

Pay As You Earn

Reconciling 2013-14 PAYE charges

Real Time Information

1) Introduction

On 12 August 2013 we published an internet 'What's New' item entitled [Real Time Information - reconciling PAYE charges](#) where we explained that:

- We had received feedback that some PAYE schemes have experienced difficulties in reconciling the difference between the tax we say is due, and the tax they think is due
- We had set up a dedicated team to identify the cause of these discrepancies.

This report sets out the team's findings from an analysis undertaken between July and September 2013.

2013-14 is a year of transition. We appreciate that employers and payroll service providers are still getting used to the new way of reporting. We also appreciate that where we are unable to agree the correct charge, this is a matter of concern for employers and their representatives as well as HMRC.

It is clear from the analysis that it would be helpful to increase knowledge of how the employer charge is created - both internally in HMRC and externally with our customers and their agents. Some customers did not understand how HMRC calculated the employer charge, and within HMRC, that lack of detailed knowledge by some contact centre advisors affected responses to customer contact and our handling of referred disputed charges. This meant that some employers were led to believe that their liability and payment had been calculated incorrectly, and so cases were referred incorrectly for review.

Work on developing that knowledge is now underway and we will publish enhanced guidance shortly.

Where issues occur we are working with employers, payroll service providers and, where appropriate, their payroll software providers to resolve issues quickly. But we also have to recognise these are often complex cases which require detailed work by both HMRC and the employer.

To put this in context, the number of charges being queried with our specialist team is only a small proportion (less than 1%) of 1.6 million RTI-reporting PAYE schemes. It is also worth reminding ourselves that it is highly unlikely that there will ever be a time when no PAYE charges are under query.

We have found that the majority of discrepancies have been due to misunderstanding, error or transitional issues as employers joined RTI, and there is no evidence of error in the way that HMRC's IT systems create the charge. We recommend that employers and payroll service providers check HMRC's guidance or liaise with their payroll software provider where they are unsure.

As new types of queries arise, we are adding them to those we are already reviewing. However, the number of queries being raised has reduced significantly over the last few weeks. This is in line with our experience in the RTI pilot of issues reducing as employers get used to the new way of reporting.

2) The analysis exercise

The team responsible for handling disputed charges, (National Insurance Contributions & Employer Office (NICEO)), started the analysis at the end of July 2013.

The aim of the analysis was to:

- Check that HMRC IT systems are calculating the monthly employer charge correctly
- Record details of findings, including reasons for disputes and how resolved, so that we can use this information consistently and effectively.

The cases reviewed are a combination of cases referred:

- By the Chartered Institute of Payroll Professionals (CIPP)
- By software developers
- Through our business as usual disputed charges process.

The cases reviewed do not form a statistically valid sample, but we have reviewed sufficient cases to be confident that our findings are robust.

3) Findings overview

The team found:

- No evidence that HMRC IT systems are calculating the charge incorrectly.
- That there have been some problems associated with the transition to RTI with:
 - Information which has resulted in duplicate employments (resulting in an overstated charge)
 - A small number of submitted FPS's not being passed to the accounting system in a timely manner resulting in no charge being created, or an understated charge.
- Key causes of discrepancies were:
 - Miscellaneous employer error
 - Employer Payment Summary (EPS) returns
 - Payments to leavers
 - Timing of updates to HMRC's Business Tax dashboard (the View Account facility in the PAYE Online account)
 - Issues relating to returns for Construction Industry Schemes
- While not a dispute with the amount of the charge itself, the following have featured in several cases reviewed:
 - The way payments are allocated to debts
 - The information displayed to the employer in the Business Tax dashboard
 - Misunderstanding how employer charge is calculated

4) The findings in detail

4.1) HMRC practice

Delays in processing FPS information

There were a small proportion of cases where there have been delays in passing information from submitted FPS's to our accounting system, resulting in no charge being created or an understated charge.

This has meant that the employer can't see a charge on the Business Tax dashboard even though they know their submissions have reached us, and in some cases this has caused specified charges to be raised. We have identified and resolved this problem, and have now corrected the majority of cases affected. We are treating the remainder as high priority.

HMRC's IT

During the course of the analysis the team investigated a number of potential issues that might have indicated that HMRC's IT was calculating a PAYE charge incorrectly. We have been able to confirm that there were no flaws in the way in which HMRC's IT systems were calculating employers' charges.

These were as follows:

Payments on and after leaving: HMRC systems are calculating the charge correctly where there is a payment after leaving. However, how an employer or their software treats the final payment on leaving and after leaving can cause incorrect charges. Examples are:

- One software product continues to submit FPS's after the employee has left, causing duplicate employments and therefore an overstated charge. We are working with the software provider concerned
- Some employers tick the box to denote a payment after leaving where the payment is the normal final salary payment, and reported the payment on the FPS that first reports a date of leaving. "Payment after leaving" has been interpreted as a payment made after the employment has ended, even though a leaving date hasn't already been reported. HMRC guidance on payment after leaving can be found in the link on 'Looking forward' below.

Conversion of negative amounts in a submission (eg a net tax refund) to a positive: one discrepancy was exactly twice the sum of refunds to two employees. Investigation showed that there was in fact a duplicate employment, and coincidentally the amount of tax duplicated was exactly that sum.

Calculation of liability where student loans involved: there is no evidence that HMRC systems have processed anything incorrectly here.

4.2) Employer practice

Miscellaneous employer error

Miscellaneous employer error accounts for more than 25% of all the discrepancies analysed. In at least 50% of the cases where the employer acknowledges that they made an error, when we contacted them they unfortunately either didn't know or couldn't remember what the error was or how they corrected it.

Two common examples of employer error were:

1. The amount paid by the employer isn't the total amount due. This was caused by a mismatch between tax weeks and payment months (for example where the employer is using calendar rather than tax periods in their reports).

Some examples from our review are:

- FPS contained weekly figures up to week 13 and monthly payroll up to month 3, but payment only up to week 12.
- Employer's FPS sometimes contains 5 weeks' information but payments always for 4 weeks.
- The employees are weekly paid. The totals on month 1-4 FPS's relate to employers' totals for weeks 1-18. The employer has made payments for PAYE for weeks 1-16.
- Payment made for 4 weeks in month 1 but FPS included pay and deductions for week 5.

There is full guidance on our [Correcting payroll reports not aligned with payment dates and tax periods](#) web page.

2. Pay and tax from previous employments has been included in the year-to-date figures reported on the FPS.

Again, examples from our review are:

- Employer had been including previous pay and tax figures from new starter's P45s and this was corrected by their software in month 4.
- The discrepancy is the amount of tax from this employee's previous employment which is erroneously included on this employers return.

We've set out further examples in the Appendix below.

EPS returns

- Non-completion of an EPS where one would be appropriate
- Use of "this period" figures instead of "year to date" figures
- Timing of EPS returns resulting in the credit against the charge applied to a different tax month than the employer was expecting it to.

Our webpage [What payroll information to report](#) contains current guidance on EPS returns and information about when to send an EPS return if:

- you have not paid any employees in a tax month at [Notifying HMRC if no PAYE/NICs payment is due](#), or
- you want to recover to claim a reduction in the amount you need to pay HMRC at [Summaries of statutory payments received, CIS deductions suffered and NICs holiday](#)

The timing of receipt of an EPS determines when HMRC make the adjustment to the charge. We will be providing further information on the effects on the employer charge of a late or early EPS with some examples shortly, and will announce when that is published.

Other issues identified

Construction Industry Schemes (CIS): these schemes represent approximately 8% of the total PAYE scheme base. Whilst there is no common error, we have seen some instances of:

- Payment to subcontractors included on an FPS return
- Misunderstanding of the interaction between the CIS liability and PAYE liability. The issues observed fall within the Misunderstanding of payment allocation and Discrepancy resolved sections below.

Misunderstanding of payment allocation: this arises where the amount paid is set against a liability other than the one that the employer or their representative expected. That can happen where the employer uses the wrong payslip to pay the amount due for that month.

We have given two other examples of misunderstandings in the Appendix below.

There is no evidence that HMRC payment allocation rules are not working correctly.

However we will strengthen our guidance to help ensure that when employers make payments, they do so in a way that means the payment is allocated to the charge they expect it to be set against.

Discrepancy resolved: nearly 15% of cases in the analysis had been resolved when HMRC reviewed them, with no action having been necessary. There may be several reasons for this – for example the employer may have corrected FPS information since the dispute was raised – but it's also possible that when the employer viewed the charge on the Business Tax dashboard it had not yet been updated to show recent submissions or payments, and so what they saw was unexpected. Subsequent updates then rectified the position.

For clarification, how the 'Amount due in period' on the Business tax dashboard is updated depends on when an FPS/EPS is received. The 'Amount due in period' will be updated between 6th and 11th of each month if the FPS/EPS is received within the tax month that it is due. If FPS/EPS is received between the 6th and 19th of the following tax month, the 'Amount due in period' will be updated by the 12th or within two days of receipt whichever is the later.

Duplicate employments: just over 10% of cases in our analysis related to duplicate employments. When duplicate employments are created (e.g. when an FPS gives different details for an employee to those held by HMRC, for example date of birth, NINO, start date or works/employee number) they lead to an overstated charge, causing an apparent underpayment from the employer perspective. The bulk of cases are fixed, with the remainder expected to be fixed within the next month.

It is important to give consistent employee information of the type set out in our [Information you must get right when running your payroll guidance](#)

5) The future

We will continue to monitor cases where we are unable to reconcile the amount of PAYE due with our customers. This will ensure we have seen the full range of issues that may arise over the course of time. For instance, this will ensure that we cover the experience of quarterly payers.

We will continue to update our guidance where appropriate. We have already updated our guidance at [When an employee leaves or retires](#) (for payment after leaving).

We are continuing to review and work through the charges queried to date. We may need to contact you in some cases to discuss the information that we have. But if you have already contacted us to discuss or question a charge, you do not need to do so again unless the query has resolved itself in which case please let us know that your case no longer needs to be reviewed.

6) Troubleshooting tips for employers

If you cannot see how HMRC have calculated the charge, before you contact us, you should:

- check that you have sent an EPS (if needed)
- ensure that any EPS includes the year-to-date figure
- ensure that you have left enough time for HMRC's Business Tax dashboard to be updated (more help will soon be available in our new guidance on how the employer charge is calculated)
- check your payments to HMRC match the amounts reported in your FPS and EPS submissions, with particular reference to tax weeks and tax months
- check you have correctly reported leavers and payments after leaving ([when an employee leaves or retires](#))
- check that we have not allocated the payment to a different period (if this has happened, you will need to contact HMRC)

Our new guidance on how the employer charge is calculated will be published shortly.

7) Appendix – examples of employer error

7.1) Miscellaneous error

- Employee received a tax refund of £XXX but the employer did not record the refund on their FPS. Employer will submit EYU.

- Employer failed to show a leaver on their month 1 FPS. They then corrected this error on their following FPS.
- Employer submitted employer NIC for employee who was employee NIC only.
- After going through figures, the employer realised they had missed off SMP for one of their employees.
- An employee had student loan deductions taken from pay at month X when they are not due to repay student loan. The employer realised their error & corrected the mistake in the following month as software couldn't correct the same month
- Employer kept separate records of the amounts due to HMRC and their FPS totals created a different amount. The employer corrected their error and agreed the FPS totals
- An employer who operates PAYE manually and uses an agent to submit their returns accidentally gave their agent incorrect payroll details for one employee in month 1. This created a discrepancy in the charge. This error was noticed by the agent and corrected in month 2.

7.2) Payment allocation

- Employers made a payment using their PAYE employer reference that was intended to pay (i) a domestic utility bill (ii) another Government charge