

FISH PARTNERSHIP LLP

FISHPAY AND FISHES EMPLOYERS NEWS BULLETIN

March 2006

INCREASES IN 2006

From the 1 February 2006 the maximum award for compensation, in cases of unfair dismissal, increased from £56,800 to £58,400 and the maximum limit for 'one week's pay', used for calculating basic or additional awards for compensation, has increased by £10 to £290. The maximum sum for the calculation of statutory redundancy is also increased to £290 per week.

From the 2 April 2006, Statutory Maternity, Paternity and Adoption Pay increases from £106 per week to £108.95 per week.

From 1 October 2006, the Adult National Minimum Wage rate (22 years upwards) is due to increase from £5.05 per hour to £5.35 per hour, an increase of 6%. The Development rate (18 to 21 year olds) is due to increase from £4.25 per hour to £4.45 per hour, an increase of 4.70%. There are no plans to increase the rate for 16 to 17 year olds above the current rate of £3 per hour.

NEW RATES AND THRESHOLDS FROM 6 APRIL 2006

The following are some of the changes affecting Payrolls in the new tax year.

| | |
|------------------------------|--|
| Basic Personal Allowance | £5,035 |
| Emergency Tax Code | 503L Week 1/Month 1 |
| <u>National Insurance</u> | |
| Lower Earnings Limit (LEL) | £84 per week |
| Earnings Threshold (ET) | £97 per week |
| Upper Earnings Limited (UEL) | £645 per week |
| Employees Contributions | 11% of £97.01 to £645 per week 1% above £645 per week |
| Employers Contributions | 12.8% above £97.01 per week |
| Statutory Sick Pay (SSP) | £70.05 per week |

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Happy to Help

DIRECTORS—NATIONAL INSURANCE CONTRIBUTIONS (NIC's)

Possibly one of the most complex areas of the day to day running of a Company's Payroll and certainly not straight forward when it comes to explaining how it is calculated.

The following gives an insight into the basics up to the point of the Payroll calculation.

The first step is deciding who is a Director, using the definitions under *Regulation 1 of the Social Security (Contributions) Regulations 2001*, as follows:

- A Member of a Board, or similar body where the Company is managed by a Board or similar body;
- A single person where the Company is managed by an individual, or
- 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 will not apply if the other person's instructions are limited to professional advice, for example, the advice given by a Solicitor.

When you have decided if any of the above Directors' rules apply, you need to assess whether there is an annual earning period or a pro-rata annual earnings period. Directors who hold this position, as defined above, at the 6 April, regardless if they resign, retire etc. before the following 5 April, will be considered to have an annual earnings period. A Director, as defined above, appointed during the tax year, i.e. after 6 April and before the following 5 April, will have a pro-rata earnings period.

Having determined who is a Director and whether they have an annual earnings period or a pro-rata annual earnings period, you need to choose whether to calculate the NIC's payable by the "exact percentage method" or "by adapting the NIC tables". The latter method requires calculation checks at the end of the tax year and possible adjustments through the final payroll for the year. The calculations method selected will most likely depend on whether the Director takes regular non-variable payments each pay period or whether payments are likely to fluctuate within a tax year, the payments being influenced by bonuses, cash flow and the like.

So, having defined who is a Director, whether they have an annual earnings or pro-rata earnings period and chosen between the "exact percentage method" or "adaptation of the NIC tables" to calculate the NI payable, the Payroll calculation can now proceed.

You now have a brief outline of the initial steps to be taken but this by no means covers all the intricacies and considerations of Directors NIC's. This would take a book which is, in fact, what the Revenue have done, in the form of the manual CA44 'National Insurance for Company Directors'. This manual can be ordered or accessed directly through the H.M. Revenue & Customs website at www.hmrc.gov.uk.

It is essential to perform the calculations correctly to avoid potential underpayments of NIC's. Underpayments, as Employers hardly need reminding, will result in penalties and interest charges, if discovered at a later date by the Revenue. FISHPAY Clients can rest assured that, if applicable, Directors NI through their payroll is calculated in the correct format and checked at the end of each tax year. We are able, for a small fee, to check Directors NI for other Employer Clients at the end of the tax year. If you would like to take advantage of this service, or would like an indication of the costs involved, please telephone our Payroll Manager and Employers Advisor, Janet Ellis, on 01628 527956.

NEW CONSTRUCTION INDUSTRY SCHEME (CIS) RULES

In April 2003, Gordon Brown announced changes to the CIS, effective from April 2007. Looking ahead, this could involve many businesses in Payroll and Employment matters which previously they have not had to worry about. For many, it could mean a steep learning curve with new legislation to take on-board and deadlines to meet.

This is where we can help. Through our FISHPAY and FISHERS Payroll and Employment Services, it need not be a worry at all. Visit our website at www.fishpartnership.co.uk for more information or, alternatively, contact our Payroll Manager & Employers Advisor, Janet Ellis, on 01628 527956. Janet will be pleased to talk with you and explain how we can tailor our services so as to best assist you and she will also give you an estimate of the costs of our services.

We also have contact details of organizations that will be able to help you with your new Health & Safety obligations.

GRIEVANCE PROCEDURES

There have been a lot of thoughts passing around on the obligation of an employee to put their grievance(s) 'in writing' and HR professionals have been waiting for cases to come to tribunal which would provide more definition. On this topic, we thought the case of Shergold -v- Fieldway Medical Centre would be of interest to Employers.

Mrs. Shergold resigned and in her three-page letter of resignation, she complained about the way she had been treated by her Practice Manager. Fieldway Medical Centre, the Employer, asked her if she wished her letter to be treated as a grievance, to which she responded, No. Without going into further details regarding the claim Mrs. Shergold brought against her employer for constructive dismissal, the Employment Tribunal (ET) agreed with Mrs. Shergold that her letter of resignation was not a grievance. However, the decision was overturned by the European Appeal Tribunal (EAT) who said that all an employee has to do is set out a complaint in writing. They do not have to indicate that this is a grievance or that they wish to use the Employers Grievance Procedure, neither do they have to comply with the Employers Grievance Procedure or note the full details of their complaint/grievance.

In light of the above, we urge all Employers to take care and if at all in doubt, we recommend you take professional advice.

IN BRIEF

Form P46. In our December 2005 News Bulletin, we mentioned that the Revenue were issuing a new format for the form P46 which is to be used from 6 April 2006. This is now available and can be ordered direct from H.M. Revenue & Customs at www.hmrc.gov.uk. The Revenue state the updated version should be easier to complete and the new statements, A, B and C will help employers decide which tax code to use.

IN BRIEF continued

Tax Credits The Revenue should have issued 'stop notices' for all active Tax Credits by 18 February 2006. If you are paying Tax Credits to employees, through the Payroll and have not received 'stop notices', then you should automatically stop paying these on 31 March 2006. If you continue to do so you will not be able to reclaim these payments, as a deduction from Payroll taxes due, in the 2006/07 tax year.

Statutory Maternity Pay (SMP) - The Alabaster Case. This case and its effect on SMP payments has received considerable press and given many a headache to Payroll professionals. We have reviewed our FISHPAY payroll Clients and SMP payments and advised Clients, where appropriate, of any extra payments due and will continue to monitor for an increased SMP which may be due in the future. If, as a Client, you would like us to review and check your SMP payments, then please contact our Payroll Manager & Employers Advisor, Janet Ellis, on 01628 527956.

Equal Opportunities Policies (EOP). In view of the new rights, under the Civil Partnership Act, for lesbian and gay couples, which came into force on 5 December 2005, Employers are advised to review their EOP to ensure it prohibits discrimination against employees because of their civil partnership status. If you would like assistance with your review, or alternatively if you would like us to draft an EOP, please contact Janet Ellis on 01628 527956 who will be pleased to assist.

WE'RE ON THE WEB!
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