



PRACTICE NOTE

PN 3/86

Date: 14th March 1986

Modified Itip - Initial Guide To Employers

1. Introduction

1.1 Following the "Consultative Paper" issued by the Treasury relating to a review of the income tax system and consideration of the various representations made, it has been decided by the Treasury to proceed with the introduction of a modified ITIP system. This will involve employers in some additional work but less than if PAYE had been introduced.

1.2 The modified system will be introduced, with effect from 6th April 1987.

2. Setting-Up Procedure

2.1 One of the main changes in the system will be the issue of coding notices to employees and a separate notification of a code to the employer. Therefore, although the system will not be in operation until 6 April 1987 employers will be requested to carry out certain setting-up procedures before that date. The first process will be the request for a list of all employees in post as at the 1st September 1986.

2.2 During the month of August 1986 a list will be sent to each employer of all employees who were in their employment as at the 5th April 1986. This list will be required to be checked by the employer, amended as necessary and returned to the Income Tax Office no later than Monday 15th September 1986. Thereafter, this office will have to be notified of all staff changes as they occur.

3. Staff Changes

3.1 A simplified system will be adopted to cover the period from 1st September 1986 to 5th April 1987. Following the introduction of the modified ITIP system on the 6th April 1987 a new form IT21 will be used for this purpose.

3.2 The new form IT21 will be in three parts. When a person ceases employment the employer will complete parts 1 and 2 of the form stating the name, address and last code for the employee but NOT details of his pay and tax. Part 1 of the form will be sent to the Income Tax Office; parts 2 and 3 will be handed to the employee to take to his next employer. The new employer will retain part 2 as his authority to operate the code shown on the form. Part 3 will then be completed as notification of the commencement of the new

employee and sent to the Income Tax Office. There will be a separate form for employees unable to produce form IT21 (e.g. school leavers, new residents, etc).

4. Coding

4.1 The issue of coding notices will commence in January 1987- at which time a notice will be sent to each employee setting out the allowances and deductions that comprise the 'code to be operated by the employer during the income tax year 6th April 1987 ' to 5th April 1988. At the end of February 1987 the employer will be sent a list containing the code number to be operated for each of his employees for the forthcoming income tax year.

4.2 During the tax year amended codes will arise due to changing circumstances of the employee. The modified system operates on a non-cumulative basis and therefore, unlike PAYE, it will not be necessary to recalculate the total tax due as a result of the amended code. It will only operate for pay periods falling within the remainder of the income tax year.

5. Tax Deductions

5.1 The non-cumulative system means that only one set of tax tables will be required covering weekly pay and monthly pay. The revised tax tables will consist of a series of columns containing the various codes, taxable pay and tax to be deducted. An example of how they will operate is shown in the appendix to this guide.

5.2 The existing monthly remittance of the National Insurance Contributions and tax deducted will not be affected by the introduction of the new system. Similarly, the end of year procedures involving an annual return to the Income Tax Office and a statement to each employee of his total pay and tax deducted for the year will continue to apply.

6. Computerised Systems

6.1 An employer operating a computer pay-roll system may prefer to discuss the possibility of using forms produced by his own system as an alternative to the forms to be supplied by the Income Tax Office. Additionally, for the larger systems, the use of computer tape may be possible.

7. Further Advice

7.1 This is intended to be an introductory guide for employers to the modified ITIP system. Further information will be issued in due course. If in the meantime an employer envisages specific problems in adopting the new system or wishes to discuss the use of their own computer produced forms he should contact Mrs J Gribbin at Douglas 26262, Extension 2711.