

# PAYE Modernisation

## Report on Public Consultation Process

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# 1. Executive Summary

In his Budget statement of 11 October 2016, the Minister for Finance announced the launch of Revenue's consultation process regarding the modernisation of the Pay As You Earn (PAYE) system. The Public Consultation Paper outlines the objectives of PAYE Modernisation.

By the closing date of 12 December 2016, 77 responses were received from accountants, tax practitioners, employers, individuals, representative bodies, payroll agents and payroll software developers. Revenue would like to thank those who responded and recognises the time and effort that went into the comments and contributions received.

The following key themes were common across responses:

- Possible increase in administrative burden for certain employers;
- Timeline for implementation;
- Information and communications technology (ICT)-related issues;
- The operation of payroll in practice;
- Timing of employer submissions to Revenue;
- Methods of dealing with corrections to payroll;
- Alternatives to Revenue's proposal;
- Department of Social Protection payments and Pay Related Social Insurance (PRSI);
- Other charges/contributions and non-PAYE income;
- The importance of change management and communications;
- International comparisons.

Revenue's initial response to the issues raised is outlined in this document. In general however, Revenue is undertaking a co-design approach to PAYE Modernisation. It has engaged with key stakeholders since the start of the consultation process and will continue to do so to ensure that the design is optimised with their input, resulting in a streamlined process and ultimately a reduction in administrative burden. A summary of the various items discussed in these workshops are available in Appendix 4.

Consideration is being given to the needs of smaller employers who may not use payroll software and those who may experience difficulty with internet/broadband connection. Revenue is committed to providing a workable solution for such employers and will present the proposed solution to relevant representative bodies for input.

The proposed move of PAYE reporting from the current yearly basis to a real time basis is a fundamental change, in both philosophy and practical application, for Revenue and employers and brings significant challenges for both parties.

For employers the introduction of real time reporting will necessitate changes in their current salary payment practices which are based on an end of year reporting obligation. Employers will need to focus on the quality and accuracy of the data they will provide to Revenue on each pay day. Employees will have full visibility of all data employers report to Revenue in real time on their behalf which if not accurate will lead to increased customer contacts for both employers in the first instance and possibly also for Revenue.

Revenue will need to respond in real time to employer reporting and underlying PAYE compliance issues. Revenue will also need to extend its ICT infrastructure to handle the scale and volume on a continuous basis.

Regular project updates, feedback from co-design workshops and draft requirements will be published on [www.revenue.ie](http://www.revenue.ie).

## **2. Report on the Public Consultation Process**

### *2.1 Objective and Overview of PAYE Modernisation*

The objective of PAYE Modernisation is that Revenue, employers and employees will have the most accurate, up to date information relating to pay and tax<sup>1</sup> deductions. This will ensure that the right tax deduction is made at the right time from the right employees and that, employers pay over the correct tax deduction and contribution for every employee. This will improve the accuracy, ease of understanding and transparency of the PAYE system for all stakeholders.

Through real time reporting by the employer, PAYE Modernisation will mean that, for each employee:

- Employers will make the right tax deduction when the employee is being paid;
- Employees will have the certainty of knowing that they are not overpaying or underpaying tax;
- Revenue will have the most up to date information possible to determine that each employee is subject to the tax deduction that is appropriate.

It is anticipated that this reporting process by employers to Revenue will be fully integrated into the employer's payroll run, thereby contributing to a significant streamlining of business processes and reducing administrative cost for employers.

Further details regarding PAYE Modernisation are outlined in the Public Consultation Paper in Appendix 1. The key design principles for PAYE Modernisation, which have been developed since the publication of the consultation paper, are outlined in Appendix 3.

### *2.2 Details of the Consultation Process*

Following the Budget-day announcement (11 October 2016) by the Minister for Finance, Revenue launched a consultation process regarding its plans to redesign and modernise the PAYE system.

Revenue sought the views of employers, employees, payroll providers, payroll software providers, tax practitioners, bookkeepers and other stakeholders. It was particularly interested in hearing views on the preparations required by employers and payroll software providers for the operation of the new arrangements under PAYE Modernisation.

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<sup>1</sup> In this paper the term 'tax' includes income tax, PRSI and USC.

The Public Consultation Document was published on [www.revenue.ie](http://www.revenue.ie) on 11 October 2016 and an eBrief (email alert to tax practitioners and other interested parties to alert them to important Revenue news and developments) issued. Revenue placed advertisements in national newspapers and spoke at a variety of engagements during the consultation phase to raise awareness of the consultation process as outlined in the diagram below. Employers registered with Revenue’s Online Service (ROS) also received an email alerting them to the consultation process and providing them with an opportunity to contribute.

## Stakeholder Engagement 2016



**Figure 1 - External Stakeholder Engagement 2016**

The closing date for responses was 12 December 2016. Revenue received 77 responses and the breakdown of responses received is detailed in the table below.

Category	Number Received
Accountancy / Tax Practice	11
Employer	26
Individuals	9
Payroll Agent	15
Payroll Software Developer	7
Representative Body	9
<b>Total</b>	<b>77</b>

Revenue would like to thank those who responded to the consultation and recognises the time and effort that went into the very valuable comments and contributions received.

All submissions were considered in detail and will form part of the ongoing external stakeholder engagement and design process. While some submissions made reference to policy matters relating to income tax, USC and PRSI, these are outside the scope of PAYE Modernisation.

The public consultation document is available at Appendix 1 and all responses received are referenced in Appendix 2.

### **3. Responses Received**

As with any public consultations of this nature, some submissions contained divergent, sometimes contradictory views on the same topic, however there was strong consensus on the key themes, which were:-

- Possible increase in administrative burden for certain employers;
- Timeline for implementation;
- Information and communications technology(ICT)-related issues;
- The operation of payroll in practice;
- Timing of employer submissions to Revenue;
- Methods of dealing with corrections to payroll;
- Alternatives to Revenue's proposal;
- Department of Social Protection payments and Pay Related Social Insurance (PRSI);
- Other charges/contributions and non-PAYE income;
- The importance of change management and communications;
- International comparisons.

Revenue is undertaking a major co-design approach to PAYE Modernisation to ensure that reporting can be seamlessly integrated into the payroll process. This approach will help ensure that the design is optimised with input from external stakeholders, resulting in a streamlined process and ultimately a reduction in administrative burden. A number of the points raised in the consultation submissions are currently being worked through with the relevant stakeholder as part of the co-design process and is helping to inform the final shape of PAYE Modernisation.

Regular project updates, feedback from co-design workshops and draft requirements will be published on [www.revenue.ie](http://www.revenue.ie).

### 3.1 *General Comments*

- A small number of respondents suggested policy-related amendments to the Irish tax system such as combining income tax, USC and PRSI into one composite tax; simplifying the calculation of PAYE; bringing the Pension Related Deduction (PRD) into the tax collection system; spreading PAYE liability across 11 months instead of 12. One respondent outlined a revamp of the entire Irish taxation system.
- One respondent suggested that PAYE Modernisation should be used as an opportunity to collect additional information from payroll which could be used for statistical purposes.
- One respondent stressed that *“good ideas must not be allowed to obstruct or delay people getting paid on time”*.

#### **Revenue’s Response**

Policy matters relating to income tax, USC and PRSI as well as any associated tax credits and reliefs are within the remit of the relevant Ministers and Departments and are outside the scope of this consultation.

Revenue recognises the opportunity presented by PAYE Modernisation to collect additional data which may be required by other Departments/agencies and are currently collected through a manual paper process from employers. Revenue is liaising with relevant organisations to identify opportunities for streamlining these reporting processes. While Revenue is concerned not to increase the administrative burden on employers in respect of PAYE administration it is mindful of possible opportunities to reduce the overall administrative burden on employers and will consider such data collection in this context. However, one of the key design principles, the seamless integration of reporting into the payroll process, must continue to be adhered to and Revenue has also adopted as one of its guiding principles that PAYE Modernisation *“must not be allowed to obstruct or delay people getting paid on time”*.



### 3.2 *Administrative Burden*

- Respondents recognised that streamlining employer reporting obligations to Revenue with current payroll processes would bring efficiencies and reduce the administrative burden for employers.
- For many respondents who use payroll software it was felt that if the payroll software providers can deliver the changes required to their products it is unlikely to put any additional burden on employers.
- Removing the need to file P30, P35, P45, P46 and generating P60 forms was noted as a positive step by a number of respondents. Employers, both large and small, as well as tax agents noted that the administrative load of filing these forms is heavy on all businesses.
- Respondents felt that while there would be little or no cost for large employers who use software, there would be a significant burden on small employers who have no software or do not use professional bookkeepers or agents for their payroll.
- For organisations that operate a weekly payroll, or agents who run a number of weekly payrolls for small employers, respondents felt that the need to make 52 or 53 returns a year would increase both costs and administrative burden.
- For some respondents, the move from the annual P35 process to a real time reporting process would result in the employer preparing data and verifying returns several times a week rather than once a year and this would increase the associated burden.
- For respondents who currently operate a monthly direct debit for PAYE and only complete a single P35 at the end of the year, the new process seems to introduce a new burden on them.
- In order to achieve the overall objective of reducing administrative burden, many respondents noted that Revenue should restrict the data to be collected at each payroll run to only data that is available in the payroll system and process.
- Revenue's proposal to ensure that employees maximise the use of their entitlements through more frequent issuing of employer notices of credits was noted by some as an increased administrative burden for the employer who would now need to check changes to employees' credits more frequently in order to calculate the correct PAYE.
- For some respondents payroll is still a manual process and using payroll software is seen as an additional cost and overhead. The requirement to report to Revenue every time a payment is made to an employee was noted as potentially time consuming and costly.

## Revenue's Response

Revenue outlined in its consultation document that, at its core, PAYE Modernisation means that, for each employee, employers will make the right tax deduction when the employee is being paid, employees will have the certainty of knowing that they are not overpaying or underpaying tax and Revenue will, through real-time reporting by the employer, have the most up to date information possible to determine that each employee is subject to the tax deduction that is appropriate.

The consultation document anticipated that this reporting process will be integrated into the employer's normal payroll run (see diagram below), ideally streamlining business processes and reducing administrative burden. Revenue welcomes the confirmation that the overall process of streamlining employer reporting with the regular payroll run will bring efficiencies for employers and reduce administrative burden.

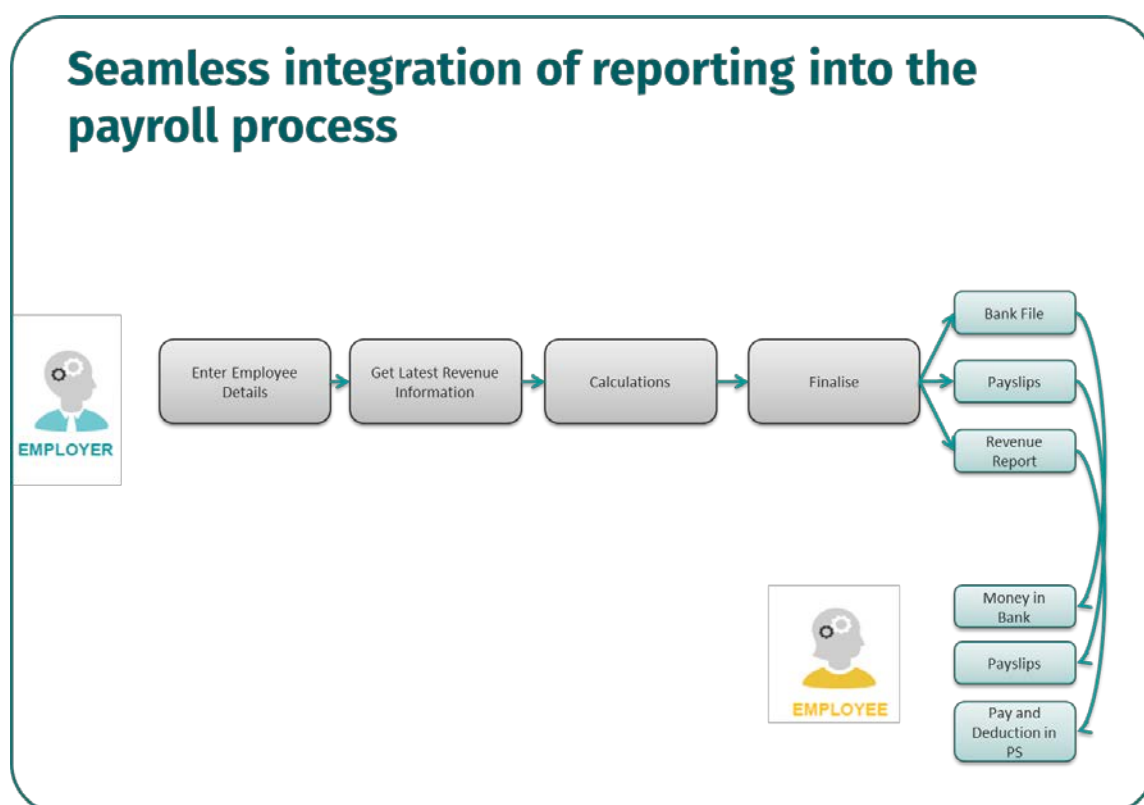


Figure 2 - Proposed High Level Process

Many employers currently use payroll software to manage their payroll. Revenue is working very closely with the Payroll Software Developers Association to design the employer payroll reporting requirements for PAYE Modernisation. This will ensure that the data Revenue requests can be produced through the payroll software.

Revenue is designing a number of mechanisms to transmit the employer payroll report to Revenue. Through the use of Application Programme Interfaces (APIs) provided by Revenue, payroll software will be able to integrate without difficulty with the Revenue Online Service (ROS) and the payroll operator will run their payroll as normal and the employer payroll report will be sent to Revenue.

Revenue will also provide other online mechanisms for receiving the employer payroll report to Revenue where employers' software does not "talk to" ROS. For example, ROS will be extended to allow a payroll file to be manually updated after each payroll run. There will also be simple data capture mechanisms provided to allow an employer report payments where payroll software is not being used or where payments are made outside the payroll software.

Revenue is undertaking a co-design approach to PAYE Modernisation to ensure that reporting can be seamlessly integrated into the payroll process. Revenue has engaged with key stakeholders since the consultation was published and will continue to engage until the data items for the employer payroll report to Revenue are finalised at the end of June 2017. This process aims to ensure that the design is optimised with input from all key stakeholders and will lead to a streamlined process and ultimately a reduction in administrative burden.

Revenue outlined in the consultation document that it wished to abolish the current employer reporting obligations via P30s, P45s, P46s, P35s and generation of P60s. In 2016, there were approximately 2.5m returns or payments filed under these reporting obligations and a further 2.5m P60s generated by employers. Revenue welcomes employers' confirmation that the abolition of these forms will reduce the current administrative burden.

Revenue recognises that any new reporting system regime will introduce a new process for employers who currently operate monthly direct debits for PAYE payments. Revenue is working with key stakeholders to define the data that needs to be reported to Revenue. This will be in line with the data an employer already needs in order to create payslips for their employees. Revenue will provide a simple data capture mechanism for this data to make it easy for these employers to meet their reporting obligations.

One of Revenue's key design principles of PAYE Modernisation is to ensure employees maximise the use of their entitlements each year. In order for Revenue to achieve this, more frequent employer notices of credits will be issued if there are unused credits or rate bands for an individual. Revenue is

working on a process to ensure that the upload of these credit notices into payroll software is as seamless as possible. This means that, for those using payroll software, it will not result in an increase in administrative burden. For those who do not use payroll software, calculations will have to be adjusted where a new notice of credits issues for an employee. This is to ensure that employees, as far as possible, get the full benefit of their entitlements and pay the correct amount of tax over the course of each year.

### *3.3 Project Timeline*

- A number of employers and representative bodies suggested that a pilot programme should be operated in advance of the introduction of PAYE Modernisation. Others suggested a phased introduction of PAYE modernisation.
- Some respondents indicated that the proposed operational date of 1 January 2019 is very ambitious and could lead to difficulties for certain employers.

#### **Revenue's Response**

While Revenue recognises that an operational date of 1 January 2019 is ambitious, it is considered to be achievable. One of the key principles of the design is that the employer reporting process to Revenue is seamlessly integrated into the payroll process, meaning that the new reporting regime is simply a by-product of current processes operated by employers.

In recognition of the timeframe required by software developers to build and test their software, Revenue is committed to publishing the employer submission data requirements and business rules by the end of June 2017. The requirements will incorporate feedback from the relevant representative body following extensive consultation.

It should be noted that many payroll software developers have already developed software to accommodate the real time reporting requirements introduced in the UK by HMRC in 2013. This experience should reduce the lead-in time required to develop software products to align with Revenue's new reporting requirements.

Revenue is also engaging extensively with representatives of small employers to ensure that an appropriate solution is developed for small employers as well as those who do not use payroll software.

Consideration has been given to the use of a pilot phase and phased implementation of PAYE Modernisation. However, because one of Revenue's key principles is to maximise the use of entitlements by employees, in a PAYE system where many employees have multiple employments and joint assessment<sup>2</sup> is prevalent, a phased introduction or pilot programme would not be suitable. Additionally, it is felt that resources required by employers, payroll software developers and Revenue in running and maintaining parallel systems would outweigh any potential benefits for all parties.

Revenue will however provide early availability of a Public Interface Test (PIT) environment<sup>3</sup> for software providers and employers from March 2018 to allow for a nine month testing window. This test environment will be scaled to handle volumes reflective of a live environment.

However, Revenue fully recognises that this project is not just a software challenge. For Revenue and employers alike there is a significant business process change and a change management exercise that will need to be completed before 2019. Readiness on both sides will be challenging in the timescales and will be monitored closely throughout the project. The external stakeholder steering meetings will be used to report on Revenue readiness and assess employer readiness.

### *3.4 ICT-Related Issues*

- Some respondents, particularly those from rural Ireland, noted that reliable internet connection is an ongoing issue and their ability to report payroll in real time may be compromised.
- Some respondents suggested that Revenue should provide free software for small employers and the associated technical support.
- Some smaller employers and agents suggested that, to facilitate those without payroll software, Revenue should allow the relevant data to be input through ROS.
- Many agents responded that specific agent access to data via ROS would be required to allow them successfully report and pay on behalf of their clients.

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<sup>2</sup> Joint assessment is available to married couples and civil partners and allows for the income of both spouses/partners to be taxed jointly rather than separately.

<sup>3</sup> The Public Interface Testing is designed to provide a test platform for the software community to enable testing of their payroll software interface with Revenue prior to the introduction of PAYE Modernisation. It will also enable employers in submitting test data prior to the introduction of the new reporting system.

- Payroll software developers responded that for the successful implementation of PAYE Modernisation, early access to a robust test facility which mirrors the live system, accepts life-sized volumes and reports back clear validation and error messages is vital.
- Payroll software developers stated that a dedicated software support team would be required for the duration of the project and that this support would need to continue once the real time reporting was operational.
- Detailed technical specifications, business rules documents and sample requests and responses were deemed extremely important by respondents who would be developing solutions to meet the reporting requirements. All documents should be available online with a full audit trail of any changes made once published.
- Respondents noted that Revenue should engage proactively with the payroll software providers to ensure that their products can be developed to meet the new reporting requirements.

### **Revenue's Response**

Revenue is working to make it as easy as possible for employers to comply with the real time reporting requirements. The data Revenue seeks to capture is data that is already required on an employee's payslip. Revenue will develop a simple data capture mechanism to allow employers input this data to meet their reporting requirements. Revenue will not be developing payroll software for use by employers.

Revenue understands that tax agents and outsourced payroll providers require access to their client's data, subject to approval by their client, in order to report the payroll and pay the required tax. Revenue already provides extensive access via ROS. As part of the co-design workshops Revenue is engaging with the agent and outsourced payroll community to understand the particular requirements for real time reporting and will endeavour to ensure these are designed in from the start.

Revenue has a track record of engaging with payroll and payroll software developers, which has worked previously for projects such as the introduction of USC and the taxation of maternity benefit which were delivered within tight timelines. For PAYE modernisation, there is a longer lead-in time and Revenue has already commenced extensive engagement with the payroll software industry. Based on the input of the payroll software providers, Revenue is working to a timeline where technical specifications will be available for the employer payroll report to Revenue from the end of June 2017. Workshops have been held with the payroll software developers to determine the types

of documentation required and the engagement needed in getting to the detail of the data items and business rules. This engagement is an ongoing process and will continue throughout the project and after the new reporting mechanism becomes operational.

Revenue understands the requirement for a test environment to allow payroll software to be tested. Revenue has successfully used a public interface test environment for other projects over the last number of years including eRCT, iXBRL and eCustoms developments. Revenue is working towards the provision of a dedicated PAYE Modernisation public interface test environment to test employer payroll reports to Revenue at the end of March 2018 to allow 9 months for testing of software. This environment will be sized to allow full scale testing and will be supported by a team of technical and business support staff who will work with the software providers during their various phases of testing.

### *3.5 Operation of Payroll*

- Some respondents indicated that PAYE Modernisation must cater for multiple concurrent employments and the correct allocation of credits and rate bands to such employments. Similarly, some respondents mentioned the need for PAYE Modernisation to better deal with casual/seasonal employees and also negative pay figures.
- A small number of respondents identified the need to cater for employers who operate a number of different payrolls, potentially operated by different payroll providers, with employees appearing on more than one payroll at any one time and employees appearing on the same payroll multiple times. Responses also identified the need to facilitate multiple payroll runs for the same period.
- A number of respondents mentioned delays and difficulties in receiving Personal Public Service (PPS) numbers from or on behalf of employees, particularly in respect of non-Irish national employees. If the PPS number is a mandatory data requirement in the new system, it will cause difficulties for employers and Revenue.

#### **Revenue's Response**

Revenue has, and will continue to, engage extensively with external stakeholders to ensure that it has a comprehensive understanding of the way employers operate payroll; pain-points in the current system are considered and designed out as far as possible; and the design of the new system will seamlessly integrate with the payroll process. However, it is clear from the consultation to date that for some employers the focus on the end of year reporting may have contributed to in year

payroll processing practices that are not fully in line with PAYE regulations. The real time reporting regime will make these visible and such processes will need to change.

The Department of Social Protection (DSP) is also working closely with Revenue in the design phase of PAYE Modernisation. DSP has informed Revenue that new employees must register for a PPS number at one of DSP's nationwide registration centres. Appointments can be made online and, in most cases, can be made for the following day. The PPS number and Public Services Card are then issued by post within three to five working days, with PPS number notification usually issued the following day.

### *3.6 Timing of Employer Submissions to Revenue*

- Some respondents indicated that providing an employer payroll report to Revenue at the same time as payroll is run would cause difficulties for certain employers, particularly those with poor/no broadband.
- A number of respondents stressed the importance of due dates for employer pay over of deductions to Revenue remaining unchanged.
- A small number of respondents indicated the importance of having a clear definition of when the submission is due and having a certain amount of leeway before the imposition of any sanctions.

#### **Revenue's Response**

One of Revenue's key design principles for PAYE Modernisation is that employer reporting should be seamlessly integrated into the payroll process. This will minimise the administrative burden on employers and allow their reporting obligations to Revenue to become a by-product of the employer payroll process. In order to reap one of the main benefits of PAYE modernisation, the timing of the submission should be in line with the finalisation of the payroll process.

Revenue recognises that some will experience issues with internet connection and is working to make it as easy as possible for employers to comply with the real time reporting requirements.

The data Revenue seeks to capture is data that is already required on an employee payslip. Revenue will develop a simple data capture mechanism to allow employers input this data to meet their reporting requirements.



Revenue will provide a clear definition of when the employer submission should be reported to Revenue.

As outlined in the public consultation document, there is no proposal to change the due dates for employers to pay over the tax deductions and contributions to Revenue.

### *3.7 Corrections to Payroll*

- Many respondents stressed the importance of providing a straightforward process to facilitate the correction of payroll data already submitted to Revenue.
- Respondents indicated that the current P35 process is used by employers as an opportunity to adjust any PAYE under or over payments throughout the year. Therefore, the new system will need to facilitate both in-year and prior year adjustments or corrections.
- Some respondents also mentioned the need for prior year adjustments to correct not just clerical errors but also to reflect fluctuations in employee benefits.
- Respondents dealing with internationally mobile employees indicated that they are likely to have more frequent corrections as it can be difficult to report the correct tax position to Revenue at the same time as the shadow payroll <sup>4</sup>is run.
- Responses were mixed on whether cumulative year to date figures or periodic figures should be amended to reflect corrections.
- A small number of respondents expressed the need for a facility to ensure that employers and payroll operators can identify the data that needs to be corrected in the event of disputed charges i.e. the employer/payroll operator must be able to view the data as received by Revenue.

#### **Revenue's Response**

It is clear from responses received and recent stakeholder engagement that the correction of payroll errors is an integral part of the payroll process and therefore must be streamlined into the new reporting process.

Revenue will identify the various scenarios in which corrections will be required and document a proposed approach for dealing with these corrections. This proposal will be presented to relevant

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<sup>4</sup> Shadow payroll is a term used to report compensation data that is actually paid from another country. If you have an employee on assignment in a foreign country, their wages may need to be reported in both the home and host countries via a shadow payroll.

stakeholders, in particular the Irish Payroll Association and the Payroll Software Developers Association, for review and input.

Revenue will work closely with payroll operators and tax agents to ensure that employer submissions in respect of internationally mobile employees and employees in receipt of additional non pay based remuneration are considered during the design process.

In all relevant circumstances, the correction process will be seamlessly integrated into the payroll process.

Revenue is aware of the necessity to provide a facility for employers to view the data received by Revenue. Revenue will work with relevant external stakeholders to ensure that all relevant information is available in a user-friendly format.

While it is recognised that errors in payroll will occur, every effort should be made to ensure that submissions to Revenue are accurate and timely. Employees must be easily able to reconcile their payslips with the data submitted to Revenue on their behalf. All data received, including corrections and the timing of submissions, will feed into Revenue's risk analysis systems.

### *3.8 Alternatives to Revenue's Proposals*

- A small number of respondents suggested using a new monthly return which would provide details of pay and deductions for each employee in that month as an alternative to reporting to Revenue each time an employee was paid.
- Some respondents felt that, for small employers, a monthly or quarterly report would be sufficient.
- A small number of respondents suggested certain categories of people and payments that they consider should be treated outside the PAYE system and therefore not included in the real time reporting of payroll.

#### **Revenue's Response**

One of Revenue's key design principles for PAYE Modernisation is that employer reporting should be seamlessly integrated into the payroll process. This will minimise the administrative burden on employers and allow their reporting obligations to Revenue to become a by product of the employer payroll process.

While Revenue recognises the intent behind the suggestion to have a monthly return detailing all employees' payments in that month, this would create an additional, separate process for employers each month once all payroll runs were complete. The employer payroll report to Revenue would not therefore be integrated with the payroll process.

Revenue's objective in this project is to ensure that the right amount of tax is collected at the right time from the right employees and to improve fairness and transparency for employees. This objective would not be achieved through monthly reporting, nor would it be achieved if certain categories of people and payments that are currently part of the PAYE system were not included in real time reporting.

Policy matters relating to income tax, USC and PRSI are outside the scope of PAYE Modernisation.

### *3.9 DSP Payments and PRSI*

- Respondents outlined difficulties with the taxation of DSP payments in the current system. In particular, respondents indicated that the taxation of illness benefit is an administrative burden and can cause problems where illness benefit details are not received e.g. if payroll is outsourced to a third party, or there are delays in the receipt of illness benefit details such as start and end dates.
- Respondents suggested a number of potential ways of dealing with the taxation of DSP payments in the new system. Some indicated a preference for illness benefit to be incorporated into the employer tax credit certificate (P2C), either by reducing tax credits and rate bands for the year or increasing cumulative pay details. One respondent suggested removing the taxation of such payments from payroll and instead require DSP to deduct the relevant tax at source from these payments.
- Some respondents indicated a desire for PRSI to be changed to a cumulative basis of calculation while others suggested that the PRSI class/subclass should be incorporated into the employer tax credit certificate (P2C).

#### **Revenue's Response**

Revenue is working closely with DSP in the design of PAYE Modernisation and recognises the difficulties experienced by employers in the taxation of illness benefit under the current system.

Revenue and the Department of Social Protection are committed to exploring ways of reducing the administrative burden associated with the taxation of illness benefit. As part of this process, both organisations are currently analysing the various options available to seamlessly integrate the taxation of this payment into the payroll process.

All suitable options will be presented to relevant stakeholders for their input however, policy matters relating to income tax, USC and PRSI are outside the scope of PAYE Modernisation.

DSP is working closely with Revenue in the design phase of PAYE Modernisation and all issues raised during the consultation process have been communicated to DSP. However, policy changes in respect of the social insurance regime are not a matter for Revenue as they fall under the remit of the Minister for Social Protection and are outside the scope of the PAYE Modernisation project.

### *3.10 Non-PAYE Income*

- A number of employees expressed a desire for small amounts of non-PAYE income to be removed from the self-assessment system and the need for the completion of a complex return to be removed.

#### **Revenue's Response**

Revenue is committed to taking all opportunities presented by PAYE Modernisation to ease the administrative burden and simplify the income tax system for both employers and employees alike. In this respect, consideration will be given to further incorporating small amounts of non-PAYE income into the PAYE system and simplifying the reporting process for employees in receipt of non-PAYE income.

### *3.11 Change Management/Communication*

- A number of respondents stressed the importance of active engagement with payroll software providers, payroll operators and other relevant stakeholders.
- A number of representative bodies outlined the need for a detailed project management approach, with clear requirements documented and regular updates provided to all relevant stakeholders.

- Some respondents indicated the need for a data alignment and cleansing programme in advance of 1 January 2019 to ensure quality and accuracy of employee data held by Revenue and employers.
- The importance of a public awareness campaign, a comprehensive communications strategy and adequate customer support from the go-live date was also stressed.

### **Revenue's Response**

Revenue recognises that stakeholder engagement and communications are critical components of the PAYE Modernisation project. Revenue has commenced extensive consultation with relevant stakeholders and will continue to do so throughout the design phase. These stakeholders are from a broad range of disciplines such as payroll software developers, payroll agents, taxation and accountancy bodies, small employer representative bodies, relevant Government departments and pension providers.

DSP is also a key stakeholder in this project because Revenue acts as a collection agent for PRSI and employers deduct tax from DSP payments through payroll. DSP has been involved in the design phase from the outset and is also represented on the various project governance structures.

Revenue's active and extensive stakeholder engagement programme, which commenced in 2016, includes the following key components:

- Briefing sessions;
- Co-design workshops to optimise design and gain buy-in;
- Monthly stakeholder face-to-face updates.

Revenue is committed to an open and transparent design process. In this regard, as well as face-to-face updates with representative bodies, regular project updates, feedback from co-design workshops and draft requirements will be published on [www.revenue.ie](http://www.revenue.ie).

Stakeholder engagement that has already taken place in, or currently scheduled for, 2017 is outlined in the diagram below.

# Stakeholder Engagement 2017



Figure 3 - External Stakeholder Engagement 2017

A challenge for Revenue will be to engage those employers who are not covered by the main representative bodies or other umbrella organisations. Revenue will seek to spread its communications net as wide as possible to make sure all employers are aware of their changing obligations. This will need to be done early enough to ensure they make the appropriate arrangements to meet the timelines of this project.

Revenue also recognises the importance of providing adequate support structures for employers, payroll operators and payroll software developers to ensure the smooth introduction of PAYE Modernisation. Training of Revenue staff in the new processes, procedures and technical requirements will be vital in this regard and Revenue is committed to ensuring that Revenue staff will have the knowledge and expertise required. In this regard, initial briefing sessions of Revenue staff are planned for quarter 2 2017.

### *3.12 International Comparisons*

- A number of respondents drew parallels with the current system of real time reporting of PAYE in the UK. Respondents referenced successes and issues with the UK system with a view to learning from their experience.

#### **Revenue's Response**

Revenue, in preparing for the Public Consultation, had a number of bilateral meetings with colleagues in UK's Her Majesty's Revenue & Customs (HMRC) to understand their real time process and to learn from their experience in the implementation of a real time employer payroll reporting system.

Revenue also engaged in other bilateral exchanges with international tax agencies which have or are introducing a real time reporting regime, including Denmark and Australia. Revenue is using this information in the design process.

It is important however to understand the difference between what Revenue is proposing under the PAYE Modernisation project and what was implemented by HMRC under Real Time Information (RTI). HMRC's focus was initially solely on employer reporting of PAYE in real time and this information was not to maximise the use of employees' entitlements during the year. For HMRC, the introduction of real time reporting brought the benefit of removing the annual peaks in processing yearly employer returns and replaced this with a streamlined process integrated into employer payroll.

Employee processing is still an annual activity in HMRC. Revenue wants to benefit both the employer and the employee under PAYE Modernisation to ensure that the right tax deduction is made at the right time from the right employees and, employers pay over the correct tax deduction and contribution for every employee. This will improve the accuracy, ease of understanding and transparency of the PAYE system for all stakeholders.

## 4. Next Steps (short-term)



Figure 4 - Next Steps (short term)

- Revenue will continue its co-design workshops with key stakeholders throughout March and April 2017.
- Regular project updates, feedback from co-design workshops and draft requirements will be published on [www.revenue.ie](http://www.revenue.ie).
- Revenue will continue with its monthly external stakeholder steering meeting.
- The employer submission data requirements and business rules will be published by the end of June 2017 following extensive consultation with the relevant representative body.
- Revenue will liaise with the Department of Finance with a view to having the legislative provisions necessary to underpin PAYE Modernisation included in Finance Bill 2017.
- Initial briefing sessions will be held with Revenue staff throughout quarter 2 2017.



# Public Consultation Paper

## PAYE Modernisation

11 October 2016

Email: [payemodernisation@revenue.ie](mailto:payemodernisation@revenue.ie)

Website: [www.revenue.ie](http://www.revenue.ie)

## PAYE Modernisation

### 1. Background and Context

The Minister for Finance, Mr. Michael Noonan TD, in his [Budget Statement](#) of 11 October 2016, announced the launch of Revenue's consultation process regarding the modernisation of the Pay As You Earn (PAYE) system.

The PAYE system was introduced in 1960 at a time when a job for life was the norm and payroll was a manual process. Over 50 years later, the nature and complexity of employment and personal relationships have significantly changed – people move jobs regularly; separation and divorce are more common; agency work and multiple concurrent employments are more prevalent. Additionally, modern information and communications technologies present opportunities for electronic payroll and associated real-time tax reporting, and for modernisation of the administration of PAYE. Such a modernisation which Revenue proposes to implement will better accommodate the complexities of today's employment patterns and structures.

### 2. Objective and Overview of Modernisation

The purpose of this paper is to set out the high level approach to modernisation and to seek views of key stakeholders. This is your opportunity to contribute to the modernisation of PAYE.

PAYE Modernisation will be the most significant reform of the administration of the PAYE system in over 50 years. This consultation relates to the modernisation of the collection of Income Tax through the PAYE system. Policy matters relating to Income Tax and any associated tax credits/reliefs are within the remit of the Minister for Finance and his Department and are outside the scope of this consultation.

The objective of PAYE Modernisation is that Revenue, employers and employees will have the most accurate, up to date information relating to pay and <sup>5</sup>tax deductions. This will ensure that the right tax deduction is made at the right time from the right employees and, employers pay over the correct tax deduction and contribution for every employee. This will improve the accuracy, ease of understanding and transparency of the PAYE system for all stakeholders.

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<sup>5</sup> In this paper the term "tax deductions" includes (tax, PRSI and USC)

At its core, PAYE Modernisation means that, for each member of staff, employers will make the right tax deduction when the staff member is being paid, employees will have the certainty of knowing that they are not overpaying or underpaying tax and Revenue will, through real-time reporting by the employer, have the most up to date information possible to determine that each employee is subject to the tax deduction that is appropriate. It is anticipated that this reporting process by employers to Revenue will be fully integrated into the employer's payroll run, thereby contributing to a significant streamlining of business processes and reducing administrative cost for employers.

### ***2.1 Implications for Employers***

Employers will report to Revenue pay, tax and other deductions, as well as details of any employees leaving the employment, at the same time as they run their payroll. Details of employees starting employment will be reported before their first pay day. The final payroll run in the year will generate a pre-populated statement setting out the total tax deductions for the year both at the level of the employer and the employee.

**There is no proposal to change the due dates for employers to pay over the tax deductions and contributions to Revenue.**

### ***2.2 Implications for Employees***

Prior to the start of each year, an online statement setting out the tax credits and standard rate cut-off point for the upcoming year will be made available to each employee. This will be based on estimated income and information available to Revenue for the employee.

Employees will be prompted to make any necessary adjustments to or to update this online statement, including claiming any additional entitlements. Based on this information, a tax credit certificate, reflecting the most up to date information possible, will then issue to the employer and employee and this will ensure tax deductions are correct when salary or wages are being paid during the year.

Revenue will carry out periodic reconciliations throughout the year of employees tax deductions, based on actual pay and tax details, to ensure that employees optimise the full benefit of their tax credits and rate bands across employments during the year. This contrasts with the current system where the employee must wait until the end of the year for such reconciliation and wait for any refund or be faced with a tax underpayment.

Ad-hoc reconciliations will be a feature of the new system based on any changes in circumstances arising during the year. An automatic end of year review will be carried out for all employees based on income on Revenue's records from all employments, tax credits claimed and available third party data and will confirm the correctness of the tax paid for the year.

### **3. Employer Benefits/Impact**

PAYE Modernisation will allow for significant streamlining of employer business processes and reduce the administrative burden by integrating PAYE reporting obligations into the normal payroll process. Form-filling required by employers will be significantly reduced - for example, Forms P30, P35, P45s, P46s and P60s will be eliminated.

The system will automatically generate an end of year reconciliation for the employer.

Integrating and simplifying employer processes will provide increased confidence in the accuracy of the data, preventing costly and time-consuming errors and eliminating unnecessary contacts by employees with the employer where they have suffered an incorrect tax deduction.

Revenue will work closely with small employers who may not have payroll software or payroll providers to enable them to fulfil their reporting obligations in a cost effective way.

### **4. Employee Benefits/Impact**

PAYE Modernisation gives employees the ability to quickly and easily manage their tax affairs by providing them with up to date information relevant to the calculation of their tax deductions and to make any necessary changes, in real time, through their online Revenue account (myAccount<sup>6</sup>).

Automatic periodic reconciliations and end of year reviews will provide significant benefits to individuals including to those with more than one employment.

Up to date information from payroll systems allows for the possibility of employees being able to make claims during the year for what are currently end of year reliefs, such as health expenses. **This is a policy matter which will be explored further with the Department of Finance.**

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<sup>6</sup> myAccount is a single access point for Revenue's secure online services (excluding ROS) for PAYE customers in the main.

## **5. Payroll Software Provider Benefits/Impact**

PAYE Modernisation will require development and input by payroll software providers. Revenue will engage early and proactively with software providers who will be critical to the success of this modernisation project.

## **6. Other Benefits/Impacts**

Up to date pay and tax deductions details will facilitate more accurate tax compliance risk analysis by Revenue. This, in turn, will facilitate better deployment of resources by Revenue to confront non-compliance.

The availability of up to date pay and tax deductions data will facilitate more accurate forecasting and better decision making as part of broader policy development.,

## **7. Timeframe for Delivery**

It is planned that PAYE Modernisation will be operational from 1 January 2019.

## **8. Consultation Process**

Revenue is interested in the views of employers, employees, payroll providers, payroll software providers, tax practitioners, bookkeepers and other stakeholders on PAYE Modernisation. Revenue is particularly interested in hearing views on the preparations required by employers and payroll software providers for the operation of the new arrangements under PAYE Modernisation.

Apart from this public consultation process, Revenue will engage directly with relevant representative bodies on PAYE Modernisation, especially as the detailed arrangements underpinning PAYE Modernisation are being developed.

### **Submissions to the Consultation Process**

This public consultation process will run from 11 October to 12 December 2016. Any submissions received after this date may not be considered.

Please respond by email to: [payemodernisation@revenue.ie](mailto:payemodernisation@revenue.ie). Alternatively, respond by post to:

PAYE Modernisation  
Revenue Commissioners  
Bishop's Square  
Redmond's Hill  
Dublin 2.

When responding, please indicate if you are an employer, tax practitioner, accountant, bookkeeper payroll software provider, payroll service provider, representative body, employee or member of the public.

Responses to this consultation are subject to the provisions of the Freedom of Information Acts. Revenue intends, in time, to publish all submissions received as part of this consultation on [www.revenue.ie](http://www.revenue.ie).

### Submissions received in response to the Public Consultation Process

A. Massey	ISME
Accountancy Group West	John Gannon Concrete Ltd.
Alan Dunne ADMG Ltd.	John Hall
Alan Massey	John Keane
Alan Richardson	JW Williams & Co.
Anonymous	KPMG
Anonymous	Liam O'Connor
Aviva	Mary Burke
Barra Hallissey	Matt Portt
Barware Enterprise Ltd.	Mazars
Bill Hunt	McDonalds Restaurants
Brendan Maguire	Michael Doran
Brendan O'Reilly & Co.	Michael Grant
C&K Insulation Ltd.	Micheál Collins
CCAB-I	Millwright Engineering Ltd.
Chambers Ireland	Morgan Conlon
Cofri Cosmetics Ltd.	Nuala Phelan of Keogh Practice
CSO	O'Connell Meskil & Co.
CTP Products	Oracle
Deloitte	Parolla
Design by Nature	Pascal Software
Elizabeth Carty	Paul Madden
Equiniti	Peter Brennan
EY	Presentation Sisters
FX O'Brien	PSDA
Garrett P Hall & Co. 1	PwC
Garrett P Hall & Co. 2	Revenue Stamp Duty
Generali	Rhu Glenn Country Club Ltd.
HBS HSE	Rita Airlie
Hillview Properties Ltd.	Sage Hibernia
HR Operations BOI	SAP UK
HSE West	Seán Murphy
IBEC	Select Auto Parts Ltd.
Inis Meáin Restaurant & Suites	Small Firms Association
Insurance Ireland	Storefit Shopfitters Ltd.
Intelligo	Suzanne Morrissey
IPASS	Thesaurus Software
Irish Life	Tipperary Glass Ltd.
Irish Tax Institute	

Copies of [submissions](#) available on [www.revenue.ie](http://www.revenue.ie)

## Key Design Principles



Seamless integration into payroll

Minimize employer cost to comply

Abolition of P30s, P45s, P46s, P60,  
End of Year Returns

Right tax paid on current due dates

Time savings



Simplified online services

Maximise use of entitlements

Automatic end of year review

Real time accurate data

Transparency



Statutory in-year employer return

Making compliance easier

Accurate up to date income details

Reduced customer contacts

Timely targeted interventions



### Stakeholder Engagement 2017: Summary of Items Discussed

#### 1. Payroll Software Developers Association

##### Employer Submission

- Clear definitions required for data items e.g. pay date, gross Pay.
- Mandatory PPSN was generally seen as a positive development however this cannot get in the way of someone being paid.
- Period versus Year to Date (YTD) figures –should YTD figures be submitted when operating a cumulative instruction but period figures when operating a week 1 instruction?
- PRSI data items: multiple classes and subclasses can apply to a single pay period. Rules around insurable weeks reported need to be clear. Preference for cumulative PRSI and including classes in the P2C.
- Illness Benefit could be included in the P2C.
- The due date for submissions could have an impact on smaller employers.

##### Employment identifier

- A Revenue-generated number is more likely to be maintained, reliable and accurate.
- PPSN should be used as the basis for the identifier (in addition to employer number and a sequence number).
- Clarity is needed on what constitutes a second or subsequent job with the same employer e.g. separate contract of employment.
- Consider how individuals working for more than one Community Employment Scheme will be dealt with.

##### Week 53

- Aligning treatment of PAYE and USC for week 53 purposes.
- Divide rate bands and credits by 53 from the beginning of the year, where relevant.
- Divide rate bands and credits by 52.17 every year.
- Daily credits/rate bands may be an option.

## **Corrections**

- Common correction types: employee corrections, payroll corrections, amend personal details, employee paid in error, wrong PRSI class/weeks, notional pay omitted, under/overpayment of illness benefit.
- Correction options: replace entire file, amend YTD and individual figures
- Option to notify Revenue that entire staff or individual not receiving pay for a period (seasonal business).
- Off-payroll amendments should be catered for.
- Process required for out of year corrections.

## **Technical Architecture**

- Message format: providers were comfortable with both XML and JSON but there seemed to be a preference for XML. All wanted to send full payroll data in a single message rather than a message per payment.
- Submission method: Both REST and SOAP were discussed with no strong preference for one over the other expressed.
- Authentication: Both SOAP PKI and OAuth JSON Web keys were discussed with no strong preference for one over the other expressed. Concerns were expressed around the management of digital certificates in the payroll software.
- Technical documentation and support: All wanted clear well defined schema and business rules. Worked examples and sample requests and response were required as well as the schemas and business rule. From a technical perspective all wanted the documentation backed up with regular face to face meetings to work through technical part of the implementation.
- Testing environments: All expressed the need for early access to a full live size test environment. Concerns were expressed that the environment could not have artificial limits put on it and would need to mirror size and scale of the live environment so full payroll runs could be tested. Support for the environment would need to be responsive and documentation supplemented by face to face meetings during the testing phase.

## **2. Irish Payroll Association**

### **Employer submission**

- Some pension payrolls have employees who never have PPSNs. Instructions must be provided for situations where a PPSN is not available.
- Definitions of 'pay date' and 'gross pay' are required.
- Consideration should be given to introducing cumulative PRSI and providing PRSI class on P2C.
- Amending insurable weeks is a manual process. Adjustment does not always occur and accuracy is questionable. Clear instructions from DSP would be useful.
- The taxation of illness benefit is a major issue for employers. The possibility of Revenue issuing instructions via an updated P2C was welcomed by all. Clarification on how this would work if the employee is not being paid by the employer while illness benefit is being received.
- It was generally agreed that no payments are made outside of payroll so YTD and pay period totals should match. It was suggested that an end of year adjustment facility should be provided to deal with, for example, directors not being paid in-year.
- Hours worked are not always included in payroll. This field should be optional.

### **Employment identifier**

- General agreement that a 'payroll software instance number' coupled with an 'employment sequence number' would be workable.
- PRD refunds and subsequent recoupment for casual workers should be rectified in the new system.
- There are differing practices regarding the payroll record of previously ceased employees (some assign a new works number, some reactivate old works number).
- There are also differing practices when dealing with casual/seasonal workers – explicit guidelines would ensure consistency.

### **Week 53 and possible solutions**

- Change in pay frequency/pay days and periods of unemployment will cause problems for all proposed solutions.

### **Corrections**

- Corrections to pay are generally made in next pay period.

- Some software allows a roll-back facility and some issue a new payslip.
- Generally participants agreed that one consistent process would be the ideal.

**Other considerations**

- Allow the establishment of a new payroll record for a new employee to trigger the issue of a P2C in advance of the first payroll run.
- The new system must be able to accept negative pay figures.
- For customer service purposes, Revenue should be able to see historical P2Cs.

### 3. Irish Tax Institute

#### Agent Requirements

- Agents cannot currently register an individual/employment.
- Financial agent needs access to the payroll information even if they are not the payroll agent (client will authorise).
- 2017 credits are not visible to agents under the new system as they are not the employer (agents could see the current year previously).
- Agents do not always receive notification of a new P2C.
- Need access to PAYE customers who they act on behalf of and would like to get the P2C details for each employee record for the client that they deal with.
- Agents would like notifications of changes mid-year such as marriage, tax-credit claims/adjustments which they do not see at present.
- The employer instead of the employee may be due refund (tax equalisation) – employer/agent needs access to the employee's P21 statement in these situations.

#### Corrections

- PPSN can be difficult to acquire for foreign employees. Emergency tax is the incentive for them to get it.
- Need a process to cater for end of year payments and corrections
- What about corrections that do not affect net pay?
- The system will have to incorporate payrolls that run once a year. In net pay arrangements, the agent will only see the details and the need of year and produces a P35L from the net.

#### DSP payments

- Inclusion of illness benefit on the P2C is the preferred option for the taxation of this benefit.
- Can the DSP Christmas bonus be coded?
- A few complaints around PRSI and illness benefit. Agents get no notification of illness benefit and therefore cannot make relevant adjustments. For PRSI, they have no view of when a person turns 66 years of age and again cannot make relevant adjustments to payroll

### **Shadow payroll/globally mobile workforce**

- The timing of employer submissions and the acceptance of regular corrections for this cohort is the main concern for agents and employers (tax equalisation data, delays in calculation, incorrect calculations, etc.). There is currently a 60 day concession.
- The inclusion of PAYE exclusion order marker on P2C would be useful.
- How will economic employer versus actual employer work in the new system?
- Any amendments or corrections take effect in the current pay period and are not “back-dated”.

### **Other Considerations**

- Direct debit facility should continue (regular reviews could be carried out).
- The value of shares included in payroll and the timing of inclusion will cause difficulties.
- How will current instalment arrangements transfer under the new system?
- Current legislation allows 6 months after the year end to vote directors’ salary – this will have to be catered for in the new system.
- Revenue must ensure that all employers, particularly small, are aware of changes.
- Revenue must be cognisant of small family business and the manner in which family may be paid. Typically, there is no weekly payroll. Just a net payment by standing order. The tax and other deduction amounts are calculated on an annual basis at P35 time.