



HM Revenue  
& Customs

# Maintaining customer service levels in peak periods: Comments on draft PAYE legislation

**Summary of Responses**

**6 January 2015**

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# 1. Introduction

## Background

1.1 HMRC currently informs employees of the Tax Code that will be operated by their employer by issuing a paper notice of coding (currently form P2) for each of their employments.

1.2 Customer feedback suggests that in some cases, we issue P2 coding notices with little value because they have no effect on an individual's tax position. This can cause worry for some people and thus they contact us for reassurance that their affairs are in order.

1.3 Such contact affects our ability to serve all our customers, particularly when customer demand on our services is at its greatest, for example the Tax Credit renewal period in July. The contact produces significant pressure on us each year and presents challenges for the Department to deliver consistent levels of service.

1.4 To help us manage customer demand more efficiently and improve overall customer service, we consider that, amongst other measures, we need greater flexibility over how and when we issue notices of coding to employees and annuitants. To achieve this requires minor amendments to the current PAYE Regulations.

1.5 We published the proposed draft Regulations, which amend the Income Tax (Pay As You Earn) Regulations 2003 (PAYE Regulations) for external comment under the principles of the Tax Consultation Framework.

## Details of the consultation

1.6 The draft Regulations and Explanatory memorandum were published on the Gov.uk website on 4 July 2014. Comment upon the legislation was invited until 3 August 2014.

1.7 The published draft Regulations contained provision to:

- (i) remove the obligation to give the employee notice of a new code notified to an employer where the employee's PAYE income is not chargeable to tax or the employee is not liable for tax on their PAYE income;
- (ii) delay the issue of a notice of coding to the employee for up to 30 days from the date when a notice of an amended code has been issued to the employer; and
- (iii) allow for the notices of coding to be issued electronically through digital channels

## 2. Responses

2.1 We received 93 written responses by the consultation close on 3 August. 73 of these responses were based on a template published online by a taxation website concerning the proposed 30-day delay between issue of an amended code to an employer and notice of that code to the employee. In turn, 24 of these were from employees of a single organisation.

2.2 We wish to thank those who passed comment on the legislation and recognise the time and effort that went into the comments and contributions.

2.3 This chapter summarises the responses received in relation to the measures provided for by the draft Regulations.

2.4 All responses were acknowledged and the respondents thanked for their contributions. Some issues raised were outside the scope of the consultation and have been addressed separately.

### General comments

2.5 Because HMRC was only consulting on the technical application of the PAYE Regulations to support HMRC's operational policy to better manage demand, documents published for comment were therefore limited to the draft regulations and Explanatory Memorandum.

2.6 Respondents took the opportunity to make specific comment on the underlying policy and the specific measures.

2.7 The 30 day delay between the issue of an amended code to the employer and notice of that code on form P2 to the employee drew the most comment. Many respondents highlighted concerns that employer impact had not been properly assessed, suggesting that there would be increased employer burdens in dealing with queries from affected employees, significantly so for large employers and those with temporary workers. The published Explanatory Memorandum had suggested that employer impact would be negligible to nil. It was suggested by more than one respondent that this assessment was disingenuous.

2.8 A common observation amongst representative groups was that customers would be disadvantaged by not receiving notification of changes to their tax codes, and that withholding codes removed important safeguards. Concerns were raised that where an incorrect code was issued, deductions would be made from pay for which the employee was unprepared and that the employee would potentially suffer hardship and difficulties because they would be unable to meet other financial obligations.

2.9 Respondents expressed general opposition to the principle of HMRC issuing codes to employers such that an individual's pay or pension can be impacted before that individual has received proper notice and that where an incorrect notice of coding had been issued, the employee would be unable to challenge until the pay had been impacted.

2.10 With regard to the measure removing the obligation to issue a coding notice to an employee whose PAYE income is not chargeable to tax or the employee is not liable for tax on their PAYE income, concerns were expressed over how we might predict someone's future liability and that we would be unaware of non-PAYE income that may be chargeable and thus have an impact on the code.

2.11 Another concern was expressed over potential impact on customers with borderline liabilities, i.e. close to the limit at which tax begins, and especially those who had irregular earnings such as seasonal/holiday workers or those paid overtime. All respondents who commented on these measures considered it intrinsically wrong to not notify a customer of

their tax code, under any circumstances and running contrary to HMRC messages about employee responsibilities to ensure that tax codes were correct.

2.12 The measure allowing for notification of coding to be issued electronically through digital channels drew the least comment. Currently, the PAYE Regulations provide that a notice of coding must be issued in writing except in the case of an amended code where notice may also be given by telephone.

2.13 There were also concerns that HMRC could be abandoning paper notifications and respondents urged that digital notifications should not be mandatory or the default option. Two respondents expressed concerns over the existing provision allowing for notice of code to be given by telephone citing that some customers may have a hearing impairment or other communication difficulties which would prevent them from receiving a notice of coding by telephone.

### HMRC Response

2.14 We intended these regulatory amendments for the issue of coding notices to provide us with a degree of flexibility and contingency that would help us to manage service levels and resources.

2.15 We believe they support HMRC's operational delivery by enabling us to manage customer demand and resources more effectively, thus providing a more consistent and better customer service overall.

2.16 Some of these measures have already been tested. A pilot was run during January and February 2014 for the 2014 / 15 annual coding exercise where we review the tax codes of all our customers. We did not issue the employee's notice of coding in certain circumstances – for example where an employee's PAYE income was below the personal allowances so that individual was not liable to tax on those earnings.

2.17 We noted that we had run the pilot on the HMRC website in April 2014. We received little contact from customers asking about their notice of coding where they normally would have been issued one, and no adverse external comment. We also delayed the issue of an estimated 626,000 coding notices for 4-weeks during the 2014 peak period for Tax Credit Renewals. This helped us to provide help and support to the 5.8m customers who were asked to complete their Tax Credits renewals pack before the 31 July deadline.

2.18 We received minimal contact from employees who experienced unexpected deductions from pay or non-receipt of coding notices during this period. Similarly, we have no reported complaints from employers experiencing additional contact from their employees.

2.19 Consultation respondents expressed most concern about the flexibility to delay the issue of coding notices to an employee for up to 30 days after notification is made to an employer. Their concerns extended not only to the potential for employees to be disadvantaged by this where errors in coding have been made, but also the likelihood that employers would face an additional burden in dealing with enquiries from employees with unexpected deductions.

2.20 The flexibility to delay coding notices was not intended to be employed routinely; this point may have been unclear from the draft Explanatory Memorandum published alongside the draft legislation. The prime intention of this measure was for HMRC to manage contact during the peak periods when customer demand for our services is at its greatest such as during January and October for Self Assessment returns, and July and August for Tax Credit renewals, enabling us to best serve those customers who are affected at these peak periods.

2.21 We had originally estimated that there would be negligible to nil additional impact on employers; this assumption was on the basis that an employee would ordinarily query a deduction in the first instance with an employer, whether or not a notice of coding had been

issued to the employee. In the light of the responses we accept that there may be greater impact than originally envisaged, and that employees who receive unexpected deductions from their pay are more likely to make enquiry of the employer in the first instance where they have not received notification of a change than when they have.

2.22 We anticipate that many of the codes where notification to the employee could be delayed would be in respect of new employments or in respect of a change in circumstances that have been notified to us, therefore the majority would be in respect of changes of which the employee is aware.

2.23 Similar concerns were expressed about additional contact that may be generated for the voluntary advice agencies; employees may use them as a first port of call if their deductions are not as expected.

2.24 As detailed above, various respondents identified potential risk if HMRC issues an incorrect code to an employer and the individual doesn't get the opportunity to notify us of the error before the code is operated on their pay because they have not yet received the amended notice of coding. We fully understand that this would be of concern but on balance we consider any delayed coding notice would be likely to affect only a small minority of individuals and potentially the flexibility created to manage contact would benefit a far greater number of customers.

2.25 In all cases, whether a coding notice is suppressed due to a nil liability or delayed for up to 30 days, we would always issue the employer with a coding notice. Employers will still deduct tax in accordance with the Tax Code and thus there will be no impact on individual tax liabilities. Appeal rights against the determination of a Tax Code are unaffected.

2.26 Although some respondents suggested that the measures would increase contact for HMRC, when we trialled the measures, we saw a marked reduction in contact. Removing the requirement to issue a notice of coding where the employee or annuitant has no tax to pay on their earnings avoids unnecessary uncertainty caused by HMRC issuing those notices; we have found this often leads to an employee or annuitant contacting us to query why the notice has been issued, seeking reassurance as to its purpose, or questioning what the notice means for their tax liability. It will therefore reduce the number of employees contacting HMRC for this reassurance.

2.27 We accept that to delay notification of a tax code may lead to additional enquiries, particularly where the employee suffers an unexpected deduction, but the majority of contact that would ordinarily be generated by issuing a coding notice will not occur until after the notice has been issued, and at a time we are best able to provide service to these employees and manage their enquiries.

## 3. Next steps

3.1 Although we were only consulting on the technical application of the PAYE Regulations to support HMRC's operational policy to better manage demand, this consultation generated many helpful, informative and constructive responses which have prompted us to look once again at the proposed measures and underlying policy.

3.2 We are proceeding with the amendments to remove the requirement to issue notices of coding where there is no liability to tax, because we consider the additional flexibility afforded by this can be measured in both customer benefits and benefits to HMRC.

3.3 Those customers who have no tax to pay on their PAYE income will welcome reduced contact from HMRC and will be spared unnecessary concern raised by receiving notices of coding that have no effect upon their tax position.

3.4 Reducing the contact caused by this uncertainty and concern will enable HMRC to better manage customer demand and service for all our customers, particularly at peak operational times. In turn we consider that the measures will improve the customer experience for the majority of our customers in that they will give greater access to our services when they need it.

3.5 We understand and accept that customers will still contact us for reassurance and assistance when they do not understand the communications they receive. There is work in progress to improve the way we engage with our customers, looking at both existing and future channels of communication. We have always expected our customers to take a degree of responsibility in their tax affairs and to contact us when they need help. We want to ensure we have sufficient resources to provide this help when it's needed.

3.6 We are also proceeding with the amendment to provide for the digital issue of notices of coding. We are currently considering future moves to a digital platform for customer notifications in the same way that we do for Employers and Agents; we recognise that there will be a need to retain a paper-based option where appropriate. This amendment provides for the flexibility to enable us to do this in the future.

3.7 Finally, we have noted the concerns raised through this consultation about delaying coding notices for up to 30 days and want to ensure the changes we put in place, and their impacts, are fully assessed. We are therefore going to postpone this regulatory change pending further review.

3.8 We will continue to prioritise our resources to enable us to manage key business events during the year, such as the Self-Assessment filing period in January, with increased transparency with customers and stakeholder groups about when we will be doing so.

3.9 The customer impact of these measures will be monitored through continued communication with external stakeholder groups, and contact made from employers / employees. Assessment of these impacts will provide evidence to support continued use of the delay of up to 30 days to manage customer demand and inform any future decision on the legislative change.

# Annex A: Organisations that submitted comment

From (organisation), if identified in correspondence

Accounting2You  
Accounts in English Ltd  
Adecco UK  
Association of Accounting Technicians  
Association of Taxation Technicians  
Astute Design  
Balanced Accounting Ltd.  
BCT Accountants Ltd  
C C Associates  
CBI  
Chartered Institute of Taxation (CIOT)  
CIPP  
CJM Accounting  
ContractorUmbrella  
Courts & Co.  
Crowcroft & Crowcroft  
DNS Accountants  
Employers Advisory Services  
Europe in England  
Express Accountancy  
Frontier Software plc  
G P Tax Ltd  
ICAEW  
JPAccounts Ltd  
Keep Me Posted Campaign  
KPMG  
Legal & General  
LITRG  
NFU  
Parkhurst Hill Ltd  
PMA Tax  
Private  
Prudential  
PunterSouthall  
Richard Place Dobson  
Rift UK Ltd.  
Ross Martin Tax Consultancy  
Rowleys (Accountants)  
Russel Phillips  
RWA  
Service Birmingham  
Simplitax  
Springfords  
Stark Main & Co. Ltd.  
Sure Accounting Ltd.  
Surrey Heath Borough Council  
Tax Advice & Solutions Ltd  
Tax Aid  
Tax Assist  
Tax Volunteers (Tax Help for Older People)  
Thompsons Accountants & Advisors  
TRB Tax and Payroll Services  
Vatax Accounts  
Vincent Clemas  
Whitefield Tax Ltd  
Wise & Co. Chartered Accountants