



Payroll Legislation & Product Changes

2020-21 tax year



Payroll Legislation & Product Changes guide
2020-21 tax year
Version 1.0
February 2020

© Pegasus Software (a trading name of Infor (United Kingdom) Limited). All rights reserved.

Manual published by:

Pegasus Software
Orion House
Orion Way
Kettering
Northamptonshire
NN15 6PE

www.pegasus.co.uk



All rights reserved. No part of this manual or any accompanying programs may be copied, sold, loaned or in any way disposed of by way of trade or for any kind of profit or incentive without the express permission of Pegasus Software in writing, or as specified in the licence agreement which accompanies this manual and associated programs.

Whilst Pegasus Software takes reasonable steps to ensure that the contents of this manual are up to date, and correctly describe the functioning of the programs, neither Pegasus Software nor any of its Partners give any warranty that the manual is error free, nor that the programs will perform all functions stated in the manual. Pegasus Software has a policy of continual improvement of its software and accordingly this manual may describe features which are no longer available in the current release of the software available to customers, or which are proposed for a future release of the software. Under no circumstances will Pegasus Software or any of its Partners have any liability to any customer arising out of any error, omission or inaccuracy in this manual.

Pegasus Software is a trading name of Infor (United Kingdom) Limited. Office Address: Orion House, Orion Way, Kettering, Northamptonshire, NN15 6PE (Registered Office: One Central Boulevard, Blythe Valley Park, Shirley, Solihull, England B90 8BG) Registered in England No. 2766416

All trademarks are acknowledged.

Contents

Introduction	4
Audience.....	4
Pegasus Help Centre	4
Readme.....	5
Online Filing Manager	5
Pegasus Opera II	5
Employment Allowance	6
Summary	6
Software changes.....	6
Payrolling company cars.....	7
Summary	7
Software changes.....	7
Holiday pay averages	8
Summary	8
Software changes.....	8
Employer Class 1A NICs on termination payments & sporting testimonials	9
Summary	9
Software changes.....	9
Termination award example	10
Off-payroll workers in the private sector	11
Summary	11
Software changes.....	12
Statutory Parental Bereavement Pay.....	13
Summary	13
Software changes.....	13
Real Time Information submissions.....	14
Software changes.....	14
New Tax Year History view	15
MTD for VAT fraud-prevention.....	16

Introduction

This release includes the payroll statutory changes for the 2019-20 tax year-end and the new 2020-21 tax year. This release also includes the changes for MTD for VAT fraud prevention that were first made available in the v2.63.00 release.

Product	Version	Updates
Pegasus Opera 3 / Pegasus Opera 3 SQL SE	2.70.00	Statutory payroll changes for the 2020-21 tax year are updates for the Employment Allowance, payrolling company cars, calculating holiday pay averages, Employer Class 1A NICs on termination payments & sporting testimonials, off-payroll workers in the private sector, changes to the FPS and EPS submissions to HMRC, and new NI, PAYE and statutory payments rates and bands. Statutory Parental Bereavement Pay is also introduced in the 2020-21 tax year. This is a new workplace right to paid leave for bereaved parents.
Pegasus Scheduler (not applicable to Pegasus Opera 3 SQL SE)	2.20.20	HMRC has recently clarified requirements for software vendors to include fraud-prevention details in the VAT Return. Opera 3 (2.70.00) and Pegasus Scheduler (2.20.20) includes the fraud-prevention changes required by HMRC. For Pegasus Opera 3 SQL SE, the changes are included in the core product.

Audience

This guide is provided for Pegasus Partners and customers who need to understand the changes in the new tax year.

Pegasus Help Centre

These guides are available from the Pegasus Help Centre docs.pegasus.co.uk.

Rates and Bands guide	This guide explains the new rates and bands for NI, PAYE and Statutory Payments for the new tax year.
Installation guide	If you are unfamiliar with the installations, you should refer to the Pegasus Opera 3 (2.70.00) installation guide.
Implementation guide	This guide provides a high-level view of Pegasus Opera 3 and how to approach an implementation.
Software Requirements guide	This guide lists the editions of Microsoft Office, Microsoft SQL Server, Microsoft Windows Server, Microsoft Windows desktop, web browsers and Microsoft .NET supported for Pegasus Opera 3 (2.70.00).
Opera 3 Help	The F1 Help is installed with Pegasus Opera 3 and published to the Pegasus Help Centre.

Readme/Release Notes

The Readme or Release Notes is installed with the application. This includes a summary of the payroll changes, details of other non-payroll changes and late-breaking news.

Online Filing Manager

There is no upgrade to Online Filing Manager this year. Continue to use your existing Online Filing Manager software to send your RTI submissions to HMRC. For new installations of Pegasus Opera 3, you must also install Online Filing Manager - included with the Opera 3 installation files download.

Pegasus Opera II

The software changes for the new tax year are not included in Pegasus Opera II.

Employment Allowance

Applies to	Employers claiming the Employment Allowance.
Effective	From 6 April 2020.
More information	For details about the Employment Allowance, visit www.gov.uk/claim-employment-allowance .

Summary

The Employment Allowance is currently claimed by employers to reduce their employers secondary Class 1 NICs bill by up to £3,000. From 6 April 2020, extra checks are needed to ascertain eligibility. Employers can claim the allowance if their secondary Class 1 NICs liability was less than £100,000 in the prior tax year. Employers whose secondary Class 1 NICs liability was £100,000 or more will not be eligible to claim the allowance.

Because of the change, from the 2020-21 tax year the Employment Allowance is considered to be a type of de minimis state aid because it advantages some businesses over others, which could potentially distort competition and trade within the European Union. This will not apply if the business does not engage in economic activity by putting goods or services on the market. Businesses must ensure that the £3000 allowance when added to other de minimis state aid received or allocated in the claim year plus the previous two tax years does not exceed the de minimis state aid threshold for the trade sector.

Employers need to reapply for the de minimis state aid Employment Allowance at the start of each tax year. HMRC will be responsible for ensuring compliance with the de minimis state aid rules.

Software changes

The Employer Payment Summary (EPS) is used to claim the Employment Allowance. One of these options on the EPS screen in Payroll must be selected: *Can't claim*, *Stop claiming* or *Starting to claim or already claiming for 2020-21*.

The trade sector that the de minimis state aid applies to must also be selected (Industrial, Road Transport, Agriculture, Fisheries and aquaculture). Trade sectors have different de minimis state aid thresholds. An employer can only claim the Employment Allowance if they have at least £3,000 of their de minimis state aid limit for their trade sector remaining. HMRC will offset the allowance claimed against the Employer Class 1 NICs due. Employers must reduce their payment by the amount of allowance they are claiming.

The **State aid rules don't apply** option must be selected if state aid rules are not relevant to the business.

Note: The **Include claim status in EPS** option must be selected for the state aid details to be included in the submission. By default, the option is not selected.

Payrolling company cars

Applies to	Employees with company cars.
Effective	From 6 April 2020.
More information	For details about payrolling car benefits, visit www.gov.uk/guidance/payrolling-tax-employees-benefits-and-expenses-through-your-payroll .

Summary

From 6 April 2020, additional details need to be recorded for company cars:

- The date the car was first registered. This is mandatory from April 2020.
- The zero-emission miles before exhaust emissions start. This is required from April 2020 only if the car has between 1g/km to 50g/km of CO2 emissions.

Software changes

For each employee with a company car you can now record the date the car was first registered, and if relevant the zero emissions mileage on the Payroll Company Car Benefits screen.

The Full Payment Submission to HMRC will always include the car registration date. The zero emissions mileage is included only if the car has CO2 emissions between 1g/km to 50g/km (which classes the car as 'zero emissions').

The new details are included in the Company Car Benefits report.

Holiday pay averages

Applies to	Weekly paid employees.
Effective	From 6 April 2020.
More information	For details about holiday pay guidance, visit www.gov.uk .

Summary

From 6 April 2020, the number of weeks that must be used to calculate average weekly earnings for holiday pay - the 'Holiday Pay Reference Period' - increases from 12 weeks to 52 weeks.

This change is designed to even out seasonal variations in pay for workers in seasonal occupations without fixed hours or pay.

Holiday pay averages are calculated in Opera 3 for weekly paid employees. Employers with weekly paid employees must ensure that the **Weeks for Holiday Pay Average** option on the **Set Options** form in Payroll is set to '52' at the start of the 2020-21 tax year.

Software changes

- The existing Weeks for **Holiday Pay Average** option on the **Set Options** screen in Payroll now allows 52 weeks to be recorded. Previously only 12 weeks were allowed.
- Previously the number of days in a working week in Payroll was set to '5' and could not be changed. Now a new option called **Days for Holiday Pay Average** has been added to the **Set Options** screen in Payroll so that the relevant number of days is used in the calculation of the daily average for holiday pay for weekly paid employees. This new option defaults to '5' so only needs to be changed if the number of days in a working week is different.

The number of days in a working week can also be defined on the **Employee Profile** screen - which is used for all employee records linked to the profile, and on the **Details & Bank** screen for employee records - which is used only for the relevant employee.

This new setting is used in the calculations in the **Holiday Pay Average** report.

- The **Holiday Payment** screen for each employee calculates the average holiday pay for the number of weeks holiday being recorded and updates the holiday payments on the employee's record. This now includes 52 weeks earnings when calculating the average earnings using the **Weeks for Holiday Pay Average** option on the **Set Options** screen.

Employer Class 1A NICs on termination payments & sporting testimonials

Applies to	Employers paying termination awards or sporting testimonials.
Effective	From 6 April 2020.
More information	For details about Class 1A NICs on termination payments & sporting testimonials, visit www.gov.uk .

Summary

Before 6 April 2020, the termination awards and sporting testimonials were subject to different rules for Income Tax and National Insurance contributions.

From 6 April 2020, the rules are more closely aligned.

- Termination payments over a £30,000 threshold, which have not already incurred a Class 1 NICs liability, are subject to Class 1A Employers NICs.
- Sporting testimonials over a £100,000 threshold, which have not already incurred a Class 1 NICs liability, are also subject to Class 1A Employers NICs.

Before 6 April 2020

Termination payments and sporting testimonials	Income Tax?	Employee NI?	Employer NI?
Below the thresholds	No	No	No
Above the thresholds	Yes	No	No

From 6 April 2020

Below the thresholds	No	No	No
Above the thresholds	Yes	No	Yes*

*The Class 1A NIC charge is 13.8%.

Software changes

- A new option has been added to the **Payment Profile** screen in Payroll. The **Class 1A NI'able** option controls whether payments associated with the profile are included in the calculation of Employers Class 1A National Insurance contributions.

This option should only be selected for payments that are more than the tax and National Insurance threshold for termination payments or sporting testimonial awards.

After creating the **Payment Profile** it should be included on the employee's **Payment & Deduction** screen with the relevant payment value before running a Payroll calculation.

- The Employers Class 1A National Insurance contributions are recorded on the **Employee To-Date Details** and **Employee History** screens.
- The thresholds are recorded on the **NI ER's** page of the **PAYE/NI & Statutory Payments** screen in Payroll. They are updated automatically when the other rates and thresholds are updated.

Termination award example

An employee is made redundant after 6 April 2020 and given a termination award payment of £50,000.

In Opera 3 the employer creates two **Payment Profiles**:

- The first payment profile for the amount that is exempt from Income Tax and National Insurance - with the 'Taxable', 'NI'able' and 'Class 1A NI'able' options cleared.
- The second payment profile for the amount that is liable for Income Tax and Class 1A Employers National Insurance - with the 'Taxable' and 'Class 1A NI'able' options selected.

The termination payment will be split into two payments using the first payment profile (for £30,000 - the termination payment threshold) and the second payment profile (£20,000).

The Payroll calculation will calculate Income Tax and the Class 1A Employer National Insurance (13.8%) on £20,000. The Class 1A Employer National Insurance will be included in the employee's FPS submission for the pay period.

- No Income Tax, or Employee or Class 1A Employer National Insurance will be applied to the £30,000.
- Employee National Insurance will not be applied to the £20,000 amount.

Note: When the employee's termination payment is up to £30k, only one Payment Profile is required.

Off-payroll workers in the private sector

Applies to	It is the responsibility of the client/employer to determine whether any of their workers are affected by the new rules for off-payroll working.
Effective	From 6 April 2020.
More information	<p>For details of the changes to off-payroll working for clients from April 2020: www.gov.uk/guidance/april-2020-changes-to-off-payroll-working-for-clients.</p> <p>To understand off-payroll working (IR35): www.gov.uk/guidance/understanding-off-payroll-working-ir35.</p> <p>To check employment status for tax: www.gov.uk/guidance/check-employment-status-for-tax.</p>

Summary

The rules for off-payroll working in the private sector (IR35) change on 6 April 2020.

These rules changes affect the following:

- workers who provide services through an intermediary
- clients who receive services from a worker through their intermediary
- agencies that provide workers services through an intermediary.

Before 6 April 2020, *public* sector clients must decide their off-payroll workers' status and inform them of the decision. The public authority is required to deduct relevant Income Tax and NI before making payments to workers. *Private* sector employers should leave that decision to the off-payroll workers' intermediary.

From 6 April 2020, as well as public sector clients, private medium and large sized employers must also decide their off-payroll workers' status. And so both public authorities and medium and large sized employers are required to deduct relevant Income Tax and NI before making payments to workers.

Small companies however can still leave that decision to the off-payroll workers' intermediary.

Small incorporated companies meet two of these criteria:

- fewer than 50 employees
- annual turnover of less than £10.2m
- balance sheet assets below £5.1m.

Small unincorporated companies must have an annual turnover of less than £10.2m.

Deemed direct payment

The portion of the fee subject to tax and NI is referred to as the 'deemed direct payment'. The deemed direct payment is calculated as the value of the payment to a worker's intermediary:

- less any VAT
- less the direct cost of materials used in providing the service
- less expenses that would also be deductible from taxable earnings if the worker was an employee.

Deemed direct payments for off-payroll workers must be included in the calculation of the Apprenticeship Levy.

Software changes

- A new option has been added to the **Set Options** screen in Payroll. The **Allow Off-Payroll Workers option** controls whether off-payroll workers can be maintained in Payroll.
- If the new option is used, employee records can be recorded as off-payroll workers by selecting the **Off-Payroll Worker** option on the **Employee Details & Bank** screen.
- A new off-payroll worker is assigned 'Start Declaration C' status for the P45, and their tax code is set to 'BR Cumulative'.

For off-payroll workers, fees charged to clients (known as 'deemed direct payments') must be subject to tax and NI deductions, and employer NI must be paid.

Off-payroll workers are processed in Payroll in the 2020-21 tax year as any other employees, with these differences:

- Off-payroll workers are responsible for managing any student loans, postgraduate loan deductions and pensions, so these areas of Payroll do not apply to them.
- In the FPS file sent to HMRC for each pay period, these workers are indicated in the submission as off-payroll workers.

For the employer, these differences apply:

- Employers cannot offset the Employment Allowance against Employer NI paid for off-payroll workers. The **Employment Allowance** form in **P32 Processing** excludes Employer NI paid for off-payroll workers.
- Employers are not responsible for student loans or postgraduate loan deductions for off-payroll workers.
- Employers are not required to pay statutory payments to off-payroll workers.
- Employers are not required to enrol off-payroll workers into pensions.

Statutory Parental Bereavement Pay

Applies to	All employers.
Effective	From 6 April 2020.
More information	For details about Statutory Parental Bereavement Pay, visit www.gov.uk/government/news/uk-first-parents-who-lose-a-child-entitled-to-bereavement-leave .

Summary

The Statutory Parental Bereavement Pay and Leave (SPBP) allowance and leave entitlement for primary carers who have lost a child is being introduced from 6 April 2020. Primary carers include parents, adopters, foster parents and guardians.

The payment follows the same administration process as other statutory payments such as paternity pay. Payments will be paid out by employers and claimed back through payroll processes.

Payments will be treated as earnings for tax and National Insurance Contributions purposes, as per all other Statutory Payments.

Primary carers are entitled to two weeks leave following the death of a child under 18 or a stillbirth after 24 weeks of pregnancy. The leave is paid at the statutory rate if the employee has 26 weeks continuous service. Employees with less than 26 weeks continuous service can request two weeks unpaid leave.

Software changes

Opera 3 Payroll manages SPBP payments by the use of a **Payment Profile** type.

The **PAYE, NI & Statutory Payments** form includes fields to record the earnings related percentage rate and the standard rate for SPBP. These are updated automatically along with the other statutory payment rates.

The FPS and EPS submissions also include details for SPBP.

Note: If an employee is entitled to leave without payment because they don't have 26 weeks continuous service, that leave can be recorded using the Absence form in the Personnel application.

Real Time Information submissions

Applies to	FPS and EPS submissions sent to HMRC for each pay period.
Effective	From 6 April 2020.
More information	www.gov.uk

Software changes

These new details are included in the FPS in the 2020-21 tax year:

- An indicator for off-payroll workers.
- Statutory Parental Bereavement Pay (SPBP) paid to an employee in the tax year to date.
- Class 1A Employer National Insurance paid for employees who received termination awards over £30,000 or sporting testimonials over £100,000.
- The date company cars were first registered, and zero emissions mileage if relevant.

These new details are included in the EPS in the 2020-21 tax year:

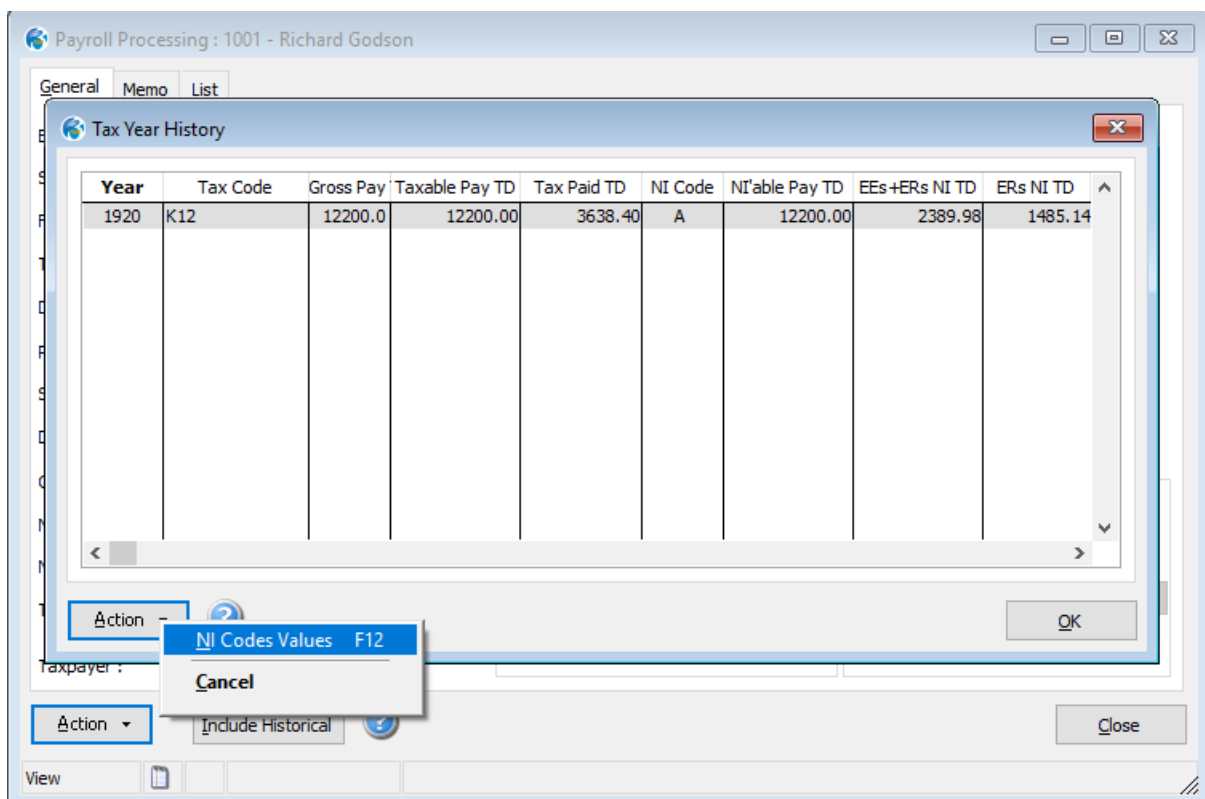
- An indicator that the Employment Allowance is either being claimed for the 2020-21 tax year, cannot be claimed or is no longer being claimed, and the relevant trade sector.
- SPBP recovered and SPBP NICs compensation in the tax year to date.

New Tax Year History view

A new **Tax Year History** view has been added to the Action menu of the **Payroll Processing** form.

This new view displays year-end pay details by tax year for the employee. The details displayed in this view are recorded at the end of each tax year when the **End of Year Cleardown** is run in Payroll.

This feature is available from the start of the 2020-21 tax year and so the first year's pay history that can be viewed is for the 2019-20 tax year. Pay history for later years will be recorded at the end of each tax year. A new option called **Keep ... Tax Year History** on the **Set Options** form in Payroll controls the number of years of tax year history that are saved, up to a maximum of 20 years.



The **NI Code Values** view displays all the employee's NI codes in a tax year alongside the pay period when they changed. This view is useful if the employee has more than one NI code during a tax year.

Note: The existing **History** view has been renamed to **Pay Period History**. This view still displays a period-by-period summary of the currently selected employee's payroll history.

MTD for VAT fraud-prevention

HMRC has recently clarified requirements for software vendors to include fraud-prevention details in the VAT Return.

The required fraud-prevention changes for MTD VAT Returns are included in Opera 3 (2.70.00) and Pegasus Scheduler (2.20.20). HMRC has not clarified exactly when they will start to reject VAT Returns without these fraud-prevention changes. However, customers who send MTD VAT Returns must upgrade their software to avoid VAT Returns being rejected by HMRC.

Note: The fraud-prevention changes for MTD for VAT were also included with Opera 3 (2.63.00) and Pegasus Scheduler (2.20.10). For [Pegasus Opera 3 SQL SE](#), the changes were included in the [core product](#).
