

March 23, 2015  
2015-043

## flash Alert

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

### United Kingdom – Imminent Deadline for Operation of Appendix 5 Agreements

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The 6 April 2015 deadline for employers in the U.K. to update their software and be compliant with the Real Time Information ("RTI") system is fast approaching.

#### Why This Matters

Many employers had been experiencing difficulties reporting information under RTI where certain Appendix 5 payroll schemes were in place. Her Majesty's Revenue & Customs (HMRC) was aware of these issues and challenges and allowed more time for employers to work with their payroll software providers to sort out the issues. The extended deadline given by HMRC is fast approaching and employers should determine that they have taken the relevant steps to be compliant.

It is important that employers take note of the correspondence from HMRC previously received and that they have taken steps necessary to assure their compliance with RTI regulations going forward.

#### Background – Issues Related to Appendix 5 Schemes and Reporting under RTI Rules

An Appendix 5 agreement is a payroll scheme which is designed to give relief through the payroll in specified situations for foreign taxes paid outside the United Kingdom. The introduction of RTI had highlighted the fact that certain payroll software did not correctly report the credit for foreign tax given through the U.K. payroll.

Appendix 5 schemes are utilized by employers that have international assignees working outside the U.K. in situations where there is mandatory withholding in both the U.K. and the other country in which the assignees are working. HMRC had become aware of difficulties faced by employers operating these schemes – many of these difficulties caused by payroll software issues.

As mentioned above, HMRC had become aware that many employers, in light of RTI, had been experiencing difficulties reporting information where Appendix 5 payroll schemes are operational. Many of these difficulties were because not all payroll software deals with these schemes in the same or correct manner. HMRC therefore gave employers the opportunity to either resolve the software issues or to cease operating the Appendix 5 agreement. Resolution could be either waiting for the software providers to amend their software or changing software providers.

Although some payroll providers were due to amend their software, some payroll providers opted not to provide support to employers in this area. Employers were asked to notify HMRC of how they wished to proceed. HMRC originally gave employers a deadline of 6 April 2014 for them to become compliant.

In [Flash International Executive Alert 2014-034](#) (27 March 2014) we reported that HMRC had extended the deadline to April 2015 to allow more time for employers who are operating Appendix 5 agreements to update their software to meet the requirements under Real Time Information.

After identifying the software issues, HMRC wrote to employers to provide guidance on steps which needed to be taken to resolve the issues. This guidance had to be followed in order to avoid PAYE penalties becoming payable. If the guidance has not been followed, employers may find themselves subject to penalties under the RTI regime.

### **Any Further Extensions?**

The 6 April 2015 deadline is fast approaching and HMRC has not indicated that there will be any further extensions.

Further guidance has now been added to the gov.uk Web site<sup>1</sup> (albeit that guidance is dated 13 October 2014) to help employers in this area.

### **KPMG Note**

It is also important to note that in addition to penalties, interest can be charged on any unpaid or late paid tax and employers will find that HMRC's Debt Management team will contact them if they continue to have ongoing reporting issues with these schemes after 6 April 2015.

### *Footnote:*

1 See 'PAYE guidance on Appendix 5: Net of foreign tax credit relief' at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/413972/PAYE\\_guidance\\_on\\_Appendix\\_5\\_Net\\_of\\_foreign\\_tax\\_credit\\_relief\\_v1\\_0.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413972/PAYE_guidance_on_Appendix_5_Net_of_foreign_tax_credit_relief_v1_0.pdf) .

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