

Pre-Release Note: Tax Year 2016

Payroll

Owner: The Product Management Team

Classification: **INTERNAL – Customers & Fourth Personnel**



The Change

Legislation updates relating to the regulations relating to:

- Pay as You Earn (PAYE) Taxation
- The Scottish Rate of Income Tax (SRIT)
- National Insurance Contributions (NIC)
- Employment Allowance
- The Collection of Student Loan Repayments
- The National Living Wage (NLW)
- Direct Earnings Attachments (DEA)
- Real Time Information (RTI) Reporting
- Payrolling Expenses and Benefits (P11D)
- Electronic P45s

For all payrolls with a pay date of 6th April 2016 onwards.

Reason for the Update

Her Majesty's Revenue and Customs (HMRC) are implementing changes to legislation agreed by the UK government, for the tax year beginning 6th April 2016.

This information is provided to outline a summary of the changes that will be incorporated into People System for the new tax year.

Full system 'how to' documentation to be released in the next couple of weeks but if you require more information in the meantime, please visit www.gov.uk, use the links in this document, or email cases@fourth.com with any queries.

Customers Affected

This applies to all People System customers using the HR and/or Payroll Module.

What does this mean to me?

Prior to the start of the tax year, People System will be updated to include all required changes specified by HMRC.

You will receive notification of the specific changes being made to the People System as a result of the legislative changes prior to the release.

Please read and retain this information so you are aware of the changes in legislation and consider how this may affect your internal payroll and/or HR processes.

Pre Release Notes

The following summary of changes is for the tax year 6th April 2016 – 5th April 2017.

Pay as You Earn (PAYE) Taxation

Bands of taxable income and corresponding tax rates:

	2015-16	2016-17
	% of income/£ per year	
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting rate for savings income	0%	0%
Dividend ordinary rate – for dividends otherwise taxable at the basic rate (effective rate with tax credit)	10% (0%)	7.5%
Dividend upper rate – for dividends otherwise taxable at the higher rate (effective rate with tax credit)	32.5% (25%)	32.5%
Dividend additional rate – for dividends otherwise taxable at the additional rate (effective rate with tax credit)	37.5% (30.6%)	38.1%
Starting rate limit (savings income)	£5,000	£5,000
Basic rate band	£0-31,785	£0-32,000
Higher rate band	£31,786-£150,000	£32,001-150,000
Additional rate band	Over £150,000	Over £150,000

Source: www.gov.uk: [Previous Tax Years](#) | [2016/17](#)

Abolition of Age Related Suffix Y Tax Codes

Suffix Y tax codes have been discontinued by HMRC. Suffix Y codes were used for age-related personal allowances for those born prior to 6th April 1938. This year the standard personal allowance will be £11,000. This increase will mean the standard personal allowance has surpassed the age-related rate.

Suffix Y codes will no longer be issued by HMRC via tax code notifications P2, P6 and P9 from 6th April 2016.

HMRC will issue change of tax code notifications for all individuals currently on a suffix Y tax code.

	2016-17
	% of income/£ per year
Personal Allowance:	
Personal Allowance	£11,000
Income limit for personal allowance	£100,000
Income limit for married couple's allowance	£27,700
Marriage Allowance:	
Marriage allowance	£1,100
Married couple's allowance for those born before 6 April 1935:	
Maximum amount of married couple's allowance	£8,355
Minimum amount of married couple's allowance	£3,220
Blind Person's Allowance:	
Blind person's allowance	£2,290
Dividend Allowance:	
Dividend allowance	£5,000
Personal savings allowance:	
Personal savings allowance for basic rate taxpayers	£1,000
Personal savings allowance for higher rate taxpayers	£500

Source: www.gov.uk: [Previous Tax Years](#) | [2016/17](#)

The Scottish Rate of Income Tax (SRIT)

The Scottish Rate of Income Tax will be effective from the 6th April 2016.

Employers are not expected to make a decision and determine if SRIT applies. If an employee should pay SRIT HMRC will issue a tax code (P6 or P9) notification to indicate SRIT is applicable.

Employees residing in Scotland will be issued a new tax code, indicated with a prefix 'S' e.g. S1100L is the equivalent of 1100L for the rest of the UK (rUK).

The current Scottish Rate of Income Tax will be the same as the rest of the UK, as listed in the first table above, - Bands of taxable income and corresponding tax rates.

For more information: <https://www.gov.uk/scottish-rate-income-tax>.

National Insurance Contributions (NIC)

Introduction of Apprentice National Insurance Categories:

From the 6th April 2016, employers will no longer need to pay employer Class 1 secondary National Insurance contributions (commonly known as employer NICs) for apprentices under the age of 25.

The rate of Class 1 secondary NICs for certain apprentices under age 25 will be zero up to the new threshold, called 'Apprentice Upper Secondary Threshold (AUST)'.

From the 6th April 2016 this threshold will be the same as the Upper Earnings Limit (UEL).

The new NI category letter for standard rate Apprentices under age 25 will be 'H'.

Abolition of Contracted Out National Insurance Categories:

From 6th April 2016, contracted out National Insurance Categories will be discontinued. This means all individuals currently on National Insurance Categories D, E, L, I and K will be transferred to standard National Insurance categories from 6th April 2016. The system will be allocating employees to the correct code as part of the rollover into the new tax year.

The table below shows the discontinued contracted out categories and their corresponding standard category from 6th April 2016:

Existing Contracted Out NI Category:	Standard Equivalent NI category from 6th April 2016:	Category Description:
D	A	Default category
E	B	Married women and widows entitled to pay reduced National Insurance
L	J	Employees who can defer National Insurance because they're already paying it in another job
I	M	Employees under 21
K	Z	Employees under 21 who can defer National Insurance because they're already paying it in another job

National Insurance Contribution Thresholds

	2015-16 (£ per week)	2016-17 (£ per week)
Weekly Lower Earnings Limit (LEL)	112.00	112.00
Weekly Primary Threshold (PT)	155.00	155.00
Weekly Secondary Threshold (ST)	156.00	156.00
Upper Secondary Threshold for U21's (UST)	815.00	827.00
Apprentice Upper Secondary Threshold (AUST) for under 25s	-	827.00
Upper Earnings Limit (UEL)	815.00	827.00

Source: www.gov.uk: [Previous Tax Years](#) | [2016/17](#)

	2015-16 (£ per annum)	2016-17 (£ per annum)
Small Profits Threshold (SPT)	5,965.00	5,965.00
Lower Profits Limit (LPL)	8,060.00	8,060.00
Upper Profits Limit (UPL)	42,385.00	43,000.00
Employment Allowance (per Employer)	2,000.00	3,000.00

Source: www.gov.uk: [Previous Tax Years](#) | [2016/17](#)

Class 1 National Insurance Contribution Rates 2016-17

Employee (Primary) - (Earnings £ per week)	NIC Rate (%)
Below 112 (LEL)	0.00
112-155 (PT)	0.00
155-827 (UEL)	12.00
Above 827	2.00

Source: www.gov.uk: [Previous Tax Years](#) | [2016/17](#)

Employee (Secondary) - (Earnings £ per week)	NIC Rate (%)
Below 156 (ST)	0.00
Above 156 (ST)	13.80

Source: www.gov.uk: [Previous Tax Years](#) | [2016/17](#)

Employment Allowance

From 6th April 2016, the total amount of employment allowance that can be claimed, will rise from £2,000 per year to £3,000 per year.

The Collection of Student Loan Repayments

From the 6th April 2016, Student Loans will be calculated against two thresholds.

The existing Student loan threshold of £17,335.00 per year for 2015/16 will be increased (as below) and will be referred to as 'Plan 1' from 2016/17.

The additional threshold will be referred to as 'Plan 2' and will be set at £21,000.00 per year from 2016/17.

This is being introduced to manage the collection of new higher education Loans (England and Wales only) and to accommodate 24+ Advanced Learning Loans (England only). So from 2016/17 there will be:

1. Plan 1 with a threshold of £17,495 per year
2. Plan 2 with a threshold of £21,000 per year

(Plan 2 loans apply where the home address was in England or Wales and the course of further education started on or after 01 September 2012.)

Existing Loans

Existing employees' student loans will be transferred into 2016/17 as a default student loan type 'Plan 1'. HMRC may notify that employees should move to a 'Plan 2' type, HMRC will do this as before on an SL1 or SL2.

New Starter Checklist

From February 2016, HMRC are providing an updated new Starter Checklist on their web site: [gov.uk website](http://gov.uk).

This contains four declarations for each new employee. Employers need to ask new employees the new questions and provide a 'yes' or 'no' answer from 06th April 2016 when setting up a new starter.

If individuals do not know which plan applies to them or are unable to answer the questions, please refer them to the Student Loan Company website where guidance is available to confirm whether plan 1 or plan 2 should be operated on their payroll record. This information can be found at: <http://www.slc.co.uk/students/loan-repayment.aspx>.

You may need to review your new starter process to ensure additional checklists include this information.

The National Living Wage (NLW)

From the 1st April 2016, the National Living Wage will be £7.20 an hour. This only applies for workers that are aged 25 and older. For workers under the age of 25, the National Minimum Wage will still apply (current rates were set at 1st October 2015).

More information on the living wage and for the latest rates for NMW can be found at:

<https://www.gov.uk/national-minimum-wage-rates>

Direct Earnings Attachments (DEA)

From April 2016 the Department for Work and Pensions (DWP) are invoking their right to introduce 'Higher Rate Direct Earnings Attachments (DEAs)'.

Where an overpayment is created as a result of fraudulent activity, the debt should be recovered at a higher rate than those that arose through genuine mistakes by the benefit recipient.

The higher rate of DEA will only apply where the person has been successfully prosecuted for the offence which led to the overpayment of benefit.

The notification you receive to start a DEA deduction will indicate if the 'Higher rate DEA' should be applied.

<https://www.gov.uk/government/publications/direct-earnings-attachments-an-employers-guide>

Real Time Information (RTI) Reporting

Appropriate changes are being made to the Full Payment Submission (FPS), Employer Payment Submission (EPS) and the Earlier Years Update (EYU) for the new tax year as a result of changes above. Further details will be provided in the Release Note.

Payrolling Expenses and Benefits (P11D)

You may have read that the legislation is changing around processing and reporting of employees' expenses and benefits (P11d) and that from April 2016 you have the option to process these types of payments through the payroll:

<https://www.gov.uk/guidance/paying-your-employees-expenses-and-benefits-through-your-payroll>

HMRC only finalised the requirements on 5th February 2016, prior to this only in draft. This will require functional changes in our software, and later this year we will undertake detailed analysis to determine the full impact of system and operational changes required and what this means to you. Following analysis, we will provide a further update on how we will take our system forward.

Does this mean that you can't comply?

No – we continue to offer the P11d service; as in previous tax years and HMRC still accept reports of expenses and benefits on a P11d.

What does this mean for you?

If you use Fourth software to manage this requirement using our P11d service, you should not register to Payroll expenses and benefits.

Electronic P45s

You may have read in an [HMRC Employer's Bulletin](#) that it is now legal to send a P45 to an employee electronically.

We have not yet made the functional changes in the system to support this. Therefore you should plan to continue issuing P45s as you currently do for the 2015/16 tax year.