

PRESS RELEASE

8 March 2010
For immediate release

Accountants hit out at Tory tax plans

A LEADING payroll expert is warning that Tory plans to scrap the current PAYE (pay as you earn) scheme are 'seriously flawed' and will do nothing to help employers and their staff.

According to Angela Brake, Head of Payroll at Bath-based Target Chartered Accountants, the proposals to create a new automated bank-based system to deduct income tax and NIC directly from employees' pay will increase the potential for error and could bring an already over stretched HMRC to the brink of collapse.

She said: "If the Tory plans went through, it would represent the biggest shake up of the tax system since the Second World War.

"Although the idea of making PAYE easier for employers to administer is to be encouraged, there are major problems with what the Tory's are proposing. For starters, employers are required to keep records available for checking by HMRC going back over a seven year period, so payroll software or database would still need to be in place," Angela explains.

"Therefore, the Tory's claim that the new system would save businesses up to £5.5 billion a year by reducing their 'administrative burden' is fundamentally wrong, as they will still be required to produce gross payment records.

"The degree of 'administrative burden' on employers is also open to debate. Given the free PAYE software that is currently available through HMRC, calculating income tax and NIC is very straightforward for employers," she adds.

\Cont'd...



-2-

Angela says that whilst there are no obvious benefits for employers, the biggest worry is that by introducing a third party, there will be a greater potential for error which will leave employees vulnerable.

“Non-taxable payments would need to be recognised independently of taxable salary and not taxed as a gross payment to the employee,” Angela explains. “If this is not properly planned out, then employees could suffer as a result of incorrect deductions on non-taxable payments.

“There are also net deductions that have to be made, such as Child Support Agency, Attachment of Earnings Order, pension and social club deductions. All these would impact on how a gross payment could be made direct to an employee’s bank to allow for the correct PAYE to be deducted,” she said.

Angela points out that the employee would stand to lose most as a result of the proposed changes: “It is not clear who an employee would contact if they thought there had been an incorrect deduction. This could cause hardship if certain cases were not dealt with promptly,” she explains.

“Along with administrative errors in distinguishing the taxable and non-taxable payments, there could be problems for the banks trying to recognise the difference between salary and pensions when it comes to National Insurance (NI), as well as monitoring employees reaching state retirement age, when employees NI is immediately non-deductable,” Angela said.

“It is expecting a lot of the banks in terms of administration; for example, how would they know the employee’s contractual frequency of salary payments to understand the level of tax and NIC deductions.

\Cont’d...



-3-

“Statutory payments and recovery of maternity, paternity and sickness pay are also other areas of concern and it is not clear who would have responsibility for issuing P45 details when an employee moves jobs,” she adds.

Angela says it is likely that the changes would only serve to increase workloads for an already over stretched HMRC.

“The new proposals would require single person year end returns, rather than one return per company. This would create massive amounts of work for HMRC at a time when it is reducing staffing levels,” she said.

“A huge change like this has the potential to bring the system to the brink of collapse. It will also increase the burden on banks and reduce the amount of time that they can spend on more profitable work.

“Any new system needs to recognise the professional payroll employees currently in operation, who are working very effectively to reduce the burden of HMRC,” Angela warns. “If anything employers should be legally required to use an accredited payroll bureau and HMRC should be offering a credit against PAYE to cover the cost to a company of employing us!”

ENDS

For media enquiries contact Corrina Cockayne at Target Chartered Accountants on 01225 486348, or e-mail corrina.cockayne@target-accountants.com.

Target Chartered Accountants

Target is a top 40* firm of chartered accountants working exclusively with entrepreneurial individuals and their businesses around the country. The firm has 14 directors and 180 staff working out of four UK offices in Bath, London, Reading and the Midlands. Established 11 years ago as a specialist tax consultancy, Target are now leading advisers in six core integrated service areas: Audit and Assurance, Business Services, Tax Planning, Corporate Finance, Financial Management and HR Consultancy.

*(source: Accountancy magazine, 2010)

