Industry voices: working together to influence policy

General Features



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Payroll and tax are sometimes seen as being quite different disciplines. However, when you scratch below the surface, there are many similarities. The ATT and the Chartered Institute of Payroll Professionals (CIPP) share very similar goals around increasing education and supporting their members. They also seek to ensure that their members' voices and concerns are heard in consultations.

This article uses the example of a recent government U-turn on increasing the data collected from employers to illustrate how, by working together, the tax and payroll industry can bring about positive change.

Background

Improving the data that HMRC collects has been an ongoing discussion since 2022, when a consultation was launched (see tinyurl.com/36cukt6v) proposing the collection of additional data from a range of taxpayers. In its consultation response, HMRC indicated that it would take forward proposals to collect the following additional data:

- start and end dates for the self-employed;
- information on shareholdings held in, and dividends received from, owner-managed businesses; and
- employee hours worked.

The last of these proposals – collecting data on employee hours worked through real-time information (RTI) – caused particular concern amongst the tax and payroll community.

Overall, it was felt that requiring employers to gather and report this information would lead to excessive administrative burdens for apparently little benefit. These concerns were echoed in the 'Administrative Burdens Advisory Board (ABAB) 2024 annual report: Better tax for better business' (see tinyurl.com/3dv7stm9), which stated that: 'The Board does not yet understand the rationale for the proposal and we are very concerned about the additional administrative burden the proposals would impose on businesses of all sizes.'

Our members shared the same concerns, so it was fantastic to see this being heard at that higher level. However, despite these concerns, HMRC continued to press ahead. The Finance Act 2024 introduced new powers to enable HMRC to collect data from taxpayers through RTI returns. Draft secondary legislation setting out the detailed requirements was also published for consultation in March 2024 (see tinyurl.com/dmej8n37).

In this consultation, HMRC stated that the aim of the additional hours being reported was to:

- improve tax administration and compliance, helping customers to get their tax right first time;

- improve the resilience and responsiveness of the tax system to future economic shocks; and
- improve wider government policy making and outcomes through better data collection.

The draft regulations looked to replace the current requirement to report normal hours worked per week in bands, including the 'other' band for irregular patterns of employment or payment which didn't relate to hours worked; i.e. a bonus. Instead, the regulations were seeking for **hours paid** to employees to be reported in a numerical format; e.g. 158 hours paid in that period. The employees for whom this information would have needed to be reported via RTI included salaried or contracted employees, and employees paid by the hour. Essentially, this would have impacted every employee on an employer's payroll!

What happened?

The ATT and CIPP were involved in the consultation on this measure from the start, expressing their concern over the burdens it would place on their members. This included formal responses to the initial consultation, comments on the Finance Act 2024 legislation and the draft secondary legislation. The CIPP joined forces with the Business Application Software Developers Association (BASDA) to ensure that not only payroll professionals had a voice, but also that software providers who would be ultimately responsible in ensuring this data could be reported to HMRC had their say too. Roundtable events and thinktanks were also held to gather input.

We were pleased to contribute to the House of Lords Finance Bill Sub-Committee enquiry into Finance Bill 2023-24, where we both gave oral evidence. The transcripts of the Finance Bill Sub-Committee meetings are at tinyurl.com/2wzt56w4. We reiterated our concerns around the workability of the proposals and the burdens they would place on employers and agents.

The main concerns

It was presumed that employers and agents already held the required data, because it forms the basis of other legislative calculations; i.e. holiday pay and National Minimum Wage calculations. However, from research conducted by the CIPP, we

know this data is not held or is not readily accessible.

It had not been made clear how the data would be used. Transparency was needed to get buy-in from employers and tax/payroll professionals, which is a must have when making a large change such as this. The onerous task would have been gathering the data, rather than sharing the data via RTI submissions. Software wouldn't be the issue here; the concern was rather that change doesn't come easily, and sufficient time would have been required in order to make these changes, iron out any issues and implement them successfully, prior to it being a legislative requirement.

Agents and small employers were a major concern, as they may not have the resources to invest in making key changes in a short amount of time (these changes were due to take place from April 2025). Agents would have needed to amend data gathering requirements from their clients. Chasing this data would also have come at a cost to the agent, and one which many agents wouldn't feel comfortable passing onto their clients, as this would have been a mandatory filing requirement.

The CIPP also held ongoing conversations with HMRC around ways to support the industry and employers to prepare for these changes. For example, ahead of the U-turn, the policy team had offered to send joint branded communications to all UK registered employers, advising them on how to prepare for this additional information being required through RTI submissions.

HMRC was very forthcoming in hearing members and industry views, and following on from the March 2024 technical consultation, did say that it recognised the requirement to provide employee hours has gone further than intended. HMRC planned to modify the approach to simplify the requirement by reducing the number of reportable descriptions where employee hours are not directly linked to the payment made (this included benefits in kind, bonuses and payments to directors). HMRC also explored soft landing and transition options after industry representatives advised that the timescales may be challenging.

The new year brought good news!

In January 2025 HMRC announced a U-turn. In an email to software developers and members of the Employment and Payroll Group (which includes both ATT and CIPP),

HMRC confirmed that:

‘Employers will no longer be required to provide more detailed employee hours data through Pay As You Earn (PAYE) Real Time Information (RTI) returns from April 2026 as previously proposed. The government has listened to feedback and acknowledges the potential administrative burden highlighted by businesses. Therefore, the draft Income Tax (Pay As You Earn) (Amendment) Regulations 2024 intended to bring in these new requirements will not be progressed further. The current requirement for employers to report normal hours worked will continue.’

But the story doesn’t end there…

January’s announcement was widely welcomed across both the tax and accounting community. However, it is important to note that only the proposal around reporting employee hours worked has been dropped. The other elements of the package consulted on in 2022 are still going ahead.

Under these proposals, from 2025/26 the following will need to be included in the self-assessment return:

- For self-employed individuals starting or ceasing to trade during the year: the exact date they start or cease.
- For shareholders in owner-managed businesses: additional information on shareholdings and dividends received.

The first of these changes should not be overly controversial. In fact, many readers may be surprised to hear that completing the relevant boxes on the tax return is not already compulsory. The main practical issues are likely to arise where the exact start or end date is not clear; for example, if a taxpayer has been trading for some time but remained under the £1,000 trading allowance limit.

The second change is expected to impact around 900,000 shareholders across the UK and will require additional information to be gathered as part of the compliance process. This includes identifying any close company that the individual holds shares in, as well as identifying the highest percentage shareholding in that company during the year and the amount of dividends received from it.

At present, HMRC has limited insight into how much dividend income reported by taxpayers originates from their own companies versus external investments. This increased visibility could inform not only their compliance activities but also future policy directions.

Lessons learned

The government's U-turn on employee hours reporting is a good example of how, when the tax and payroll industry speak with one voice, we are more likely to be heard by those in power.

A more recent example of this would be the announcement in April this year that plans to mandate payrolling of benefits in kind would be deferred for one year until April 2027. This is something both the CIPP and ATT have pushed for in the past, and which we welcomed as a sensible move (see tinyurl.com/49awpa2e and tinyurl.com/5n7en4c3). There are still plenty of practical issues to be worked through in the additional time this delay gives us, and we will be busy working with HMRC over the coming years and months to address these.

Although the different professional bodies may not always entirely agree on policy matters, we want the tax system to work well for all involved – whether that is agents, employers, individuals or HMRC. The ATT and CIPP see the value in working together where our views align and look forward to more opportunities to do so in the future.

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