

Spotlight on Employment Taxes

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Employment Taxes Spotlight

An Overview of Recent Changes:

- PAYE Settlement Agreements
- Termination Payments

Near Future Changes:

- Childcare Vouchers
- Apprenticeship Levy
- Welsh Tax

Consultation Document:

- Off-payroll working in the Private Sector

“There is nothing
wrong with **Change**,
if it is the right
direction.”
-Winston Churchill-



PAYE Settlement Agreements



♥ What's one of those?

- An agreement with HMRC whereby we can settle the tax on behalf of our employees on any minor, irregular or 'impracticable to operate PAYE on', items.

♥ What's on LV='s PSA?

- Staff Entertaining, Non-allowable Long-service awards, Recognition awards, and our most recently added item, Green Heart Support.

♥ Dates to note

- Enduring Agreement – 6th July
- Return – 31st July or August - PSA1 form or your own
- Payment – 19th / 22nd October

♥ How do LV= complete their PSA Return?

- In-House
- Spreadsheets and formulae
- A fairly long process to ensure that return is accurate
- Accrue cost through year at cost centre level

♥ Exemptions & Trivial Benefits

- Review guidance to eliminate items from PSA

Call HMRC
with any
questions



Termination Payments

Pre April 2018

- Payments made for loss of office are tax free up to £30k, and completely NI exempt
- Contractual Payments in Lieu of Notice (PILON) and Non-contractual PILON's are treated differently – one taxable, one not
- Foreign Service Relief is available



Post April 2018

- Non-contractual PILON's are now treated as earnings and subject to tax and both Ee's and Er's NIC.
- Where there is no PILON, a PENP / RTA calculation needs to be done. More detail on next slide.
- Foreign Service Relief is no longer available for employees where they were resident in the UK in the tax year that the employment was terminated.
- S.406 specifically excludes payments for 'Injury to feelings'



Post April 2019

- Any amount above the £30k exemption will be subject to Employers NI, but not Employee's NI.
- Weirdly – this will be Class 1A, probably reportable and payable when TP paid, via RTI not P11D(b).
- A significant increase in cost to the employer, on payments over £30k



Termination Payments

♥ Relevant Termination Award (RTA) & Post Employment Notice Pay (PENP)

- PENP is deemed notice pay where none, or not enough, is included in the settlement amount.
- Best Practice is to carry out the calculation for every termination payment made, but normally required when employment contract or settlement agreement is silent on notice period / pay
- The key is understanding the drivers of the components of the package

RTA = The termination payment that isn't Statutory Redundancy Pay.

$$\text{PENP} = \frac{\text{BP} \times \text{D}}{\text{P}} - \text{T}$$

BP = Basic Pay in the last period before the trigger date.

D = Days in the unworked notice period

T = total of the payments and benefits made in connection with the termination of employment that are taxable as general earnings, but excluding any accrued holiday pay or termination bonus. (PILON'S)

P = the number of days in the last pay period

If PENP > RTA
= Whole RTA is taxable

If PENP < RTA
= PENP amount
is taxable



Near Future Changes



♥ Childcare Vouchers

- Schemes were due to close to new entrants on 5 April 2018
- Date was changed to 4 October 2018
- NOTE: First voucher must have been purchased before the closing date – so September payroll

♥ Partial Income Tax devolvement to Wales

- From April 2019, Wales will be able to set their own rates of income tax
- Tax will continue to be collected by HMRC
- UK will reduce each rate by 10pence, Welsh Government will set own rates which could be up to 10 pence until 2021 – Welsh Assembly Commitment



♥ Apprenticeship Levy

- From June 2018, possible to transfer a maximum of 10% of previous years fund to one other employer
- Both employers to sign up to an agreement
- Employers who pay should be able to see the transfer facility in their levy account
- Other Employer could be someone in supply-chain, another employer in your industry or a regional partner



Off-Payroll Workers in the Private Sector

Current Position & Consultation Document

Current Position

IR35 introduced in 2000

Individual determines whether IR35 applies

HMRC believe Compliance is only around 10%

Off-Payroll Working Rules Public Sector - April 2017

HMRC evidence suggests it has been successful

Consultation Document

Consultation Document – Private sector - released May 2018

Effectiveness of Public Sector Reform

Rolling out to the Private Sector

Requiring Engagers to secure their labour supply chains – completed CEST determination

Burden to Employers

All contractors assessed via CEST

Major, High-profile, expensive project for large organisations

Administrative burden put on Employers

Commerciality – Contractor may walk if decide to payroll – Internal Issues

Other Thoughts

Right to substitute – rarely exists in our industry – normally highly skilled, independent

Contracts not scrutinised – Contractor assumes IR35 doesn't apply if PSC

Many feel bigger picture of employment status should be addressed first

May cost more to engage with the contractor – re-negotiate fees

Evidence that some employers are insisting that workers engage through a PSC to avoid ER's NI



Off-Payroll Workers in the Private Sector

Impacts & What should we do now?

Potential
Impacts

Employers NIC,
Apprenticeship
Levy & Auto-
enrolment

Adjusting payroll if
decision reversed?

Contractors may
think they have
right to benefits

Will employer get
NI back if decision
reversed?

Cost for separate
payroll?

Read the Consultation Document and consider submitting a response

Engage with potential
project stakeholders
in HR, AP, Sourcing,
Legal, Recruitment

Could you be
ready for April
2019?

Look at your
population of
contractors

PSC - Engaged
directly or
through agent?

Understand
your standard
issued contract

Engage with Legal
/ Sourcing to do
contract review

Run a typical
contract through
the CEST and
review the outcome

How will we pay
contractor? AP
Process? VAT?

Engage with your
payroll software
provider

Encourage
Recruitment to
employ FTC's?



Any Questions?

