs, they can ask the HM Revenue & Customs National Insurance Contributions Office for permission to defer paying some of the NICs in their other jobs.

The HM Revenue & Customs National Insurance Contributions Office will send you form CA2700 if it agrees that the employee may defer some of the NICs they would otherwise have to pay on the earnings they receive from you. This form authorises you to deduct employee contributions at 1% on **all** earnings you pay to the employee that exceed the ET, including any earnings above the UEL.

You must still pay your employer’s share of the NICs under the appropriate contribution Table letter – for help in identifying the right contribution Table letter see the NI Tables flowchart.

Until you receive the CA2700 form, continue to deduct employee’s contributions at the appropriate rates.

An employee has more than one job with the same employer

There are special rules about calculating NICs in these circumstances. For further information see CWG2 Employer Further Guide to PAYE and NICs, under ‘National Insurance contributions (NICs)’.

An employee becomes a director of your company

When you make an employee a director or a new director starts work, there are special rules that apply to the calculation of NICs. You can find these rules in the booklet CA44 National Insurance for Company Directors, which is available on your Employer CD-ROM or from the Employer Orderline.

An employee goes abroad to work

If you have an employee who goes abroad to work, see the booklet CWG2 Employer Further Guide to PAYE and NICs, Chapter 4.

An employee reaches or is over State Pension age

If an employee reaches or is over State Pension age (60 for women, 65 for men) they no longer have to pay NICs.

You must still pay your employer's share of NICs.

Before you stop deducting employee NICs from the employee's wages, you must see some proof of their date of birth, for example a passport or birth certificate, to show that they have reached State Pension age. It would be helpful if you keep a record of the proof you have seen.

Alternatively, they can provide you with one of the following certificates of age exception – CA4140 or CF384.

If you stop deducting employees' contributions before you have seen proof, or continue to pay employer contributions at the contracted-out rate, you are responsible for any underpayment.

Which National Insurance Tables to use

You must use the correct Tables in calculating the NICs due on your employee's earnings.

Check you are using the Tables for 2008-09.

If your employee is under 16 years of age there is no NICs liability.

If you employ mariners³⁴, the CA42 National Insurance Tables, give details of category letters, rates and limits to use.

³⁴ There are special provisions for mariners because they are not likely to claim benefits from the social security scheme if taken ill on their voyage or abroad.

Important - please note:

NIC Tables are updated every Tax Year. These are available on your Employer CD-ROM or can be requested from the Employer Orderline.

Check you are using the Tables for 2008-09.

You must use the correct Tables when calculating the NICs due on your employee's earnings.

An employee dies

If an employee dies while working for you, and a payment is due on or after the date of death that would normally attract a deduction of NICs, there is no liability for either employee or employer NICs.

Recalculating NICs because of a change in circumstances or an error

Subject to special rules explained below, if you do not deduct the correct amount of NICs at the proper time because of a change in the employee's circumstances or because you discover an error has been made in good faith, you can:

- recover any underpaid NICs by making extra deductions from later earnings
- refund any overpaid NICs.

The action you take will depend on whether you will be making adjustments to NICs from:

- a current date
- a previous date
 - within the same tax year, or
 - in a previous tax year.

and whether the adjustment:

- results in an under or overpayment of NICs
- involves a change in the contribution Table letter that you have been using.

Adjustments that are made from a current date will not involve either an under or overpayment of NICs but they will normally require a change in the contribution Table letter - for example, an employee reaches State Pension Age.

Adjusting NICs from a current date

If you are adjusting the NICs from a current date using a paper P11 Deduction Working Sheet:

- draw a line across the P11 columns 1a to 1e under the last entry for the original contribution Table letter and begin entering the new contribution details, including the new contribution table letter, on the next available line
- enter the totals of columns 1a to 1e up to the date of change in the boxes next to the entry for the original contribution Table letter in the 'End of Year Summary' section on page 2 of P11
- enter the new contribution Table letter on the next line of the 'End of Year Summary' section.

If you are using the P11 Calculator on the Employer CD-ROM

- go into the employee's details in the employer database and change the NI Table letter.

Adjusting NICs from a previous date within the same tax year

If you are adjusting the NICs from a previous date within the same tax year using a paper P11 Deduction Working Sheet, amend the P11 by:

- drawing a line through each entry that you are adjusting so that the original entry can still be read
- recording the right amounts and, if necessary, the correct Table letter alongside
- entering the amended totals of column 1a to 1e in the boxes next to the entry for the original contribution Table letter in the 'End of Year Summary' section on page 2 of the P11
- entering the new contribution Table letter, if necessary, on the next line of the 'End of Year Summary' section.

If you are using the P11 Calculator on the Employer CD-ROM:

- enter the P11 Calculator
- select the employee to whom the error relates
- go to the P11 Calculator main menu
- select 'view P11 summary' and take a note of the previous NI details that are incorrect
- select 'back' then use the 'Amend the previous pay period for this employee' to delete all of the pay periods to which the error relates
- if necessary, go to the employer database and change the Table Letter for the employee
- go back into the Calculator and re-input the gross pay for all the pay periods you have just deleted.

If primary NICs have been overpaid refund the difference to the employee.

Adjusting NICs from a previous date in a previous tax year

If you are adjusting the NICs from a previous date within a previous tax year using a paper P11 Deduction Working Sheet, amend the P11 for the current year only, by:

- drawing a line through each of the entries that you are adjusting so that the original entry can still be read, and recording the right amounts alongside
- drawing a line, if necessary, through the contribution Table letter in the 'End of Year Summary' section and entering the new contribution Table Letter alongside.

If primary NICs have been overpaid for the previous tax year and either

- you have not yet sent in your Employer Annual Return and final payment to your Accounts Office:
 - make a refund of the difference to the employee
 - adjust your final payment
 - amend your Employer Annual Return to show the correct figures
 - amend the P11 as described above, or
- you have already sent in your Employer Annual Return and final payment to your Accounts Office, you must apply to HM Revenue and Customs National Insurance Contributions Office for a refund of employer contributions. At the same time HMRC will automatically refund employee contributions to your employee(s).

If you are using the P11 Calculator on the Employer CD-ROM follow the same steps for Employer CD-ROM users as described under Adjusting NICs from a previous date within the same tax year.

Underpayments of NICs

If NICs have been underpaid for the previous tax year and either:

- **you have not yet sent in your Employer Annual Return and final payment to HMRC:**
 - include the underpayment with your final payment, sending it either electronically or by cheque direct to your Accounts Office,
 - submit your Employer Annual Return (P14s and P35) to show the correct figures,
 - amend the P11 as described under 'Adjusting NICs from a previous date in a previous tax year', or:
- **you have already sent in your Employer Annual Return and final payment to HMRC:**
 - submit an amended Employer Annual Return (P14(s) and P35 as appropriate) to reflect only the amount of any amendment (i.e. the underpaid NICs)
 - send a letter to your HMRC office explaining the reason for the amendment

- send any additional payment due as a result of the amendment to HMRC, either electronically or by cheque direct to your Accounts Office.

Recovering underpayments from your employees

If you find that the employee has underpaid NICs as a result of an error made by you in good faith you can recover the underpayment. You can do this by making extra deductions from any later earnings you pay the employee in the remainder of the tax year in which the error was discovered and the following tax year. The extra deductions made from any later payment of earnings can be no greater than the employee's contributions due on those earnings.

For example, if NICs of £15 are due on the later earnings, you can deduct no more than an extra £15 towards the underpayment.

If any arrears are left outstanding after the end of the second tax year you must not recover these from any other earnings paid to the employee. You, as the employer, must bear the cost of the balance.

Software users

Consult your agent or software provider if your software guide does not cover this issue.

Further help

For further help on what to do if a mistake is discovered during the tax year or after it has ended see the CWG2.

Employer Further Guide to PAYE and NICs, under 'Mistakes in amount of NICs or PAYE deducted'. Please see further information on what counts as an error in good faith.

Help and further guidance

Help and further guidance about National Insurance contributions (NICs) is available from the following sources:

There is then a list of sources from which guidance may be obtained.

Your Employer CD-ROM

Your Employer CD-ROM has most of the forms and guidance you will need to run your payroll throughout the year.

The CD-ROM has:

- a P11 calculator that will work out and record your employees' NICs deductions every pay day with a linked P32 record of deductions that works out what you need to pay us
- a range of other Calculators that work out car and car fuel benefit,
- a P45 checker that tells you what gross pay and tax to date figures to enter on the P11 for a new employee.

There is also:

- a Learning Zone to help you understand payroll topics such as Statutory Payments,
- a Payroll Basics section for new and less experienced employers explaining what to do when employing someone for the first time.

Employer Helpbooks

Our Employer Helpbooks will help you understand and operate NICs and other payroll related matters.

The Helpbooks are for guidance only, they are not comprehensive and have no legal force.

We also have many other leaflets and booklets that give further guidance, for example:

- CWG2(2008), Employer Further Guide to PAYE and NICs
- CWG5(2008), Class1A NICs on benefits in kind
- 480(2008), Expenses and Benefits - a tax guide
- 490(2008) Employee travel - A tax and NICs guide for employers.

You can view, download and print the full range of Helpbooks, booklets and other forms and guidance by visiting the employers area of the HMRC website or your Employer CD-ROM.

Or you can order copies from the Employer Orderline.

Forms and guidance in Braille, large print and audio

For details of employer forms and guidance in Braille, large print or audio call the Employer Orderline and ask to speak to the Customer Service Team³⁵.

By phone - Employer Helplines

(We may record calls for quality and training purposes.)

³⁵ This is for blind, deaf, and visually and aurally impaired employers. The forms are also produced in Welsh for Welsh speaking employers and employers may contact the Employer Orderline by phone in Welsh.

- New employers and employers with less than three years payroll experience
- Employers with more than three years payroll experience

If you have a hearing or speech impairment, and use a textphone:

0845 602 1380

(only people with specialised equipment such as Minicom to use this service.)

A list of Helplines and opening hours is available:

- by visiting the Helplines pages
- on your CD-ROM
- in your Employer Bulletin.

Your HM Revenue & Customs office

Your own HM Revenue & Customs office can also help you.

Please tell us your Employer reference. You will find it on correspondence from your HM Revenue & Customs office.

In person

We can offer you education and support on all aspects of your payroll explaining:

- what you need to do
- the deadlines you need to meet
- the forms you need to fill in
- the records you need to keep.

We also have a range of workshops which are free of charge on many payroll topics.

You can get further information about the workshops from the Business Support teams pages, or you can call one of the helplines.

