

working *together*

issue 23

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Local Office Banking Facilities

A number of you contacted us following the article on local banking facilities in our last issue. We wanted to take this opportunity to clarify a few points.

We have responded to your feedback and changed the implementation date from 1 January 2006 to 6 February 2006. In view of the run up to the SA filing deadline. From that date we will remove the facilities in local offices for banking payments received. As a result we are asking customers who want to make a cash payment to pay at a Post Office or at a branch of their bank instead. Cheque payments can also be made in person at Post Offices and banks. Alternatively cheques can be posted direct to HMRC Accounts Office.

Most types of HMRC payments due can be paid at bank branches in cash or by cheque. All taxes, National Insurance Contributions or underpayments of tax credits and Child Benefit can also be paid at Post Offices.

HMRC offers customers many different ways to make payments to us. The options allow customers to choose a method that is convenient for them. Increasingly that means paying us electronically through Internet and telephone banking services. However we recognise that some customers prefer to make postal payments or to pay personally. That is why we offer the options of sending cheques through the post or paying at bank and Post Office branches. The number of Post Office and bank branches means it is more convenient to pay there, rather than at an HMRC office.

If, exceptionally, a customer is unable to take cash to a Post Office or bank, they will be asked to contact us for advice.

There has been confusion about what these changes mean for Self Assessment cheques paid at local offices. We will still be able to accept cheques. However we strongly advise customers to send their cheque direct to the appropriate Accounts Office. That will generally mean that the customer record is updated quicker. If, exceptionally, we do receive a cheque in a local office we will treat it (for interest purposes) as having been received on the working day it is received.

For interest purposes, the Effective Date of Payment for SA payments made at bank or Post Office branches is the date payment is made at the counter.

Information about methods of payment can be found on our website at:
www.hmrc.gov.uk/howtopay

PAYE Notice of Coding Pilot

We have been piloting a new design of the PAYE notice of coding (form P2) in the South West of England, since 24 January 2004. The pilot has proved a success with customers and external and internal evaluations confirm this. We began a staggered rollout of the new P2 to the rest of the country from 17 October 2005; with most of the rollout due to be completed by April 2006.

We currently issue 20 million P2 notices a year together with 10 million explanatory leaflets (P3). Customer research shows that there is a lack of understanding of both the Notice itself and what makes up a tax code and this accounts for 20% of contact from customers each year.

The new P2 is a more personalised notice to the customer incorporating only the details of their tax code with the explanatory notes for their particular circumstances. There will be no P3 leaflet anymore.

Agents will be sent a copy of the new P2 if they receive copies of the current form.

Tax Returns - 2006 Filing Date

Tuesday 31 January

Returns received up to midnight are on time. This includes Returns received in Office letter boxes that are opened first thing on Wednesday morning.

Wednesday 1 February

Returns received up to midnight are late but incur no late-filing penalty. This includes Returns received in Office letter boxes that are opened first thing on Thursday morning.

Thursday 2 February

Returns received from the morning post and onwards are late and incur a late-filing penalty

Contact Details

From this issue, we are including the email addresses of the members of the professional bodies represented on the Working Together national Steering Group, as well as HMRC contact details. You can use these details to send any comments, suggestions for future articles, etc.

If you are contacting one of the professional bodies, please make it clear that your comment concerns Working Together.

Most of the articles in Working Together come from readers' feedback and issues raised at local Working Together meetings.

Are You Receiving Too Many packs?

During a recent National Opinion Poll survey, 201 agents were interviewed. Agents are still getting more Employer, Budget Packs and Employer's Bulletins, than they need, although nearly 200,000 packs are suppressed at each mailing. We were concerned that 66% of agents did not know how to reduce the number they receive, despite a message appearing on the contents page of every Employer's Bulletin. If you are receiving too many packs, just contact your local HMRC office and ask them to un-set the Employer Pack signal on your client's record.

Business Brief 19/05 10 October 2005

Church of England Children's Society (CECS) High Court Decision

This case, now resolved in the High Court, has important implications for charities' fundraising activities. The Court decided that where funds raised by donation were to be used to fund taxable activities, CECS was entitled to recover the related input tax. It was also ruled that the newsletter sent out to donors giving more than £5 was a deemed supply of zero-rated printed matter and that input tax on production and distribution costs could be reclaimed.

Any charities incurring VAT on fundraising costs can now treat the tax incurred as input tax to the extent that the funds are used for business activities and reclaim the VAT if the business activity is taxable. If the funds are to be used for business and non-business activities or for making both taxable and exempt supplies, the tax must be apportioned. Any existing business/non-business and partial exemption methods can be used, if they are fair and reasonable, and HMRC will consider proposals for alternative methods.

Charities wishing to make claims for such input tax not previously recovered may do so by making a voluntary disclosure to their local office, in accordance with Notice 700/45 How to Correct VAT Errors and Make Adjustments or Claims. Only VAT incurred in the last three years, in accordance with Regulation 29(1A) of the VAT Regulations 1995, can be recovered.

Recovery of Input Tax by Funded Pension Schemes

In Business Brief 16/05, HMRC announced that the changes to the rules governing recovery of input tax by funded pension schemes were postponed to January 2006 to allow consultation with representatives of the asset management industry. It has now been agreed that the representatives will consult further with their members and as the final agreement might differ from the original announcement, employers can continue with their current VAT recovery arrangements until a further announcement is made.

Pensions Tax Simplification

From 6 April 2006 ("A-Day"), there will be simpler rules around how much can be saved in a registered pension scheme and the tax relief available. The new rules apply to everyone, no matter what type of scheme they are in or when they joined it. These changes potentially affect anyone who is a member of a UK pension scheme or who works in the UK and is a member of an overseas scheme.

Key Features

After A-Day, there will be only two limits to UK tax relief on pensions; a **Lifetime Allowance (LTA)** and an **Annual Allowance (AA)**.

- A single LTA against which an individual's pension savings will be tested when they first take their benefits. This will be £1.5m for the year 2006-07.
- An annual allowance on the increase in the pensions savings in a tax year. This will be £215,000 for the year 2006-07.

Tax relief is available on contributions of up to 100% of UK taxable earnings. Non-taxpayers and low earners can also obtain tax relief on contributions up to £3,600.

Scheme members can take part of their benefits as a tax-free lump sum of up to 25% of their pension fund within the value of the LTA.

Protection is also available for those who, at 6 April 2006, think their funds may exceed the lifetime allowance, or those entitled to a lump sum greater than 25% of the lifetime allowance (£375,000 for 2006-07).

Trivial Commutation - Individuals with total pension savings of less than 1% of the LTA (£15,000 for 2006-07) may be able to take this as a lump sum. If they haven't yet started to receive their pension, then 25% of this would be tax-free and the rest taxed as part of their income.

Moving Abroad

There will be no residence restrictions for tax purposes on members of UK registered pension schemes.

Individuals can transfer their pension fund overseas. Transfers out of UK registered pension schemes will be tested against the LTA and any amounts transferred above the LTA will be subject to a tax charge of 25%. Transfers below the LTA won't attract a tax charge as long as the overseas scheme is a Qualifying Recognised Overseas Pension Scheme (QROPS). Individuals will not have to emigrate for this.

Transfers to overseas schemes that are not QROPS are "unauthorised payments" and subject to tax charges.

Moving to the UK

There are no tax restrictions on transferring **into** UK-registered pension schemes from pension schemes abroad. If the transfer is from a recognised overseas pension scheme, enhanced LTA can be claimed by registering with HMRC using the 'Enhanced Lifetime Allowance (International)' form.

For members of non-UK pension schemes who come to the UK, "migrant member relief" (MMR) will enable them to claim UK tax relief on contributions they make whilst resident here. Employers can also get UK tax relief on their contributions to the overseas scheme. MMR replaces "corresponding relief" and has fewer restrictions.

What Needs to be Done Now?

Only those few individuals with pension savings (or potential pension savings) over £1.5 million, or promises of a lump sum greater than £375K need to consider applying to HMRC for exemption from the LTA charge. This is known as transitional protection and can be obtained by registering a claim with HMRC. Claims must be registered by 5 April 2009 on the "Protection of Existing Rights" form.

Once a claim is accepted, HMRC will issue a certificate stating the outcome of the claim and the date from which it is valid.

For More Information

- Visit our website at www.hmrc.gov.uk/pensionschemes to get the most up-to-date information including forms and completion notes.
- Phone our Helpline on 0115 974 1600/1777 (Monday to Friday 9.00am to 5.00pm)
- For more information about any of the topics covered in this article, please see the Registered Pension Schemes Manual, at www.hmrc.gov.uk/manuals/rpsmmanual

The Payroll Giving Grants Programme - Government Cash for SMEs

Many tax advisers act for or advise employers, particularly small & medium enterprises (SMEs), on PAYE and other payroll procedures. Your clients might like to know that, until December 2006 there is a cash payout of up to £500 available to help employers cover the setting up costs of offering Payroll Giving to their employees. As an extra incentive, the Government will match employee donations to their chosen charity for the first six months, by up to £10 per month.

Payroll Giving enables employees to give to any UK charity directly from their gross salary. It is quick and easy to set up; payroll software packages will have the facility installed as standard and regular. Committed giving can make a vital difference to good causes across the country and world-wide.

All of the information you need about the Payroll Giving Grants Programme can be found on the programme's website at www.payrollgivinggrants.org.uk/

Or alternatively, phone the programme's hotline on 0845 602 6786

Better Guidance Programme - New Guidance for HMRC Customer Advisers

In issue 11 of Working Together we told you about the Better Guidance Programme and the planned new electronic guidance for HMRC customer advisers.

We brought the first parts of the Customer Adviser Guide (CAG) into use in May 2005, covering

- employment income guidance for employers and employees
- personal allowances and reliefs
- National Minimum Wage administration
- social security payments, statutory payments and Stakeholder Pensions
- the Child Trust Fund and
- National Insurance Contributions for the newly self-employed.

We are developing the CAG as part of a range of initiatives to help our customer advisers to deliver accurate and complete answers to customer enquiries. Early feedback from our advisers and their managers has been good but we will test the impact of the new guidance on the quality of our customer support and continue to improve it.

We will add more to the CAG this year, including

- Self Assessment
- tax credits and
- Child Benefit.

After that we will continue to add material to the CAG to build up a comprehensive support tool for our customer advisers, covering the range of subjects that customers contact us about.

During 2006-07 we plan to make the CAG content available on our Internet site, giving our customers the opportunity to access it directly for themselves.

Working Together Group - Harrogate & Ripon

Would you like to be involved in your local Working Together Group? HMRC in North Yorkshire are hoping to set up a working Together group for the Harrogate and Ripon Area. They are looking for local tax advisers to join this group.

As you will be aware, Working Together is a forum where tax advisers and HMRC can meet and discuss issues that may be affecting them locally or nationally and either take direct action or escalate them to a national level. Meetings are held twice a year at a convenient location. They aim to be open, informal and friendly where issues can be dealt with constructively. It is a genuine two-way process as it may fall to either side to take any follow up action.

North Yorkshire do have two other successful Working Together Groups running in Scarborough, serving the East Coast, and York. However the Area Directors are aware that due to the huge geographical area Harrogate and Ripon may be unrepresented. With your help they would like to redress the balance.

An important role for the representatives of the group is to ensure that key messages are shared with other tax advisers.

If you are interested in joining the group, please contact Janette Workman, Customer Relations Manager for North Yorkshire on 01904 526747.

2004-05 Employer's Annual Returns - Update

We finished processing Returns sent over the Internet that had no errors in them at the end of September, and the tax-free incentive payments have been credited to those small employers' payment records.

However, we need to correct errors in around 100,000+ Returns. This has to be completed before the tax-free incentive payment can be credited to the employers' payment records. In some of these cases we will have to contact the submitter to get the information we need to put the Return right and, in rare cases, we may ask for the Return to be re-submitted. We hope to complete all of this by early 2006.

We started to process paper and magnetic media submissions at the end of October and we expect to have finished by mid-November.

Online filing 2004-05 - Tax-Free Incentive Payment Letters

We are sending electronic tax-free incentive payment 'letters' when online Returns have been processed. If you are registered and activated for PAYE Online for Agents – Internet, and we have authority from your client to send information to you online, we will send the 'letter' online to your Secure Mailbox. The "letter" will go to your Secure Mailbox even if you chose not to get in-year notices (for example P6s) online when you activated the service.

The "letter" will show the employer's name and PAYE reference and explain how the tax-free incentive payment can be claimed if they cannot get their payment by reducing a 2005-06 PAYE remittance to us. Please pass the information in the 'letter' on to your clients.

We will send you an email with a link to your Secure Mailbox, if we have your email address, telling you that you have mail.

Where we do not have authority to send information to you online, the "letter" will go to your client's Secure Mailbox if they have registered for PAYE Online for Employers – Internet. Otherwise they will get a paper letter.

Letters sent on paper have been going out daily without delay, but we have not issued the online tax-free payment letters as quickly as planned, and there is now a backlog to go out. We are sorry that the online letters were not issued at the right time. We hope to get all of them out by mid-November. Check your Secure Mailbox regularly to see if letters for any of your clients have arrived.

Do More Online!

If you manage your clients' day to day payroll, are you aware of the benefits of doing the in-year maintenance (movements) online? By sending us forms P45(1), P45(3), P46 and P46 Car online we are able to deal with the necessary actions in a better way, ensuring that the data we receive and send you is 'clean'. It is faster too and you can use our free software to send us these forms online.

2005-06 Employer's Annual Returns

Before employers file Returns for 2005-06, we will be taking every opportunity to help them get them right. And your support will be vital by making sure that:

- this year's common errors (see below) are avoided
- online Returns meet the Quality Standard 2005-06
- magnetic media Returns meet the requirements of the magnetic media specification CA51/52, and
- paper Returns are completed in line with the guidance given in our E10 booklet *Finishing the tax year up to 5 April 2006*.

To avoid the late filing penalty, we recommend that you do not leave it until the last minute to submit any Return.

Once a complete Return (all the P14s and the P35) has been successfully submitted, it cannot be replaced. Any changes will have to be made by sending an amended Return.

Once Returns have passed our quality checks, we will hold them before sending the details in them on to our other computer systems. We do not plan to hold Returns for more than a few days, but experience this year has shown that we need to retain a facility to hold and control the flow of data to smooth out any peaks. We are doing everything we can to avoid a repeat of this year's processing delays. The impact of holding Returns is a very small delay in crediting the incentive to small employers' payment records. We will then send an electronic 'letter' confirming this. Once the employer has this letter, they can self-serve the tax-free incentive payment.

Part Submissions

A whole Return cannot be finalised and accepted until all the P14 parts are married up to the corresponding P35.

If you send a 2005-06 Return in parts, we strongly recommend that the P35 is the last item to be submitted.

Our systems will overwrite any part Returns that have the same Unique ID. So each part must have a different Unique ID, unless you mean for us to replace the file.

P14 parts will be held until all parts have been submitted. During this period, you or your client can send a replacement part so long as the replacement shows the same Unique Identifier as the original. Once the P35 and the

P14 parts have been brought together and we have accepted them, the Return - in whole or part - can only be changed by sending in an amended Return.

Tax-free Incentive Payment

The online filing tax-free incentive payment will be credited to small employers' payment records when the Return has been processed to our other systems. We will then send an electronic 'letter' confirming this. Once the employer has this letter, they can self-serve the tax-free incentive payment by deducting £250 for the next 2006-07 payment to us.

Test Service

To support you and your clients, we will be making a 'live' testing service available from mid-March 2006.

Notice to File Online for 2006-07

We did our count of the number of employees in each PAYE scheme on 30 October 2005. The 'notice to file' letters went out earlier this month.

Do it online: Online filing and Electronic Payment Handbook

An updated version will shortly be available on the Internet at http://www.hmrc.gov.uk/employers/doiit_index.htm. These are just some of the sections we will be updating: using Online Return and Forms – PAYE to send amendments

- how to claim the tax-free payment
- sending a Return for a client without an FBI 2 authorisation.

Common Errors in Employers End of Year Returns

These are some of the most common errors in the 2004-05 Returns. You may find this useful when completing Returns in future years.

Error	Solution
Tax codes - incorrect characters and format	<p>Use the code number as provided by HMRC</p> <ul style="list-style-type: none"> Do not use all five spaces of the code number field (unless the code takes them up). Do not use leading zeros (K123 not K0123). “Left justify” each code number within the field. Do not use suffix “H”. Use “T” instead and refer all existing H codes to your HMRC Office for correction. For codes 0T and D0, the number “0” must be used, not the letter “o”.
PAYE reference - incorrect format	<ul style="list-style-type: none"> A valid PAYE reference is made up of the three-digit HMRC Office number and the employer’s PAYE reference, for example 913/WZ51258. Do not show only the employer reference (WZ51258), or use the district reference twice (913/913WZ51258). Check for any changes to the three-digit HMRC Office number during the year.
Invalid NINO prefixes (for example NI, PZ, TN)	<p>Use an acceptable NINO prefix (a list is published in the Quality Standard each year). Or if the NINO is not known, leave the NINO field blank and make an entry in the date of birth and gender fields instead.</p>
Names and Addresses - leading spaces and punctuation	<ul style="list-style-type: none"> First character in “Name” and “Address” fields must be a letter, not a comma, apostrophe, full stop or space. Postcode field must be in the right format (WC2B 4RD for example).
Pay and National Insurance earnings - negative figures	<p>The lowest acceptable entry for the pay field and National Insurance earnings fields 1a – 1c is “0.00”. You can only use negative figures when sending an amendment.</p>
Part submissions - Incorrect number of parts	<ul style="list-style-type: none"> Number of parts shown must relate only to the number of parts sent containing P14 data. Do not include the P35 or any P38A in your count of the number of parts. The number of parts must be the number of (bundles) or submissions sent (online, on paper or by magnetic media). It must not reflect the number of P14s.
Part submission - P35 with each part	<p>Do not send a P35 with every part submission of P14s. Each part containing paper P14s must be accompanied by a “P35 (cover sheet)”.</p>
More than one Return for the same scheme	<p>Do not send us the same information on paper once you have filed online. If the paper Return was the first received, it was treated as the original Return. That means small employer will not qualify for the tax-free incentive payment and a large employer will get a penalty.</p>

editorial

Working Together is a partnership between HM Revenue & Customs (HMRC) and CIOT, ICAEW, ACCA, ICAS, ATT and AAT.

Letters on any article appearing in this publication should be sent to the editor, Greig Rattray, Working Together Team, 5S South West Wing, Bush House, London WC2B 4RD or email Greig.Rattray@hmrc.gsi.gov.uk or your professional body.

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contact details

One of the key objectives of Working Together is to improve two-way communication between HMRC and tax advisers. If you have any comments please contact the HMRC Working Together Team, your Professional Representative (contact details are below). If you are contacting your professional body, please make clear that your comment is about Working Together) or via your local Working Together Group.

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