HM Revenue & Customs

# Employer Bulletin

Your route to the latest in payroll news

October 2016 Issue 62

## Welcome

### Hello and welcome to October's edition of the Employer Bulletin

In 2015 the government set out its vision for a transformed tax system and launched the Making Tax Digital Roadmap, setting out their proposals as to how this would be achieved. In August HMRC published a package of 6 consultations on Making Tax Digital.

Making Tax Digital will involve significant changes to the way in which the tax system will operate and as such will impact the way you currently operate your payroll. The article on page 2 gives you with some information about the consultation pack and provides a link to the actual document. It also includes a request to employers to respond to the consultation, especially in relation to some specific questions outlined in the article and also asks for volunteers to work alongside us to develop these changes. So please don't underestimate the scale of these changes and if you can please respond to the consultation document and send us your details if you are interested in helping us make sure we get this right for both employers and individuals.

We are currently seeing some common errors coming through on submissions being sent to us. The article on page 4 tells you what you need to do to avoid these errors and if you feel like you need some help or support for some of tasks you have to complete, have a look at the article on page 6. HMRC now provide a whole range of products to support new employers and also those who simply want to refresh their knowledge. Let me know how you get on if you try any of them and also if there are any specific subjects you would like to see covered.

We will continue to use the Employer Bulletin to tell you about new products and changes which may affect you and to give you access to further information if you need it. You can make sure you don't miss any future updates by signing up to receive our email alerts. Doing so means we'll be able to send you an email each time a new edition of the Bulletin is published. You can also follow us on twitter @HMRCBusiness

And finally our aim is to be able to deliver clear, consistent and timely information which is appropriate for employers and helps you to meet your payroll obligations to HMRC. So, if you have any comments or suggestions about any of the content of the Employer Bulletin or would like to see a specific topic covered, please drop me a line at Alison.bainbridge@hmrc.gsi.gov.uk Your feedback is always most welcome.

Alison

Alison Bainbridge
Editor

## Contents

# Making Tax Digital: Transforming the tax system through the effective use of information

HMRC launched a package of 6 consultations on Making Tax Digital on Monday 15 August.

At Budget 2015, the government set out its vision for a transformed tax system and in December 2015, launched the [Making Tax Digital Roadmap] which set out the vision for how this would be achieved by 2020.

Making Tax Digital will involve significant changes to the way in which the tax system will operate. These changes will put customers at the heart of what HMRC does in future and involves a move to individuals taking ownership of their tax affairs, and reducing the burden on employers' payroll/HR departments in the long term. We do not underestimate the scale of these reforms and are introducing them gradually between 2018 and 2020; we know how important it will be to get them right and to give individuals and businesses time to adapt.

Every individual and small business now has access to their own secure tax account, like an online bank account, that enables them to interact with HMRC digitally. More than 5 million people now have access to a Business Tax Account and over 5.2 million individuals are now using their Personal Tax Account, an increase of over 4 million since April 2016.

We recognise the importance of ensuring employers have an awareness of the changes that will result from HMRC making better use of the information we currently receive.

To this end we wanted to give you a little more information about the consultation document – Making Tax Digital: Transforming the tax system through the better use of information.

This consultation focuses on how HMRC will make better use of the information we currently receive from third parties, including employers' real time information (RTI) submissions. This is in order to provide a more transparent service for customers that reduces end of year under and overpayments. It also explores our future ambition for the use of third party information from 2018 onwards, which will enable us to deliver the end of the tax return by 2020.

We will begin with the information HMRC already holds and making better use of this by connecting it with customers through their digital account. In addition to this HMRC will collect and process information affecting tax in as close to real time as possible, stopping customers paying too much or too little tax in the year.

One of the changes discussed in this consultation document involves HMRC using the current PAYE process to determine customers' tax codes in a more active way to ensure more customers pay the right amount of tax in the tax year. This approach will not significantly affect the role that employers play.

Employers may see the volume of coding notices increase because HMRC will be able to be more proactive. Our new approach using information to change codes at the right time to collect the right amount of tax in year will mean most customers avoid underpaying or overpaying tax at the end of the tax year.

Due to more proactive use of RTI data, employers will need to be aware of the impact a new benefit in kind can have on an employee's code in the first year when, as well as including the cash equivalent of the benefit, we will also code out the potential underpayment in the year. This will help the customer pay the right amount of tax at the end of the year. This is information you may need to consider providing to employees so they fully appreciate the impact a benefit can have for tax purposes in the first year.

We want employers to consider themselves our partners in this transformation and would like to take advantage of this opportunity to invite your feedback and thoughts. We would particularly like to draw your attention to Questions 1 and 12 of the consultation:

**Question 1:** Where events during the year result in a change to a customer's tax projection, what is the appropriate format and regularity of notification that HMRC should send to employers and customers?

**Question 12:** What opportunities do current and potential information providers and software providers see for a stronger partnership with HMRC to enhance our customer experience?

Also, you may have some valuable input to Question 13 based on any payroll/tax queries that you currently receive from your employees:

**Question 13:** What new sources of third party information would most enhance the customer experience and best contribute to the aim of ending the tax return for all?

The consultation period will run until **7 November 2016**. Each consultation document contains details of how to get involved in the discussion and how to formally respond to the consultations.

In addition to this if you would be interested in working with us more closely on these changes please email processtransformation.mtd@hmrc.gsi.gov.uk and provide us with a brief overview of your request or feedback.

# PAYE late filing penalties for the tax year ending 6 April 2017

The Quarter 1 late filing penalty notices were issued during week commencing 12 September and continue to be issued on a risk assessed basis. Again this year, a late filing penalty will not be charged for delays of up to three days after the statutory filing date; however we may contact employers who persistently file after the statutory filing date but within three days, and they risk being considered for a penalty.

## First unpenalised default

We won't necessarily charge a penalty for the first month in the tax year that you fail to file on time. We call this the 'first unpenalised default' and it will be displayed on your penalty notice as a 'zero' penalty charge. You are still entitled to 'appeal' online against the creation of the unpenalised default if you believe you had a reasonable excuse for not filing on time.

## Appealing against a penalty online

Use the new online appeals service if you don't agree with your penalty as it's the quickest and easiest way to appeal a PAYE penalty. You can access this service through PAYE Online. Your appeal will normally get processed much faster than if you appeal in writing. When we have received your appeal we will send you an online message to let you know how your appeal is progressing. We recommend you appeal online, but if you do appeal in writing, this will not affect the outcome of your appeal

**When using the online appeals service, select the reason for your appeal from the drop down menu and avoid using 'Other' if there is a suitable alternative option.**

You should only use 'Other' if your reason for appeal doesn't fall into the categories in the online system.

It is helpful if you provide further facts to support your appeal in the additional information box which allows up to 1,000 characters. If we have any further queries, we will let you know.

If you receive a penalty notice which includes multiple penalty defaults and you believe you had a reasonable excuse for each, make sure you appeal against all of the defaults shown on your penalty notice, including any default with a zero charge. If your appeal is accepted, the un-penalised default can then be applied to a later month, reducing the value of any future penalty charges you might incur.

# Employment intermediaries - file your quarterly report now to avoid penalties

Do you supply workers to an end client and are therefore classed as an employment intermediary who has to submit quarterly returns to HMRC?

The latest quarterly reporting period finished on the 5 October 2016. If you want to avoid a penalty for a late return you need to submit your return to us by 5 November 2016.

If you have previously submitted returns but have not supplied more than one worker this quarter (including if you've supplied none) you need to tell us by submitting a nil report. If you have previously submitted a return but are no longer an employment intermediary, you also need to let us know.

If your report is late you will automatically be charged a penalty.

For further information on penalties, see section 4 of our guidance – What it means for an employment intermediary.

# Avoiding errors when reporting PAYE information to HMRC

## Employer Payment Summary

You should use your payroll software to send an Employer Payment Summary (EPS) to apply for any reduction on what you owe from your Full Payment Submissions (FPS).

A reduction may be due if you reclaim statutory payments for parents (maternity, paternity, adoption or shared parental pay), Construction Industry Scheme (CIS) deductions, or Employment Allowance.

We've recently seen several errors in the figures declared on the EPS, especially the figures for CIS deductions, and statutory payments for parents. We are looking to hold a webinar later this year, to help you to complete your EPS accurately. In the meantime, please see the main points to remember:

- You should not declare CIS deductions **suffered** unless you are a subcontractor reporting as a limited company
- You should not declare CIS deductions **suffered** if you are a subcontractor with gross payment status
- The figure you enter for CIS deductions suffered should be CIS deductions made, by contractors, from payments you received for work in the construction industry. Enter the total amount of year to date CIS deductions
- If you are also a contractor, **do not** use the CIS deductions box on the EPS to declare payments you've made to subcontractors each month. These should be reported either through HMRC's CIS online service or commercial CIS software.

  For more information see our guidance
  – What you must do as a Construction Industry Scheme (CIS) subcontractor
- The figure you enter for reclaimed statutory payments must be accurate. As an employer you can usually reclaim 92%, or 103% if your business qualifies for Small Employers' relief. See Get financial help with statutory pay
- Send the EPS by the 19th after the end of the tax month. For example, for an FPS submitted month ending 5 May, your EPS should be submitted by the 19 May
- Make sure your figures are accurate. Reporting incorrect figures will result in you being given too much or too little credit.

## If you make a mistake on your EPS

If you do make a mistake in the current tax year and need to correct your EPS, send an EPS with the correct year-to-date figures.

For mistakes in previous tax years, send an EPS with the correct final year-to-date figures for the tax year where you made the mistake.

## Completion of Full Payment Submission – Pay Frequency – is it an irregular payment?

FPS continue to be submitted incorrectly where an employee is paid regularly, this could be quarterly, twice a year or annually, but 'IR' has been entered in the Pay Frequency field.

If your employees are normally paid;

- weekly (W1)
- fortnightly (W2)
- 4 weekly (W4)
- monthly (M1)
- quarterly (M3)
- twice a year (M6), or
- annually (MA).

you should treat these as regular payment patterns and the appropriate code, shown in brackets, should be recorded in the 'Pay Frequency' field.

If you have make a one off payment to an employee you should enter 'IO' in the 'Pay Frequency' field.

You should only enter irregular (IR) in the 'Pay Frequency' field if your normal payment pattern is not one of those shown on above.

You should use the Irregular payment pattern indicator for employees who do not get paid regularly, but their employment contract continues. HMRC check if employees have not been paid for a specific period of time and we will treat them as leaving that employment if no payments have been made. To avoid that happening to employees who do not get paid regularly, we ask that you use the Irregular payment pattern indicator on every FPS submitted for that employee.

Examples of when you should use an Irregular payment indicator would be if you have:

- casual or seasonal employees whose employment contract continues
- an employee who is on long term sick leave

and you are not going to pay them again for 3 months or more.

Incorrectly setting this signal could lead to incorrect tax codes being issued to your employees or incorrect reconciliations at the end of the tax year.

### Changing payroll ID

We have also identified a number of errors when reporting payroll ID changes. This can result in the issue of incorrect tax codes and, potentially, incorrect reconciliations after the end of the tax year.

If you want to change an employee's payroll ID you need to ensure you set the 'payroll ID changed' indicator and ensure the **old and the new** payroll ID is entered. You can see how to record this correctly by watching our YouTube video – Help for employers – Payroll IDs

HMRC provide a range of help and support when completing submissions via a wide selection of YouTube videos, see the article on page 6 for further details.

Further information about what to put in your FPS and EPS can be found in our guidance – What payroll information to report to HMRC.

# What to do when your business stops employing people

If your business stops employing people you need to tell HMRC straight away.

You do this by submitting a final payroll return. This can be either a Full Payment Submission (FPS) or an Employer Payment Summary (EPS).

Then:

- select the 'Final submission because scheme ceased' box
- put the date you closed your PAYE scheme in the 'Date scheme ceased' box – you cannot put a date in the future
- deduct and pay any outstanding tax and National Insurance to HMRC
- enter a leaving date on each employee's payroll record
- give your employees a P45

submit any expenses and benefits returns to HMRC.

# PAYE Desktop Viewer Update

The PAYE Desktop Viewer has now been updated to version 2.43 and includes a new version of the Microsoft Accreditation Certificate. The updated version can be downloaded from https://www.gov.uk/paye-online/desktop-viewer

# Help and support - YouTube videos

## New employers – help & support videos

We have developed a number of YouTube videos showing the key payroll tasks employers come across and how to deal with them. The videos are aimed at new employers but employers and agents in general, and those new to payroll, may also find them helpful.

- New employers – the basics
  What is PAYE (including what is pay), how to tell HMRC you've taken on your first employee, PAYE starter checklist and what's a tax code
- When and how to pay PAYE
  How to pay regularly and on time to avoid interest and potential penalties and benefits of paying electronically
- Payroll software and sending reports to HMRC
  Choosing payroll software, setting it up and sending online reports on Full Payment Submission and Employer Payment Summary
- How to send your final PAYE submission
  Details on deadlines, submitting PAYE reports and using Basic PAYE Tools (BPT) /other software
- How to issue P60s
  Deadline dates, using BPT/other software, printing or emailing P60s and keeping P60s safe.

## Easy e-learning guide for employers

We have also updated our online guide for new employers. If you're employing someone for the first time and aren't sure where to start, this is for you.

Becoming an employer tells you what you need to know from registering as an employer to running your payroll and sending payments to HMRC.

You don't have to read it all at once – you can take a break and come back to it later whenever you like. You can also dip in and out when it suits you to find the answers you need.

## General help and support

We have produced a wide range of YouTube videos as a way of providing businesses and individuals with additional advice and support when dealing with HMRC.

The following is a selection of some of the videos that have been published recently:

- How to correctly report your Payroll if your business is involved in a Merger or Succession
  It is important that if your business is involved in a Merger or Succession that the correct process is followed for reporting your Payroll to HMRC. This video provides step by step instructions.
- How to Claim Tax refunds for Employment Expenses
  Have you reimbursed your employees for using their own money for travel or things they've had to buy for the purpose of their job? If not, our YouTube video tells them all they need to know about claiming tax back.
- Employed or Self Employed
  This video provides some simple and user friendly information to help check whether an individual is engaged on the correct terms, employed or self-employed.

  We intend to supplement this product with a longer, more detailed employer webinar in the coming months which will build on the information provided in the YouTube video and also lend more focus towards what engagers, as well as workers, can do minimise the risk of miscategorising the status of their workforce.

  Further information on employment status can be found in the Employment Status Manual and an online tool is also available which can help start to determine the correct employment status of a worker.

For the latest HMRC video updates please subscribe to HMRC YouTube playlist or visit our HMRC webinars, email alerts and videos for further help and support.

# Expenses and Benefits - should you have sent us a NIL return?

At the end of the tax year you'll usually need to submit a P11D form to HMRC for each employee you've provided with expenses or benefits.

You should also submit a P11D(b) form if:

- you've submitted any P11D forms
- you've paid employees' expenses through your payroll
- you've been sent a P11D(b) form by HMRC.

Your P11D(b) tells us how much Class 1A National Insurance you need to pay on all the expenses and benefits you've provided.

However, if you're an employer and you've received a P11D(b) or P11D(b) reminder letter from us but haven't provided any expenses or benefits to anyone, use the online service to tell us you don't owe Class 1A National Insurance. If you are an Agent, email this form to tell us that your client doesn't owe Class 1A National Insurance.

More information can be found at Gov.uk

# Tackling tax evasion

On 17 April 2016 the Government published a consultation – Tackling tax evasion: a new corporate offence of failure to prevent the criminal facilitation of tax evasion.

Although the consultation has now closed we have provided a link to the original document as we would like to draw your attention to the fact that the new offence also includes National Insurance contributions.

# Student Loans

### Student Loan Plan 1 threshold will increase 6 April 2017

Current Amending regulations (SI 2011/784) state that the annual repayment threshold for Student Loans will be increased annually from 6 April 2012 in line with the Retail Prices Index (RPI).

This means that the threshold for employees with Plan 1 loans will increase by 1.6% to £17,775 from 6 April 2017.

This figure will apply to all current borrowers with pre-2012 loans (Plan 1 loans) for whom employers make Student Loan deductions.

### Student loan notices

To ensure your employees only pay back what they owe, please check your inbox regularly for any student loan notices.

Student loan start (SL1s) and stop (SL2s) notices should be implemented from the first available pay day following receipt and any deductions should be made using the Plan type shown on the SL1 Start Notice. If there is a delay in starting deductions we may contact you by telephone to find out why.

If you're unsure of the Plan type to use ask your employee to tell you and start making deductions using this information. They can check their information at www.slc.co.uk/students/loan-repayment.aspx

In cases where individual employees are unable to confirm their plan type you should begin making deductions at the first available pay date using Plan type 1 and continue until you receive further instruction from HMRC.

For more information about student loans see – Student loan repayments: guidance for employers. This information is updated regularly to incorporate any changes so it's important to keep checking the online guidance and don't rely on old printed versions.

# National Insurance numbers with 'KC' prefix

In August's edition of the Employer Bulletin we told you that a small number of employers were not able to submit Real Time Information (RTI) data for employees with National Insurance numbers (NINOs) with prefix 'KC'.

From 15 November 2016 employers will be able to submit RTI data for employees using this NINO prefix.

Some software products, including HMRC's Basic PAYE Tools, may not be updated before April 2017. If this applies to you then you should continue to follow this guidance when submitting your returns:

- the NINO field should be left blank
- make sure the employee address field is completed in these cases.

If any of your employees have a 'KC' National Insurance number, they don't need to request a new one.

You should continue to apply tax codes and notices you receive from us in the normal way.

# Apprenticeship levy - update on apprentice funding rates

As you may have seen in August's Employer Bulletin, the way the government funds apprenticeship in England is changing from 6th April 2017.

The Department for Education has released information on proposed funding rates for apprentices, which will come into effect alongside the apprenticeship levy from April 2017. These funding rates will apply to both apprenticeship levy paying employers and non-apprenticeship levy paying employers.

Only employers with annual pay bills greater than £3 million, subject to the rules on connection, will be required to pay the apprenticeship levy. These levy paying employers will be able to purchase training from the start of May 2017, as they will start to see funds in their digital accounts later that month, and training providers will be paid one month in arrears.

Employers who do not pay the levy will continue to access the current funding system until 1 May 2017, after which the new proposals referred to above will come into effect.

HMRC has published a technical consultation on key areas of interest in the regulations for the apprenticeship levy, mainly concerning the operation of the apprenticeship levy allowance and how the levy will be reported. We would welcome any responses by 14 November 2016.

# One million State Pension forecasts viewed online

Did you know that your employees can now view their National Insurance record online? They can also find out how much State Pension they might get, the earliest they can get it and if they can improve it.

If any of your employees are interested in this service all they need to do is go to www.gov.uk/check-state-pension create an account and verify their identity, (it would be helpful to have their payslips, passport and/or driving licence to hand to do this).

So far over one million State Pension forecasts have now been viewed online using our new Check your State Pension service.

# Paying HMRC

### 22nd October payment deadlines

The August Employer Bulletin provided early notice about some October PAYE payment deadlines.

- The electronic payment deadline of the 22nd falls on a Saturday in October, which means you need to have cleared funds in HMRC's account by the 21st unless you are able to arrange a Faster Payment to clear on the payment deadline
- Electronic payments for a PAYE Settlement Agreement (PSA) for the year ended 5 April 2016 must clear into the HMRC bank account by 22 October, which effectively means the 21st unless you are able to arrange a Faster Payment to clear on the payment deadline.

Find out more about paying us electronically.

### PAYE payment reference advice

When paying your PAYE to HMRC please:

- pay the right amount,
- at the right time,
- and use your 13 character Accounts Office reference.

If you pay the right amount and your payment is credited before the payment deadline you should not incur Interest and Late Payment Penalties.

If you provide the correct payment reference, your payment will be allocated faster minimising the likelihood of us contacting you about your payment.

But if you are paying something else, please use the appropriate reference. For example, Interest, penalty and PAYE Settlement Agreement charge references begin with an 'X'.

Find out more about paying us electronically.

# Making repayments safer and more cost effective for our customers

From September 2016 customers who have received a repayment by payable order will be contacted by letter or phone to highlight the many benefits of receiving repayments electronically by Bacs Direct Credit:

- Simple and convenient – unlike payable orders, the funds are paid straight into the customer's bank account, eliminating the need to take or send a payable order to the bank
- Safer and more secure – unlike payable orders, Bacs payments cannot be lost or intercepted and fraudulently cashed. Customer repayments arrive automatically into their bank account giving cleared funds on arrival.

Details of the action customers must take to receive repayments by Bacs will be detailed in the letter. HMRC will never ask customers for their bank details in a letter, phone call, text message or email.

### Making repayments safer and more cost effective for our customers

From September 2016 customers who pay us by cheque through the post will also be contacted by letter or phone to ask them to consider paying electronically by:

- online or telephone banking – Faster Payment, Bacs, CHAPS
- Direct Debit
- Debit or credit card online.

We are encouraging all customers to pay by electronic payment methods because:

- They are safer and more secure – unlike cheques, electronic payments cannot be lost or intercepted and fraudulently cashed. Customers can be more confident that the payment will reach HMRC on time – no postal delays.

Details of where to find the alternative payment types available to our customers on GOV.UK will be detailed in the letters or phone call.

# Increase in National Minimum Wage rates

The National Minimum Wage (NMW) rate per hour depends on your age and whether you're an apprentice – you must be at least school leaving age to get it.

The rates have increased meaning the NMW applicable to pay reference periods starting on or after 1 October 2016 are as follows:

- the main adult rate (for workers aged 21 and over) is £6.95
- the rate for workers aged between 18 and 20 is £5.55
- the rate for workers aged under 18 is £4.00
- the rate for apprentices is £3.40*

*This rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age.

The National Living Wage rate for adults age 25 and over will remain at the rate of £7.20.

# Statutory Maternity Leave and Child Care Vouchers

Following the decision of an Employment Appeal Tribunal (Peninsula Business services v Donaldson) regarding Child Care Vouchers (CCVs), salary sacrifice and maternity leave, we are considering what guidance is needed but in the interim we have confirmed the following:

If CCVs are provided under an employment contract, outside the scope of a salary sacrifice scheme, then the vouchers must continue to be provided during maternity leave and other periods of family leave (other than unpaid parental leave).

There is legal authority that whether an employer must provide CCVs to a person participating in a salary sacrifice scheme in respect of a period when they are on family leave, depends on the terms of the contract of employment. In the Peninsula case, the contract said that an employee on maternity leave would not continue to receive CCVs. The judgment is only of direct relevance in dealing with similar contractual exclusions.

Employers are free to continue making payments into a salary sacrifice scheme to buy CCVs on behalf of an employee on family leave if they wish.

Use of CCVs that employees already have is not affected by the judgment.

# National Insurance credits help Forces spouses/civil partners protect their future State Pension

National Insurance (NI) credits can help Armed Forces spouses and civil partners protect their future State Pension, minimising the effect that accompanying postings overseas can have on their ability to work and pay NI contributions. These can be applied for retrospectively in relation to accompanied postings since 6 April 1975.

If any of your employees fall into this category and

- reach State Pension age on or after 6 April 2016
- have been married to/in a civil partnership with an Armed Forces member
- have accompanied their spouse/civil partner on an overseas tour since 6 April 1975.

they can apply for NI credits by going to www.gov.uk/dwp/ni-credits-armed-forces-partners and following the links in the guidance.

# Finance Act 2016 - new avoidance measures

A new regime of warnings and escalating sanctions for those who take part in tax avoidance schemes was included in Finance Act 2016 which received Royal Assent on 15 September 2016 and includes:

- Tougher penalties for serial tax avoidance;
- Strengthening the General Anti-Abuse Rule (GAAR) and adding a penalty; and
- A new threshold condition for Promoters of Tax Avoidance Schemes (POTAS).

### Serial tax avoidance

New warning notices for tax avoiders whose schemes are defeated. Those who ignore this initial warning notice from HMRC to stay out of avoidance face 3 new sanctions. A penalty of 20% of the understated tax, rising to a maximum of 60% for further defeats of schemes by HMRC; risk of being named as serial avoiders after 3 defeats; and having their tax reliefs denied after 3 defeated schemes which misuse reliefs.

### GAAR

Some procedures within the GAAR are also being streamlined to improve its efficiency and ease of use. This is important, because the GAAR is a powerful deterrent against entering into avoidance in the first place. To improve the GAAR's effectiveness in persuading people to settle before action is taken, there is also now a penalty of 60% of the tax counteracted under the GAAR for all cases.

### POTAS

A new threshold condition is being introduced into the POTAS rules, so that they now capture someone who promotes a number of schemes which we defeat. If the threshold is met, a person who is a promoter of tax avoidance schemes will be given a conduct notice and may have other sanctions applied if they do not comply.

# Non-deductible and non-exempt expenses

From 6 April 2016 any expenses you reimburse to your employees that are **fully** deductible from their earnings are no longer subject to tax and National Insurance contributions (NICs), provided they are not part of a relevant salary sacrifice arrangement. There is no need for employers to include them on P11D and for the employees to submit deduction claims to HMRC. Dispensations no longer apply. Employers who wish to pay the tax and NICs on non-deductible expenses can still agree PAYE Settlement Agreements with HMRC.

For the tax year ending 5 April 2017 expenses payments that are not fully deductible should not be reported on form P11D, but instead should be treated as earnings and the full amount should be subject to tax and Class 1 NICs.

For mixed expense payments (for example, home telephone rental) if you can clearly identify the allowable expense amount at the time of payment, only the non-exempt amount will need to be treated as earnings and subject to tax and Class 1 NICs through the payroll.

If the non-exempt amount is not clearly identifiable at the time of payment you should treat the full amount as earnings and deduct tax and Class 1 NICs accordingly. Your employees can then claim tax relief for the exempt amount related to business use in the normal manner.

Where a benefit is provided that would have previously been included in a dispensation because a fully matching deduction is available, and it is not provided under a relevant salary sacrifice arrangement, the exemption applies in the same way as to paid or reimbursed expenses. If the benefit is not fully matched by a deduction, the full value of the benefit should be reported in the normal way.

For more detailed information please see our guidance – Exemption for amounts which would otherwise be deductible.

Further information relating to the end of year reporting of expenses and benefits, including how to deal with items that have not been reported via payroll during the year, will be published in the February edition of Employer Bulletin.