



Accounting Qualification

Introduction to Payroll

Reference materials

The Association of Accounting Technicians

Reference material for AAT assessment of Introduction to Payroll

Introduction

This document comprises data that you may need to consult during your Introduction to Payroll computer-based assessment. The material can be consulted during the sample and live assessments through pop-up windows. It is made available here so you can familiarise yourself with the content before the test.

Do not take a print of this document into the exam room with you. Unless you need a printed version as part of reasonable adjustments for particular needs, in which case you must discuss this with your tutor at least six weeks before the assessment date.

This document may be changed to reflect periodical updates in the computer-based assessment, so please check you have the most recent version while studying.

Contents	Page
Basic rules for statutory entitlements to pay: sickness, maternity and paternity	3
Sickness	3
Maternity	3
Paternity	4
Tax codes: suffix codes and BR	5
The difference between pre and post-tax deductions from pay	6
The different National Insurance (NI) categories that can be used	7
The importance of obtaining a valid National Insurance (NI) number	7
How the information on a tax declaration and P45 are used to determine the commencing data and tax deductions for a new employee	8

Basic rules for statutory entitlements to pay: sickness, maternity and paternity

Sickness – the statutory payment for sickness absence is called Statutory Sick Pay (SSP) and is a right to receive up to 28 weeks of payment by the employer, subject to certain conditions being satisfied.

Employee:	The absentee must be an employee, in other words a person with an employment contract with an employer.
Service:	The employee must have performed some work for the employer in order to qualify for an assessment of SSP.
Unfit to work:	The employee must be unfit to carry out the work that they are contracted to perform in order to qualify for SSP.
Period of incapacity to work:	The employee must be absent from, or unfit to work, for four or more consecutive calendar days. These do not have to be working days and include bank and public holidays.
Qualifying days:	Payment of SSP can only be made for a qualifying day. These days are set by the employer. They can be any days, or any number of days, but are supposed to reflect the employee's normal working days.
Waiting days:	The first three qualifying days are waiting days. No payment of SSP can be made for a waiting day.
Earnings:	To qualify for payment of SSP, the employee must have earnings that are liable for National Insurance Contributions (NIC), in the eight weeks prior to the commencement of absence, of at least the NI lower earnings limit.
Lower earnings limit:	This is £112 per week, £486 per month and £5,824 per year.
SSP payments:	SSP is paid at a rate of £88.45 per week. The daily rate of SSP is determined by the number of qualifying days agreed by the employer.

Maternity – the statutory payment for maternity leave is called Statutory Maternity Pay (SMP) and is a right to receive up to 39 weeks of payment by employer, subject to certain conditions being satisfied.

Service:	The employee must have worked for the employer for at least 26 weeks at the qualifying week.
Qualifying week:	This is the 15 th week before the expected week of birth.
Earnings:	The employee must have average National Insurable (NI) earnings of at least the lower earnings limit for NI contributions in the eight weeks prior to, and including, the qualifying week.
SMP payments:	SMP is paid at 90% of the average weekly earnings (AWE) for six weeks, followed by the lesser of 90% of the average weekly earnings or £139,58 per week for 33 weeks.

Paternity – the statutory payment for adoption leave is called Statutory Adoption Pay (SAP) and is a right to receive up to 2 weeks of payment by the employer, subject to certain conditions being satisfied.

Relationship:	The employee must be the biological father, or a partner, husband or civil partner that is not the biological father of the child. The employee must be prepared to make a declaration that they have a responsibility for the child's upbringing, and be taking time off to care for the child or support the mother.
Service:	For births, at least 26 weeks at the qualifying week. For adoptions, at least 26 weeks service at the matching date.
Qualifying week:	For births, the 15th week before the expected week of childbirth. For adoptions, the matching week.
Earnings:	The employee must have average National Insurable (NI) earnings of at least the lower earnings limit for NI contributions in the 8 weeks prior to and including the qualifying week.
SPP payments:	SPP is paid at 90% of average weekly earnings or £139.58 per week, whichever is lower, for two weeks.
Absence:	This is either one week or two consecutive weeks, to be completed within 56 days of the actual birth or expected date of birth, whichever is the latest, or within 56 days of the adoption.

Tax codes: suffix codes and BR

Tax codes are an adaptation of the personal allowance and used by HM Revenue & Customs to notify employers of changes, both globally and individually. All tax codes will have either a prefix or a suffix, or be a special code.

The suffix codes you may need for this assessment are:

- L** as in 1060L, where the taxpayer has a standard personal allowance which may, or may not, be adjusted to cover additional taxable elements such as benefits in kind or has unpaid tax from previous tax years.
- M** as in 1166M, where the taxpayer is in receipt of the marriage allowance and occurs when the taxpayer's spouse or civil partner gives up 10% of their personal allowance to the taxpayer's spouse or civil partner.
- N** as in 954N, where the taxpayer has given up 10% of their personal allowance to their spouse or civil partner.
- T** as in 1060T or 0T, where the taxpayer has no personal allowance or where the code could be under review by HM Revenue & Customs.

Codes L, M and N may be amended in bulk by HM Revenue & Customs, usually after the autumn statement confirms the personal allowance changes, whereas a T suffix code will always be amended individually.

Code BR is used to indicate that income tax is due on all income at the basic rate of 20%.

Codes are operated on a cumulative or non-cumulative basis as instructed by HM Revenue & Customs. This will be indicated by an extension on the code of either 'week 1 / month 1' or 'W1/M1'.

The difference between pre and post-tax deductions from pay

Income tax calculations must take into consideration certain deductions from pay before the calculation of income tax, but only in specific cases. This section will focus on only two deductions that may potentially affect income tax: pension contributions and charitable giving.

Pension contributions: Not all pension deductions will be treated as pre-tax. If it is specifically stated that a deduction is pre-tax, then the amount involved must be deducted from 'gross taxable pay' before the taxpayer/employee's personal allowance is deducted.

	£3,000.00
Pre-tax pension at 5%	£150.00
Gross taxable pay	£2,850.00

Income tax is then calculated in the normal manner.

If it is unclear whether a pension contribution is pre-tax or not, it should be assumed that the contribution is a post-tax deduction that has no effect on the income calculation at all.

Charitable giving: Like pension contributions, tax free charitable giving can only be achieved in certain circumstances.

If a charitable giving donation is in question, it can be assumed to be an approved scheme where tax relief can be given as follows.

	£3,000.00
Charitable giving	£100.00
Gross taxable pay	£2,900.00

The different National Insurance (NI) categories that can be used

NI categories: These determine the amount of NI contributions paid by the employee. There are many NI categories in law. The categories you may need for this assessment are:

- A** Standard rate, applicable from the age of 16 till state pension age.
- B** Reduced rate, some married women not entitled to a standard rate state pension.
- C** Over state pension age category with no employee contributions but employer remains liable.
- H** Deferment, where the employee has other employment or NICable income and where they already pay the maximum NI in that employment.
- M** Standard rate, under 21 years old at the date of payment, employer is exempt from NI contributions up to the upper earnings limit.
- X** No NIC liability, for example under 16 years of age.
- Z** Standard rate, apprentice under the age of 25, employer is exempt from NI contributions up to the upper earnings limit.

The importance of obtaining a valid National Insurance (NI) number

A valid NI number will consist of two letters, followed by six numbers and end with either A, B, C or D. For example: YY625901A.

How the information on a tax declaration and P45 are used to determine the commencing data and tax deductions for a new employee

Two documents exist which, when used correctly, allow the employer to determine the commencing tax code, P45 and the employee declaration.

P45	Issued by an employer to a departing employee and issued as soon as is reasonably practicable after the employee has left.
Employee declaration	Completed by a new employee in addition to the P45, which the new employer hopes the employee will produce upon commencement.
Process:	<p>If the P45 is correct in every aspect, then generally the details can be used as shown on the form.</p> <p>This must, however be checked against the information provided by the employee on the new employee starter declaration.</p>
Tax declarations:	The process of selecting the appropriate code is very straightforward and assuming the P45 is not available, or is otherwise not going to be used for any reason, the code is selected purely from the information provided on the starter's declaration form. The code selection would then be as follows:

Box A ticked by employee, and form signed and dated	1060L
Box B ticked by employee, and form signed and dated	1060L Week 1/ Month 1
Box C ticked by employee, and form signed and dated	BR
No boxes ticked, and form signed and dated	0T
Form not signed	0T Week 1/ Month 1