



The Consultative Committee of Accountancy Bodies-Ireland

Chartered Accountants Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Institute of Certified Public Accountants in Ireland

**47/49, Pearse Street,
Dublin 2**

PAYE Modernisation
Revenue Commissioners
Bishop's Square
Redmond's Hill
Dublin 2
payemodernisation@revenue.ie

9 December 2016

Consultation on PAYE Modernisation

Dear Sir/Madam

Please find enclosed our submission on PAYE Modernisation.

We look forward to participating in any follow up discussion on this submission.

Yours faithfully

Paul Dillon, Chairman, CCAB-I Tax Committee



PAYE Modernisation

CCAB-I Response to the Public Consultation conducted by the Revenue Commissioners

December 2016



Introduction

The tax take from PAYE and income tax in Ireland is now, with the exception of VAT, substantially more than receipts from any other tax. PAYE receipts for 2015 amounted to €14,590 million and this represents 32% of the total tax take in 2015¹.

Therefore having a workable system for collecting PAYE is essential. Every effort and support should therefore be given to employers who collect an essential part of the tax in this country.

The PAYE system was introduced in 1960 at a time when a job for life was the norm. Many years later, that tradition has changed. People move jobs frequently and may have more than one source of employment. Agency work is more common and the incidence of marriage breakdown brings added complications.

The PAYE system must match these changing circumstances. We agree that a modernised system is required to accommodate the complexities of today's employment practices.

It is imperative that both employers and employees have up-to-date information in terms of employments, pay and deductions. It is also critical the Revenue put a well-equipped support team in place to deal with queries from taxpayers to facilitate ease of use of the system. CCAB-I, via the TALC forum, has already highlighted the difficulties our members face when dealing with Revenue, where the customer service can be at times less than adequate. This proposed new system should not result in additional burdens being placed on the taxpayers without an improvement in Revenue's customer service.

CCAB-I's submission highlights some key areas that should be considered and included in the modernisation project. We welcome the opportunity to set out our comments on the consultation and have set out our key points below.

¹ Annual Report 2015, Revenue Commissioners



Objective of the system

We understand that the objective of PAYE modernisation is to improve the accuracy, ease of understanding and transparency of the PAYE system for all stakeholders. It is proposed that Revenue, employers and employees will have the most accurate, up to date information relating to pay and tax deductions. This will ensure that the right tax deduction is made at the correct time from the correct employees. Therefore the employers are enabled to pay over the correct amount of tax and contributions for each employee to Revenue.

In order to achieve this we feel that the points made in this submission should be considered.

Reporting by employers

We note the consultation document proposal that when payrolls are run, employers will report to Revenue the pay, tax and other deductions along with details of any employees leaving employment. Details of employees commencing employment will be reported before their first pay day.

A pre-populated statement showing the total tax deductions for the year both at the level of the employer and employee will be generated following the final pay run.

We would suggest that the data required to be submitted by employers is clearly detailed by Revenue and communicated to employers well in advance of 1 January 2019, particularly if it varies from the current data supplied. This will reduce the level of error, delays and therefore improve the quality of information received by Revenue. We would request that any additional information requested should only be information that is really needed by the system. Otherwise this creates an unnecessary administrative burden on employers.

In order to assist this, we recommend that a mandatory pay template is produced by Revenue and is completed for each employee by the employer. This template should be linked to a real time validation process before the file is accepted by Revenue. Where the entry in a field is either 'Nil' or 'Not Applicable', no entry should be required in these boxes. Therefore employers should only complete the fields that are relevant. This would avoid a situation of a filing failure being deemed to arise and the application of penalties.



With regards to employees commencing employment, it is proposed that this step would take the form of a starter file submission. We urge Revenue to give clarity on the procedure when the employee start date and pay date are similar and therefore the date from the started file is not captured. This is likely to be of particular relevance when employers operate weekly payrolls for example. We know from dealing with our members in Northern Ireland that this procedure can cause great difficulty for employers and causes errors and delays in processing payroll. It is important to be mindful that the process of reporting information to Revenue should not create an unnecessary administrative burden on employers.

Another key area is whether agents will be able to access the employer dashboard where the tax agent looks after the tax affairs of the company. We would recommend that agents should be given full access to the employer dashboard (not the individual employees' dashboard) so that they can help the company with their payroll process and fix any issues if appropriate.

In respect of Real Time Reporting (RTR) obligations, can Revenue confirm if employers will be subject to the same RTR obligations in respect of all employees, including assignees, those on foreign contracts of employment and business travellers? This is important as these categories of employees may pose particular challenges for employers in complying with RTR.

Currently P30s are due for filing in the month following salary payment. During the period between payroll processing and reporting to Revenue via the P30, employers may evaluate employees' presence in Ireland, gather home country remuneration data and accurately calculate the Irish tax payable as a result of the performance of duties of foreign employments in Ireland.

Many employers with internationally mobile employees engage third party vendors to deliver and manage employee benefits, such as relocation services and subsistence expenses. Information on the benefits provided would typically be provided by the vendor to the employer at various stages throughout the year. On receipt of the information, employers identify the taxable value of benefits provided to employees and process this through payroll accordingly.



Unless the system of RTR to be introduced in Ireland allows for a measure of flexibility, specifically in respect of internationally mobile employees, there is a significant risk of employers with globally mobile employees finding themselves in breach of RTR requirements'

Key to the success of the process will be Revenue's ability to react to the information provided. Revenue should be able to use the information in 'real time' and should be sufficiently resourced to do so. This use of information has the added benefit of Revenue being able to fix any errors in tax credits quickly and efficiently, for example.

Online statement for employees

We note that it is proposed that 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 which has been provided by the employer.

It is the duty of employees to make any necessary adjustments or to update this online statement for credits that they wish to claim. A tax credit certificate will subsequently issue to the employer and employee to ensure that the correct salary will be paid and deductions made during the year.

We feel that this system, if it works efficiently, will be of great benefit to employees. We would urge that information submitted by the employer in terms of tax credits is quickly allocated to the correct employee account so that the employee can check the data well in advance of the pay date to ensure that any necessary adjustments are made. Employees will need to see real time updates of their tax information. We would suggest that an email is sent to the employee via ROS/MyAccount notifying them of any updates to their account.

We understand from the consultation document that it is proposed that employees are able to make claims during the year for what are currently end of year reliefs. While this would be welcome for employees from a cash flow perspective, we are concerned about how the system would work. Is it the case that employees make a claim and that claim is processed by way of adjusting the employee credits rather than a cash refund to employees? If this is the



case, we feel that if employers have to check changes to employees' weekly/bi-weekly/monthly tax credits in order to calculate the correct PAYE due, this places an unfair additional burden on them when generating payroll, particularly in instances where there are hundreds of employees to check. Many employers set up standard payrolls each pay period and regular deviations from this will add a severe burden to the payroll process and will be costly and time consuming. We would recommend that consideration be given to processing such refunds by way of a cash refund as is the current practice. Furthermore, should errors arise in making the claim whether by the employee or Revenue, who is accountable for fixing these errors?

Should an employee have a tax agent to look after their other tax affairs, will agents have access to the employee dashboard should the employee wish? We suggest that the employee should be able to nominate his/her agent to view employment tax records to facilitate the tax agent in looking after the tax affairs of the employee in a simple manner. The employee's tax agent should not have access to the employer dashboard.

Elimination of P30, P35, P45s, P46s and P60s

We have concerns about the elimination of these forms and in particular question whether it is possible to eliminate the P45. Where employees transition between employments, the P45 is seen as a checking mechanism to ensure that the correct tax was applied by the former employer and the correct tax treatment is adopted by the new employer.

For example, in the UK, HMRC planned to eliminate the P45 when it improved the operation of PAYE a number of years ago but this was abandoned because the system could not facilitate the tax adjustments.

Take the example of when an employee ceases employment with an employer and commences a new employment immediately. The employer will submit to Revenue details of the last pay issued to that employee. Normally, the P45 is requested by the new employer in order to work out the tax that should be deducted from the employee's pay. Under the suggested modernised system, without a P45, how will the new employer know what to deduct? Will the employee be responsible for providing the details (being the tax credit



certificate and the last pay) to the new employer using the information contained within the employee dashboard?

We would also recommend that the P60 is kept in its electronic form. Employees would like to see their total earnings and deductions for a year as a checking mechanism on earnings per employment. In the UK, the HMRC introduced an overhaul of its PAYE system a number of years ago and retained a Payment Summary which is similar to the P60.

In respect of P30s, these returns are a mechanism by which monthly PAYE is paid by the employer. We have no issue with the abolition of these returns assuming the employer dashboard contains all of this information anyway. With regards the annual P35, the preparation of this annual return is used as an opportunity to adjust any PAYE that might have been over or underpaid throughout the year. We understand that the proposed system will generate an end of year reconciliation. However we request that employers are still given the facility to amend the PAYE position at year end should this be required.

With regards to the P46, this was a mechanism by which an employer notified Revenue that a new tax credit certificate was required for a new employee. We understand that it is now the duty of the employee to notify Revenue via the online system of a new employment. In instances where the employee does not notify Revenue, what is the employer's position when processing pay? We urge that the new system will provide a facility for an employer to also notify Revenue of a new employee. This will avoid the unnecessary situation of emergency tax having to be applied.

Other issues

There are many real world exceptions that employers experience when processing their payrolls. For example from time to time, special payments that need to be paid arise, corrections are required to prior period calculations and new hires may not have PPS numbers. It is important to consider how these situations would be dealt with through the planned modernisation. Employers and payroll operators will need assurance that the planned modernisation will not restrict their ability to handle these various exceptions that arise.



In relation to annual and quarterly payments, will the proposed system accept these or will nil returns need to be filed in non-returnable periods?

From a small tax agent's position, where they process the payroll for one or two employees, it would appear that the proposed system will require weekly/bi-weekly/monthly returns of the salaries paid. If an organisation operates a weekly payroll, 52 (and sometimes 53) returns will need to be made in a year. This places an added burden on the agent and one which they are likely to have to charge their client for which pushes the cost to the organisation. Will there be an exemption limits to alleviate situations like this? Furthermore, if wages are paid weekly and returns due, what happens over the Christmas period if returns are not filed. Will the employer be charged penalties?

We would ask that consideration be given to introducing a “fast-track” PPS request section for employers where employers hire foreign workers and they need assistance with applying for a PPS number and managing their Irish tax affairs. We are aware that the Jobs and Pension Service enables employees to register their new jobs among other matters. It would be helpful if agents or employers were able to access this system for foreign employees in order to process tax issues quickly. We have had reports that foreign employees being unable to use the system without a PPS number as they need a number to set up MyAccount in order to be able to use the system. Furthermore when they complete paper Form 12A returns, these are being returned by Revenue as unprocessed and they are asked to use the online system.

Time scale & Testing

We understand that the timescale for implementing the project is 24 months; with a proposed ‘go live’ date of 1 January 2019. In our opinion, this timescale seems ambitious. The scale of the planned changes will require that significant resources are available to Revenue in order to work with payroll providers and other bodies in order to test all possible scenarios and special situations. We recommend that a representative sample of all types of businesses, employers and employees are chosen to be within the testing pool. Payroll providers and software developers should also form part of the testing pool, particularly given the large numbers of employers that outsource their payroll function. A particular focus should be on smaller organisations that will feel the brunt of any changes or additional costs most.



This testing pool is large and the process will take some time. A go-live date of 1 January 2020 may be more realistic.

In terms of the process of transition to the new system we would request that a phase-in period of some sort is established. If the objective is to improve the accuracy of PAYE, the phase-in process and the implementation date should naturally flow once it is established that the Revenue and those involved in payroll are fully equipped for the new system. We would recommend a phase-in process of one year for small employers in particular; by the end of which all payroll operators will be required to use the new system. During this phase in period, we would request that fixed penalties and tax geared penalties should be suspended or at least reduced in recognition that errors are likely to arise as the new system is bedded down.

The PAYE modernisation project makes the implicit assumption that all employers and employees will deal with their tax affairs online. For some employers and employees, additional functionality will be required and therefore an upgrade of the current systems may be necessary. Revenue need to be mindful that there will be an additional cost involved in this. The benefit needs to outweigh this cost. Revenue resources must be able to deal with the system. They must be able to answer questions and provide support and direct contact to employees to minimise costs.

We accept that an online system is in keeping with modern times and offers the opportunity to make the payroll process more convenient. However, taxation is complex and the PAYE system must be able to cater for unusual situations. It is inevitable that any new system will place an additional compliance burden on employers and their employees.

Legislative basis

PAYE modernisation may require new legislation in the Taxes Consolidation Act 1997 and inevitably there will be revisions to the PAYE Consolidated Regulations. We recommend that such draft legislation is made available at least six months in advance of implementation of the new system, is well discussed and debated with representative bodies, software developers and employers and that revisions are made as required.



Revenue support to our members

Members of CCAB-I continuously highlight problems in communicating with Revenue on behalf of clients. Our members also experience frustration in dealing with Revenue on client tax requirements and on the differences in approach which arise from time to time across different tax districts.

Public finances have been spent on the development of “MyEnquiries” and “MyAccount” as an online channel for communicating with Revenue and processing various tax obligations in the case of MyAccount. However, customer service standards have not improved with the advent of these on-line facilities, according to our membership. We do not want the same thing to happen with the PAYE Modernisation project.

Revenue’s annual report highlights its success every year in the collection of taxes.

However, much of this success is attributable to accountants who advise taxpayers and take them step by step through the process of fulfilling their tax obligations. In contemplation of PAYE modernisation we request that adequate resources are put in place by Revenue to deal with the additional queries arising both before and while the new PAYE system goes live. A fully informed support team must be in place within Revenue.

To facilitate this, we would urge that the Revenue team responsible for this project remain a constant to a large degree and operate cohesively. The team will need to know the system end to end. If separate teams look after different aspects of the process, this will result in fragmented and possibly contradictory information to employers and agents.

Conclusion

A fundamental principle of any PAYE deduction system is the need for accuracy so that the numbers of end of year reconciliations resulting in over and under payments are significantly reduced. We do have concerns about the potential costs to employers. We also have



concerns on whether Revenue's systems are sufficiently robust and accurate to implement a new system without passing costs on to the employer operating the new system. We call for the launch of dedicated helplines resourced with trained Revenue staff to support the change.

CCAB-I is fully supportive of the ongoing process to modernise communications methods with Revenue via online methods and welcomes any opportunity to provide feedback and support.

About CCAB-I

The Consultative Committee of Accountancy Bodies – Ireland is the representative committee for the main accountancy bodies in Ireland. It comprises Chartered Accountants Ireland, the Association of Chartered Certified Accountants, the Institute of Certified Public Accountants in Ireland, and the Chartered Institute of Management Accountants.

Cróna Brady, Tax Manager at Chartered Accountants Ireland (crona.brady@charteredaccountants.ie, 01-523 3964) may be contacted if any further details in relation to any points made in this submission are required.