

Termination Awards & Sporting Testimonials – real-time Class 1A NICs

Guidance for Software Developers

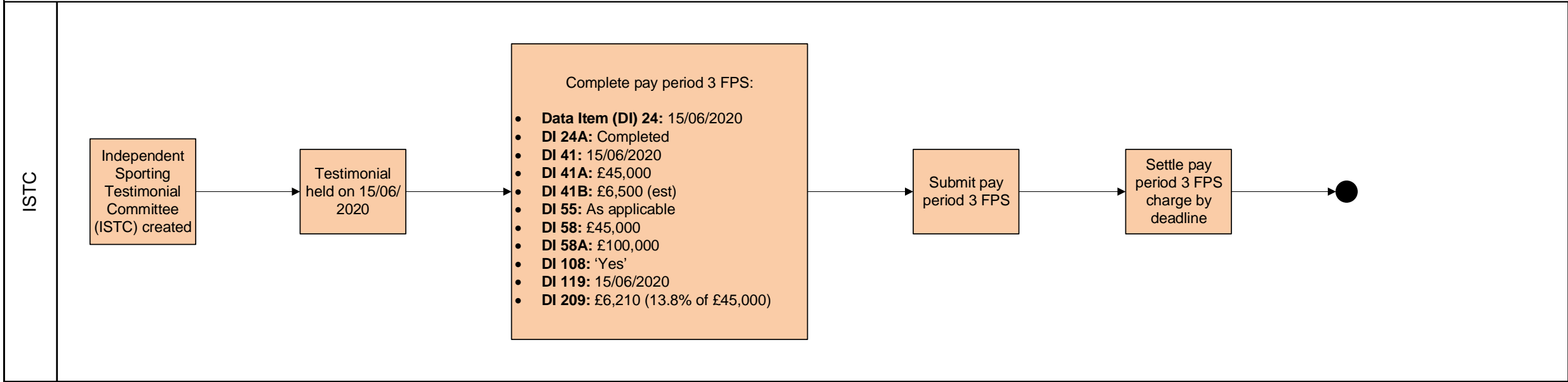
Policy Background

- ‘Termination Awards’ are payments received in connection with the termination of a person’s employment.
- ‘Sporting Testimonials’ are used as short hand for non-customary and non-contractual Sporting Testimonials. If an individual is contractually entitled to a Sporting Testimonial this would be treated as regular income and should be reported and taxed as such.
- Currently, tax is due on the amount of a Termination Award over the threshold of £30,000 (the threshold is £100,000 for Sporting Testimonials). For example, if an individual receives a Termination Award of £39,000, the employer would pay income tax on £9,000 as this is the amount above the threshold. From April 2020, employer Class 1A NICs will also be due on the amount above the threshold.
- Class 1A NICs are already reported and collected on expenses and benefits as part of the annual P11D(b) process. The Class 1A NICs on termination awards and sporting testimonials will be calculated, reported and paid as part of the existing PAYE cycle so in this document will be referred to ‘real-time Class 1A NICs’.

Further Details

- Termination Awards and Sporting Testimonials do not contribute to the Apprenticeship Levy as they are not employer Class 1 NICs. If an employer were to make a Termination Award of £35,000 to an employee, the employer should not include any of this amount – either the £5,000 above the threshold, or the full £35,000 amount – when reporting the Apprenticeship Levy.
- Similarly, as Termination Awards and Sporting Testimonial Amounts are not employer Class 1 NICs, they should not be included in any calculations for Student or Postgraduate Loans.
- Rounding rules for real-time Class 1A NICs are the same for Class 1 NICs and the annual Class 1A NICs, as set out in The Social Security (Contributions) Regulations 2001, Reg 12(1)(b). Rounding should be done at individual level.
- Where an employer staggers a Termination Award or a Sporting Testimonial amount, they can either report the second payment as part of the pre-existing payment stream, or create a new payroll ID. If they continue to use the existing payroll ID, they should report the YTD figures and information they had previously reported – the staggered TA scenario here is based on this.
- Changes to payslips, P45s or P60s to include real-time Class 1A NIC amounts are not required as they are paid by the employer. The amount of the termination award or sporting testimonial should be included in the employee's total pay for that period – this should already be the case as tax is currently paid on this.
- Customers will be able to view their real-time Class 1A liability in their Business Tax Account, separate to the existing Class 1A charge.
- If a customer pays their tax and NICs separately, the real-time Class 1As should be paid as part of the NICs bill. As real-time Class 1A NICs will be paid as part of the PAYE bill, no separate account reference is required.
- An Independent Sporting Testimonial Committee will have its own unique PAYE scheme and standard RTI rules and procedures will apply.

Sporting Testimonial Class 1A NIC liabilities v1.00 – Individual receives a Sporting Testimonial payment of £145,000 (threshold for Class 1A NICs is £100,000)



RTI Data Items – Customers may use more, but these are the key items

- **Data Item 24** – Starting date
- **Data Item 24A** – Starting declaration
- **Data Item 41** – Date employment contract ended
- **Data Item 41A** – Taxable pay to date
- **Data Item 41B** – Total tax to date
- **Data Item 55** – Tax code operated on this payment
- **Data Item 58** – Taxable pay in period
- **Data Item 58A** – Value of payments not subject to tax and NICs

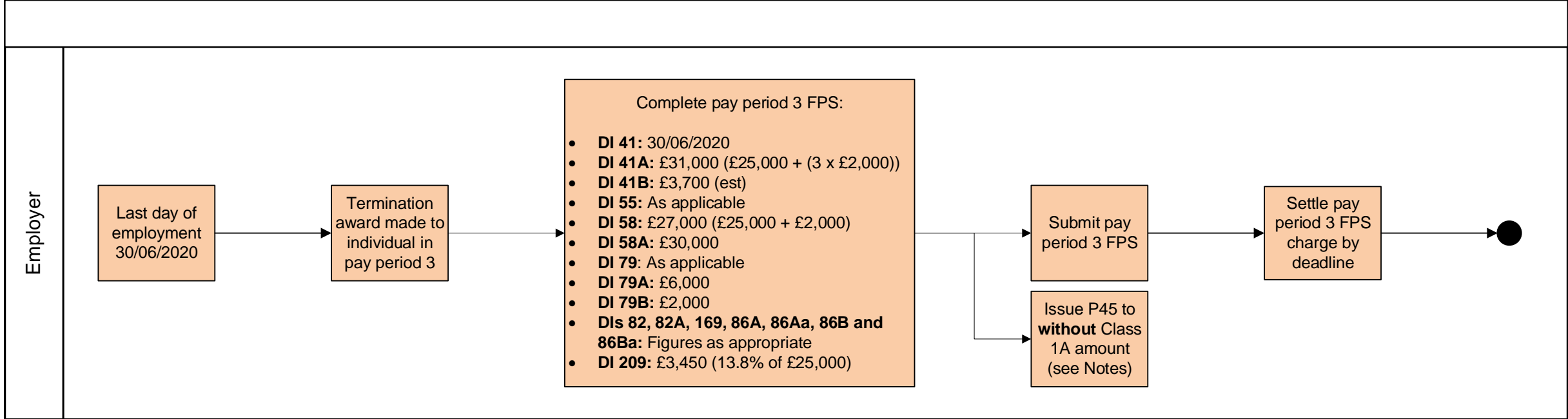
- **Data Item 108** – Indicator that final submission as ceased scheme (can be reported on an EPS)
- **Data Item 119** – Date scheme ceased (can be reported on an EPS)
- **Data Item 209 (new DI)** – Total real time Class 1A NICs to date

Boxes 79-86Aa not required as the amount is not subject to Class 1 NICs

Notes

- As the sporting testimonial amount is not liable to Class 1 NICs, data items 79, 79A-86Ba and 169 do not need to be completed.
- There may be some scenarios, particularly for large testimonials, where the ISTC employs a book-keeper. In these circumstances, the ISTC would be liable for Class 1 NICs for the book-keeper. The £30,000 exemption (on income tax and Class 1A NICs) would not apply to payments made to the bookkeeper.

Termination Awards Class 1A NIC liabilities v1.00 – Termination award of £55,000 made to individual, also receives a monthly wage of £2,000 (threshold for Class 1A NICs is £30,000)



RTI Data Items – Customers may use more, but these are the key items

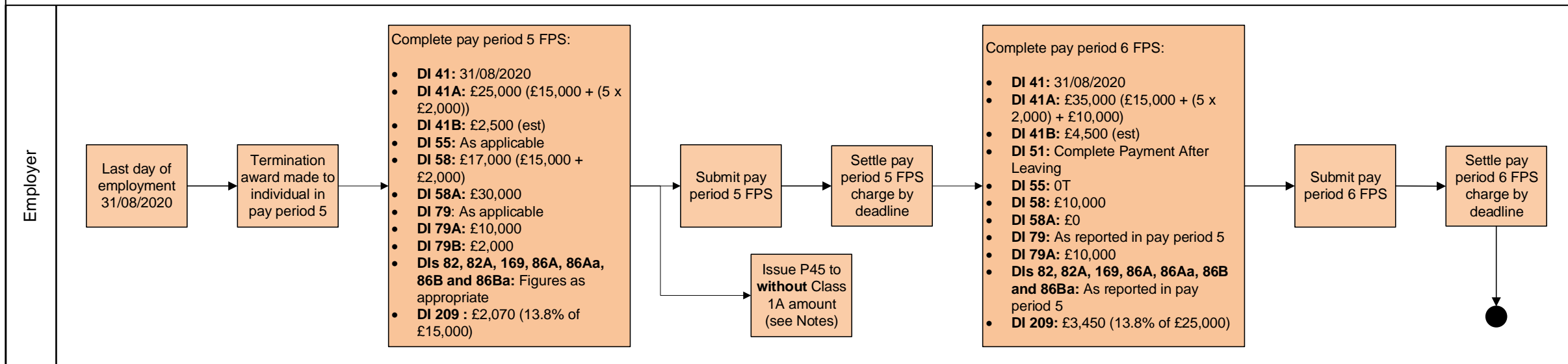
- **Data Item 41** – Date employment contract ended
- **Data Item 41A** – Taxable pay to date
- **Data Item 41B** – Total tax to date
- **Data Item 55** – Tax code operated on this payment
- **Data Item 58A** – Value of payments not subject to tax and NICs

- **Data Item 79** – NIC letter category
- **Data Item 79A** – Gross earnings for NICs to date
- **Data Item 79B** – Gross earnings for NICs in period
- **Data Item 86A** – Total employer NICs in period
- **Data Item 86Aa** – Total employer NICs to date
- **Data Item 209 (new DI)** – Total real time Class 1A NICs to date

Notes

- As Class 1 NICs are only due on the employees wages, the termination award amount should not be included in data items 79 – 86Ba

Termination Awards Class 1A NIC liabilities v1.00 – Termination award of £45,000 made to individual in pay period 5 and receives a monthly wage of £2,000. Another Termination Award of £10,000 is made in pay period 6 and same Payroll ID used (threshold for Class 1A NICs is £30,000)



RTI Data Items – Customers may use more, but these are the key items

- **Data Item 24** – Starting date
- **Data Item 24A** – Starting declaration
- **Data Item 41** – Date employment contract ended
- **Data Item 41A** – Taxable pay to date
- **Data Item 41B** – Total tax to date
- **Data Item 51** – Indicator that payment after leaving
- **Data Item 55** – Tax code operated on this payment
- **Data Item 58** – Taxable pay in period

- **Data Item 58A** – Value of payments not subject to tax and NICs
- **Data Item 79** – NIC letter category
- **Data Item 79A** – Gross earnings for NICs to date
- **Data Item 79B** – Gross earnings for NICs in period
- **Data Item 86A** – Total employer NICs in period
- **Data Item 86Aa** – Total employer NICs to date
- **Data Item 209 (new DI)** – Total real time Class 1A NICs to date

Notes

- As Class 1 NICs are due on the employee's wages, the termination award amount should not be included in data items 79 – 86Ba for the first payroll run.
- If a new payroll ID were to be reported, the employer would not need to report the previously submitted year to date figures.
- The example uses 0T as the tax code in month 6 but in the majority of cases, the employer would know the tax code and apply it accordingly.