**PAY AS YOU EARN REGULATIONS: FOURTH PROGRESS REPORT**

**Summary**
1. This paper reports work in progress on rewriting the PAYE regulations. It presents first drafts of rewritten versions of regulations 80A to 80N of the PAYE regulations. There is a commentary on these draft regulations.

2. There are detailed questions in the commentary on the draft regulations. Comments on those would be welcome (by 26 November 2002 if possible please).

3. But there are just 2 main questions for the Committee:

- is the restructuring and reorganisation put forward in the draft regulations on the right lines?

- do the draft regulations make the legislation clearer while making only appropriate minor changes to the law?

**Background**
4. Our first progress report (SC/CC(01)06) concerned timetables. The Committee endorsed, and Ministers later agreed and announced, the proposal that we should rewrite the PAYE regulations to be made in autumn 2003, to come into effect from 6 April 2004.

5. Our second progress report (SC/CC(02)05) contained drafts rewriting regulations 3 to 39 of the PAYE regulations and was discussed at Committee meetings in June 2002. Comments have been received on those draft regulations and a meeting with interested parties was held on 10 July to discuss them.

6. Our third progress report (SC/CC(02)11) contained drafts rewriting regulations 40 to 55 of the PAYE regulations. It asked for comments by 11 October (if possible). It will be discussed at the Committees' meetings in October 2002; and an open meeting with interested parties is planned on 22 October.

7. This fourth progress report contains draft regulations based on Chapter V (PAYE Settlement Agreements) of Part VI of the PAYE regulations.

**Purpose of this paper**
8. The purpose of this paper is:

- to invite the Committee's views on the way we are rewriting the regulations and the options for their further development; and

- to make available to interested parties the current working drafts of regulations rewriting regulations 80A to 80N.

9. We will bring forward further papers in 2002 to seek views on:

- other chunks of draft regulations; and
- cross-cutting issues.

10. This responds to comments from some users that it is easier to deal with specific issues rather than with long papers and drafts.

11. But we shall publish at least one complete draft of the regulations for formal consultation in 2003.

**Regulations 80A to 80N of SI 1993/744**

12. These regulations deal with employers who volunteer to pay to the Inland Revenue the income tax on some earnings (from a limited range) of their employees. In return the employees are relieved of liability to pay income tax on those earnings. These regulations are therefore an exception to the general scheme of employers *deducting* tax from or *reporting* those earnings but the employees are still in effect paying income tax on their earnings. These arrangements are known as PAYE settlement agreements.

13. PAYE settlement agreements are limited to cases where the application of the rest of the PAYE regulations, regarding reporting requirements and deduction of tax, would cause genuine difficulties. This ensures that the exception to the general scheme of PAYE applies only where there are predominantly benefits to all parties concerned — employees, employers and the Inland Revenue.

14. These regulations deal with:

- who can make an agreement and what earnings can be covered by an agreement;
- the effect of an agreement on employees, employer and the Inland Revenue;
- calculating and paying tax under an agreement; and
- other related matters such as interest and the maintenance and inspection of records.

15. Annex A to this paper is a detailed commentary on how we have rewritten these regulations.

16. Annex B contains the current drafts of the regulations.

17. In keeping with our approach to communication generally we are making the draft regulations available on the internet and inviting comments from anyone with an interest in them. If comments could be sent to Simon Williams , preferably e-mailed to Simon.Williams@ir.gsi.gov.uk by 26 November 2002 we shall be able to take them on board when revisiting these regulations later in the year. But there will, as noted above, be later drafts with more time for comments.

Tax Law Rewrite Project
October 2002

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