

## EXPLANATORY MEMORANDUM TO

### THE INCOME TAX (PAY AS YOU EARN) (AMENDMENT) REGULATIONS 2017

[2017] No. [XXXX]

#### **1. Introduction**

- 1.1 This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs ("HMRC") on behalf of HM Treasury and is laid before the House of Commons by Command of Her Majesty.

#### **2. Purpose of the instrument**

- 2.1 This instrument simplifies the PAYE settlement agreement (PSA) process. It introduces the concept of a PSA being an 'enduring' agreement. This agreement will continue to remain in place for subsequent tax years unless varied or withdrawn by the employer or cancelled by HMRC. This simplification removes the need for an upfront annual agreement for employers who wish to use this option.
- 2.2 This instrument also allows for the digitisation of the PSA process.

#### **3. Matters of special interest to Parliament**

##### *Matters of special interest to the Select Committee on Statutory Instruments*

- 3.1 None.

##### *Other matters of interest to the House of Commons*

- 3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

#### **4. Legislative Context**

- 4.1 The post-election Finance Bill 2017, clause 6 includes the amendment to the provisions of Chapter 5 of Part 11, Income Tax (Earnings and Pensions Act) 2003 (ITEPA), removing the need for PSAs to be agreed with an officer of HMRC.
- 4.2 Consequential changes to part 6 of the Income Tax (PAYE) Regulations 2003 are required to implement new administrative processes.
- 4.3 The PAYE Regulations govern the operation of the PAYE system under which employers deduct income tax at source from employees' pay.
- 4.4 Part 6 of the Regulations relate to the making, the form and effect of PSAs.

#### **5. Extent and Territorial Application**

- 5.1 The extent of this instrument is the United Kingdom.
- 5.2 The territorial application of this instrument is the United Kingdom.

## **6. European Convention on Human Rights**

- 6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy background**

### *What is being done and why*

- 7.1 PSAs are arrangements under which employers can, in a single payment, settle their employees' income tax liabilities for certain benefits and expenses. The government aims to reduce the administrative burden on employers of operating PSAs in their current form.
- 7.2 This instrument amends Part 6 of the PAYE Regulations. The instrument extends the duration of PSAs by removing the need for annual renewal. Instead, a PSA will continue to have effect for each subsequent tax year until varied or cancelled, either by the employer, or HMRC. Further changes will allow PSA applications to be processed electronically without the need for agreement with an officer of HMRC, if and when? digital processes are introduced.
- 7.3 The changes have effect in relation to PSAs for the 2018/19 tax year and subsequent tax years.

## **8. Consultation outcome**

- 8.1 *To be completed post-consultation.*

## **9. Guidance**

- 9.1 New guidance will be published in the PAYE Manual in due course.

## **10. Impact**

- 10.1 The amendment will offer employers the opportunity to reduce their administrative burdens when entering into PSAs. There is no impact on charities or voluntary bodies.
- 10.2 There is no impact on the public sector. Process changes will give rise to savings of £235 - £285k.
- 10.3 An Impact Assessment is attached to this memorandum and will be published alongside the Explanatory Memorandum on [www.legislation.gov.uk](http://www.legislation.gov.uk).

## **11. Regulating small business**

- 11.1 The legislation applies to activities that are undertaken by employers.
- 11.2 No specific action is proposed to minimise regulatory burdens on small businesses.
- 11.3 The basis for the final decision on what action to take to assist small businesses was that, although the amendments made by the instrument apply to all businesses, they serve to reduce administrative burdens such that specific action in relation to small businesses was not required.

## **12. Monitoring & review**

- 12.1 The effectiveness of the process set out in the legislation will be subject to internal review by HMRC at regular intervals.

### **13. Contact**

Any comments should be sent to [PAYE.policy@hmrc.gsi.gov.uk](mailto:PAYE.policy@hmrc.gsi.gov.uk) or by post to:

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