



Legislative Change to Income Tax (Pay As You Earn) Regulations - Employee Notices of Tax Coding

Who is likely to be affected?

Individuals with income from which tax is deducted at source (PAYE income) and for whom HMRC determines a Tax Code for operation by an employer.

General description of the measure

These measures remove the requirement to issue notices of coding to individuals whose PAYE income is not chargeable to tax or where the employee has no liability to tax in respect of any PAYE income.

They also provide for a notice of tax coding to be issued electronically through digital channels.

Policy objective

The measures making changes to when tax codes are required to be issued provide HMRC with a degree of flexibility and contingency that will help it to manage service levels and resources.

The measures will avoid the needless uncertainty and concern that receipt of a notice of coding often causes employees when they have no tax to pay on their PAYE income; this anxiety and concern often leads to them contacting HMRC for reassurance, which in turn places pressure on HMRC resources, particularly at its busiest times.

They support HMRC operational delivery by enabling HMRC to manage customer demand and resources more effectively, thus providing a more consistent and better customer service overall.

Providing for a notice of tax coding to be issued electronically allows for the future provision of such information digitally, whilst still allowing for a paper-based alternative where appropriate.

Background to the measure

When HMRC notifies an employer of a new Tax Code to be operated, the employee will also receive notice of that Code. These notices are currently required to be issued in writing. Allowing for tax codes to be issued by means other than in writing supports HMRC's future digital ambitions.

Receipt of these notifications often prompts employees to contact HMRC, particularly where the employee has no tax liability, for example where their earnings are below their Allowances. An employee will often contact HMRC to query why the notice has been issued, seek reassurance as to its purpose, or question what the notice means for their tax liability.

Such contact places significant pressure on HMRC Operations each year to meet customer demand, and deliver consistent levels of service. It is resource-intensive and the effects are

particularly evident during peak activity periods such as in the final days before the Tax Credits renewal deadline.

Removing the requirement to issue a notice of coding where the employee or annuitant has no tax to pay on their taxable income will avoid unnecessary uncertainty caused by HMRC issuing such notices, and reduce the number of employees contacting HMRC for this reassurance.

These measures help HMRC to manage service levels and resources across lines of business, especially during peak activity periods and will enable HMRC to manage customer demands and so provide both consistent and better customer service throughout the year.

Detailed proposal

Operative date

The amendments to the legislation come into force from 29 January 2015.

Current law

The Income Tax (Pay As You Earn) Regulations 2003 (the PAYE Regulations) govern the operation of the system under which Income Tax is deducted at source from an employee's pay (the PAYE system).

In regulation 2 of the PAYE Regulations, "notice" is defined as meaning notice in writing, or for the purpose of Regulation 19 by telephone, or as authorised by directions under s.118 of the Finance Act 1998.

Under the current law, and subject to prescribed exceptions, regulations 17 and 19 require that when a Tax Code is amended and issued to an employer, the employee must also be given notice of the amended code. This notice must be given by the date that the employer is notified of the amended code and must be made in writing, or, as prescribed, by telephone.

Proposed revisions

These measures amend the PAYE Regulations 2003 to allow for changes in the requirements concerning the issue of notices of Tax Coding to individuals.

In particular, they amend the definition of "notice" within regulation 2 to allow for notices to be issued electronically to employees, and amend regulations 17 and 19 to remove the obligation to give the employee notice of a new Code notified to an employer where the employee is not liable to tax on their PAYE income, or their PAYE income is not chargeable to tax.

Summary of impacts

Exchequer impact (£m)	2014 to 2015	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019
	nil	nil	nil	Nil	nil
This measure is not expected to have an Exchequer impact.					
Economic impact	The measure is not expected to have any significant economic impacts				
Impact on individuals and households	There will be no direct financial impact on individuals as a result of these changes, however not issuing a code where the employee has been calculated to have no tax to pay on their taxable income may impinge on the employee's opportunity to notify HMRC of any error in this calculation and to correct any coding error.				
Equalities impacts	This change to the PAYE Regulations will not have a particular impact on individuals and will be neutral in respect of equalities impacts.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on business and civil society organisations.				
Operational impact (£m) (HMRC or other)	HMRC anticipates savings of c. £5.2million pounds annually in print and postage costs from managing its customer outputs.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

HMRC will monitor these impacts through continued communication with external stakeholder groups, and also through levels of customer contact following the change.

Further advice

If you have any questions about this change, please contact Ady Garrett on Telephone: 03000 586936 (email: ady.garrett@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Financial Secretary has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.