

Working Tax Credit

Introduction

In the November 2001 edition of the *Notes* (Series 10 – Number 7) we published an article on the arrangements for paying Working Tax Credit from April 2003, together with a technical specification for payroll software designers. A small error has been identified in this technical specification which we need to bring to your attention.

The error is in definitions 8 and 9 relating to amendment notices, in part 6 *Payroll variable definition*. It means that employers affected will pay the old rate (the one before the amendment) for a day longer than they should, and will start paying the new rate (the one after the amendment) a day later than they should, resulting in small over/underpayments to employees. We understand that some software designers spotted the error and may have corrected it in their software packages, but we have no means of identifying them or the employers using the software.

This was our mistake and we apologise for any inconvenience caused. We are dealing with the error as follows:

- We do not expect software designers to amend their 2003/04 packages but we are publishing (at Annex A) the correct technical specification, which should be used for the 2004/05 tax year.
- We are providing payroll representative bodies with text to use in their professional magazines alerting payroll managers to the error, so that they can direct employees to the Tax Credit Office if they find that they have been under/overpaid Working Tax Credit in a pay period in which the daily rate was amended.
- We will sort out any over/underpayments of Working Tax Credit direct with the claimant, without involving the employer.

Outline of Error and Solutions

In the original specification, definition 8 gave the number of days from the previous processing date to the date of change $Nc=(Da - dl)$
i.e. The number of days from the previous processing end date(dl) to the date of change(Da)

If, for example, the change date is the 15th December then the number of days, according to the formula, was 15
i.e. 30th November to 15th December = 15

This is wrong, as the date of change is being included in the formula.

The formula for definition 8 should be $(Da - dl) - 1$

Definition 9 gave the number of days from the date of change to the end

of the current processing month $Nd=(dc-Da)$
i.e. The end of the current processing month(dc) minus the date of
change(Da)
i.e. 15th December to 31st December = 16

This is wrong, as the last day is not included in the formula.

The formula for definition 9 should be $(dc-Da) + 1$

Using the corrected definitions 8 and 9 the calculations would be

30th November to 15th December = 14 $(Da-dl) - 1$

15th December to 31st December = 17 $(dc-Da) + 1$

Attached at Annex A is an updated version of the technical specification
which includes the corrected definitions.

ANNEX A

Technical Specification for paying Working Tax Credit

1. This specification replaces the one issued to cover tax credit awards from April 2003. Employers will not be told which elements of the tax credit their employee is receiving. They will just be informed that the employee is entitled to a tax credit.
2. The routines described below make use of two distinct classes of variables:
 - variables supplied by the IR (shown in bold). The IR variables will be supplied by the IR on each Start Notice, Amendment Notice and Stop Notice if appropriate. These will then need to be entered into the payroll system/software by the employer/payroll section; and
 - variables derived from them by the payroll run (shown in Italics).

N.B. It should be noted that IR variables will probably be different for each employee who is entitled to Working Tax Credit and the daily rate could change for each employee during the period of the award and there could be more than one daily rate during a pay period where an amendment notice is received.

2. The tax credit **cannot** be used to fund deductions of any kind, and so must be added to the net pay figure after all the other steps in the payroll calculation have been performed.

4. IR variable definition

		Symbol
Definition 1 -	start date of employer responsibility for tax credit payment	Db
Definition 2 -	stop date for tax credit payment when it is stopped during the award by the Inland Revenue (as per Stop Notice)	Ds
Definition 3 -	date from which the amended daily rate applies	Da
Definition 4	the normal daily rate of tax credits	Wd1
Definition 5 -	amended daily rate of tax credits	Wd2

5. IR variable field size

The practical maximum field sizes recommended for these are

D - dd/mm/yyyy
Wd - 999.99

6. Payroll variable definition.

		<i>Symbol</i>
Definition 1	End date of pay period in which the first tax credit is paid by the employer	<i>db</i>
Definition 2	End date of previous pay period in which the tax credit is paid by the employer	<i>dl</i>
Definition 3	Last date for which the employer takes responsibility for paying the tax credit, when employment is ceased (including on death of an employee)	<i>dt</i>
Definition 4	End date of pay period in which the tax credit paid is amended following an amendment notice.	<i>dc</i>
Definition 5	Number of days in the first tax credit payment period	$Nb = (db - Db) + 1$
Definition 6	Number of days from end date of the previous pay period to the date of stopping shown on the stop notice	$Ns = (Ds - dl)$
Definition 7	Number of days from end date of the previous pay period to the date the employment is ceased (including on death of an employee)	$Nt = (dt - dl)$
Definition 8	Number of days from end date of the previous pay period to the date of amended daily rate as shown on the amendment notice	$Nc = (Da - dl) - 1$
Definition 9	Number of days from the date of amendment of daily rate to the end date of the pay period.	$Nd = (dc - Da) + 1$

Note that, apart from the first and last payments of tax credit, the values of the various Nn will usually be fixed at 7 for weekly paid employees and will vary between 28 and 31 for monthly payment cycles. However, there may be some occasions when Nn will be completely different e.g. if employee is to receive tax credit with advance holiday pay. Also some employees may, for example, be paid quarterly.

The recommended field size for N is 999.

7. Calculation of tax credit due

Formula 1 amount of first tax credit payment $Wb = Nb \times Wd1$

Formula 2 amount of normal tax credit payment $Wn = Nn \times Wd1$

between first and last/amended payments

Formula 3 amount of last tax credit payment when stopped during award by the Inland Revenue $Ws = Ns \times \mathbf{Wd1}$

Formula 4 amount of last tax credit payment when employment is ceased (including on death of an employee) $Wt = Nt \times \mathbf{Wd1}$

Formula 5 amount of tax credit payment during period when there is more than one daily rate following amendment notice $Wu = (Nc \times \mathbf{Wd1}) + (Nd \times \mathbf{Wd2})$

The tax credit due should then be added to the net pay figure for that pay period.

8 Ongoing use of amended daily rate

Where an amended daily rate of Working Tax Credit has been received, this needs to be adopted for future payments. Once it has been used as the amended daily rate it will need to become the normal daily rate in the subsequent pay periods.

Formula 1 Adopt amended rate as normal rate $\mathbf{Wd1 = Wd2}$

Formula 2 Zeroise amended rate $\mathbf{Wd2 = 0}$

ANNEX A (Continued)

Glossary of Symbols

D and <i>d</i>	relate to the dates associated with the tax credit
Db	start date of employer responsibility for tax credit payment
Ds	stop date of tax credit when it is stopped during the award by the Inland Revenue (as per Stop Notice)
Da	date from which the amended daily rate applies
<i>db</i>	end date of pay period in which the first tax credit is paid by the employer
<i>dl</i>	end date of previous pay period in which the tax credit is paid by the employer
<i>dt</i>	last date for which the employer takes responsibility for paying the tax credit, when employment is ceased (including on death of an employee)
<i>dc</i>	end date of pay period in which the tax credit paid is amended following an amendment notice
<i>N</i>	relates to the number of days to pay
<i>Nb</i>	number of days in the first tax credit payment period
<i>Nc</i>	Number of days from end date of the previous pay period to the date of amended daily rate as shown on the amendment notice
<i>Nd</i>	Number of days from the date of amendment of daily rate to the end date of the pay period.
<i>Nn</i>	number of days from previous pay date to this pay date
<i>Ns</i>	Number of days from end date of the previous pay period to the date of stopping shown on the stop notice
<i>Nt</i>	Number of days from end date of the previous pay period to the date the employment is ceased (including on death of an employee)
<i>W</i>	relates to the amount of tax credit
<i>Wb</i>	amount of first tax credit payment
<i>Wn</i>	amount of normal tax credit payment between first and last / amended payments
<i>Ws</i>	amount of last tax credit payment when stopped during the award by the Inland Revenue
<i>Wt</i>	amount of last tax credit payment when employment is ceased (including on death of an employee)
<i>Wu</i>	amount of tax credit payment during period when there is more than one daily rate following amendment notice
Wd1	the normal daily rate of tax credits
Wd2	amended daily rate of tax credits