

Payroll Update – HMRC Employers bulletin (Lecture B1467 – 21.42 minutes)

Reporting early in December

In December 2018 HMRC advised a “temporary easement” on reporting PAYE information in real time where employers were paying their employees earlier than usual over the Christmas period. This easement was made permanent for December 2019 onwards and so will apply for December 2024.

This December some employers will pay salaries and wages early due to closing the business over the festive period or wanting to pay employees early for Christmas period. Under the easement if an employer does pay early over the Christmas period, they must report their normal (or contractual) payday as the payment date on the Full Payment Submission (FPS) and ensure that the FPS is submitted on or before this date. Doing this will help protect an employee’s eligibility for income-based benefits such as universal credits, as reporting the payday as the payment date may affect current and future entitlements

For example: if they pay on Friday 19 December 2024 but the normal/contractual payment date is Wednesday 31 December 2024, the employer must report the payment date on the FPS as 31 December and ensure the submission is sent on or before 31 December.

How salary sacrifice affects national minimum wage

By law the National Minimum Wage, NMW, is the lowest rate that can be paid to an employee. The rules for NMW also apply to the payment of National Living Wage, NLW, which currently applies to employees aged 21 and over.

HMRC carry out checks on employers to ensure the correct rates of NMW and NLW are paid to employees. Employers who fail to pay NMW are liable to a financial penalty of up to a maximum 200% of the arrears owed to the workers. This penalty applies to any notice of underpayment relating to a pay reference period beginning on or after 1 April 2016. The maximum penalty is capped at a maximum of £20,000 per worker. The penalty is reduced by 50% if the unpaid wages and penalty are paid within 14 days. Where an employee has been underpaid the NMW the arrears are calculated at the current NMW rate in force at the time the underpayment is calculated.

Salary sacrifice schemes are one of the causes of NMW/NLW underpayments. From 28 October 2024

HMRC has been presenting a series of live webinars to help employers understand how “salary sacrifice” interacts with NMW.

A salary sacrifice scheme is an arrangement where the employee gives up an amount of their contractual pay in return for a benefit, for example - benefits in Kind such as medical cover or E’er pension contributions. If reduced contractual pay takes the employee’s wages below NMW or NLW the employee will be underpaid. The employer would need to rectify the underpayment at the current rate and they may be charged penalties.

Example

An employee works 25 hrs a week, 1300 hours pa and is paid at £12.40 an hour. This gives them an annual salary of £16,120.

This hourly rate is above both the NMW and NLW rates.

The employee then agrees to give up, sacrifice, £1,500 of salary in exchange for medical benefit.

Their contractual pay is adjusted to reflect this sacrifice and their new gross pay is reduced to £14,620 p.a.

To check NMW and NLW:

Divide £14,620 by annual hours = hourly rate of £11.25

This is BELOW the NLW rate

To avoid breaching NLW, the employee's annual pay cannot fall below £14,820, 1300 hours at £11.40 current NLW.

Non salary sacrifice deductions from pay

Where an employer makes deductions from pay, which do not reduce the contractual pay, the usual NMW/NLW rules apply. This means the employer must check that the pay after making the deduction does not breach the NMW and NLW rates. e.g. where the deduction is made for the employer's 'own use and benefit' and they are free to use that money in any way. It does not matter:

- whether the employer makes a profit from the transaction or not,
- if the deduction is made from gross or net pay,
- if the deduction is made under an agreement entered into with the worker,
- whether or not the worker benefits from the arrangement

Example

An employer provides transport for workers at a loss, any deductions made from wages for providing it will help to reduce the loss.

The amount the employer gains by making the deductions is for their own use and benefit and so would need to be checked to ensure no breach of NMW/NLW rules.

Avoiding duplicate employments

HMRC has reminded employers yet again in their October Bulletin how to avoid creating duplicate employments.

When an employee starts:

- Make sure the starter notification and the first full payment submission (FPS) include accurate personal details of the new employee. This will avoid having to make amendments on future FPS to their name, date of birth or gender.
- Be consistent with information e.g. if William Smith is shown on the first FPS use that name of all submissions. Do not amend their name to Bill Smith or W Smith in the future.

- Report the start date and starter declaration information just once – do not repeat the start date again in later FPS
- Employers do not need to report any changes to the employee's start date to HMRC on any subsequent FPS
- Any change to the start date should be recorded correctly in payroll system

Employee Payroll ID

Each employee is required to have a unique payroll ID or employee number of employee payroll number. This ID will usually appear on their payslip. Where an employee works in more than one job, which are on different payrolls, within the same PAYE scheme then it is important that the employee's ID is different on each payroll.

If the payroll software generates the IDs the employer should understand that process and ensure unique employee numbers or employee payroll numbers are used within the PAYE scheme.

Where an employee leaves and is re-employed a new and different employee number or employee payroll number must be used and the employee's year to date figures must be set at 0.00.

When or after an employee leaves

When an employee leaves the employment, there is no need to report any changes to their leaving dates to HMRC, although any changes should be updated on the employer's records.

An employer should not submit an FPS after one has already been submitted with a leaving date, unless it is a correction or a payment after leaving.

Payments after leaving and corrections made after leaving must include the original date of leaving as per the FPS submitted when employee left

Employers should only set the "payment after leaving" indicator if they have issued a P45 to the employee and have made a further payment

Employers should not submit a duplicate or identical FPS reporting a "payment after leaving" unless they have received a rejection notice for the original FPS.

Using reference numbers for early and late payments to prevent payment allocation issues

To ensure the correct allocation of payments employers must not forget to add the extra 4 numbers to their 13-character accounts office reference number when making:

- An early payment before 6th of the tax month or quarter the payment is due
- A late payment on or after the 5th of the tax months after the payment was due

The four numbers to be added are made up of the tax year plus the tax month of the payment. For example: the payroll payment for tax month 6 November to 5 December would be 2508 and the payroll payment for tax month 6 March to 5 April would be 2512

From April 2024 HMRC stopped issuing the yellow payslip booklets so when paying by cheque the employer must state on the reverse of the cheque their 13-digit accounts reference plus the 4 extra digits to ensure the payment is allocated to the correct month.

Reference for paying March 2025 remittance would be “120/PJ02466509 PLUS 2512”

New data requirements on employee's hours

Between March to May 2024 two draft statutory instruments were issued by HMRC:

- Income Tax (Pay as You Earn) (Amendment) Regulations 2024
- Income Tax (Additional information to be included in Returns) Regulations 2024

The draft instruments were issued with the objective of improving the quality of data collected by HMRC through the tax system. The purpose of the improved data HMRC say is to “provide better outcomes for taxpayers as well as improving compliance resulting in a more resilient tax system”.

The regulations specify additional information about employees' hours which employers are required to report in their Real Time Information, RTI, returns.

The new requirements were due to take effect from April 2025. However, due to the delay caused by the election and lead-in time required to prepare for implementation the date is now April 2026.

From April 2026 employers will be required to provide, through RTI reporting, details of an employee's paid hours. Currently employees' hours are reported under these bands:

A – up to 15.99 hrs

B – 16 to 23.99 hrs

C – 24 to 29.99 hrs

D – 30 hours or more

E – Other –used if EE has no regular work, zero hours workers or receiving a pension

Employers must report the total hours paid for each employee in a numeric format for each pay day. Where the employee's contract states the number of hours those hours will be reported plus any additional hours worked. For salaried staff their contracted hours will be entered based on hours per day times number of days worked in a week multiplied by 52 divided by 12. For directors where there are no contracted hours the RTI system should pick up “director” from the NIC boxes and so no hours will be reported.

Where all or part of the payment to an employee does not result in any hour's data, the employer will be required to tell HMRC the reason for that fact. Employers can choose from this list of descriptions:

- Statutory payments – SSP, SMP etc
- Taxable benefits in kind being processed through the payroll
- Redundancy payments and similar termination payments

- Employees who are paid based on output, e.g. piece work
- Office holders such as directors or public positions not subject to contractual terms mentioning hours worked

Employer PAYE and CIS repayments

HMRC say it is developing improvements to support online claims for repayments. Currently an employer can submit a repayment claim online for construction industry scheme, CIS, deductions suffered.

The improvements HMRC is making to the online claim form will enable claimants to upload evidence for their CIS repayment claim when requested by HMRC. When the claim has been submitted the claimant will be directed to the online tool to find out when they can expect a reply from HMRC.

HMRC is also introducing an online claim form for PAYE repayments. Before requesting a PAYE repayment employers are advised to follow the guidance at You paid HMRC the wrong amount ([https:// www.gov.uk/payroll-errors/correcting-payments-to-hmrc](https://www.gov.uk/payroll-errors/correcting-payments-to-hmrc)) to check why there is an overpayment. Where an overpayment or duplicate payment has been made employers should correct their account by paying less on the next payment to HMRC.

Improving data capture of business tax identifiers on the RTI full payment submission

The HMRC Unique Customer Record programme is a building block needed to deliver a trusted and modern tax administration. HMRC states “it should be easy for people to pay any tax due and for most people the calculation and payment of tax should be effortless”.

This is because the unique customer record carries all the customer’s key information:

- Taxes and services they are enrolled for;
- Money they owe to HMRC;
- Money HMRC owes them.

HMRC is always looking to improve the quality of data received and held. Employers can help by entering correct data & completing all the relevant boxes when completing an FPS.

For employers registered for payroll taxes the employer must enter:

- Self Assessment (SA) UTR if they are either a sole trader or a partnership;
- Corporation tax reference, COTAX, if registered for corporation tax.

If this information is not known, once received, it should be entered into payroll software & that will update HMRC records when the next FPS is submitted.

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