

Revenue



Cáin agus Custaim na hÉireann
Irish Tax and Customs

Guidance for employers on Identifying and correcting payments reported in the incorrect year and General end of year issues.

1. Purpose of document

Following contacts from employers who have incorrectly processed December and January payroll, this document provides guidance to employers on how to reconcile their submissions.

2. End of Year payroll

Any payments that were paid to employees in a tax year, regardless of when the work was carried out, must be calculated using that tax year's credits available in the employee's RPN and reported to Revenue with a pay date in the tax year paid.

Payment Date and Bank Holiday – Funds transfer through bank

Where pay day falls on a bank holiday and an employee is due to be paid by funds transfer on that day, Revenue regards the bank holiday as the pay day. In cases where the payment is made by funds transfer the employer may wish to make the funds available to the employee on the last banking day before the bank holiday and report the payment date as the bank holiday date.

Example

An employee's normal pay day is Friday 1 January 2021. The payment cannot be made on 1 January 2021 as it is not a SEPA/TARGET date, so the employer processes and reports payroll with the pay date of 1 January 2021, applying credits/rate bands for tax Week 1 of 2021, and makes the payment on Thursday 31 December 2020.

Advance/holiday payments

Tax credits/rate bands set against any 'holiday pay' paid in advance are strictly those that relate to the income tax week and tax year in which the payment is made to the employee.

At year end some employers operate payroll normally, some choose to operate payroll in advance to avoid running payroll over the holiday period. Other employers choose to pay in advance for payments due for the following January and there can be tax implications for these.

- **All advanced weeks are within same tax year.** If the employer is paying holiday or normal pay in advance during December where all the advanced weeks are in December, then the tax credits/rate band for those weeks may be used.
- **Weeks are processed in advance and paid in separate tax years.** For operational reasons and to ensure that the correct tax is deducted from the employee, and avoid an underpayment of tax, the employer can operate payroll in advance to process and pay one week with a payment date in December and subsequently operate payroll again to process the January pay in December and preschedule the payment to the employee for a date in January. In this way the payroll is operated in advance, but the employee does not receive the January payment until the following year and is taxed correctly

- **Advanced weeks span two tax years.** All the pay is taxed in the year that it is received and can only use the tax credits from that tax year even if the pay relates to time worked in the following tax year.

This can result in lower than expected net pay for the employee in December as the employer cannot use any of the January tax credits for the December payment. As there will be no pay in tax week 1 of following January, that week's tax credits will be available in tax week 2 of 2021, resulting in higher net pay in that, or following, week.

Example –Pay spanning two tax years with Thursday being the pay day in 2021

Employee is normally paid every Thursday in 2021. The employer wishes to pay two weeks' pay on Thursday 30 December 2021 in respect of pay days Thursday 30 December 2021 and Thursday 6 January 2022 because the business is closed over Christmas.

- The employer must apply only one week of credits/rate bands to the payment made on 30 December 2021. The payroll submission in respect of this payment should also only report 1 insurable week i.e. Week 52 in 2021.
- When the employee is paid on Thursday 13 January 2022 (Week 2), the calculation should be based on pay week 2 of 2022 and an employee, on a cumulative basis, will get the benefit of the first two weeks credits/rate bands for 2022.

In terms of PRSI, as the employee will not be paid in Week 1 of 2022 (7 January 2022), one of the following options should be used to correctly record the insurable weeks for 2022 PRSI purposes:

- The employer can either submit "NIL" pay value payroll submission in Week 1 (6 January 2022) showing 1 insurable week.
- Or
- The employer can report 2 insurable weeks (PRSI) on the payroll submission for the Week 2 pay date (13 January 2022). It is essential that each subsequent weekly payroll submission should show only 1 insurable week.

3. Employers who made payments to employees in one tax year and reported these payments with a pay date in the following tax year.

If the employer has made a payment in December and reported the payment in the following January, this is not in line with PAYE legislation and regulations and must be rectified immediately. Employers can use either their payroll package or ROS to make necessary amendments to the December and January payroll submissions so that their payroll submissions correctly reflect the payments that occurred:

- The December payroll submission must reflect the actual payments and deductions made in that tax year and reflect the number of insurable weeks that the employee worked in that tax year period.
- The following January payroll submission must reflect the actual payments and deductions made in the new tax year and reflect the number of insurable weeks that the employee worked in the new tax year period.

If the employer calculated the payroll using a January credit but made the payment in December as a result of choosing to make additional payments to the employee in December, the employee is likely to have the incorrect amount of tax deducted in the tax year of the payment. The employer must inform the employees to use Revenue's myAccount to view their payroll returns and complete their end of year tax return to address any resulting end of year balancing liability or refund due.