

September 18, 2014  
2014-087

# flash International Executive Alert

A Publication for Global Mobility and Tax Professionals by KPMG's International Executive Services Practice

## United Kingdom – HMRC to Amend Appendix 7B Agreement

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Based on recent correspondence and discussions between HM Revenue & Customs (HMRC) and professional bodies in the U.K., it is understood that there are plans to revise the agreement employers can enter into for purposes of operating National Insurance contributions (NIC) on a modified basis under the Real Time Information (RTI) system.

### Why This Matters

Modified payrolls provide important relaxation of the strict positions under RTI and allow employers operating these schemes to avoid penalties and late payment charges that might otherwise apply. Late filing penalties for employers with 50 or more employees will apply from 6 October 2014. For employers with less than 50 employees, late filing penalties will apply from 6 March 2015. Employers operating Appendix 7B schemes need to be aware of these changes so that penalties are not charged for late payment of NIC going forward.

### Background

PAYE regulations in the U.K. require that tax and NIC be paid over to HMRC on or before the time of payment. This is known as Real Time Information or RTI. For U.K. employees assigned to work overseas, who remain liable to NIC, this includes paying over any Class 1 NIC due on payments made in or by company in the host location. As inter-company reporting of these payments can cause difficulties in meeting the strict PAYE deadlines, employers can enter into an agreement with HMRC to operate NIC on a modified basis. This is known as an Appendix 7B agreement and it allows the NIC liability to be calculated on an estimated basis in the first instance, with greater time allowed for an annual reconciliation of the actual figures.

KPMG LLP (U.K.) understands that a revised agreement will soon be published to make the Appendix 7B compatible with RTI, providing clarification on when payments need to be made under these agreements.

### Changes in Detail

Where an employer operates an Appendix 7B scheme, the scheme is given a separate payroll reference number. However, the monthly estimated payments are made through the regular U.K. payroll, using the reference number for that payroll, with only the annual reconciliation being submitted to HMRC quoting the separate Appendix 7B reference number.

Modified PAYE schemes generally allow for quarterly payments to be made where 5 or less employees are included on the payroll. For a non-modified U.K. payroll, quarterly payments are only allowed where monthly PAYE payments are less than £1,500. It is therefore possible that less than 5 employees could be included within an Appendix 7B agreement (quarterly payments allowed) but that the monthly remittances for the U.K. payroll through which the estimated payments are made must be greater than £1,500 (monthly payments required).

Given the possibility that contradictory payment deadlines may arise, the paragraph allowing quarterly payments will shortly be deleted from the agreement. Monthly payments will be required unless the main payroll is below the £1,500 threshold.

**KPMG Note**

New agreements will not need to be signed, but employers should be aware of the new deadlines and, if they are making quarterly payments, make arrangements for monthly payments to be made going forward. By doing so, employers may not incur unnecessary penalty charges. HMRC is also consulting on the voluntary payrolling of benefits-in-kind. As part of these consultations, KPMG LLP (U.K.) has suggested that some of the restrictions on the use of modified NIC schemes be relaxed.

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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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