

Public Consultation Paper

PAYE Modernisation

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1. Background and Context

The Minister for Finance, Mr. Michael Noonan TD, in his [Budget Statement](#) of 11 October 2016, announced the launch of Revenue’s consultation process regarding the modernisation of the Pay As You Earn (PAYE) system.

The PAYE system was introduced in 1960 at a time when a job for life was the norm and payroll was a manual process. Over 50 years later, the nature and complexity of employment and personal relationships have significantly changed – people move jobs regularly; separation and divorce are more common; agency work and multiple concurrent employments are more prevalent. Additionally, modern information and communications technologies present opportunities for electronic payroll and associated real-time tax reporting, and for modernisation of the administration of PAYE. Such a modernisation which Revenue proposes to implement will better accommodate the complexities of today’s employment patterns and structures.

2. Objective and Overview of Modernisation

The purpose of this paper is to set out the high level approach to modernisation and to seek views of key stakeholders. This is your opportunity to contribute to the modernisation of PAYE.

PAYE Modernisation will be the most significant reform of the administration of the PAYE system in over 50 years. This consultation relates to the modernisation of the collection of Income Tax through the PAYE system. Policy matters relating to Income Tax and any associated tax credits/reliefs are within the remit of the Minister for Finance and his Department and are outside the scope of this consultation.

The objective of PAYE Modernisation is that Revenue, employers and employees will have the most accurate, up to date information relating to pay and ¹tax deductions. This will ensure that the right tax deduction is made at the right time from the right employees and employers pay over the correct tax deduction and contribution for every employee. This will improve the accuracy, ease of understanding and transparency of the PAYE system for all stakeholders.

¹ In this paper the term “tax deductions” includes (tax, PRSI and USC)

At its core, PAYE Modernisation means that, for each member of staff, employers will make the right tax deduction when the staff member is being paid, employees will have the certainty of knowing that they are not overpaying or underpaying tax and Revenue will, through real-time reporting by the employer, have the most up to date information possible to determine that each employee is subject to the tax deduction that is appropriate. It is anticipated that this reporting process by employers to Revenue will be fully integrated into the employer's payroll run, thereby contributing to a significant streamlining of business processes and reducing administrative cost for employers.

2.1 Implications for Employers

Employers will report to Revenue pay, tax and other deductions, as well as details of any employees leaving the employment, at the same time as they run their payroll. Details of employees starting employment will be reported before their first pay day. The final payroll run in the year will generate a pre-populated statement setting out the total tax deductions for the year both at the level of the employer and the employee.

There is no proposal to change the due dates for employers to pay over the tax deductions and contributions to Revenue.

2.2 Implications for Employees

Prior to the start of each year, an online statement setting out the tax credits and standard rate cut-off point for the upcoming year will be made available to each employee. This will be based on estimated income and information available to Revenue for the employee.

Employees will be prompted to make any necessary adjustments to or to update this online statement, including claiming any additional entitlements. Based on this information a tax credit certificate, reflecting the most up to date information possible, will then issue to the employer and employee and this will ensure tax deductions are correct when salary or wages are being paid during the year.

Revenue will carry out periodic reconciliations throughout the year of employees tax deductions, based on actual pay and tax details, to ensure that employees optimise the full benefit of their tax credits and rate bands across employments during the year. This contrasts with the current system where the employee must wait until the end of the year for such reconciliation and wait for any refund or be faced with a tax underpayment.

Ad-hoc reconciliations will be a feature of the new system based on any changes in circumstances arising during the year. An automatic end of year review will be carried out for all employees based on income on Revenue's records from all employments, tax credits claimed and available third party data and will confirm the correctness of the tax paid for the year.

3. Employer Benefits/Impact

PAYE Modernisation will allow for significant streamlining of employer business processes and reduce the administrative burden by integrating PAYE reporting obligations into the normal payroll process. Form-filling required by employers will be significantly reduced - for example, Forms P30, P35, P45s, P46s and P60s will be eliminated.

The system will automatically generate an end of year reconciliation for the employer.

Integrating and simplifying employer processes will provide increased confidence in the accuracy of the data, preventing costly and time-consuming errors and eliminating unnecessary contacts by employees with the employer where they have suffered an incorrect tax deduction.

Revenue will work closely with small employers who may not have payroll software or payroll providers to enable them to fulfil their reporting obligations in a cost effective way.

4. Employee Benefits/Impact

PAYE Modernisation gives employees the ability to quickly and easily manage their tax affairs by providing them with up to date information relevant to the calculation of their tax deductions and to make any necessary changes, in real time, through their online Revenue account (myAccount²).

Automatic periodic reconciliations and end of year reviews will provide significant benefits to individuals including to those with more than one employment.

Up to date information from payroll systems allows for the possibility of employees being able to make claims during the year for what are currently end of year reliefs, such as health expenses. **This is a policy matter which will be explored further with the Department of Finance.**

² myAccount is a single access point for Revenue's secure online services (excluding ROS) for PAYE customers in the main.

5. Payroll Software Provider Benefits/Impact

PAYE Modernisation will require development and input by payroll software providers. Revenue will engage early and proactively with software providers who will be critical to the success of this modernisation project.

6. Other Benefits/Impacts

Up to date pay and tax deductions details will facilitate more accurate tax compliance risk analysis by Revenue. This, in turn, will facilitate better deployment of resources by Revenue to confront non-compliance.

The availability of up to date pay and tax deductions data will facilitate more accurate forecasting and better decision making as part of broader policy development.,

7. Timeframe for Delivery

It is planned that PAYE Modernisation will be operational from 1 January 2019.

8. Consultation Process

Revenue is interested in the views of employers, employees, payroll providers, payroll software providers, tax practitioners, bookkeepers and other stakeholders on PAYE Modernisation. Revenue is particularly interested in hearing views on the preparations required by employers and payroll software providers for the operation of the new arrangements under PAYE Modernisation.

Apart from this public consultation process, Revenue will engage directly with relevant representative bodies on PAYE Modernisation, especially as the detailed arrangements underpinning PAYE Modernisation are being developed.

Submissions to the Consultation Process

This public consultation process will run from 11 October to 12 December 2016. Any submissions received after this date may not be considered.

Please respond by email to: payemodernisation@revenue.ie. Alternatively, respond by post to:

PAYE Modernisation
Revenue Commissioners
Bishop's Square
Redmond's Hill
Dublin 2.

When responding, please indicate if you are an employer, tax practitioner, accountant, bookkeeper payroll software provider, payroll service provider, representative body, employee or member of the public.

Responses to this consultation are subject to the provisions of the Freedom of Information Acts. Revenue intends, in time, to publish all submissions received as part of this consultation on www.revenue.ie.