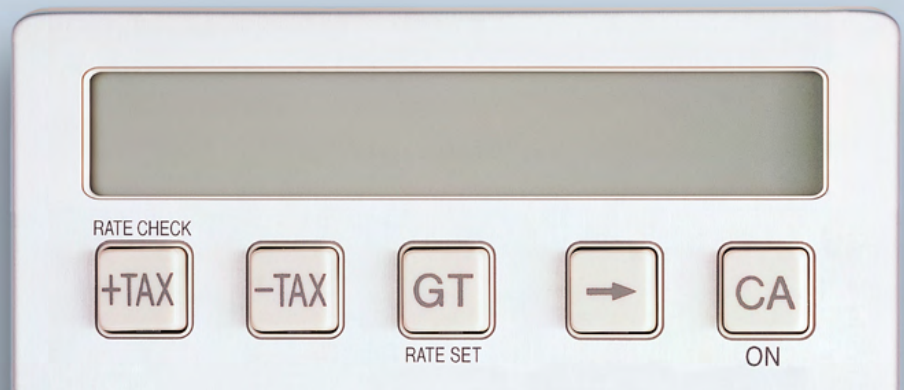


Tax letters for people who have underpaid PAYE



HMRC is sending more than a million letters between the end of October and December to taxpayers who did not pay enough tax under Pay as You Earn (PAYE) in 2010-11. This issue briefing provides information to help you understand how PAYE underpayments happen.

How underpayments happen

The PAYE system aims to deduct the right amount of tax from people during the course of the tax year and is based on information that employees and employers provide to us.

PAYE takes the right amount of tax from around 85% of people. But for those who move in and out of work, have fluctuating income, or have expenses and benefits, PAYE deductions do not always equal the tax due. This is largely because the tax affairs for this group of taxpayers can change throughout the year and the changes may not be reported to us until some time after the event. This means that in any tax year, around 15% of taxpayers have overpaid or underpaid tax.

That is why, at the end of the tax year, we calculate whether the correct amount of tax has been paid.

This is known as End of Year Reconciliation. We then send tax calculations to taxpayers who have overpaid or underpaid their tax. This has always been the case, since PAYE was first introduced in the UK in the 1940s. This used to be done manually by our staff, but our PAYE computer now does these calculations automatically.

Over the summer, we have already repaid £680m to more than two million people who overpaid tax in 2010-11. This is earlier than we were able to make repayments in previous years.

How many people have underpaid tax in 2010-11?

For the tax year 2010-11, we expect to issue around 1.2 million underpayment calculations. Around half of these underpayments are expected to be between £50 and £300.

How we collect underpayments

In the vast majority of cases, we will collect the underpayment during 2012-13 by including it in the individual's tax code. This means we will recover it from their salary over the course of the tax year. This is known as 'coding out'.

For those owing amounts up to £3,000, we can usually code out any underpayment. For those owing £3,000 and over, we will ask for direct payment. If the underpayment is less than £50, we will not collect it.

Some taxpayers who have underpaid tax in 2010-11 received a state pension which we were unable to match to their tax record. All of these taxpayers started to receive that pension before 6 April 2010 and have benefited from our decision not to collect underpayments for earlier years. To minimise the impact of these underpayments for 2010-11 on affected pensioners, we will automatically spread out collection of any underpayment by coding it out over the next three years. We have already amended their records so that their tax codes are accurate for 2011-12.

We are also writing directly to all affected pensioners to apologise for our error, explain what happened and say how we will collect the underpayment, using an approach agreed in consultation with pensioner representative groups. We have a dedicated team taking pensioners' calls if they need to talk to us and the telephone number is included in individual calculation letters.

Giving help to those who cannot afford to pay

We know these tax bills may be unexpected and that paying them over 12 months could cause some taxpayers financial difficulty. We will be as flexible as possible, so that people can ask to pay the tax they owe by spreading the payment over a maximum of three years if they need to.

Taxpayers wanting more information about Time to Pay arrangements should call the contact number on the letter they receive, quoting their unique reference number. There is also an address on the letter where they can write to us. In these circumstances, where a taxpayer makes a payment arrangement with us, we will not charge interest.

What we are doing to improve PAYE

There will always be some over and underpayments each year. These are a consequence of the way PAYE works for certain types of taxpayer – typically those who move in

and out of work, or have benefits in kind, or where there is a delay in information about a change in circumstance reaching us.

In the past, our staff had to deal with these cases manually, which led to backlogs of almost 18 million cases from between 2003-04 and 2007-08. We are working hard to clear all these cases and are on track to achieve this by the end of 2012. As part of this exercise, we expect to make around six million repayments to customers who paid too much tax in those years.

Our National Insurance and PAYE Service (NPS) computer system, which we introduced in 2009, now automatically reconciles the majority of tax records at the end of the year, making this a much faster and more accurate process.

We are also making good progress in dealing with customer correspondence and phone calls. The levels of post outstanding have been coming down in recent months and are now the lowest they have been since HMRC was formed.

Our phone service has also been improving. By the end of October we had handled 72.3% of phone calls received in our call centres compared with 38% at the same time last year. We know there is more to do, but these are very real improvements and we are determined to build on them.

Real Time Information (RTI) will be the next stage in modernising PAYE. Under RTI, employers and pension providers will tell us about PAYE payments at the time they are made – instead of the current annual end-of-year reporting system.

RTI will allow us to keep some customers' tax more up to date in year as we will be notified more quickly when people change jobs or move in and out of work. Over time, RTI will help ensure we collect the right amount of tax and national insurance from more individuals during the tax year, meaning fewer customers will be over or underpaid at the end of the year.

Between now and December next year, we will also be making around six million repayments to customers who have overpaid tax. This will be an automatic process and there is no need for customers to contact us. The average repayment will be around £400.

To find out more

Visit our website at www.hmrc.gov.uk/payinghmrc/problems/cantpay.htm