SUMMARY OF TAX YEAR 20-21 PROJECTS FOR SOFTWARE DEVELOPERS v1.0

PAYE

HM Revenue & Customs

20–21 DELIVERY ROADMAP

Delivery Roadmap

All times/dates are provisional.

- **August 2019 –** Technical specifications finalised and published via HMRC’s Software Developer Support Team (SDST)
- **October 2019 –** Changes deployed into TPVS and LTS testing environments. SDST to support testing of products.
- **October 2019 –** Business process guidance issued.
- **March 2020 –** Changes released into Production environment.

EMPLOYMENT ALLOWANCE (EA) REFORM

Executive Summary of Change

What is the Employment Allowance (EA)?

Employers pay Class 1 NICs on their employee's earning. The EA is currently claimed by employers to reduce their employers secondary Class 1 NICs bill by up to £3,000

What is changing?

- This project seeks to remove EA from employers whose (secondary) Class 1 NICs liability was £100k or more in the tax year prior to the EA claim. As a result of the changes, approx. 100k larger employers who currently claim EA will no longer be eligible to claim in future.
- Targeting EA in this way means it is now considered to be a type of de minimis State aid. This is because it is essentially placing some businesses in an advantageous position over other businesses on a selective basis which could potentially distort competition and trade within the European Union (EU)
- As a result of these reforms the EA will be given from the 2020/21 tax year as de minimis State aid and HMRC and will be responsible for ensuring customer compliance with those rules. Therefore, the EA application process needs to change to take account of the rules on de minimis State Aid.

EMPLOYMENT ALLOWANCE (EA) REFORM – CONT…

In broad terms de minimis State aid is permitted because it is considered too small to affect trade and competition between Member States. To come within the de minimis State aid rules the aid has to satisfy certain criteria. The total of all de minimis State aid granted must not exceed a set sum for each sector. There are also various requirements covering the administration of the aid that must be met to monitor the delivery of the state aid. Under the current EU state aid rules, providing certain conditions are met, de minimis State Aid can be paid by member states and does not need to be reported to the European Commission.

Claims to EA are currently made by submitting a Real Time Information Employer Payment Summary to HMRC. If employers are eligible under the new rules, claims will continue to be made in the same way, using payroll software or HMRC's Basic PAYE tools.

Solution Design

RTI EPS Schema – Enhance

- Employers claim via EPS
- In addition to existing EA information, the EPS will therefore require customers to report: Amount of de minimis State aid received (in €), their relevant industry sector(s) or that State Aid does not apply
- From 2020-21 onwards, an existing EA claim will not be rolled forward from the previous year: a claim must be made each year
- New GNS messages to advise when a claim is rejected, based on the £100k NICs limit, de minimis State Aid limit for industry sector or other reason ineligible
- Software will need to continue to support existing process for EA claims relating to tax years up to 2019/20 along with a new process for 2020/21

CLASS 1A NICS – TERMINATION PAYMENTS & SPORTING TESTIMONIALS

Executive Summary of Change

Originally planned for implementation in April 2018 but deferred until April 2020, the intention was for these new Class 1A NICs liabilities to be paid and reported when they arose, (instead of them being paid/reported after the end of the tax year in line with existing Class 1A liabilities). To enable this to be done it was decided to utilise the Real Time (RTI) payment and reporting provisions. However, the delay in obtaining parliamentary approval resulted in insufficient time being available to implement the required adaptions to RTI before the intended roll out.

Reason for Change

- The current rules for taxation of termination payments are complex and the exemptions incentivise employers to manipulate the rules by structuring arrangements to include payments that are ordinarily taxable to minimise the Income Tax and National Insurance Contributions (NICs) due.
- At Autumn Budget 2018, the government announced that from April 2020, it will tighten the scope of the termination payment exemptions to prevent manipulation and align the rules so **employer** NICs are due on those payments above £30,000 (which are already subject to Income Tax).
- The government held a technical consultation on the draft Income Tax legislation from 9 August 2016 to 4 October 2016. Following that consultation, the government made a number of changes to the proposals to make the rules easier for employers to operate.
- The existing £30,000 Income Tax exemption on termination payments will be retained and employees will continue to benefit from an **unlimited employee NICs exemption** for payments associated with the termination of employment. This will ensure that those who lose their job will be supported through the tax system.

CLASS 1A NICS – TERMINATION PAYMENTS & SPORTING TESTIMONIALS – CONT…

- An **employer** will be required to pay Class 1A NICs on any part of a termination payment that exceeds the £30,000 threshold. This will be calculated and reported in 'real-time', as part of the employer's standard weekly or monthly payroll returns and remittances to HMRC. Liability on non-cash elements will be declared and collected using the established End of Year P11D process.

- The measure confirms that all income from sporting testimonials and benefit matches for an employed sportsperson will be chargeable to income tax and employer NICs. This treatment will be subject to a 'one-off' (employee & employer) exemption of £100,000 of the income received from events held during a single testimonial or testimonial year. This will ensure that employed sportspersons on modest incomes who, for whatever reason, may be coming to or have already reached the end of their playing career are protected from these changes. Where there is a contractual entitlement or customary right to the sporting testimonial or benefit match then this exemption will not apply. The employer NICs liability will come into effect on 6th April 2020.

Solution Design

- New data Item will be added to FPS to enable Employers to report Class 1A NICs year-to-date via their Payroll Software.

OFF-PAYROLL WORKING RULES (IR35) FROM APRIL 2020

Executive Summary of Change

The off-payroll working rules were introduced in 2000. They were designed to ensure that people working through a Personal Service Company (PSC), who would have been regarded as employees if they were directly engaged by the client, pay broadly the same income tax and NICs as if they were employed.

The Finance Act 2017 introduced reform on how the off-payroll working rules operate in the public sector from 6 April 2017.

From April 2017, if the rules apply, and the public authority is directly engaging the worker's PSC, the public authority is required to deduct the relevant income tax and NICs before making any payments. If the worker is engaged through an agency, the public authority will pass on their decision and the agency paying the worker's PSC is required deduct the relevant income tax and NICs before making any payments. The party paying the worker's PSC is also responsible for paying employer NICs for the engagement.

What's changing?

Autumn Budget 2018 announced the extension of the off-payrolll working rules to medium and large-sized organisations in the private and third sectors from April 2020 .

The extension will not apply to small organisations. To qualify as small:

- A small incorporated company (subject to the Companies Act 2006) must meet two of the following criteria: fewer than 50 employees, annual turnover of less than £10.2m or total balance sheet assets of less than £5.1m
- A small unincorporated organisation must have an annual turnover of less than £10.2m

OFF-PAYROLL WORKING RULES (IR35) FROM APRIL 2020 - CONT…

To support extension of the reform to all sectors, there are a number of deliverables that have been identified through the lessons learnt in the public sector.

a) The inclusion of a marker in payroll software to tag payments made through RTI to off-payroll workers subject to the reform. This marker can then be used by software providers to prevent data entry into fields related to occupational pension or statutory payments. This marker can also be used to analyse PAYE data to assess the success of the policy and the growth of the PSC industry.

b) Student loan repayments should not be deducted from a payment to a PSC. The lack of deduction results in prompts being issued unnecessarily. The new marker would be used to inhibit automatic notifications for Student Loans' (SL) starter notices, ensuring consistency with guidance, which advises not to deduct SL repayments for off-payroll workers. This will reduce confusion and enhance the customer experience. The extension of the off-payroll working reform to all other sectors will introduce IT changes to inhibit the SL prompt for off-payroll engagements in all sectors.

Solution Design

- New data Item will be added to FPS to enable deemed employers for off-payroll engagements to report information required via their Payroll Software.

STATUTORY PARENTAL BEREAVEMENT PAY AND LEAVE (SPBP)

Executive Summary of Change

A new statutory allowance for parents who have lost a child is planned to be introduced by April 2020.
The agreed solution is for this statutory parental bereavement pay will follow the same administration process as other statutory payments such as paternity pay. The payments will be paid out by employers and claimed back through payroll processes.

Solution Design

IT changes will focus on enhancing RTI and it’s supporting systems to include the extra statutory payment.

- One new data item box to FPS
- Two new data items boxes to EPS

SHORT TERM BUSINESS VISITORS (STBV) – APPENDIX 8

Executive Summary of Change

Most business visitors from companies with foreign subsidiaries are exempt from UK tax under the network of double tax treaties, whereas visitors from a foreign branch of a UK company are taxed under Pay as You Earn (PAYE), required to file a tax return and if applicable claim double taxation relief in their home country. This means companies with short-term business visitors (STBVs) from overseas branches incur significantly higher administrative costs and burdens than companies with visitors from overseas subsidiaries.

Employers with STBVs from foreign branches can currently use the PAYE special arrangement. This allows collection of tax on an annual rather than monthly basis. The employer must report the STBV's annual tax liability by 19th April using the Month 12 Full Payment Submission (FPS) and pay by 22nd April.

However, employers have told HMRC that the 19th/22nd deadlines are too tight for them to collect and collate the necessary information from multiple sources. HMRC are therefore proposing to relax these deadlines, allowing employers to submit an annual return, reporting and paying the tax by 31st May.

Solution Design

- No changes are required to RTI reporting

ULTRA LOW EMISSION VEHICLES (ULEV) & WORLDWIDE HARMONISED LIGHT VEHICLE TESTING PROCEDURE (WLTP)

Executive Summary of Change

ULEV

Ultra Low Emission Vehicles are vehicles that emit less than 75g of carbon dioxide (CO_2) for every kilometre travelled and are subject to HMRC Company Car Tax regime. From April 2020 the current ULEV bands in the HMRC company car tax regime will no longer support uptake of the cleanest cars using latest technology. Government have announced the change to come into effect from April 2020 to introduce 11 new bands for Ultra-Low Emission Vehicles (ULEVs) in the 0-75g CO_2/km range from 2020-21.

This measure incentivises the very cleanest cars using the most advanced technologies beyond 2020-21. Some of the new bands will be based on the 'zero emissions miles' capability of the car. This distinguishes between ULEVs with different plug-in hybrid technologies and improved battery range, which will focus incentives on the very cleanest cars that allow most journeys to be zero emissions.

This will support transition to cleaner, zero- and ultra-low emission cars helping to improve air quality in towns and cities and protecting the environment for the next generation.

WLTP

One of the factors used to calculate company car tax is the CO_2 emissions of a car. Since the 1990s, the standard testing methodology for producing car emissions values is the “New European Drive Cycle” (NEDC), but the flaws in this test methodology have become very clear in recent years. NEDC is being replaced by a new test, Worldwide Light Testing Procedure (WLTP). WLTP is a more robust test of vehicles that aims to be more representative of real world driving conditions Government announced that from April 2020 it would change from using NEDC to WLTP emissions figures for company car tax purposes, in relation to new cars registered on or after 6th April 2020

ULTRA LOW EMISSION VEHICLES (ULEV) – CONT..

What's changing

ULEV - From 6 April 2020, the graduated table of company car tax bands will now include 11 new bands in respect of ultra- low emission vehicles (ULEVs) in the 0-75g CO_2/km

WLTP – From April 2020 a second table of company car tax rates will be introduced with set of appropriate percentages in respect of vehicles registered on or after 6th April 2020

Solution Design

Expenses and Benefits – new data item will be added to enable Employers to report Zero Emissions Mileage on P46(Car) from tax year 2020-21

RTI – new data item will be added to enable Employers to report Zero Emissions Mileage from 2020-21 (for payrolled company cars)
RTI – new data item will be added to enable Employers to report Date First Registered from 2020-21 (for payrolled company cars)