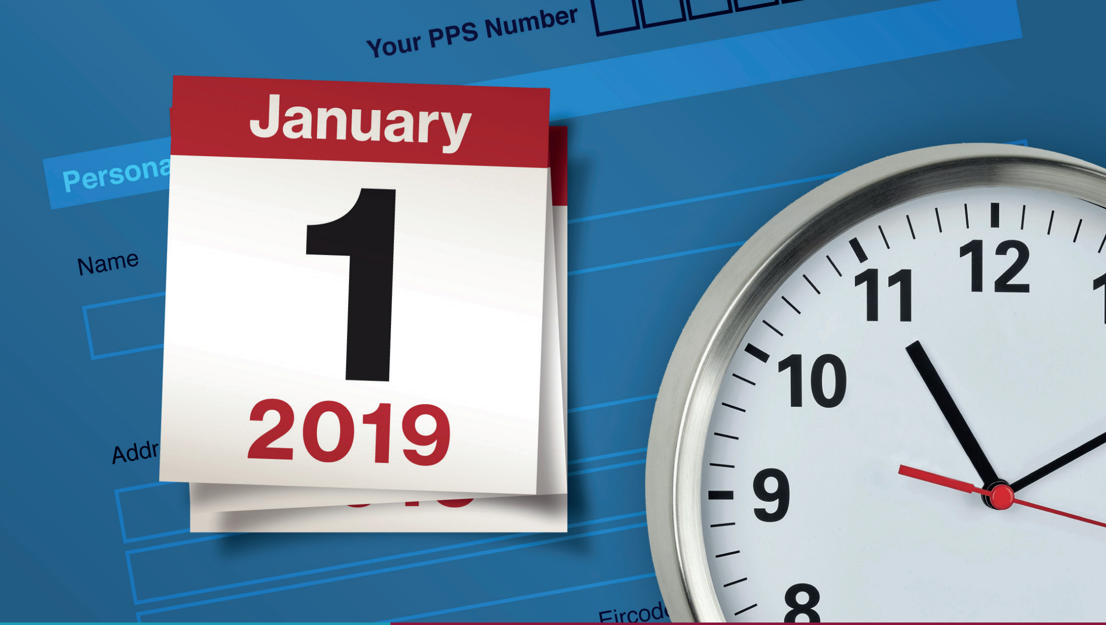


# PAYE MODERNISATION UPDATE

The most significant reform of the PAYE system since its introduction, effective 1 January 2019. This commentary is published by Chartered Accountants Ireland as a service to Chartered Accountants.

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# INTRODUCTION

The current PAYE system is being reformed and modernised with the introduction of real-time reporting (RTR). This change to how employers and employees interact with the Revenue Commissioners (Revenue) represents the most significant change to the PAYE system since it was originally introduced.

Employers will be required to calculate and report employees' pay and deductions in real time. This is intended to ensure that every time employers run their payroll the correct amount of deductions are being made at source from the employees, reported to Revenue and paid over by the employer. Employees will also be able to access payroll information relating to them through the MyAccount service on Revenue's website.

The new system will be effective from 1 January 2019 and will apply to all employers, regardless of size. Penalties of €4,000 per breach can apply, so it is important to be ready.

**New Terminology**

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| Revenue Payroll Notification (RPN) | The RPN will replace the current tax credit certificate (P2C). It will provide employers with the necessary information to deduct from the employee the correct income tax, USC, and LPT (if applicable). |
| Payroll Submission Request (PSR) | The PSR will be used to submit payroll data to<br>Revenue on or before every pay date, showing gross pay and tax deductions for employees. |
| Monthly Statement | Statements will be produced by Revenue and will be available through ROS (Revenue Online Service). A statement will summarise all tax deductions as per the PSRs submitted to Revenue for the previous month. This statement will replace the P30. |

## MAIN CHANGES FOR EMPLOYERS

As an employer, the main changes will impact on how you process payroll runs:

- You must report details of employees' pay and statutory deductions to Revenue on or before each payroll payment date.
- You must have the latest and correct RPN for each employee before calculating payroll.
- Instead of checking P2Cs through ROS for updates and then updating the payroll, your payroll software package will automatically retrieve the RPNs for each employee.
- If you do not use a payroll software package, you can request the RPNs using ROS.
- Failure to use up-to-date RPNs will be deemed to be non-compliance.
- You must include details of employees commencing or leaving your employ in the PSR submitted for each pay period. You will no longer have to prepare and submit a P45/P46 to Revenue through ROS.
- As P35s will be abolished, you will no longer be able to use them at the end of the year to tidy up errors and omissions. Instead, a PSR will be submitted to Revenue each time payroll is prepared and finalised.
- You will be able to review monthly summary statements of the payroll taxes reported for the previous month on ROS on the 5th day of every month. This replaces the current requirement to prepare and file a P30. Employers can accept or amend the statement on or before the 14th day of that month. After that it becomes a statutory return.
- There will be no more 'P' forms (P45, P46, P60, P30 or P35) to prepare and submit. You will still need to submit a P35 and give your employees P60s in January or February 2019, but this will be the last time you do so.
- It is intended that employees will be able to view their own payroll information through the MyAccount service on Revenue's website. (At the time of publication, this is expected to be available from late April 2019.)
- Examples of breaches include but are not limited to: not updating the RPNs for employees; not submitting the PSRs to Revenue on or before the payment date; and not informing Revenue when an employee has commenced or ceased employment.

## WHAT EMPLOYERS NEED TO DO

### 1. Check and Update Current Employees' Records and Compare with Revenue's Records

Employers are expected to have their employee records fully up to date, cross-checking these with Revenue's records.

- Check that the employee records include all current employees (including directors), employees on long-term leave, those members of the organisation's pension scheme in receipt of payments, seasonal/temporary employees, employees on a career break for whom a P45 has not been completed, and employees for whom a PAYE Exclusion Order has been received.
- Check that all employees on the payroll are registered with Revenue as being employed by you. (If you have already received P2C details for the current tax year this would indicate that they are registered.)

- Check that a P45 has been submitted to Revenue for any employee no longer working for you. You must also check that Revenue has ceased any employees who are not on your list but who are registered on Revenue's records (i.e. P2C issued) as working for you.
- Check that you have submitted Part 3 of P45 or P46 to register new employees with Revenue, or that new employees have registered their employment through the MyAccount service on Revenue's website.
- Check that all employees on your list have a valid PPSN. If you have received a P2C for the employee and the number matches, that will suffice as a check. There is also a PPSN checker on Revenue's website.

If you have carried out the above steps, Revenue's records of your employees should match your payroll information. Revenue will issue RPNs in December in advance of the 1st January 2019 commencement date for all employees registered.

*Remember*: you must also notify Revenue of any employees who commence or cease employment in the time between checking and updating your list, and 1 January 2019.

### 2. Check that your Computer can interact with Revenue

The new PAYE system will be operated through Revenue's Application Programming Interface (API), which will enable seamless integration between your payroll software and Revenue. The API will interact with your payroll software using the ROS digital certificate already installed on your computer. You can check if this digital certificate is installed on your computer by simply logging into ROS. If you can log into ROS, then the digital certificate is already installed on that computer.

Under the new system, payroll software being used will need to be on a computer on which the ROS digital certificate is installed. If using more than one computer to process payroll, you will need to ensure that the digital certificate is present on each computer.

### 3. Check in with your Payroll Software Provider

If you use a payroll software provider, ask your provider the following:

- Will the software be updated to take account of the required changes?
- Will the software have the ability to seamlessly report to Revenue?
- What support will the provider offer when you are first using the software in early 2019?

### 4. Check that your Manual Payroll Process is Compliant

If you process payroll manually, under the new system you must request the RPN for each employee through ROS before the calculations for each payroll run are done.

As ROS will not calculate the tax, USC or PRSI due, you will need to ensure that your calculations are correct for all the payroll taxes each time you make wages payments in order to avoid penalties under the new regime. This process will have to be done even where an employee's pay is the same gross amount every month, as the calculations may need to change if a new RPN issues for that employee.

You will need to use ROS to submit the PSR details for each employee (including pay and statutory deductions) for each payroll run before the payment is made.

(*Note*: Revenue has made provisions for employers registered with them as 'non e-Enabled' due to broadband restrictions. In these circumstances, employers will receive paper returns which will need to be submitted and filed with Revenue.)

### 5. Consider Payroll Confidentiality

The computer on which the ROS digital certificate is installed and which applies to an employer's registered number will have access to all payroll records of that employer and to all PSRs submitted to Revenue through ROS from 1 January 2019. Therefore, the main payroll operator will have full visibility of the payroll records with Revenue, including the pay and salaries of directors/managers.

To control access to this information, employers can apply for new employer payroll tax registration numbers, each with its own individual digital certificate. This will allow the employer to segregate any information pertaining to directors/key employees from the main payroll information.

### 6. Update Key Processes

Whether you prepare payroll manually or operate software-prepared payroll, in order to ensure that PSRs submitted to Revenue are correct and that you are compliant, employers should do
the following:

- Make payments to employees by EFT (electronic funds transfer), not by standing order. (It is advisable that all standing orders are cancelled with effect from 31 December 2018.) This will ensure that payroll payments notified to Revenue will at all times match payments from the employer's bank account, which removes the risk of the employer being in breach by making payments in excess of what is notified to Revenue.
- Pay employees on a gross-wage basis (i.e. the pay rate before tax deductions), as employees' tax credits and bands may change.
- Make sure that all forms of pay are reported, including benefits in kind (BIKs) such as company cars, health insurance, gym membership, etc.
- Be vigilant about BIK. Employees are taxable through payroll on any BIKs they receive. While most BIKs are for a fixed amount, e.g. medical insurance, the BIK calculations on company vehicles can vary (due to variances in mileage) from estimates, which may result in under-declaration of BIK. It is recommended that employers require employees to submit their mileage sheets in a timely manner – Revenue has indicated that employers, at a minimum, should carry out quarterly checks on mileage.

### 7. Communicate Changes to Directors

The PAYE, PRSI and USC on all directors' pay must be reported through the PSR at the time of payment, regardless of when earned.

For example, if XYZ Ltd accrues in its 2019 accounts that Director A is due a bonus of €10,000, the payroll taxes will be paid in 2020 when the bonus is paid, even though it is earned in 2019. XYZ Ltd will take the tax deduction in its 2019 accounts. Director A may account for the income in his or her personal income tax return in 2019 when the income was earned, or in 2020 when paid.

Directors should be advised not to use company funds/company credit cards for personal expenses. These are deemed to be salary/pay; if they are not reported to Revenue on time this could result in a breach.

### 8. Communicate Changes to Employees

For employees, the key points about the changes taking effect from 1 January 2019 are:

- Employees should register with Revenue for MyAccount if they have not already done so.
- P60s will no longer issue at year end. A statement of earnings will be available from Revenue through MyAccount or can be requested by contacting Revenue. The last time the employee will receive a P60 will be in early 2019 for the tax year 2018.
- P45s will no longer issue if the employment ceases. Revenue will be notified by the employer through RTR.
- New employments will also be notified to Revenue by the new employer through RTR.
- If employees have been provided with company vehicles, they may need to submit information on mileage more frequently (see above).

## FURTHER INFORMATION

Revenue is supporting employers through the transition to PAYE Modernisation and has advised employers to get in contact if they are having issues. The Revenue National Employer Helpdesk can be contacted on 01 7383638 or 1890 254565. You can find out more about and stay up to date with PAYE Modernisation directly from Revenue's website. Revenue is also due to publish a Revised Employers Guide on 1 December.