



SMALL FIRMS ASSOCIATION

SUBMISSION ON PAYE MODERNISATION

Presented to:

Revenue

December 2016

Introduction

The Small Firms Association (SFA) is the trusted partner of small businesses in Ireland, with 8,500 members and four affiliated organisations in all sectors and parts of the country. Its mission is to deliver business-focused advice and insights to member companies, influence government policy to the benefit of small businesses and connect its members in a thriving community.

The SFA has a vision of Ireland as the most vibrant small business community in the world – supporting entrepreneurship, valuing small business and rewarding risk takers. In this context, the SFA welcomes the opportunity to make a submission to Revenue on PAYE modernisation, based on our knowledge and experience of the small business community, which comprises over 235,000 businesses, employing half of the private sector workforce.

Overview

The SFA represents businesses with less than 50 employees operating across all sectors. Between October and December 2016, the SFA Executive Team consulted with member companies on the PAYE modernisation paper issued by Revenue. The SFA and our members generally welcome the move towards modernisation of the PAYE system. A number of concerns were identified by members and these are outlined below.

Aspects welcomed by small businesses

SFA members broadly welcomed the move towards modernisation outlined in the Revenue consultation document. There was general agreement that it makes sense to use technology to provide access to accurate real-time information. Employers generally perceived a reduction in administration arising from the proposed changes.

Removing the need to file P30, P35, P45, P46 and P60 forms was noted as a positive step by a number of respondents.

The implementation date of 1 January 2019 was considered appropriate and achievable.

Burden of transitioning to new system

Despite acknowledging that there could be medium- to long-term efficiencies of a modernised PAYE system, small companies are concerned about the cost and administrative burden of moving from the current system to a new one.

Employers would encourage Revenue to engage with payroll providers and payroll software companies to smooth the transition and minimise the cost to those that rely on their services. Small businesses are worried about the additional cost that will be levied by these service providers to implement the new system. There is an understanding that some initial cost will

have to be borne by the employer (e.g. for a software add-on), but that this should be reasonable and affordable.

In fact, the payroll software companies in SFA membership have also requested early engagement from Revenue. They have indicated that they will be able to adapt if file specifications, test environments etc. are provided to them in good time.

SFA member companies have also raised questions about the administrative work required at firm level to implement the new system. If the workload or the timing of workload is likely to change, this needs to be made clear as far in advance of the transition date as possible. For example, the consultation document suggests that information provided to Revenue will have to be updated weekly – if this is not currently the case for particular businesses, it will change their work flow considerably.

Integration of new PAYE system with social welfare system

There is a degree of flux between the workforce and social welfare that is particularly pronounced in some sectors, for example childcare. Many in this sector sign on for job seekers' payments at various times of the year and often this leads to discrepancies in their tax credits. Employers in the sector hope that the new PAYE system will be more integrated with the social welfare system. If individual's credits/records remain unbroken through an integrated system, this would minimise the number of refunds due to employees. This is particularly important as our interpretation is that the new system will require refunds/adjustments to be paid to employees straight away, which could cause cashflow issues for the company.

In addition, some members requested that the new system be integrated with the Department of Social Protection in relation to disability payments.

Revisions

SFA members welcome the proposal regarding new employees being able to access correct data in advance of the first paycheque, which would eliminate emergency tax or other situations that have to be revised at a later date.

Some members noted that it is essential to their system that payroll weeks can be reopened and amended after they have been closed and requested that this remain possible under the new system.

Need for training and support from Revenue

Feedback from members, both on an ongoing basis and in response to this specific consultation is that they generally find Revenue helpful and Revenue services easy to manage. While specific complaints arise from time to time, Revenue is generally seen as

supportive to businesses and it is hoped that will continue in advance of and following the implementation of the new system.

If the changes to be implemented are extensive, which it is expected they will be, training for employers will be required. It is hoped that this training will be provided directly by Revenue, in a similar manner to that which was offered during the changeover from tax free allowances to tax credits. It would also be advisable to have a helpline set up for urgent queries during the initial weeks and months of the operation of the new system.

Some employers have also suggested that training be provided for employees to allow them to understand and benefit from the new system to the greatest extent possible. They support the approach taken whereby the onus is on the employee to engage with Revenue and manage their personal information. They would oppose this responsibility being placed on the employer, however, they recognise that there is a widespread lack of awareness and understanding among many employees of their entitlements and the processes involved. This knowledge gap could be addressed through training and information. This is especially important as there is a significant change to the system from an employee point of view, moving away from the current system, which allows their net pay to remain fairly constant throughout the year, to the proposed system, where taxpayers pay what is essentially a withholding tax and make an annual return.

Specific assistance for companies with manual payroll systems

It is clear from the responses received by the SFA that the majority even of small companies use payroll software or a payroll provider to process payments to employees and related payments to Revenue. It must be considered, however, that some micro and small businesses operate their payroll manually. It is important, therefore, that Revenue puts a programme in place to work with these employers to enable them to fulfil their reporting obligations in a cost-effective way.

Conclusion

Small businesses require payroll and taxation systems that are clear, predictable and easy to use. In addition, they value systems that allow flexibility and facilitate alterations. Any system that fails to meet these criteria will have the effect of fuelling the black economy as the cost associated with formally processing casual employment will become too great.

The move towards modernisation of the PAYE system is to be welcomed. If the specific concerns above and others that may arise are adequately addressed, Revenue can expect the full support of employers in this initiative. With that in mind, the SFA is happy to provide further assistance to Revenue over the coming months and years to identify issues once the proposals are at a more developed stage.

For further information on any of the issues raised in this submission, please contact Linda Barry, SFA Assistant Director, on 01-6051626 or linda.barry@sfa.ie More information about the SFA is available on www.sfa.ie and on Twitter @SFA_Irl