

## **PAYE and NIC update for 2023/24 (Lecture B1369 – 22.37 minutes)**

### *Personal Allowance, Tax Rates and Bands for 2023/24*

In the Autumn Budget the personal allowance was frozen, until April 2028, at £12,570. The PAYE threshold for 2023/24 remains at £242 a week and £1,048 a month with the emergency code 1257L.

From 6 April 2023 the married couples' allowance will be £10,375 and the blind persons' allowance will rise to £2,870. The married couples' allowance provides relief at 10% and is only available where at least one of the couple was born before 5/4/1935.

Transfer of Personal Allowance - a spouse/civil partner who is not liable to tax, or not liable above the basic rate, has been able to transfer part of their allowance to their spouse/civil partner as long as they only pay tax at basic rate. The allowance that can be transferred will be £1,260 until after 2025/26. The suffix N is used to indicate the transferor and suffix M is used for the recipient.

### *Loss of Personal Allowances*

The basic personal allowance is subject to an income limit of £100,000. Where an individual's "adjusted net income" is below or equal to £100,000 they will be entitled to the full basic personal allowance. Where the "adjusted net income" exceeds £100,000 the allowance is reduced by £1 for every £2 above the income limit. For 2023/24 anyone with income over £125,140 will lose their personal allowance completely (2022/23 - £125,140).

For 2023/24 the additional rate threshold will reduce to £125,140 from 6 April 2023 from the current £150,000.

"Adjusted net income" is a person's total income subject to tax less certain deductions:

- Total income – employment, self-employment, rental, investment, taxable benefits
- Deductions - trading losses, gross pension contributions, grossed up amount of gift aid contributions, grossed up pension contributions which receive tax relief at source
- Add back - tax relief of up to £100 for payments to trade unions or political organisations.

Tax Rates and Earnings Bands 2023/24 and 2022/23 for non-Scottish taxpayers:

<b>2023/24</b>		<b>2022/23</b>	
£1 to £37,700	20%	£1 to £37,700	20%
£37,701 to £125,140	40%	£37,701 to £150,000	40%
£125,141 and over	45%	Over £150,001	45%

The higher rate threshold at £37,700 was frozen to 2025/26 and this has been extended to April 2028.

### *Scottish Taxpayers on Payrolls*

The personal allowance for Scottish taxpayers is based on the UK PA of £12,570 for 2023/24 as for 2022/23. Scottish taxpayers have their tax codes prefixed with the letter "S".

Scottish Tax Rates For 2023/24 tax year – set on 15 December 2022:

Starter	£12,571 to £14,732	i.e. £2,161	19%
Basic	£14,733 to £25,688	i.e. next £10,955	20%
Intermediate	£25,689 to £43,662	i.e. next £17,973	21%
Higher	£43,663 to £125,140	i.e. next £81,478	42%
Top	Over £125,140		47%

*National Insurance for 2023/24 tax year*

From 6 April 2023 all NIC thresholds will remain at the 2022/23 levels - until April 2028. The rates of NIC contributions will revert to the standard percentages – see below – after the withdrawal of the 1.25% HSCL which took effect from pay days on or after 6 November 2022.

*NIC Thresholds 2023/24 from 6 April 2023*

	<u>Weekly</u>	<u>Monthly</u>	<u>Annual</u>
<u>Lower Earnings Limit</u>			
2023/24	£123	£533	£6,396
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<u>Employee PT</u>			
2023/24	£242	£1,048	£12,570
2022/23 initially	£190	£823	£9,880
BUT from 6 July 2022	£242	£1,048	£12,570
<u>Employer ST:</u>			
2023/24	£175	£758	£9,100
2022/23	£170	£737	£8,840
<u>Freeport Upper Secondary Threshold:</u>			
2023/24 and 2022/23	£481	£2,083	£25,000

Upper Secondary Threshold, Apprentice and Veteran Upper Secondary Threshold:

2023/24	£967	£4,189	£50,270
2022/23	£967	£4,189	£50,270

The lower earnings limit (LEL) is the minimum level of earnings an employee needs to qualify for benefits, such as state pension and jobseekers' allowance. If an employee's earnings reach or exceed the LEL but do not exceed the PT they will not pay NICs but will be treated as having paid them when claiming benefit. In addition employees with earnings equal to or exceeding the LEL will be eligible for statutory payments.

*National Insurance Contribution Rates 2023/24*

Employees:

12% on earnings between PT and UEL/UST

PLUS

2% on earnings over the UEL/UST

Reduced rate ladies:

5.85% on earnings between PT and UEL/UST

PLUS

2% on earnings over the UEL/UST

Employers:

13.8% on earnings over the ST with no upper limit

13.8% applies for Class 1A & 1B

*National Insurance Breaks to encourage Employers to take on New Employees*

The NIC reliefs set out below to support employers will apply to the levy so employers will NOT pay the levy for these employees as long as their yearly gross earnings are less than £50,270 or £25,000 for new Freeport employees.

*Zero Rate Employer's NIC for Veterans – NI Table Letter V*

From 6 April 2021 an employer can apply a zero rate of secondary Class 1 employers NIC on earnings up to the UST on the gross pay of employees who are veterans. This exemption is available only for the first 12 months of from start of employment in civilian life. The table letter used in this tax year would be A. The new table letter V was introduced for 2022/23 and relief comes through RTI submissions.

For 2021/22 employers had to pay the full NIC and reclaim back from April 2022. In order to reclaim the employer NIC for 2021/22 through payroll reporting the employer must submit a revised FPS after 6 April 2022 using the new national insurance letter V.

If the claim has to be made outside of payroll reporting, where NI table letter A has been used, the employer will need to write to HMRC after 6 April 2022 heading the letter “Overpaid National Insurance”. The letter must show:

- Employee’s name, date of birth and NI number
- Why the employer is reclaiming the veteran’s relief
- The period the employer has overpaid NIC
- That the employer is claiming for a qualifying veteran and have evidence to show this
- Bank details for the refund

Qualification - to qualify for this employer NI relief, the veteran must have left the forces and completed at least one day of basic training in Her Majesty’s regular armed forces. Employers will be able to claim the relief for a period of 12 months starting on the first day of the veteran’s civilian employment since leaving the regular armed forces. Subsequent and concurring employers will be able to claim the relief in this 12-month period.

Records are required to show that the employee is a qualifying veteran and the start date of their first civilian employment. These should be held for at least 4 years. Employers can ask to see:

- Discharge paper from HM Armed Forces
- Employment contract with previous employment to determine their start date
- Identification card showing their time in the forces
- Letter of employment or contract with HM Armed Forces
- P45 from HM Armed Forces

The Office of Veterans Affairs would like to hear from any employers using the scheme who are willing to talk about their experiences.

#### Zero Rate Employer’s NIC for Freeports – NI Table Letter F new from 2022/23

From 6 April 2022 employers can apply a zero rate of secondary Class 1 employers NIC on earnings up to the FUST on the gross pay of employees working in Freeports. The threshold is £25,000p.a. - £481 a week and £2,083 a month. The NI table letter used will be one of F, I, S and L being standard, married women, over state pension age and deferred.

This break for employers will run for 3 years for new employees taken on from 6 April 2022 to 5 April 2026. Certain conditions must be met - the employer must have a physical presence at the site, the employment must be new hiring post 6/4/22 and the employee must spend at least 60% of their time at that site. The employee cannot have been employed by the employer or a connected employer in previous 24 months.

Freeports are – East Midlands airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Thames and Teesside.

The 60% rule is that at the time the employment started the employer reasonably expects that 60% or more of the employees working time will be spent in the freeport where the employer has business premises. Working time includes leave, such as maternity, adoption and annual. A temporary change in time spent at the freeport will not affect the claim for the relief. However, if there is a substantial change to the percentage time worked in the freeport due to a change of duties or responsibilities then the relief cannot be claimed after that change takes place.

The policy paper dated 12 May 2021 says that “government intends to make this relief available for up to 9 years from 6 April 2022. The use and effectiveness of the relief will be monitored and reviewed to allow a decision on whether to continue the relief beyond its earliest end date of 5 April 2026. All new eligible hires on or before 5 April 2026 will be eligible for this relief for their full eligibility period (up to 36 months), regardless of the government’s decision on whether to extend access to the relief for new claims beyond this date. Subject to the findings of the review, the government intends to extend this relief for new hires up to a future 5 years to its latest end date of 5 April 2031, after which point employers will no longer be able to access this relief, including for those employees partway through their eligibility period.”

Businesses based in UK Freeport tax sites will also be entitled to enhanced structures and buildings allowance and enhanced capital allowances until 30 September 2026.

#### *The “Employment Allowance “(EA) and The Health and Social Care Levy*

The EA is an allowance, currently a maximum of £5,000, which can be offset against employers, secondary, Class 1 NIC contributions. It is claimed via the Employers Payment Summary (EPS).

Employers must check they remain eligible to claim the EA and if “yes” a new claim must be made each tax year. Each claim will be made as before on the EPS.

One of the criteria for claiming the EA is that the employer’s total secondary Class NIC contribution liability is less than £100,000 in the tax year before the claim. At the start of the 2023/24 tax year the employer must refer back to the tax year 2022/23 to see if threshold has been exceeded. Deemed payments, for example to “off payroll workers”, do not count towards the £100,000 and EA cannot be claimed for such workers.

If there are multiple PAYE schemes the employer must add the employers NIC for all payrolls when checking the £100,000. They would then select which payroll will make the claim. The same rules will apply to connected companies and groups – if total secondary NIC is over £100,000 there is no claim for EA. If the NIC is under £100,000 then one company in the group can make the claim.

Following the temporary increase in National Insurance due to the HSCL it could be that in 2023/24 small employers will no longer qualify for the employment allowance because their National Insurance for 2022/23 exceeds the £100,000. But then in 2024/25 we could have those employers who lose out in 2023/24 finding that they are able to claim again in 2024/25, as National Insurance rates drop by 1.25% in April 2023 back to previous levels.

In September 2021 the government announced the introduction of a new Health and Social Care Levy from 6 April 2022. From April 2022 the levy was implemented by an increase of 1.25% applied to all categories of Class 1, Class 1A and Class 1B and Class 4 NICs. The levy did not apply to Class 2 or Class 3 NICs. The levy was collected via the payroll for 2022/23.

BUT on 22 September 2022 the then chancellor announced an in-year reduction to NIC contributions PLUS the cancellation of The Health and Social Care Levy with effect from 6 November 2022. NIC contribution rates returned to their previous levels.

### *HSCL and recovery of SMP, SAP, OSPP and ShPP – 2023/24 and 2022/23*

Large employers can recover 92% of their costs from HMRC. However, where an employer qualifies as a small employer they can recover 100% of SMP, SAP, OSPP and ShPP paid plus an additional 3% being the small employers compensation rate from HMRC.

A “small employer” will be an employer where total gross Class 1 NICs are £45,000 or less in the qualifying tax year. Be careful to check in 2023/24 as HSLC may have increased gross NIC to over £45,000 in 2022/23, the previous qualifying tax year.

### *Student Loan Changes for 2023/24*

Student loan deductions are calculated, on the non-cumulative basis, for each NIC earnings period. Deductions are based on gross NICable earnings, so before the deduction of tax approved occupational pension contributions. The loan repayments are calculated at 9%, in most cases, of earnings above the set threshold – see below.

Employers need to ensure they know which plan type the employee has to repay. The SL1 form issued by HMRC will show the plan type and this must be actioned on next payday after received.

The current “new starter declaration checklist” now shows all four loan plans. If in doubt plan 1 loan is the default. Should an employee have both types of loan only one can be deducted at any time.

Plan 1 Loan for loans pre-2012 - From 6 April 2023 the loan is repaid only where earnings exceed the threshold being £22,015 p.a. (2022/23 - £20,195) or £1,842.08 per month or £423.36 a week. The repayment threshold rises annually in line with RPI.

Plan 2 Loan for loans post-2012 – From 6 April 2023 the threshold for repaying these loans is earnings above £27,295 p.a. - monthly of £2,274.58 or weekly of £524.90. The repayment threshold rises annually in line with RPI.

Student Loan Type 4 came into effect from 6 April 2021 for students who have taken out a loan in Scotland. In this case the loan repayment threshold is set at £27,660 p.a., so £2,305 per month or £531.92 a week.

Post Graduate Loan - introduced in 2016/17 by the Government for those taking a post graduate masters. The loans are available to anyone under 60 and repayments will start at a salary threshold of £21,000 (£1,750 a month or £403.84 a week) with deductions at a rate of 6%.

### National Living Wage (NLW) and National Minimum Wage (NLW)

Paying the National Living Wage (NLW) and the National Minimum Wage (NMW) is compulsory. From 1 April 2021 the age from which workers become eligible for the NLW was lowered. The NLW now applies to workers aged 23 and over, previously this was 25 and over. It is expected that the age for NLW to apply will reduce again in April 2024 to 21. The mandatory NLW and NMW rates will increase from 1 April 2023. The percentage increases range from 9.7% to 10.9%.

### National Living Wage

£10.42    aged 23 and over (was 25 and over)            (2022/23 - £9.50)

### National Minimum Wage

£10.18	for workers aged 21 to 22 (was 24)	(2022/23 - £9.18)
£7.49	for a young worker aged 18 to 20	(2022/23 - £6.83)
£5.28	for workers aged 16 to 17, and over the compulsory school age but under 18	(2022/23 - £4.81)
£5.28	for apprentices who are either under 19 or over 19 & in the 1 <sup>st</sup> year of apprenticeship	(2022/23 - £4.81)

The accommodation offset will be £9.10 a day (currently £8.70) and £63.70 a week (currently £60.90) and increase of 4.6%.

The “voluntary living wage” is calculated based on the basic living cost in the UK by the Centre for Research in Social Policy at Loughborough University and by the Greater London Authority for the London rate. The Living Wage Foundation state on 22 September 2022 the UK living wage for those over 18 year old outside London is £10.90 an hour and in London it is £11.95.

Employers who fail to pay NMW are liable to a financial penalty of up to a maximum 200% of the arrears owed to the workers. This penalty applies to any notice of underpayment relating to a pay reference period beginning on or after 1 April 2016. The maximum penalty is capped at a maximum of £20,000 per worker. The penalty is reduced by 50% if the unpaid wages and penalty are paid within 14 days. Where an employee has been underpaid the NMW the arrears are calculated at the current NMW rate in force at the time the underpayment is calculated.

*Contributed by Alexandra Durrant*