

# 12PAY

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By IRIS

12Pay

Legislation Guide

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## Dear Customer

All standard rates and parameters for Tax/NI/Statutory Payments/Minimum Wage rates, AE parameters etc. are up to date in the payroll software for the 2021/2022 tax year, as are the standard reports.

For details of all the rates and parameters changes, click [here](#) to view/print the Payroll Fact Sheet for 2021/2022.

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

## Off Payroll Working

The legislation for Off-Payroll Working (IR35) in the private sector is being implemented in April 2021. It was initially planned for April 2020 and was delayed by the Government due to the COVID-19 outbreak.

Off-payroll working rules are more commonly known as IR35. This legislation allows HMRC to collect additional payments, where a worker provides their services through an intermediary to another person or entity. The intermediary in this case is another individual, a partnership, an unincorporated association, or a company. Off-payroll working rules are changing from 6<sup>th</sup> April 2021.

From 6<sup>th</sup> April 2021, all public sector clients and medium or large private sector clients will be responsible for deciding a worker's employment status. This includes some charities and third section organisations.

If the off-payroll working rules apply, the fee payer (the public authority, agency or other third party who is responsible for paying the worker's intermediary) must:

- Calculate a deemed direct payment to account for employment taxes associated with the contract
- Deduct those taxes from the payment to the worker's intermediary
- Report taxes deducted to HMRC through RTI, Full Payment Submission (FPS)
- Pay the relevant NICs

Here are some useful links with further HMRC guidance on Off-payroll working:

- [Understanding-off-payroll-working-ir35](#)
- [Fee-payer-responsibilities-under-the-off-payroll-working-rules](#)
- [Private sector off-payroll working for intermediaries](#)
- [Public sector off-payroll working for clients](#)
- [Preparing-for-changes-to-the-off-payroll-working-rules-ir35](#)

## Deemed Direct Payment

The deemed direct payment is the amount paid to the worker that should be treated as earnings for the purposes of the off-payroll rules.

To calculate the deemed direct payment, you must:

1. Work out the value of the payment to the worker's intermediary, having deducted any VAT due
2. Deduct the direct costs of materials that have, or will be used in providing their services
3. Deduct expenses met by the intermediary, that would have been deductible from taxable earnings if the worker was employed
4. The result is the deemed direct payment. If this is nil or negative, there is no deemed direct payment

## Employment Allowance

Off-payroll Workers' NI Liability cannot be offset against employment allowance. For instance:

- Company has 10 workers who are all off-payroll workers. The NI liability is £3,500. Employment Allowance claimed would be zero
- Company has 10 workers where 5 are off-payroll workers and 5 are employees. The NI liability is £3,500 - £2,000 from off-payroll workers and £1,500 from employees. The Employment Allowance in this instance would be £1,500

## Student Loan Thresholds

With effect from Tax Year 2021/2022, the Government has introduced **Student Loan Plan Type 04 Scotland**. HMRC will determine who should be on this new plan type and will issue instructions via DPS.

## Payroll Calculations

Although the threshold differs when calculating **Student Loan Plan Type 4**, there is no change to the rate or method when calculating student loan deduction.

## Thresholds

The annual thresholds have been updated in line with legislation for 2021/2022.

- Plan Type 1 increased from £19,390 to £19,895
- Plan Type 2 increased from £26,575 to £27,295
- Plan Type 4 is £25,000
- Postgraduate Student Loans remains at £21,000
- Student Loan rate is 9%
- Postgraduate Loan rate is 6%

## RTI – Earlier Year FPS

It is now possible to send a Full Payment Submission (FPS) for a previous tax year and after 19th April in the current tax year. From 2020/2021 onwards, you can no longer send an Earlier Year Update (EYU) to correct any mistakes made in the previous tax year - you can only send an EYU for submissions up to Tax Year 2019/2020.

## Starter Checklist

HMRC have made some changes to the Starter Checklist.

HMRC have updated statements **A**, **B** and **C** The new statements are:

- **Statement A:** “Do not choose this statement if you’re in receipt of a State, Works or Private Pension. Choose this statement if the following applies. This is my first job since 6 April and since the 6 April I’ve not received payments from any of the following:
  - Jobseeker’s Allowance
  - Employment and Support Allowance
  - Incapacity Benefit”
  
- **Statement B:** “Do not choose this statement if you’re in receipt of a State, Works or Private Pension. Choose this statement if the following applies. Since 6 April I have had another job, but I do not have a P45. And/or since the 6 April I have received payments from any of the following:
  - Jobseeker’s Allowance
  - Employment and Support Allowance
  - Incapacity Benefit”
  
- **Statement C:** “Choose this statement if:
  - you have another job and/or
  - you’re in receipt of a State, Works or Private Pension”

## National Minimum Wage and National Living Wage

For April 1st 2021, HMRC has revised the National Minimum Wage (NMW) and National Living Wage (NLW) age brackets and rates. Two of the age brackets have been changed:

- 25 and over is now 23 and over
- 21-24 is now 21-22

National Minimum & Living Wage – Age	Rate from April 20	National Minimum & Living Wage – Age	Rate from April 21
25 and over	£8.72	23 and over	£8.91
21-24	£8.20	21-22	£8.36
18-20	£6.45	18-20	£6.56
16-17	£4.55	16-17	£4.62
Apprentice Rate	£4.15	Apprentice Rate	£4.30

## CIS Reverse Charge VAT

From 1<sup>st</sup> March 2021, the domestic VAT reverse charge must be used for most supplies of building and construction services. This does not change the way VAT on supplies is accounted for. The supplies recipient accounts for the VAT, instead of the supplier charging and accounting for it. This relates to supplies of specified services, together with goods supplied with those services. The charge applies to standard and reduced-rate VAT services. You are required to use the reverse charge if you're VAT registered in the UK, you supply building and construction services and:

- Your customer is registered for VAT in the UK
- Payments for supplies are reported within the Construction Industry Team (CIS)

You should:

- Check your customer has a valid VAT number
- Check their CIS registration
- Review contracts to decide if the reverse charge is applicable, and inform your customers
- Confirm with customers if they are an end user or an intermediary supplier

The types of construction services covered by the reverse charge are defined in the statutory instrument. These are based on the definition of 'construction operations' used in CIS under Section 74 of the Finance Act 2004 but, will only apply to supplies where payments are required to be reported for CIS purposes under regulation 4 of the Income Tax (Construction Industry Scheme) Regulations 2005.

The statutory instrument excludes certain types of supplies of services. This is also based on CIS definitions under Section 74 of the Finance Act 2004.

The statutory instrument also excludes supplies of specified services to end users. These are customers that have to report their payments for specified supplies through CIS but do not make supplies of specified services themselves.

Also excluded are supplies of specified services where the supplier and customer are connected in a particular way, and for supplies between landlords and tenants. The meaning of connected is defined in the statutory instrument and only applies where the customer is an end user and the supplier is part of that customer's corporate group. These exclusions are defined in the statutory instrument as excepted supplies. Unlike for CIS, there will be no deemed contractor provisions whereby purchases become subject to reverse charge because the purchaser buys a certain amount of such purchases in a given period.

Where a VAT-registered business receives a supply of specified services (which are not excepted supplies) from another VAT-registered business that become liable to the reverse charge, the VAT treatment is as follows for invoices with a tax point of:

- Before 1<sup>st</sup> March 2021 – normal VAT rules will apply. You should charge VAT at the appropriate rate on your supplies
- On or after 1<sup>st</sup> March 2021 – the domestic reverse charge will apply

The business accounts for that VAT amount through its VAT return instead of paying the VAT amount to its supplier. It will be able to reclaim that VAT amount as input tax, subject to the normal rules. The supplier will need to issue a VAT invoice that indicates the supplies are subject to the reverse charge.

## Example of No Reverse Charge v Reverse Charge

Here is an overview of the figures, assuming Tax @ 30% and VAT @ 20%

Existing Process – No Reverse Charge			New Process - Optional Reverse Charge		
Gross Payment (Tax)	£1,000		Gross Payment (Tax)	£1,000	
Gross Payment (VAT)	£1,000		Gross Payment (VAT)	£1,000	
Tax Deducted	£300		Tax Deducted	£300	
VAT	£200		VAT	£200	
Net	£900		Net	£700	
Costing – Existing Process			Costing – New Process		
	Debit	Credit	Field	Debit	Credit
Labour	£1,000		Labour	£1,000	
Tax Deducted		£300	Tax Deducted		£300
VAT	£200		VAT	£200	£200
Net		£900	Net		£700
Totals	£1,200	£1,200	Totals	£1,200	£1,200

Click this link for information regarding the **VAT reverse charge**.



## NIC Holiday for Veterans

Following a consultation period, from April 2021, HMRC have introduced new legislation for NIC Holiday for Veterans. This legislation gives NIC relief to veterans in their first year of civilian employment. The relief is available for employers from April 2021 and there are transitional arrangements in place until April 2022, at which point employers will be able to claim through PAYE. IRIS will update the payroll software in readiness for this change in April 2022. Employers will be able to make a claim to HMRC from April 2022 for Employer NICs paid on the salaries of eligible veterans employed between April 2021 and March 2022.

## Useful numbers

HMRC online service helpdesk	HMRC employer helpline
<b>Tel: 0300 200 3600</b> <b>Fax: 0844 366 7828</b> <b>Email: <a href="mailto:helpdesk@ir-efile.gov.uk">helpdesk@ir-efile.gov.uk</a></b>	<b>Tel: 0300 200 3200</b> <b>Tel: 0300 200 3211 (new business)</b>

## Contact Support

Your Product	Phone	E-mail
<b>IRIS 12Pay</b>	0845 834 0234	<a href="mailto:support@12pay.co.uk">support@12pay.co.uk</a>
<b>IRIS PAYE-Master</b>	0344 815 5661	<a href="mailto:payroll@iris.co.uk">payroll@iris.co.uk</a>
<b>IRIS Payroll Business</b>	0344 815 5661	<a href="mailto:ipsupport@iris.co.uk">ipsupport@iris.co.uk</a>
<b>IRIS Bureau Payroll</b>	0344 815 5661	<a href="mailto:ipsupport@iris.co.uk">ipsupport@iris.co.uk</a>
<b>IRIS GP Payroll</b>	0344 815 5681	<a href="mailto:gpsupport@iris.co.uk">gpsupport@iris.co.uk</a>
<b>IRIS GP Accounts</b>	0344 815 5681	<a href="mailto:gpaccsupport@iris.co.uk">gpaccsupport@iris.co.uk</a>
<b>Earnie or Earnie IQ</b>	0344 815 5671	<a href="mailto:earniesupport@iris.co.uk">earniesupport@iris.co.uk</a>
<b>IRIS Payroll Professional (formerly Star)</b>	01273 715300	<a href="mailto:payroll-support@iris.co.uk">payroll-support@iris.co.uk</a>