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United Kingdom – Draft PAYE Regulations Amend Tax Code Notification Requirements

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The requirements for issuing copies of tax codes to employees and timely notifying them of changes to those codes are being amended, according to the U.K. tax authority.

HM Revenue and Customs (HMRC) has issued draft amendments to the existing Pay As You Earn (PAYE) regulations, amending the requirements for issuing copies of tax codes to employees and allowing for coding notices to be issued electronically. The amendments also extend the time limits by which copies of amended coding notices must be issued to the employee after they are issued to the employer.¹

PAYE is the system of withholding income taxes from employment income in the U.K. and the tax code is the instruction given to employers so that they know how much tax should be withheld on a monthly basis.

Why This Matters

These changes mean that in certain circumstances employees will be notified of changes to their tax codes at a later date than that upon which their employers are instructed about the change. The circumstances in which this will happen are likely to affect many expatriate employees. This may lead to an increased burden on payroll departments if employees notice a change of tax code when operated by the employer before they have received notification of the change from HMRC.

The Regulations in Detail

Notification of Tax Codes

The current regulations require that notice of a new or amended tax code be given to both employer and employee at the same time. The draft regulations would amend these requirements such that there is no longer a requirement to notify the employee at the same time.

Under the new regulations, there would now be a requirement for HMRC to notify the employee no later than 30 days after the date on which notice of the amended code was issued to the employer.

Electronic Notification

Currently, employees are notified (in writing) of their tax code, and any amendments to that code, when HMRC issues a paper notice of coding. The amendments to the regulations would remove the requirement that notification must be made in writing, which will allow for future notification to be made electronically through digital tax accounts set up for individuals. Written notification will still be made where employees are unable to access a

digital tax account.

HMRC has confirmed that the amendments do not have any effect on the employee's right to question or appeal against the notice of coding issued. In addition, HMRC has confirmed that the changes will not delay the issuance of any repayments of tax due.

Next Steps

The draft regulations have been published on HMRC's Web site. Comments are invited and responses should be sent to <paye.policy@hmrc.gsi.gov.uk> by **no later than 3 August 2014**. A draft explanatory note has also been published on the Web site².

KPMG LLP (U.K.) Note

The move to expand the deadline by which tax codes must be notified to employees seems surprising. The introduction of the reporting of PAYE in Real Time – which we have reported on extensively – was supposed to increase the accuracy and transparency of PAYE. Delaying the issuance of code numbers may increase the calls received by payroll departments if employers have to implement any changes before the employees receives their notification from HMRC.

While we find it preferable that HMRC issue code numbers to the employer and employee at the same time, we welcome the proposals for electronic notification – this is especially efficacious for employees working overseas in areas where mail can take a long time to be delivered. Notwithstanding the 30-day delay in notification, the employee may actually find that the electronic notification is quicker than waiting for written notification (by mail) issued on the day the change is made.

Footnotes:

1 See *The Income Tax (Pay As You Earn) (Amendment No. X) Regulations 2014*: <http://www.hmrc.gov.uk/drafts/inc-si-draft-regs.pdf> .

2 See Explanatory Memorandum to *The Income Tax (Pay As You Earn) (Amendment No. X) Regulations 2014*: <http://www.hmrc.gov.uk/drafts/pay-e-inc-regs.pdf> .

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The information contained in this newsletter was submitted by the KPMG International member firm in the United Kingdom. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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