

PAYE 'Errors' – what is it all about?

Many taxpayers will be concerned to know whether they have paid too much or too little tax in the light of recent publicity that millions of people have paid the wrong amount.

Firstly may we reassure anyone who completes a tax return that they will NOT be affected as that process automatically ensures they have paid the correct amount of tax.

Those affected will be people with 2 or more jobs and/or a job plus pension(s) received under PAYE where HMRC tries to collect the correct amount of tax via coding notices and who have not submitted a tax return.

The 'losers' will be people whose combined income means they should have paid some higher rate tax and haven't and/or those who in error have been allocated more than one personal allowance against their multiple sources of income.

The 'winners' will be people who have not had full relief for their personal allowances and lower rate tax bands granted against the multiple sources of income.

So why has this all suddenly come to light? Prior to the Summer of 2009 HMRC used no less than 12 separate computer systems to administer PAYE/NIC and, aware of the deficiencies, implemented the New PAYE/NIC Computer System (NPS).

The first consequence of this 'bringing together of data' were the numerous incorrect notices of coding that blighted many tax payers over the winter of 2009/10. With most of those issues now resolved HMRC have now asked the system to calculate the annual reconciliations of total income and tax paid thereon for tax payers for the years 2008/9 and 2009/10.

A calculation, known as a form P800, will be issued to those affected. **Do not assume it is correct.** You need to check that it correctly reports all income arising and correctly allows for all tax deducted from you at source. If those figures are correct the calculation should be. If not write to HMRC advising the correct figures.

If you are due a refund this is to be processed immediately. If you have underpaid, sums up to £2000 will be coded out over the next year. You can apply for an extended period if hardship will arise. Sums greater than £2000 will have to be paid albeit again you can request time to pay.

Can you appeal? For those on very low incomes and no assets HMRC may agree to 'remit' the tax, in effect they won't write it off but they won't pursue it either unless your circumstances significantly improve at some future stage. You can also ask for them to apply Extra Statutory Concession A19, essentially arguing that HMRC has been too slow in using information already provided to it.

This guidance is necessarily brief and we shall be pleased to offer consultation to anyone requiring further specific advice on this issue