



Getting Carter

Earlier this year, Lord Carter recommended a goal for HMRC of working towards 'universal electronic delivery' of business tax returns. Here, Yvette Lamidey deciphers the implications for payroll of his blueprint for online services and provides an update on online filing messages



In the second part of his review of the online services of HM Revenue & Customs (HMRC), Lord Carter recommended that large- and medium-sized employers will be required to file in-year forms (P45, P46) online from April 2008, and for small employers from April 2010.

This recommendation was accepted as part of this year's Budget. Forms P45(1), P45(3), P46 and PENNOT (pension notification) will be included and those using the simplified PAYE arrangements are not currently being considered for mandatory in-year filing. Forms P46 car, P11ds, P9ds and P11d(b) are not included. However, employers are encouraged to use the online P46 car, if at all possible, as it speeds up the issuing of the tax code change for employees.

The use of online in-year forms will predominantly benefit employees as their tax affairs are regularised more swiftly as the turnaround time for the forms will be quicker and adjustments to tax codes issues applied promptly. Employers will potentially benefit as the employees are being paid correctly resulting in less queries. It is also anticipated that fewer HMRC enquiry forms will be received.

Approximately 22 per cent of large- and medium-sized employers already submit their P45 and P46 forms online. In order to support employers to make the transition to online filing for 100 per cent of these forms, HMRC online recruitment staff are approaching employers to ensure they understand their responsibilities and to offer help and advice and guidance. IPP will publish further guidance, as the detail becomes clearer, both within *Payroll Professional* and on its website.

The introduction of payroll standards for in-year forms will impact on employers, their agents, and software providers. Some software developers have already embedded some validation as part of the capture of clean data for the end-of-year returns but not all have done so and there will be some additional validation required.

The 'data capture' systems that require amending to include the appropriate validation is also potentially more wide-reaching than for the end-of-year filing. As various front-end systems are used by employers to capture data, the validation would be more beneficial at the point of data entry than within the payroll system at the point of interface. There is also the consideration that,



potentially, these suppliers or developers will not be accustomed to mandatory validation of data and may have a steeper and longer learning curve than payroll software developers.

One of the difficulties the profession faces is that primary and secondary legislation won't be laid until later in the year and so definitive information cannot be provided to developers until it has been laid, and the devil in the detail, so to speak, will be in the secondary legislation.

If you are using front-end systems for data capture you may wish to contact your supplier and find out if it is aware of the implications of mandated in-year online filing. And if you are not using in-year forms it would be sensible for you to talk to your provider in any event.

If you do not file your in-year forms online you must contact your software provider to learn what options are available to you as part of the standard package and also what enhancements to the system are being considered. It would generally be easier to have the validation within the payroll system, and for the payroll system to generate the online message in the correct format and enable the employer to submit the data directly. There is the alternative solution of using HMRC's online forms tools but this would mean entering the data onto the HMRC's site, additional work and additional potential for error. The HMRC tools will be upgraded to include the necessary validation.

One concern of many IPP members is that the data provisioning service (DPS) used to transmit the data to HMRC is still experiencing teething problems. These must be remedied and the DPS service proved to be stable and future-proofed for the additional data loads as soon as possible. This is because the issues are already causing problems for employers and agents.

In his report, Lord Carter recommended there should be rigorous testing of any new programmes and this time scale is extremely tight. Recommendations were that major changes should be delivered so that software developers have a six-month testing window using the HMRC testing service which, in itself, ought to be robust and will be integral to the successful delivery of in-year online filing for 2008.

All employers will have to review their internal procedures alongside the software developer's reviews. All P46 and P45 forms must be submitted online and HMRC is expecting P46 forms to be completed by the employee (at present many larger employers have procedures in place whereby if neither a P46 nor P45 have been submitted for the first pay day then a P46 is generated by the payroll system using the information available). And if a P46 is then received which one will HMRC operate? Where employers have a dispersed workforce, it is feasible that the P45-P46 form is submitted in paper to HMRC from the remote location, so in the move to online filing there may be a need to centralise the processing of the forms. All of these processes need to be reviewed by employers in good time to implement the necessary changes.

It might well transpire that 'Carter 2' has a wider impact on some employers than initially anticipated so the coming months will prove interesting as more detail is understood.

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Enhancement requests for online filing

For some years, the Inland Revenue Electronic Exchange Network (IREEN), the user group for electronic exchange submission and receipt, has been engaged in on and off discussions with HM Revenue & Customs (HMRC) over improvements to the online filing messages. This issue has also formed part of the discussions at the MPPC sub group and has resulted in some clarification from HMRC.

■ The processes around the receipt of P46 and P45 forms from new employees means that payroll departments will often receive both forms and sometimes multiples of each form. Consequently, the logical progression of this from IPP's viewpoint is that there should be a message indicator to allow the employer to flag that a P45 and/or P46 has already been submitted for a particular employee.

■ HMRC has provided assurances that the PAYE system will accept such data and either: overwrite the employment record where there are changes; reject the message if it is identical to the first; or generate a work item for clerical review where the business rules would make it inappropriate to overwrite the data.

■ Where a P46 is submitted first and then a P45 is received this will overwrite the original P46.

■ Employers frequently have to submit form P46 or P45 without a Nino and it would therefore seem logical to have a message that allows the submission of the Nino when it is known. So that 'Carter 2' can be delivered, there will be quality standards published for these in-year forms, as there is for end-of-year forms, and where the Nino isn't known there will be a requirement to submit date of birth and gender.

■ The Nino tracing system will either locate a record and Nino for the individual and then merge the record and provide the employer with a notice of the Nino. Or if the Nino cannot be traced set up a temporary record and create a work item. The request for an electronic Nino notification message falls outside the remit of Carter 2 but has been forwarded elsewhere within HMRC and it is hoped that such an enhancement will finally be funded and implemented.

■ The updating of an employee's personal information is a constant payroll bane. For security reasons, HMRC will only take changes to names and address from employees, however this problematic area is being investigated.

■ Where employers and/or their agents submit end-of-year returns in parts while the validation service will give an acceptance message for each part, there is no message in place that will inform the filer that all the parts have processed and balanced successfully against the P35 information. This is recognised as one of the limitations of the ERSS validation. HMRC has agreed to consider this as an improvement for future years but would not be viable for 2006-07 due to the development cycle(s).