



## **In-Year Electronic Filing – Looking Back And The Way Forward**

**As the deadline of 6 April 2009 approaches, Neil Tonks, payroll and legislation adviser at MidlandHR, takes a look at the impending mandatory e-filing of in-year forms.**

### **Inevitable – the move to electronic**

Following businessman Patrick Carter's 2001 recommendations, the phased introduction of mandatory e-filing of year-end PAYE returns commenced in 2005. Many observers doubted whether the process of moving over to electronic business would end there.

Consequently, there was little surprise when in July 2005, the then Paymaster General, Dawn Primarolo, announced the commissioning of a review of HM Revenue & Customs Online Services. This was assigned to Carter, who in the meantime had become Lord Carter of Coles.

This second Carter Report, published in March 2006, made recommendations on a range of HMRC electronic services, but for PAYE the outcomes were twofold. First, from 1 April 2008, large and medium-sized employers with 50 or more employees would be required to file in-year forms (P45 part 1, P45 part 3 and P46) online. Second, all other employers would be required to file the same in-year forms online from 1 April 2010. Accepting these recommendations, the Government extended them slightly by adding the PENNOT (P160 Pensioner Notification) to the range of forms to be mandated.

A consultation exercise was subsequently held and in the March 2007 Budget, the Chancellor announced that the mandating of in-year forms would be delayed for a year in response to employers' concerns about the complexity of the changes needed to their own internal processes. Employers with 50 or more employees must now file electronically from April 2009, with remaining employers following suit in 2011.

### **The changing picture**

Mandatory e-filing is the culmination of changes to in-year forms and the processes surrounding them. For some payroll 'old timers' deeply accustomed to these forms and the associated processes remaining largely unchanged for decades, mandatory e-filing of in-year forms has come as rather a big shock.

Having become familiar with the new P46 layout, which appeared a couple of years ago, payroll staff will have a completely revised P45 layout from October 2008. Both

the current P45 layouts and the new ones will be in circulation until April 2009, after which only the new versions will be accepted by HMRC.

### **Form of the future**

The new layouts introduce fields to hold the employee's birth date and gender. The most striking change is the A4 format – double the size of the current A5 format.

In October, HMRC will introduce a plain-paper option for employers filing electronically, who will then have no use for the paper 'Part 1' copy. Payroll software, which supports this option, will print parts 1A, 2 and 3, complete with the HMRC logo, the various boxes and official wording directly onto plain A4 paper rather than using HMRC's pre-printed forms.

For those currently using the single sheet P45 forms with laser and inkjet printers, this will be beneficial. This is because the three pages for each employee will follow consecutively within a single print run whereas use of pre-printed forms requires collating from multiple print runs.

Since it's not compulsory for software to support this option, be sure to contact your supplier to find out their plans if you want to use it.

### **Mandatory birth date and gender**

Currently, birth date and gender are optional fields on P45 and P46 forms but will become compulsory in April 2009 to coincide with mandatory e-filing. From that point, the lack of birth date or gender on any P45(1), P45(3) or P46 in an electronic submission will result in the submission being rejected. Paper forms missing this information will also be returned.

Therefore, to avoid problems with leavers from April 2009, payroll staff will need to take steps to ensure that existing employees have birth dates on file, while any new starters should always be asked for their birth date.

Employers are sometimes wary of holding birth dates because of age discrimination concerns. Age discrimination regulations do not, however, prevent recording of this information any more than the laws on sex or race discrimination prevent the recording of gender or ethnicity. As with all sensitive data, access to the information must be granted only to those with a genuine business need.

### **The end of local agreements**

With the advent of mandatory e-filing, HMRC have decided to end 'local agreements' between employers and their tax offices which affect the processing of starters and leavers. This is to reflect the stricter validation rules applied to electronic submissions which cannot be varied locally. As a result, all employers must revert to operating the P45 and P46 processes according to the rule book.

Practices which will come to an end include operating a tax code other than BR, typically D0, for high earning new starters when statement 'C' of the P46 applies. The

practice of not operating the P46 process for all new starters who don't provide a P45(3) must also end.

### **Whether in-house or outsourced - be prepared**

Employers filing electronically need the ability to send information over the internet or for large employers, via Electronic Data Interchange (EDI). The same options are used for year-end returns, which most employers already send electronically, so the necessary technology will often already be in place.

The other requirement is that payroll software must support in-year e-filing. This too, will not pose a problem in many cases since most popular software packages have had this ability for a number of years. Payroll departments will however need to ensure that they are licensed to use the facility, that they have received the necessary training and have completed and thoroughly tested any set-up required.

Problems will arise when a package or in-house payroll system that does not support in-year e-filing is used. In such cases, time and money must be allocated to deal with upgrading. So, if you're required to start e-filing in 2009, act quickly.

Alternatively, it's possible to meet the e-filing obligations by entering the P45/P46 information into the HMRC website and submitting it from there. Understandably, this is really only practical for small volumes.

The situation is a little different if all or part of the payroll function is outsourced. Most providers already offer e-filing as an option so arrangements will need to be made to take this up which may involve an extra cost. Contracts and Service Level Agreements should also be updated so that everyone knows where responsibilities lie for generating and submitting the information. Agreements should also cover who is responsible for dealing with any errors which will prevent submission, such as employees with no birth date.

### **Planning**

Whatever is involved in making the switch-over, care must be taken to ensure that everyone who currently sends paper copies to HMRC is aware of the new process. This is particularly important if the task is devolved to individual departments or managers.

It's important to realise that the deadlines discussed earlier are the latest dates by which employers must begin to file online. However an early start can be made, provided you have the necessary technology in place. Indeed, this is a recommended approach since it avoids the need to start e-filing at the beginning of a tax year, which is always a busy time.

### **What about the benefits?**

Use of in-year e-filing has few obvious direct benefits for employers, which probably accounts for the fact that take-up on a voluntary basis has been low.

A small saving in terms of collation time and postage can be made from the removal of the need to submit paper forms to HMRC. Other benefits are harder to quantify but include faster turnaround by HMRC of P6 forms for new starters, which should reduce the number of employee queries.

An area where efficiency can be improved as a result of e-filing is the collection of P46 information from new starters who don't have a P45. When e-filing, the relevant information can be obtained internally rather than using the official P46 form, provided the information can be traced back to the employee. It could, for instance, be collected as part of an induction process.

This will be of particular benefit to employers with multiple sites, who often encounter difficulty getting numerous managers to operate the P46 process correctly and send the paper forms to Payroll or HR at Head Office in a timely manner.

The new system should also result in fewer errors. The tighter validation will ensure that incorrect data doesn't get to HMRC, while e-filing eliminates errors in the transcription of data from paper to the computer systems within HMRC. Finally, unlike paper versions, electronic forms cannot get 'lost in the post'.

### **Working towards a smooth transition**

Many remember only too well, the chaotic introduction of mandatory e-filing of year-end forms by large employers in 2005. This was partly due to unfamiliarity with the new process and partly down to HMRC's systems failing to cope with the demand.

Problems were exacerbated by a high uptake of e-filing by small employers, who were not required to file electronically but were offered financial incentives from the government for doing so on a voluntary basis. The number taking up the offer exceeded expectations, resulting in the overall proportion of employers filing electronically rising from 6 percent in the previous year, to over 60 percent.

After a stressful first year, things quickly settled down and year-end is rather uneventful these days, at least as far as e-filing is concerned.

HMRC have prepared for the increased volumes of electronic in-year forms they will receive. Additionally the absence of incentives for smaller employers to file these forms electronically should result in a more staggered approach, with mainly larger employers getting on board in 2009, followed by the rest two years later.

Provided employers prepare thoroughly, it should be a relatively painless switchover to the new system which, once settled, will improve the end-to-end process of ensuring everyone is on the correct tax code.

All of which leads me neatly full circle to wonder ... will the process end here?

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