

Do it online

Your guide to
filing PAYE returns
and
paying electronically

1. Online filing explained

'Online filing' means sending information direct to our computer, cutting out paper.

By May 2005, large employers (250 or more employees) must have started sending end of year returns (P14 and P35 data) online.

Medium-sized employers (50 to 249 employees) must start online filing by 2006.

If you have fewer than 50 employees, you do not have to start online filing until later. But you can get **up to £825 tax-free** from the Inland Revenue for taking up online filing early. See 6: 'Up to £825 for small employers'.

2. Electronic payment deadline for large employers

From May 2004, large employers (250 or more employees) must start paying tax and other deductions electronically on time and in full. See 17: 'Paying electronically'.

3. The benefits of doing it online

Sending or receiving information online is secure and quick. It is more reliable and more efficient than using paper, and can cut down on storage space, post and administration. So it can help you run your business more efficiently and may save you money.

We provide a range of online services for employers. You can, for example, send P11Ds (returns of expenses and benefits) and P46s (notices of new employees) online, as well as getting tax coding and tax credit information online from us. And because data passes between computers without manual intervention, there is less chance of information being misinterpreted, or of mistakes being made. So you are less likely to get follow-up enquiries from us.

Your employees benefit, too. Online transmission means employees can get the right tax code more quickly. And pension and benefit records are updated faster at the end of the tax year if sent online.

Online filing does not mean that you have to have a computer. Some intermediaries, like agents or payroll bureaux, can do it online on your behalf. Or you can use a computer in a library or Internet Cafe.

4. Getting help

Go to www.inlandrevenue.gov.uk and click on 'employers', then on 'PAYE for Employers'. Or call the Employer's Helpline on 08457 143 143.

5. When you must start to do it online

The dates from which you must start filing online and paying electronically depend upon how many employees you have. Every autumn, we will count how many employees you have according to our computer records, and let you know. See 11: 'How we count your employees'.

Large employers (250 or more employees):

- from May 2004, you must start paying your in-year PAYE tax, National Insurance contributions, Construction Industry Scheme, and student loan deductions electronically, on time and in full. See 17: 'Paying electronically'
- you must also file online starting with 2004-05 end of year returns (due by 19 May 2005).

Medium-sized employers (50 to 249 employees):

- you must file online starting with 2005-06 end of year returns (due by 19 May 2006).

Small employers (fewer than 50 employees):

- under Government proposals, you do not have to start online filing until 2009-10 (returns due by 19 May 2010)
- but you can get **up to £825 tax-free** from the Inland Revenue over five years by taking up online filing early.

Remember: if you are a medium-sized or small employer, you can pay electronically or start online filing before the law says you have to and benefit from the online filing advantages.

6. Up to £825 tax-free for small employers

You can get up to £825 tax-free from us over five years if you file your end of year returns online:

- file online for 2004-05 (return due by 19 May 2005) and get **£250**
- file online for 2005-06 (return due by 19 May 2006) and get **£250**
- file online for 2006-07 (return due by 19 May 2007) and get **£150**
- file online for 2007-08 (return due by 19 May 2008) and get **£100**
- file online for 2008-09 (return due by 19 May 2009) and get **£ 75**
- TOTAL** **£825**

The tax-free payments are not available for any other tax years.

To qualify for the tax-free payments:

- you must have fewer than 50 employees
- you must send your P14 and P35 data online
- and the return must meet the Inland Revenue Quality Standard. See 9: 'Using the right software to do your online filing'.

If you use the simplified PAYE arrangements and send us your P37 and P12 data online you will qualify for the tax-free payments.

If you send us a P35 without any P14s you will not be entitled to the tax-free payments.

You will not qualify if any part of your end of year return is sent to us on paper or using magnetic media. See 7: 'How to file online'.

The tax-free payment becomes available after you successfully file your return online. We will credit it to your payment record and you can offset it against future payments you make to us. Or you can claim it back from us.

7. How to file online

You can choose how to do your online filing. The options are:

- a payroll software product that can file online using our secure PAYE Online for Employers Internet service, or
- Electronic Data Interchange, which sends information to us over a secure phone line, or
- an intermediary, like an accountant or payroll bureau, but you must be sure that we get your P35 and P14 data online
- the free Inland Revenue Online Return and Forms - PAYE service at www.inlandrevenue.gov.uk This is for small employers who do not use payroll software.

Magnetic media

Online filing does not include magnetic media (magnetic tapes, open reel tape, CD-ROMs and cartridges). If you are using magnetic media now, you will need to switch to one of the options above by the time you must start to file online, **or you may be charged a penalty**. We can talk to you about the alternatives to magnetic media. Call our Magnetic Media Team on 08459 157 156.

We will carry on accepting magnetic media for now, but if you use magnetic media when you should be filing online **you may be charged a penalty**. See 16: 'What happens if you do not start online filing at the right time'. We cannot guarantee that we will be able to accept your returns on magnetic media up until 2010.

Online filing using the Internet

Every employer will be able to file online using the Inland Revenue's secure Internet service, PAYE Online for Employers. You will need access to the Internet to register at www.inlandrevenue.gov.uk (click on 'Employers', then on 'PAYE for Employers'). Or you can use an intermediary to run your payroll and ask them to help you file online.

You will need:

- your business name
- your email address
- your choice of password
- your full PAYE scheme reference and your Inland Revenue Accounts Office reference number (you will find them in your payslip booklet).

Small employers: how to do it online

If you are a small employer, and you do not already use payroll software, one way to file online is to use our Online Return and Forms - PAYE service. This lets you fill in forms P14 and P35 on-screen, and you can send them off to us online. (It does not work out PAYE deductions for you). The service is free. You pay only for the cost of the phone call while you are online. To register to use it, go to www.inlandrevenue.gov.uk and click on 'employers', then 'PAYE for Employers'.

Electronic Data Interchange

Electronic Data Interchange is a way of transferring large amounts of data over a secure phone line. It is suitable for employers with several thousand employees.

For more details about Electronic Data Interchange, go to www.inlandrevenue.gov.uk/edi or call the Inland Revenue Online Services Helpdesk on 0845 60 55 999.

8. Using a payroll bureau or other intermediary

Intermediaries, for example, payroll bureaux or agents, can help you run your payroll and may be able to do your online filing on your behalf. If you use their services, you are still responsible for making sure that your end of year return is filed online, on time, and that it is accurate. If you are a small employer, and an intermediary files online for you, you will still qualify for up to £825 tax-free for early online filing.

9. Using the right software to do your online filing

Inland Revenue Quality Standard

You must make sure that the computer software you use to file online is capable of sending your data electronically and that, from April 2005, it meets the Inland Revenue Quality Standard. This is a quality check on the useability of the information you send us.

Software that meets our Quality Standard checks that you have the right entries, and that they are in the right boxes and all add up. Your software supplier will be able to tell you if your software meets the Quality Standard.

End of year returns filed online that do not meet the Quality Standard will be rejected by our computer (you will get an error message telling you why). You will need to put the error right before trying to file again. Otherwise your return will still get rejected and you will run the risk of missing the filing deadline. If you miss it, **you may be charged a penalty**. So the earlier you file online, the better.

If you carry on using magnetic media until you start online filing, you will still need to meet the Quality Standard.

Inland Revenue Payroll Standard

The Inland Revenue Payroll Standard is awarded to software that has passed our tests. It tells you that the software product you are choosing to do your online filing has all the essential features you need to work out PAYE and National Insurance contributions due from your employees. Software products that meet the Payroll Standard are capable of sending data over the Internet, and incorporate the checks that make up the Quality Standard.

If software meets the Payroll Standard, it says so on the box. Or your software supplier will be able to tell you. A list of software products that meet the Payroll Standard is at www.inlandrevenue.gov.uk/ebu/payroll_accred.htm

From April 2004, software that meets the Payroll Standard will have been tested to make sure that it also meets the Inland Revenue Quality Standard.

10. Online filing if you have more than one PAYE scheme

Most employers have one PAYE scheme (employer reference number).

If you have more than one scheme, online filing applies to each of them. And when you have to start online filing depends on how many employees you have in each, not how many employees you have in all your schemes added together. (Each scheme has a separate reference number, for example: 123/A456).

Setting up new schemes

You must not split up your PAYE scheme to set up smaller ones to put off online filing or electronic payment until later, or to claim tax-free early online filing payments. Requests to set up new schemes to get round the new online filing or electronic payment rules will be refused.

11. How we count your employees

Late autumn every year, we will count how many employees you have in each PAYE scheme, according to our computer records. Soon after, we will write to you to let you know whether we think you are a large employer (250 or more employees), a medium-sized employer (50 - 249) or a small employer (fewer than 50).

This is so that you have as much notice as possible to prepare for online filing and electronic payment.

We will also tell you:

- when you must start filing online
- whether you could start to file online early and qualify for tax-free payments from us
- whether you have to pay electronically
- if you do not have to file online
- how and when to appeal
- where to get help.

We will not send a copy of our letter to your agent. So if you have one acting for you, it is a good idea to show him or her your letter.

Even if the number of your employees changes after we have done our count each year, the date from which you must start online filing (or paying electronically) is fixed by the number you have when we make our count.

If you think we have got our count wrong (for example, if we say you are a large employer and you are actually a medium-sized one) you can appeal. See 14: 'How to appeal'.

Who we count

We will count all those employees, including Directors, that you have told us have started work with you.

We will also include every employee who does not reach the starting point for either tax or National Insurance contributions but to whom you pay Working Tax Credit as well as wages.

New employers

New employers starting up in business will be treated as small employers. We will write to you when we next do our count.

Remember that if you are a new small employer, and you start online filing early, you can qualify for up to £825 tax-free.

12. Returns that must be filed online

Different types of return have to be made at the end of the tax year depending on the types of payment you make to staff. Online filing applies where you must fill in forms P14 and P35 for payments to your workforce in respect of:

- PAYE (subject to tax and/or National Insurance)
- payments subject to National Insurance contributions only
- occupational pensions
- sick pay only
- tips only
- and the PAYE part, where there is a combination of regular employees and subcontractors in Construction Industry Schemes.

13. Returns that do not have to be filed online

The online filing requirement does not apply to the Employers Supplementary Return (P38A) or returns of expenses and benefits (P9D and P11D). But you can still send in these forms online if you want to.

Some returns do not need to be sent online because we do not want the P35s and P14s, or you do not use the standard forms. These include:

- Construction Industry Schemes where the only return you make is for subcontractors
- Direct Collection
- Direct Payment
- electoral payments
- examination payments
- Taxed Award Schemes
- Profit Sharing Schemes.

Employers that are practising members of a religious society or order whose beliefs are incompatible with the use of electronic communications may not have to file or pay online.

14. How to appeal

You can appeal if you think we have got our count of your employees wrong. For example, if we are treating you as a medium-sized employer and you are actually a small one. You must appeal in writing. You can use the form that we send to large and medium-sized employers when we write to you each year to tell you what size of employer we think you are.

If you appeal, you must tell us how many employees you had on the day we did our count. (Our letter to you will tell you on what date the count was done.)

Include in your count those employees for whom you have a Deduction Working Sheet (form P11 or electronic equivalent). These include:

- employees for whom you have sent us starting details but you have not told us that they have left
- employees who earn below the PAYE threshold for tax and National Insurance but who also get Working Tax Credit
- employees for whom you have sent us starting dates but are on unpaid parental or sick leave
- workers who are on your books and not treated by you as having left
- agency workers who are paid directly by you.

15. More details for large and medium-sized employers

Filing large amounts of data online

If you have a lot of data to file online (more than around 20,000 P14s), you may want to talk to your software provider about the best way of sending us that data. And we recommend that you send us your data from a single electronic source, although we will provide more flexibility if you need it.

Filing online in sections

Your payroll may be large, or organised in a way that makes it impracticable for you to file a single return online in one go. If this applies to you, you can send your end of year return data to us in sections, using a combination of the Internet or Electronic Data Interchange and from more than one source (for example, some from your agent and some from you). We will hold all the separate sections sent to us until all the data is received, then we will bring the sections together.

If you choose to send your return data in sections, bear in mind that:

- all sections must reach us by 19 May each year
- each section must be numbered before filing your return online, so we can piece them together when you have sent them all in, and you must agree the numbering with whoever else is sending sections in
- all the sections must be filed using our secure PAYE Online for Employers Internet service or Electronic Data Interchange. (We will also accept magnetic media and paper, but remember if you do not file online when you should, you may face a penalty)
- if you use an agent or payroll bureau you must agree beforehand what data is being sent in, and by whom.

Each section sent in will be tested when it is received to make sure it meets our Quality Standard. See 9: 'Using the right software to do your online filing'.

16. What happens if you do not start online filing at the right time

The law says that you must send us a complete end of year return (form P35 and relevant forms P14) by 19 May each year. This does not change when you start online filing.

If you do not send your end of year return online and on time in the years when you must file online, **you may be charged a penalty**. The amount of the penalty will be based on the number of P14s that you have to send.

A penalty will also apply if any part of your return is not sent in online when it should have been (for example, if you send in your P14s online, but post us a paper P35).

17. Paying electronically

From April 2004, if you are a large employer (250 or more employees), you must make your monthly payments of PAYE income tax, National Insurance contributions and student loan deductions to us electronically, on time and in full.

The date by which electronic payments have to reach us (the 'due date') has been extended from 2004-05. Starting with the first monthly payment (due 22 May 2004), all employers who pay electronically will have until the 22nd of the month to pay.

Under the new rules, your electronic payment must reach our bank account no later than the 22nd of the month. Where the 22nd falls on a weekend or is a Bank Holiday, your payment must reach our bank account no later than the last bank working day before the 22nd.

Online payment is a quicker, more secure way of making payment. You can pay over the Internet (using your bank's Internet facility, or BillPay), Telephone Banking, BACS Direct Credit or CHAPS (Clearing House Automated

Payments System). Paymaster payments also qualify. Other electronic payment methods may also be approved.

If you are a medium-sized or small employer you will benefit from the later payment date if you pay electronically.

When paying electronically you need to allow enough time for your payment to reach us. Except for CHAPS which is a same day payment transfer facility, it normally takes three bank working days for payment to reach us. Some banks and building societies take longer. You will need to check how long your bank or building society takes and what their cut-off time for initiating payment is. BillPay has a 5.30pm deadline and payment reaches us on the 3rd bank working day.

For more:

- go to www.inlandrevenue.gov.uk/howtopay/pay.htm
- contact Accounting & Payment Service at

Cumbernauld

e-mail: aoc.directpayments@ir.gsi.gov.uk
or phone 01236 783717

Shipley

e-mail: bacs.chaps@gtnet.gov.uk
or phone 01274 539328

Lines are open 8.00am - 5.00pm.

18. What happens if you do not pay electronically when you should

If you are a large employer (250 or more employees), payment will be enforced by a surcharge that will apply, after a number of warnings, if your full, monthly payment reaches us after the 22nd of the month.

We will send you a default notice each time that your monthly payment (or any part of it) reaches us after the due date. The surcharge will be based on the full amount payable by you as shown on your P35 at the end of the tax year. The amount of the surcharge will depend on how many default notices we have had to send you. You can appeal against a default notice or surcharge.

Payments that are not made electronically but which nevertheless clear by the 19th of the month will not count towards the surcharge, even though you will not have complied with the requirement to pay electronically.

This guide cannot cover everything you may want to know about online filing and electronic payment. You can get more details by phoning the appropriate numbers in this guide, or by going to www.inlandrevenue.gov.uk