Master Payroll Guide

Paul Tew

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About the Author

Paul Tew is a freelance adviser to employers, primarily in the areas of pay, personal taxation and remuneration planning. He is a frequent contributor to technical journals on pay and benefit matters, with many years' experience in dealing with Payroll audit and compliance issues across a broad range of industries and sectors.

Preface

Payroll has advanced a long way in recent years from being a pure number crunching process, to an area which finds itself at the forefront of the employer's business decisions, providing important management data. Today payroll often plays a part in formulating or agreeing company policies on pay and remuneration, and managing and implementing any changes, whilst ensuring internal and statutory compliance. It is no longer just an end product producing a pay statement on relevant pay dates but a key contribution to the overall functioning of the business.

Payroll continues to experience many changes with the increasing use of mandatory electronic communication in completing the payroll cycle, changes in employee work patterns and new Government initiatives bringing both benefits and challenges alike. The proactive approach of those working in payroll can result in considerable tax and/or NIC savings being achieved through understanding of the legislative implications of company policy and practice.

The *Master Payroll Guide* is a new work specifically written for business, aimed at providing practical guidance to the person(s) responsible for the payroll operation. All aspects of payroll are covered within the work, including amongst others, PAYE tax, NICs, Statutory Payments, International Employees, Expenses and Benefits, Tax Year End Procedures and Termination Payments.

The main body of the text provides a summary of the core procedures that need to be followed by payroll practitioners, with checklists and procedural lists provided to enable the user to comply with the relevant payroll law. Information points are interspersed within the text, where the user can find further details on the subject matter: these often include a web page link and telephone number. Warning messages are provided to highlight areas of special concern such as where there the legislation is likely to change in the future, specific penalty provisions and how these may be imposed in practice, and pitfalls for the employer to avoid.

The practical nature of the book is further emphasised by the frequent use of calculation examples and flowcharts, giving the user step-by-step guidance on how to produce a timely and accurate payroll. The commonly used forms in payroll processing are explained, together with their relevance to particular employees and how these should be completed by the employer.

Payroll is complex, and is becoming increasingly so. The *Master Payroll Guide* cuts through the theory of the subject and offers a clear and concise commentary covering the complete spectrum of day-to-day payroll activities.

Paul Tew

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3 National Insurance

National Insurance Contributions (NIC) is a charge levied on the earnings of the employed with contributions credited to the individual employee's NI account.

3.0 Establishing Class 1 NIC Earnings

NIC earnings that derive from employment are known as Class 1 contributions. NIC are calculated based on the level of the employee's earnings, his or her earnings period and personal circumstances, such as marital status, age and gender.

The definition of earnings for NIC purposes is not necessarily the same as that used in calculating employment income for PAYE income tax (see 2.6). For example, there is no equivalent 'NIC relief' on contributions made to a registered pension scheme or a Payroll Giving scheme (see 9.2). The calculation of any Class 1 NIC liability is based on the employee's gross pay not on gross taxable pay, so no pay adjustment is applicable (see 2.6).

Earnings are defined as 'any remuneration or profits derived from an employment.' Remuneration is broadly cash wages or salary and enhancements and allowances paid for performing any work under a contract of service. Profits include reimbursement of non-business related expenses, round sum allowances and scale rates (see 13.18) paid above any HMRC agreed amount, as may be included in a dispensation notice (see 13.21). Earnings can include any payment, which is easily convertible into cash by surrender, e.g. premium bonds.

Class 1 NIC liability arises at the point that the earnings are placed unreservedly at the disposal of the employee (see 3.2). However, HMRC accepts that on occasions it is sensible to allow employers to use a later earnings period to calculate Class 1 NIC due, where there is late notification of a payment, which was paid to the employee outside the payroll mechanism, e.g. employee expenses, even if this means assessing the payment in a following tax year.

> ***Warning***
>
> Class 1 NIC for employees (not necessarily directors) are based on the earnings paid in each normal earnings period, which must be considered in isolation. Unlike PAYE tax, NIC is not cumulative in nature.

3.1 Applying NIC Rates and Thresholds

The starting point for paying employee (referred to in law as primary) and employer (referred to in law as secondary) contributions is the earnings threshold (see Appendix C.6). Once earnings breach this threshold Class 1 NI is paid on all earnings.

Up to 5 April 2003 there was a limit at which primary contributions ceased. From 6 April 2003, an additional percentage rate of 1% has been applied to all employee earnings above this limit. Therefore, a two-tier percentage rate operates in respect of primary Class 1 NIC consisting of a main percentage rate (see Appendix C.3) where earnings exceed the Earnings Threshold (ET) but do not exceed the Upper Earnings Limit (UEL) and an additional percentage rate on all earnings that exceed the UEL.

The employer pays on all contributions on earnings in excess of the earnings threshold with no upper ceiling. Employer contributions are payable on all earnings above the UEL, at the highest secondary rate, regardless of whether the employment is contracted out or not (see 3.5).

> ***Warning***
>
> From 6 April 2009 an Upper Accrual Point (UAP) is introduced and employers and employees will pay NIC at the main percentage rates (12.8% and 11% respectively) on employment earnings between the UAP and UEL.

3.2 Determining NIC Earnings Periods

The thresholds and limits to be used in the NIC calculations are determined by the relevant pay period (see Appendix C.6). The earnings limits are used in determining the rates at which, if at all, primary (employee) and secondary (employer) contributions are due.

However, an earnings period can never be less than one week or more than one year. For most employees paid weekly or monthly or multiples thereof the calculation is straightforward. The basic earnings period is a week, and other earnings periods are simply adaptations of this. The earnings limits for an employee with a monthly earnings period are the weekly limits multiplied by 52 and divided by 12, albeit that there is some rounding of values.

Special NIC rules apply where the employee has:

- more than one regular earnings period, usually where a standard and a variable amount is payable under the same employment contract;
- no regular payment of earnings either by contract or employer custom and practice; or

- received a 'mistimed' payment, where payment for a particular earnings period is paid earlier or later than provided for in the employee's terms and conditions.

As a general rule, if an employee is paid more than one set of regular payments, all payments must be added together and NIC worked out using the shorter of the regular intervals between payments.

> ***Calculation Example***
>
> If an employee receives basic pay of £250 on a weekly basis and commission of £150 on a monthly basis, NIC are calculated on total pay of £400 using a weekly earnings period.

However, if an employee is paid at more than one regular interval and it is established by the National Insurance Contributions Office (a division of HMRC with responsibility for safeguarding and maintaining accurate National Insurance accounts) that most of the earnings are paid at the longer (or longest) interval, the employer may be issued with a direction notice to work out NIC using the longer (or longest) interval. If the direction specifies an annual earnings period to work out NIC, the earnings period for the rest of the tax year in which the direction is made will be the number of weeks left in that tax year.

If an additional payment is made to an employee in an earnings period, such as a Christmas bonus or commission, that further payment is added to the earnings for that particular period and Class 1 NIC calculated on the total sum.

If the interval between payments to employees is irregular the earnings period for working out Class 1 NIC is the period which the payment covers, or one week, whichever is the longer period. However, if it is not reasonably practicable to determine the earnings period in this way, the earnings period will be calculated from the date of the previous payment to the date of the current payment or the date the employment began to the date of the first payment. If the period calculated in either case is less than one week, the earnings period is always one week.

> ***Warning***
>
> If an employee is paid in irregular or unequal payments and it is established that this avoids, or reduces, the payment of NIC, HMRC can direct an employer to work out NIC on a different basis. In such cases, the employer will be informed of the basis to use.

A mistimed payment occurs where an employee is contractually entitled to be paid, but the payment is deferred until a later pay date.

Calculation Example

A new employee starts on 14 July, which is after the employer has processed the computerised monthly payroll. Therefore, the employee is paid the part month's wages (14–31 July) together with the salary due for the calendar month of August on the 31 August (the normal pay date for that month). The two payments for Class 1 NIC purposes need to be split between July and August, with any employee and employer NIC liability calculated for each month separately. The normal monthly earnings limits and thresholds are applied, even if pay for only part of an earnings period is payable. The contribution rates and limits are those current at the time the earnings are actually paid.

3.3 Performing NIC Calculations

The NIC liability is calculated by using one of two methods:

- by applying the exact percentage method to the gross pay for the earnings period (used primarily by computerised payroll systems); or
- using NI tables as supplied by the HMRC which are easier to use for manual calculations.

The two methods should not normally be mixed during a tax year unless:

- the employee changes to another payroll which already uses the other method; or
- the employer changes payroll system, for example, from manual to computer.

Information

NIC table booklets are no longer sent automatically to employers. All NI tables are available from the Employers' Order line (telephone 0845 7 646 646) or by printing from the HMRC website at *www.hmrc.gov.uk/employers/emp-form.htm*. The tables can also be found on the Employer's CD-ROM, which is issued automatically to employers with a PAYE Scheme reference number.

Checklist

The following NI tables are in use from 6 April 2009:

- CA38 – for those in not contracted-out employment: Table Letters A and J only.
- CA39 – for employees in contracted out salary related schemes.
- CA40 – for employee only contributions for employers or employees authorised to pay their own contributions.
- CA41 – for those in not contracted-out employment: Tables B and C.
- CA42 – foreign-going mariners and deep-sea fishermen's contributions for employers.
- CA43 – for employees in contracted-out money purchase schemes and contracted-out defined contribution stakeholder pension schemes.

The earnings shown in the tables are in bands of whole pounds, £1 for weekly, £4 for monthly (no pence), with usually both the primary and secondary NIC calculated on the mid-point of each band.

Procedure List

The employee NIC liability is calculated using the NIC tables (2008/09 version) as follows:

1. Calculate the gross earnings for NIC, that is any remuneration or profit payable in respect of the monthly earnings period, say £1,084.62.
2. Go to the appropriate NIC table (see above) and find the nearest lowest figure of total earnings, ignoring any pence, in this case the figure is £1,082.
3. Go across to the figure under the employee's contributions due (column 1e) and this figure is the amount to be deducted as the employee Class 1 NIC liability.

> **Warning**
>
> For 2009/10 the employee's contributions due will be found in column 1f of the relevant NIC tables, as an additional column is inserted to record earnings between the new UAP and revised UEL.

> **Information**
>
> If the employer requires copies of tables CA39 or CA43 contact the Contracted-out Employments Group, HMRC NI Contributions Office, Longbenton, Newcastle-upon-Tyne, NE98 1ZZ, telephone 0845 9 150 150.

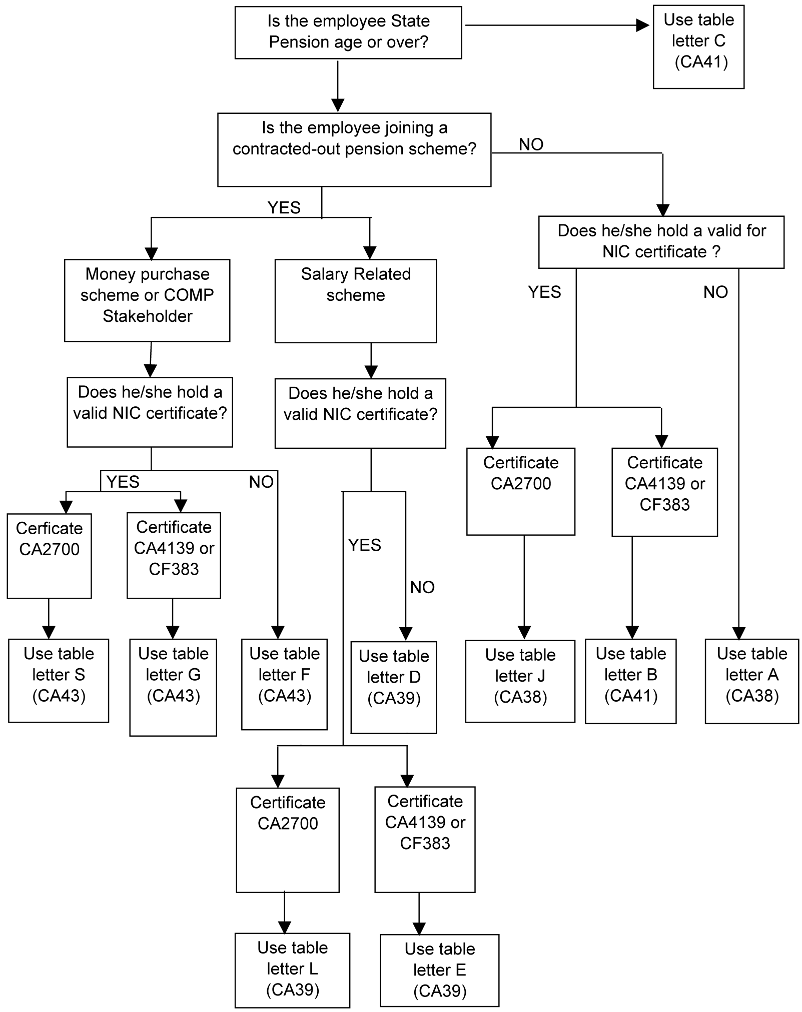
3.4 NIC Table Letters

The tables used are dependent on a number of factors, such as the employee's age, gender recognition, pension provision and employment type. The following summarises the NI table letter position as at 6 April 2009.

Rate	Not Contracted Out	Contracted Out Salary Related Scheme (COSR)	Contracted Out Money Purchase Scheme (COMP)
Standard	A	D	F
Reduced	B	E	G
Employer Only (age exception)	C		
Deferment Case	J	L	S

Where an employee reaches state pension age and continues as a member of an occupational pension scheme (whether a COMP or COSR scheme), Table Letter C at the not contracted-out rate is used.

Flowchart No 3 – Operation of NIC Table letters



KEY

CA2700 - Certificate of deferment
CA4140 - Certificate of age exemption
CF383 - Certificate of election
CA4139 - Certificate of election
CA38 - Not contracted-out NIC tables (letter A & J)
CA39 - Contracted-out Salary related tables
CA41 - Not contracted-out NIC tables (letter B & C)
CA43 - Contracted-out Money purchase tables

If an incorrect table letter is applied in an employee's earnings period, then any refund of employee contributions due for the current tax year can be made by the employer.

Information

For contribution refunds due for a tax year that has ended, contact HMRC Refunds Group, employers can visit *www.hmrc.gov.uk/nic/refund.htm* for more information.

Warning

There are special rules and table letters that apply for foreign going mariners, these are under NI table letters R,T,W,Q,N,O,H,K, and V.

3.5 Calculation of NIC Contracted-out Rebate

For those employees who are participant members of a registered contracted-out pension scheme, there is a Class 1 rebate that is factored into the NIC calculation (see 3.3). The rebate is applicable to both the employee and employer and is calculated on the employee's earnings above the LEL (see Appendix C.6) up to and including the UAP.

From 6 April 2009, the UAP is a newly introduced threshold, which is used to calculate contracted-out rebates, replacing the UEL previously used for this purpose. Employers must show earnings between the earnings threshold and the UAP and the UAP and UEL on the employee's deduction working sheet, form P11 or computerised equivalent. Employers and employees operating and in a registered pension scheme contracted out of State Second Pension (S2P) receive a rebate between the LEL and the UAP. Employers and employees will pay standard rate NIC at 12.8% and 11% respectively on earnings between the UAP and UEL (see Appendix C.3–4).

3.6 Reduced Rate NIC for Certain Women

The employee reduced rate liability payable under NI table letters B, E or G applies to women in possession of a valid certificate of election, form CA4139 (CF383). This form (card) was only issued to certain married women and widows that made an election to pay reduced rate NIC prior to 11 May 1977. The card gives the employer the authority to deduct employee contributions at the reduced rate of 4.85% on earnings between the earnings threshold and UEL. The election has no affect on the employer's liability to pay NIC there is no NIC 'saving' for the employer irrespective of whether the employee previously made an election or not.

Checklist

A certificate of election ceases to be valid where the:

- woman's marriage ends, either by divorce or annulment;
- employee becomes a widow but is not entitled to bereavement benefit after an initial period;
- employees loses the right to bereavement benefit, for a reason other than remarriage;
- employee has not had earnings that reach the LEL in two consecutive tax years, since 6 April 2000; or
- person has not been self-employed in the two-year period since 6 April 1978.

Warning

Employers can be liable for any shortfall in respect of underpaid NIC for women paying at the reduced rate without a valid certificate of election unless the employee was at fault and the employer was not negligent. The entitlement for a woman to pay reduced rate NIC is likely to disappear altogether at some point in the future.

Checklist

To avert any potential Class 1 NIC underpayment the employer may wish to have arrangements in place:

- so that the employee knows who, or to which department, she should inform that she is no longer entitled to pay reduced rate NIC and whether this notice has to be given in writing;
- to check any notification of change of surname or remarriage as this may mean that there has been a divorce or annulment;
- to issue a periodic reminder to employees with a certificate of election, preferably at the start of a new tax year, advising of the need to inform the employer (named individual or department) if her marriage ends by divorce or annulment and is no longer entitled to pay reduced rate NIC.

Information

A woman wishing to give up the right to pay reduced rate NIC must complete part 1 of the 'reduced rate' certificate, Form CF9 (if married) or CF9A (if widowed) and send the certificate and relevant form to NICO, Individuals Caseworker, Newcastle upon Tyne, NE98 1ZZ. Prior to returning the certificate to the employee, the employer should record the last date that reduced rate NIC were paid, their name and address, and indicate if the employee is still employed. To download a CF9 or CF9A go to *www.hmrc.gov.uk/forms/cf9.pdf* or *www.hmrc.gov.uk/forms/cf9a.pdf*. Employees requiring advice should contact the NI Enquiries for Individuals helpline on 0845 302 1479 – this is not a matter for the employer to advise on.

If a woman gives up the right to pay reduced rate NIC by returning the certificate, the next payment of earnings is subject to standard rate NIC. Once the certificate of election to pay reduced rate NIC is cancelled it cannot be re-started by the employee at a later date.

3.7 Use of Employer Only NIC Rate

The employer only rate applies where an employee receives earnings due for payment on or after he or she reaches state retirement age (currently 60 for women and 65 for men) (see 16.7). The employee has no Class 1 NIC liability on earnings which are due for payment on or after this age is attained. However, he or she must provide their employer with a certificate of age exception (CA4140) or some other documentary evidence, e.g. original birth certificate to verify his or her age.

The employer's contribution is still payable and is calculated on table letter C at the not contracted-out rate (tables CA41) based on the employee's earnings, even where the employee continues to be a participant member of the employer's registered pension scheme.

Warning

Between 2010 and 2020 the state pension age for women will rise gradually, and from 6 April 2020 it will have reached parity with men at 65. The rise in the state pension age will not affect women who were born before 6 April 1950, but women born between 6 April 1950 and 5 April 1955 will retire at an age between 60 and 65.

Information

An employee can obtain a Certificate of Age Exception by applying to NICO, Individuals Caseworker, Newcastle upon Tyne, NE98 1ZZ. If the employee has more than one job, he or she must get a separate Certificate of Age Exception to give to each employer.

3.8 NIC and Gender Recognition

The Gender Recognition Act 2004 allows transsexuals to legally change their recorded gender. A Full Gender Recognition Certificate is issued, granting the holder the same rights as other people of his or her acquired gender, but the certificate is not retrospective in rewriting the employee's NIC record. The employee assumes the new gender from the date of the certificate.

In the case of a transsexual female, the liability to pay employee NIC will be up to the state pension age for women, which is currently age 60. Conversely a transsexual man will have a requirement to pay his NIC liability up to the age of 65, the current state pension age for men. The employer should be given the relevant Full Gender Recognition Certificate as evidence of the change and a copy should be taken and held on file. There is no requirement for an employer to review the NIC status of an employee if only an interim Gender Recognition Certificate has been issued.

> ***Information***
>
> For further information employers should visit *www.hmrc.gov.uk/employers/gender.htm.*

3.9 NIC and Young People

NIC are payable by employees on any payment due to be made on or after they reach the age of 16. Below the age of 16, neither the employer nor employee has any Class 1 NIC liability.

Therefore, students at or below school leaving age providing evidence of this, in the form of a birth certificate or other relevant document can be placed on the default NI table letter X (no liability for either employee or the employer). The student is under no legal obligation to inform his or her employer that he or she has attained the age of 16. Any payment of earnings due after the employee has reached 16 are liable to Class 1 NIC, even if the period of work to which the payment relates was performed before it.

> ***Calculation Example***
>
> A student is 16 on 26 November 2008. He starts work for an employer on 1 October 2008 and is paid calendar-monthly on the last working day of the month. There is no NIC liability to consider for October, but as the November pay date (28 November) falls after his 16th birthday, the payment made will attract an NIC liability, provided the earnings are in excess of the earnings threshold, even though for November 2008 the majority of the work was undertaken when he was only 15 years old.

3.10 Directors' NIC Liability

Special rules apply to the calculation of NIC liability for directors. A director is defined for Class 1 NIC purposes as:

- a member of a board, where the company is managed by a board; or
- a single person, where the company is managed by an individual.

If a director, as defined in either of the above, is accustomed to acting under the instructions of another person, that person will be a director. This additional rule does not apply if the other person's instructions are limited to professional advice, for example, the advice given by a solicitor. Directors of building societies which have not de-mutualised are not normally company directors for NIC purposes.

Directors have by law an annual earnings basis for the calculation of NIC. Where this is applied no NIC liability for the director and/or their employer arises until the employee's earnings reach the annual earnings threshold (see Appendix C.6).

Checklist

In calculating a director's primary and secondary Class 1 NIC, it is necessary to:

- assess the director's cumulative NIC earnings to date in the tax year;
- use the annual earnings limits and thresholds even though the actual payments may cover a shorter time period; and
- deduct the Class 1 NIC, if already paid earlier in the same tax year on previous earnings, to arrive at the NIC due in respect of the current payment.

Earnings with a previous or non-associated employer are ignored in calculating any Class 1 NIC earnings in the current employment or office held.

Where an individual is appointed during the course of a tax year, the annual earnings period is reduced on a pro rata basis to reflect the number of weeks left in the tax year from the director's start date. The annual earnings basis continues to apply to any earnings paid during the remainder of the tax year in which a directorship ceases and any subsequent year thereafter.

However, an administrative easement is in place, which allows an employer to treat the director's earnings as paid on account, as with an employee. This easement can be applied where the director:

- agrees to this practice being used; and
- has a regular earnings period, e.g. monthly paid; and
- has earnings in excess of the NIC LEL for the pay period(s) concerned.

However, the easement has limited application as the strict annual basis must still be applied to a director's total earnings. This requires the employer to undertake a recalculation of the director's earnings made when he or she leaves the office or the end of the tax year is reached, whichever is the earlier.

Checklist

The employer must apply a reassessment at the time of the final payment of earnings in the tax year (or directorship) by:

- Calculating the NIC due on the director's total earnings for the tax year on the basis of an annual or pro-rata annual earnings, as appropriate;
- Deducting the amount of employee contributions due from the payment of earnings or, if the earnings are not high enough to meet the employee contributions due, the employer must meet any shortfall in the contributions due;

- Correcting the last (or, if the director leaves, or dies, during the tax year, the following) PAYE remittance due to HMRC to take into account the reassessment; and
- Completing the director's form P14, to show the Class 1 NIC due for the tax year, based on the reassessment.

> ***Information***
>
> For further information employers should follow the HMRC guidance manual CA44 *National Insurance for Company Directors*, telephone 0845 7 646 646 or download from *www.hmrc.gov.uk/nitables/ca44.pdf*.

3.11 Employee Paid in Multiples of Weeks

Once a pay period is established by contract or custom and practice, this is used for calculating Class 1 NIC on all payments made to an employee. If an employee works on a shift rotation system with regular weekly breaks, such as two weeks on and two week off, the earnings period is the whole cycle including down time which is taken into account, e.g. four weeks.

Procedure List

To calculate NIC the employer must:

1. Divide the earnings by the number of weeks in the earnings period (e.g. four for a four-weekly payroll).
2. Use the weekly NI tables to calculate the NIC due on the equivalent of a week's earnings, if these reach or exceed the LEL (see Appendix C.6).
3. Multiply the weekly figure by the number of relevant weeks to arrive at the total contribution due in the earnings period.

The above procedure applies equally to an employee paid fortnightly (but the multiplier/divider is two rather than four) or in multiples of a month.

3.12 NIC Liability on Pay Advances

Advances of pay are not regarded as earnings for NIC purposes, unless the payments are made frequently to the extent that an implied normal pay date is established by virtue of custom and employer practice.

If an employee is taken on to complete a particular project and is paid once at the end of the assignment, the earnings period is the length of time they are employed or one week, whichever is the longer.

Procedure List

If the earnings period is not an exact multiple of a week or month, the employer must use the exact percentage method (see 3.3) to calculate NIC use the following procedure:

1. Find the daily lower and upper earnings limits by dividing the weekly limits by seven.
2. Multiply the daily earnings limits by the number of calendar days in the period which the payment covers.
3. Calculate the daily earnings threshold by dividing the annual threshold by 365.
4. Multiply the daily earnings threshold by the number of calendar days in the period which the payment covers.

In all cases the resulting figures should be calculated to the nearest penny. Amounts of £0.005p or less should be disregarded.

If two payments are made in the same earnings period, the sums should be aggregated together and calculated on the total pay, no matter when the payments were earned.

If holiday pay is paid in advance (see 2.9), any NIC liability can be calculated using one of two methods, A or B:

A. Split the total pay and calculate NIC on each week separately; or

B. Calculate NIC on the total pay based on the number of weeks it represents, rounding up parts of a week.

> **Information**
>
> Further information on the special NIC rules on holiday pay can be found at *www.hmrc.gov.uk/manuals/nimmanual/NIM09120.htm.*

3.13 NIC Deferment Cases

An employee with more than one employment who anticipates earning in excess of the UEL (see Appendix C.6) in one, or in a number of employments, in any given tax year, can apply to NICO for permission to defer some of his or her Class 1 NIC liability.

The employee should make an application on form CA72A, normally by 14 February for the relevant tax year, unless the employer agrees otherwise. If the NICO Deferment Group approves this application, a certificate CA2700 is issued authorising the employer to deduct only the additional percentage rate (1%) on all earnings above the relevant earnings threshold (see Appendix C.6) in the tax year specified. The form is only valid for one tax year at a time and for the named individual. Employer contributions are still payable at the full standard or contracted-out rates.

Any contributions previously deducted in the same tax year to which the CA2700 certificate relates should be recalculated to reflect the difference between the NIC paid to date and the amount now due. This involves revisiting each earnings period and performing a separate recalculation.

Checklist

The NIC tables and letters in use for 2009/10 are as follows:

- Table Letter J, not contracted-out rate for those not in a contracted-out pension scheme (tables CA38);
- Table Letter L, contracted-out rate for those in a contracted-out salary related pension scheme (tables CA39); and
- Table Letter S for those in a contracted-out money purchase pension scheme (tables CA43).

Alternatively, a refund of employee NIC can be obtained by the employee direct from NICO Refunds Group, where the amount paid in a particular tax year exceeds the maximum liability for that year. For more details, visit *www.hmrc.gov.uk/nic/refund.htm*.

Information

For more information employees and/or employers should go to *www.hmrc.gov.uk/guidance/ca72a-notes-08-09.pdf* or telephone Deferment Services on 0845 915 7141.

3.14 NIC Earnings Detail

The payroll record, form P11 or computerised equivalent requires certain details to be inserted in respect of the employee's earnings and contribution liability.

Checklist

The following must be included on the payroll record (form P11) for tax year 2009/10:

- Column 1a – Earnings at the LEL, where earnings reach or exceed the LEL;
- Column 1b – Earnings above the LEL, up to and including the earnings threshold;
- Column 1c – Earnings above the earnings threshold up to and including the UAP;

- Column 1d – Earnings above the UAP up to and including the UEL;
- Column 1e – Total of employee's and employer's contributions payable; and
- Column 1f – Employee contributions payable on all earnings above the earnings threshold.

3.15 Aggregation of Earnings

If an employee has two unconnected jobs, there are no requirements for either employer to aggregate those earnings or even be aware of the other employment for Class 1 NIC purposes. However, when an employee has two or more jobs with the same employer or associated employers, the general rule is that his or her earnings must be aggregated together and treated as one payment for NIC purposes, unless it is not reasonably practicable for the employer to do so (for example, when two computer systems, pay frequencies and pension arrangements are in place).

Calculation Example

An employee works at a school, employed as a part-time caretaker during the day and a cleaner in the evenings. He receives £350 and £275 per calendar month for each separate employment, but for Class 1 NIC earnings purposes his earnings must be aggregated, as such the combined earnings of £625 breach the monthly earnings threshold and Class 1 NIC is due.

An employer is considered to be an 'associated employer' of another where:

- the respective businesses serve a common purpose, and
- to a significant degree, they share such things as accommodation, personnel, equipment or customers.

There is no definition in law of the phrase 'reasonably practicable' but HMRC has issued guidance on what factors need to be considered. The employer needs to take into account the costs, resources, and the effects on running the business. Cost is a material pointer but not necessarily a decisive factor. Costs to the employer are not just financial. Time, effort and the effects on the business have to be considered because the weight of the cost of compliance should not be disproportionate to the loss of NIC and benefit entitlement.

Warning

The onus is on the employer to demonstrate to HMRC that aggregation is not reasonably practicable, not the other way round.

3.16 Allocation of NI Numbers

A new employee is legally required to give an employer his or her permanent NI number when requested to do so. This should have been issued to the individual just prior to his or her 16^{th} birthday. Without this number an employee's NIC account cannot be credited with the correct amount of contributions paid upon receipt of individual end-of-year summary form P14 (see 12.0). HMRC also uses the NI number as an important employee identifier, in addition to any works or payroll number.

HMRC states that: 'Anyone who does not have an NI number must apply for one when they start work by contacting Jobcentre Plus on 0845 600 0643.' The NI number Contact Centre provides an electronic appointment allocation system which directs callers to a regional 'interview hub' based on the postal code, with a visiting service for rural areas.

NI numbers are always made up of two letters, six numbers and one letter, e.g. AB123456C. The last letter will always be A, B, C, or D, but this has no relevance to the NI table letter used on each payment of earnings. If an employer receives an NI number where the last letter is missing or illegible simply insert A, B, C or D.

Where an employee does not provide a valid NI number, a temporary number using the employee's date of birth and gender may be used for the employer's own internal payroll records.

Calculation Example

TN120563F would be used as a temporary number (TN) for a female (F) employee born on 12 May 1963 (120563).

Temporary NI numbers used on all year-end forms P14 and in-year forms P45/P46 submitted online are rejected by HMRC. When completing a form P14 and an employer does not have a NI number or the employee's date of birth, payroll software needs to default to '01011901'. However, this default date cannot be used when filing in-year returns, forms P45, P46 etc.

If an employer has sent a form P46 to their PAYE Tax Office the employee's NI number will be traced automatically and the employer informed on form P46-5. An employer can also use form CA6855 to check or trace employees' NI numbers. Form CA6855 has space for an employer to provide details for up to six different employees. Employers who want to initiate a bulk NI number trace should use form CA6860, available from any HMRC Office.

Notification of the employee's correct NI number is normally sent to the employer on form CA6856. In the event of being unable to trace an employee's NI number, the employer is notified to this effect in writing. After noting the correct NI number on the employee's payroll deduction record, the NI number notice should be given to the employee for future reference. The NI number should in any case be confirmed to the employee on form P217.

Employers can opt for a 'payroll cleanse', which allows HMRC to identify any NI numbers that are incorrect or missing. HMRC will then, if possible, provide the employer with the correct number.

Information

Additional information to help employers if an employee's NINO is not known is available at: *www.hmrc.gov.uk/nic/ninoemp.htm* or form CA6855 can be downloaded from *www.hmrc.gov.uk/forms/ca6855.pdf*. HMRC leaflet CA89 outlines how a Payroll Cleanse works. Visit *www.hmrc.gov.uk/leaflets/ca89.pdf*.

Warning

The fact that a person has a valid NI number does not mean that the person has a right to work in the UK. An NI number is not a passport to UK employment.