

## SECTION 10: PAY ISSUES

This section provides information on:

- National Minimum Wage
- The Living Wage
- Honoraria/Payments to volunteers
- Guidelines for local pay arrangements
- National Insurance and Income Tax
- Sick pay calculations
- Provision of accommodation

### The National Minimum Wage

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The National Minimum Wage Act came into force on 1 April 1999.

It is a complex Act with detailed paragraphs affecting payment, a variety of requirements related to benefits in kind and other forms of allowance and guidelines affecting 'workers' and employers.

In general terms, it provides for minimum rates of pay, which are determined from time to time by the Secretary of State on the advice of the Low Pay Commission.

#### The Main Provisions of the Act

Anyone with a contract of employment, written, implied or oral has to be paid not less than the appropriate minimum wage whether the worker is indigenous or foreign and whether the worker is paid by the month, week, day, session, hour or some other way.

The national minimum wage rate from 01 October 2009

#### National Minimum Wage (From 01 October 2009)

Age 22 and older	£5.80 per hour (£5.93 for workers aged 21 and over from 01 October 2010)
Age 18 – 21	£4.83 per hour (£4.92 for workers aged 18-20 from 01 October 2010)
Age 16 – 17	£3.57 per hour (£3.64 from 01 October 2010)

## Apprentice Minimum Wage (Effective from 01 October 2010)

The government also accepted a recommendation from the Low Pay Commission (LPC) to introduce an apprentice minimum wage of £2.50 per hour.

The new rate will apply to:

- apprentices under 19
- apprentices aged 19 and over, but in the first year of their apprenticeship

Pay has to be calculated over a 'reference' period normally that of the interval of the payment. The hours worked over that period have to be, overall, paid at not less than the prescribed minimum wage. The pay level is that of the gross pay, before deductions. What may and may not be included is detailed in information provided by the Department of Business Innovation & Skills (BIS).

If accommodation is provided for the worker by the employer it may count at the rate of up to £4.51 per day (£4.61 per day from 01 October 2010). This is referred to as "Accommodation Off-set"

Note that as of 1 October 2003, an hourly rate is no longer published. Calculation of an hourly rate, if this is to be used, should be by negotiation between the employer and employee and agreed in writing. Further information and guidance can be obtained from the National Minimum Wage Helpline on 0845 6000 678.

No other benefit in kind may count towards the minimum wage. Payments by the employer of council tax, water rates, electricity or gas charges, or any other benefit in kind do not count towards the minimum wage.

Periods of travel necessitated by the work, and rest times during the travel, have to be remunerated at national minimum wage rates. However, travel between home and the normal place of work does not have to be so paid.

Employers have to be aware that:

- They are required by law to ensure that their workers received at least the minimum wage.
- They keep sufficient records to prove that their workers are not being paid less than the minimum wage.
- That they may be asked to make such records available for inspection.

Whilst the church, circuit or district may not pay less than the national minimum wage, it is entirely proper to pay above the minimum rate. Wages may be set in relation to rates paid in a given area of the country.

You can obtain further information on the Business Link website at [www.businesslink.gov.uk](http://www.businesslink.gov.uk) under [Employing people](#) > Paying your staff. You can also call their confidential helpline on 0800 917 2368.

In the case of doubt on any matter, it is recommended that these sources of information be consulted.

## **The Living Wage**

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Church Action on Poverty (CAP) and the Methodist Conference promotes the concept of the Living Wage. The CAP recommends hourly rates of £ £7.00 per hour (£7.45 per hour in London).

Please note that these salary scales are based on the Living Wage as recommended by Churches' Action on Poverty (CAP). As long as a lay employee's salary is based on this pay scale, any subsequent uplift to the pay scale on a yearly basis is the decision of relevant budget holders.

There is no mechanism for increments or uplifts to this scale other than adjusting the amount for the Living Wage. Each church can apply its own cost of living increase according to affordability. For example, the Connexional Team uses RPI (the Retail Price Index) for the month of December of each year to inform its cost of living increases.

Employing authorities should give consideration to the Living Wage as an alternative to the National Minimum Wage. [See Appendix 10.1]

## **Honoraria/Payments to Volunteers**

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The Methodist Church has a substantial number of members and others who give service voluntarily in its ministry and mission. Such volunteers are not affected by the National Minimum Wage Act, provided they are genuine volunteers working without pay.

In some situations the Methodist Church has entered into agreements with 'Time for God' or other voluntary service agencies who provide volunteers to perform a task but who receive no 'wage' or 'salary' for performing the task. Instead they are usually provided with

basic accommodation, have any expenses necessarily incurred in the course of their duties reimbursed, and are usually offered some 'pocket money' or minimal allowance by way of subsistence. Such workers are not subject to the provisions of the Act.

Before any charge is imposed for accommodation, advice should be sought to ensure that no tenancy is being created.

The practice of paying honoraria should be implemented with care.

An honorarium is intended to be more than a gift for carrying out a voluntary duty. It should not be regarded as remuneration for any work done, should not be offered before the duty is undertaken, and an honorarium should not become a regular payment. In strict terms an honorarium is a one-off ex-gratia payment, that is, there is no obligation to pay it, regardless of work being completed.

Organisations that are found to be paying honoraria inappropriately may have to pay backdated tax and National Insurance contributions.

Honoraria paid to a volunteer should be put through the books and is liable to tax and National Insurance.

## **Guidelines for Local Pay Arrangements – Local Religious Centres (LRC)**

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### **Pay Administration**

LRCs who take on an employee have options:

Register as an employer with the Inland Revenue allowing it to operate the "Pay-as-you-earn (PAYE) Scheme or,

Arrange to use the Payroll Bureau Service provided by the Finance Office at Methodist Church House. The Finance Office usually requires a grant per annum per employee as contribution towards the costs of this service. The current grant required is £210 per annum, per Circuit or Church.

PLEASE NOTE: Employers must notify their local HMRC Office of any employee who will earn £100 or over in any one tax year.

**An employee is anyone employed under a contract of service and includes casual and part time workers i.e. Lay Employees and cleaners.**

## **Class 1 National Insurance Contributions (NIC)**

The PAYE scheme allows for the collection of Class 1 National Insurance Contributions and Income Tax at source and payment over to the Inland Revenue.

Class 1 NIC is made up of two elements – employee and employer’s contributions. Whether or not employee and/or employer’s NIC is payable depends on:

The employee’s AGE which must be at least 16 years AND

- The employee’s EARNINGS, which must exceed the Earnings Threshold (ET).

Employers over the State Pension Age (60 for women and 65 for men) do not have to pay “employee’s NIC”. There is no such restriction for Employer’s NIC.

Currently, the State Pension age is 65 for men born before 6 April 1959. For women born on or before 5 April 1950, State Pension age is 60.

The State Pension age for women born on or after 6 April 1950 will increase gradually to 65 between 2010 and 2020.

From 6 April 2020 the State Pension age will be 65 for both men and women.

*Please note:* Earnings in this instance mean all payments made to an employee for service regardless how it is described i.e. Salaries, Wages, Bonus, Overtime, Commission, etc.

To calculate Class 1 NICs, two other earnings levels are relevant.

- Lower Earnings Limit (LEL) - the minimum level of earnings that an employee needs to qualify for benefits such as Retirement Pension and employee needs to qualify for benefits such as Retirement Pension and Jobseekers Allowance. No NIC is payable at this earnings level.
- Upper Earnings Limit (UEL) –the employee’s NIC is limited to 1% only for all earnings above this limit. The employer would however continue to pay NIC at the full rate of 12.8% beyond this point.

The rates for the tax year 2010 / 2011 are as follows:

	<b>Lower Earnings limit (LEL)</b>	<b>Earnings Threshold (ET)</b>	<b>Upper Earnings Limit (UEL)</b>
Weekly	£97.00	£110.00	£844.00
Monthly	£ 420.00	£476.00	£3,656.00

Annually	£5,044.00	£5715.00	£43,875.00
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If the employer will pay more than the ET, they should write to the PAYE tax office for the area where the LRC is located, with details for each recipient, as follows: -

- National Insurance Number
- Date and amount of first payment
- Name and Address
- Nature of employment

The employer will be provided with information for the operation of PAYE / NIC and told how to report all payments to the tax office.

## Income Tax

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The level of income at which income tax becomes payable (the PAYE thresholds) for the tax year 2009/10 and 2010/11 are:

- £125.00 weekly
- £540.00 monthly

If the employees total taxable income including state and occupational pensions is below these figures, then no tax needs to be deducted.

If the employee's income will be above these figures they should write to the PAYE tax office for the area where the LRC is located, with details for each recipient, as follows: -

- National Insurance Number
- Date and amount of first payment
- Name and Address
- Nature of employment

The employer will be provided with information for the operation of PAYE / NIC and told how to report all payments to the tax office.

Income tax should be computed using Special Inland Revenue Tax Tables or the applicable tax rates for the tax year, which for 2009/10 and 2010/11 are as follows:

	Rate of Tax	Taxable Income
<b>Starting rate</b>	10%	Not applicable
<b>Basic rate</b>	20%	From £0.00 to £37,400
<b>Higher rate</b>	40%	Over £37,400

NB: Taxable income is gross income including pensions less personal allowance after allowing for employee pension contributions and GAYE deductions.

## Sick Pay Calculations

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There are two types of sick pay that an employer may pay:

- Statutory Sick Pay (SSP)
- Occupational Sick Pay (OSP)

SSP is the statutory minimum, which employers must pay if an employee is unable to work due to sickness.

Occupational Sick Pay (OSP) may be paid in addition to SSP. OSP normally makes SSP up to full pay. The contract of employment should state whether or not OSP is payable, and if so, for how long.

It is usual to calculate OSP over a “rolling year”, that is to consider absence in the 12 months immediately preceding the absence.

The employer should also be clear how an employee will re-qualify for OSP if their entitlement expires.

Employing bodies should take care to apply “discretion” consistently in order to avoid a complaint of discrimination.

### Statutory Sick Pay

Before an employee is eligible for SSP, they must be unable to work for 4 consecutive calendar days. This applies to full time and part time employees. There are other qualifying conditions that must also be satisfied: -

- Average weekly earnings must be equal or more than the LEL (see above).
- The employee must be aged between 16 and 65.
- Contract of employment must be for 13 weeks or more.

SSP should be paid only for qualifying days i.e. the days of the week on which the employee is required by their contract to be available for work. These are the only days for which SSP can be paid and are also the only days, which count as waiting days.

Absences of 4 days or more are linked if they occur within 8 weeks (56 days) of each other. An employee whose subsequent absence is linked to another absence (irrespective of the reason for the absences) does not have to wait for three days before receiving SSP.

An employee may receive up to 28 weeks SSP, after which time the entitlement expires. The Inland Revenue sets the weekly rate of pay for SSP annually. For the 2009/2010 and the 2010 / 2011 tax year, the weekly SSP rate is £79.15 per week.

The amount of SSP paid is calculated by dividing the weekly rate of SSP by the number of qualifying days in a week.

For further information about this, please contact your local tax office or the Methodist Church House Finance Office.

## **Common Problems to be Aware of:-**

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### **1. Employees on Benefit**

When you know that a potential employee is on benefit, please ensure that the appropriate Benefits Office has been informed that you wish to employ them. As a minimum, you should always ask for evidence of their National Insurance Number.

### **2. Employees who do not have a National Insurance Number**

Keep a record of their full name (surname and first names), address, date of birth and sex and ask them to contact their nearest Jobcentre Plus office to obtain a National Insurance Number.

### **3. Employees who hold other employments**

Determine if NIC is payable based on their age and the earnings agreed with them. Obtain a P46 Revenue form for the employee to complete Section 1. This would help you to determine the appropriate tax code to use for the Income Tax computation.

**4. Self employed workers**

Ask for a copy of a letter from the Inland Revenue confirming their self-employment tax status for your files. No deductions for Tax or NIC will need to be made, once this confirmation letter has been received. If an employer is in doubt regarding the status of the worker, it is advisable to deduct Tax and NICs via the normal PAYE procedures.

**5. Remunerating the church organist**

Payment is normally irregular depending on the number and frequency of services taken. Whether or not NIC and/or income tax is payable will depend on the age of the organist, the period covered by each payment and their earnings from other sources. First establish the full facts of each case and consult your local tax office, for advice, if required.

**6. Paying travel expenses of employees and other office holders**

Reimbursing employee expenses of travel between home and the place of work would give rise to liability to tax. However, for other office holders working on a voluntary basis for the LRC, where similar payments are made, no tax charge will arise.

**7. Provision of accommodation**

There are occasions when the church or circuit offers accommodation to an employee, sometimes paying accommodation-related bills such as council tax, gas or electricity charges.

Employers should be aware that the provision of accommodation is likely to be a taxable benefit. Further advice must be obtained from your local tax office. The use of vacant manses to accommodate employees is not recommended. In such cases charity law requires a market rent to be charged to the employee.

There is nothing to prevent the employee so housed from paying an appropriate charge for the housing or any other benefit in kind provided they are not paid less than the National Minimum Wage.

Advice should be sought on residency arrangements to ensure the appropriate type of agreement is set up.

For further information, see Section 11.

**NOTE: The Tax Office can help with publications giving further guidance on how to operate tax and NIC and other aspects of pay.**