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Payroll issues for employers

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Payroll issues for employers

Employers need to keep an eye on changes affecting payroll so all employees have the right amount of tax deducted under PAYE. This is a round-up of the latest payroll-related developments.

Dynamic coding

In July 2017, PAYE tax codes became more refined. Under the new system, known as dynamic coding, HMRC issues an updated tax code once they become aware of a change that will affect the tax an employee pays, such as a new benefit in kind.

Previously, HMRC was seldom aware of changes in benefits until the employer submitted the P11D forms. HMRC would collect the resulting underpayment through an adjustment to the employee's tax code for the following tax year.

Under the new system, HMRC adjusts the employee's tax code to collect the right amount of tax for the current tax year. However, HMRC needs a 'trigger' before they change the tax code.

This trigger could be the employer submitting a full payment summary (FPS) or a P46 form, which relates to putting car benefit through payroll, or the employee updating their personal tax account.

Once HMRC is aware of the change, it will recalculate the employee's annual tax bill and include any underpayment of tax.

HMRC will then issue an amended code to collect all the PAYE tax owing for the current year. This calculation will be based on the employee's estimated pay for the year, which is based on the pay-to-date figure, as reported on your most recent FPS.

HMRC will send an employee tax code notification to you, as well as a copy of the new notice of coding to the employee.

Once you have received a new code from HMRC, you should update your payroll to reflect the code change.

Late filing penalties

You must give HMRC the details of staff pay and deductions on or before the day the payment is made to the employee. This is done by submitting a FPS.

If you failed to make any payments to your employees in a tax month, you need to send an employer payment summary (EPS) to HMRC.

HMRC may charge a late filing penalty where:

- the FPS or EPS was submitted late on more than one occasion in a tax year
- you did not send the required number of FPS where there is more than one payment day in the month.

Where a late filing penalty is charged, the amount depends on the number of employees you have in your PAYE scheme, ranging from £100 for schemes with between one and nine employees, to £400 for schemes with 250 or more employees.

A further penalty of 5% of the tax and national insurance due may be charged if your report is submitted more than three months late.

Penalties are charged per tax year and sent to employers on a quarterly basis. The first quarter for 2017/18 came to an end on 5 July 2017. If you receive a penalty notice, you need to check it is correct and, if it is, pay the penalty within 30 days.

Late filing appeals

If you don't think the penalty is due, or believe the amount of the penalty is wrong, you can launch an appeal with HMRC. You have 30 days to lodge an appeal, either online or by post.

If you filed late, but had a reasonable excuse, you can appeal the penalty on those grounds. However, HMRC takes a harsh line as to what it deems to be a reasonable excuse.

The following is the list of reasons which HMRC may accept as providing valid grounds for appeal:

- data on the returns was incorrect
- filing expectation was incorrect
- death/bereavement
- filed on time

- fire, flood or natural disaster
- ill health
- IT difficulty
- missed correction/easement
- no longer have any employees
- no payments made to employees
- crime (such as theft).

There may also be other grounds for an appeal where the reason for filing late does not fit into any of the above categories.

Student loan deductions

As an employer, you may need to make deductions from an employee's pay to cover student loan repayments.

You should start making student loan deductions either when you have received a start notice from HMRC or you take on a new employee and the student loan deduction box on the employee's form P45 is ticked.

Deductions are made only where the employee's income exceeds the threshold for their loan type. For 2017/18, the threshold for Plan 1 loans is £17,775 and the threshold for Plan 2 loans is £21,000. The SL1 start notice will tell you which type of student loan your employee has.

Where you have taken on a new employee, the starter checklist contains questions to enable you to determine the correct plan type for the employee.

If HMRC receives a FPS from you which does not include a student loan deduction where one was expected, they will send a reminder to your online services mailbox via the generic notification service. The reminder acts as a confirmation that HMRC has sent a SL1 start notice for the employee. The reminder may cover more than one employee.

If you receive a reminder, you should start making student loan deductions from the next pay day for all relevant employees.

If student loan deductions are due, but are not shown on the second FPS, HMRC will issue a further reminder. If the loan deductions are not shown on the third FPS, you may be contacted by HMRC and asked to make student loan deductions.

Auto-enrolment

Most employers have now reached their staging date for auto-enrolment and should be complying with their workplace pension duties. These include:

- setting up a workplace pension scheme
- identifying staff who qualify for auto-enrolment
- enrolling those staff in the workplace pension scheme
- deducting employee contributions from their pay
- paying those deductions and your employer contributions into the pension scheme.

In order to be in a position to meet your obligations under auto-enrolment, your staff records must be accurate and up to date.

Your payroll software must also be equipped to adequately manage the employer's duties under auto-enrolment on an ongoing basis.

In addition, you need to ensure your payroll system works with your chosen pension system and allows for an easy transfer of data.

You should check your systems are in place for paying your contributions into the pension scheme by the due date, such as by the 22nd day of the month after deduction where payments are made electronically or by 19th day where payments are made by cheque.

It is important you keep and maintain records of auto-enrolment activity, including details of the staff enrolled in the pension scheme, details of their contributions, as well as details of which staff have opted out and those who have left the company.

Don't overlook your duties under auto-enrolment as the penalties charged for non-compliance can be very high.



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