

Payroll Software Developers Association

PAYE Modernisation Submission

Submitted to Revenue

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1. Document Control

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2. Introduction

The Payroll Software Developers Association was formed in 2007 with the singular purpose of facilitating compliance with existing PAYE and PRSI regulations. All payroll software companies experience similar challenges in this regard and it was believed that by coming together, we could facilitate and improve the means by which all of our respective software applications comply with the statutory regulations surrounding the computation and remittance of both PAYE and PRSI.

All payroll software developers have been invited to join the PSDA, and to-date, its members include the majority of the most popular payroll software development companies.

In his Budget statement of 11th October 2016, the Minister for Finance announced the launch of Revenue's consultation process regarding the modernisation of the PAYE system. A public consultation document was published on the Revenue website as part of this process and invitations were made to payroll providers, payroll software providers, tax practitioners, bookkeepers and other stakeholders to express their views on **PAYE modernisation**. With this in mind we would like to make this submission to the Revenue Commissioners.

We trust that you will take due consideration of this submission, which is made with the single intention of facilitating compliance with any new initiative to modernise and streamline the process of calculating and remitting statutory figures on behalf of our clients.

We look forward to your considered response.

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Signed:

Sean Murray
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3. Time constraints for implementation of PAYE Modernisation

The Public Consultation Document issued by Revenue has indicated that the ambition is to have the process operational by Jan 1st 2019. On the face of it, an effective timescale of 24 months to transition from public engagement to live operation on a project of this scale would seem ambitious.

From a software supplier perspective we would have to consider a wide variety of challenges.

Data and Software Program Changes

Almost inevitably the new process will require that software systems store and validate a range of new data fields. Some will not be static but rather the values may be derived during the payroll calculation process itself. It may be required to report other values due to a change in status following user input, for example leaver information. There will be a requirement to enhance validation at screen and report level to ensure that users are entering and storing valid data for reporting via the new real-time process. It is important that the scope of data required by Revenue is clearly defined from the outset and that there is little or no *scope creep* from that point on.

In addition, software will be amended to accommodate interfacing with Revenue systems. It is likely that a number of interfaces will be required. If we look at a similar model in the UK, interfaces may include *Employer Alignment Submission (once-off)*, *Full Payment Submission (employee details from pay run)*, *Employer Payment Submission (employer details from pay run)*, *Earlier Year Update Submission* and so on.

To satisfy the above, a wide range of software development would be required, with most core functions of any payroll software system impacted. Some of these areas may include, data entry and validation, reporting, payroll calculation functions, output programs, help screens and text, a new suite of programs to generate interface files and confirmation reports, tax year-end processing functions and any new functions, if required, to facilitate file transmission.

With any substantial development, comes a substantial requirement for QA, testing and release management.

Fundamental Changes to Software Usage

It stands to reason that a substantial change such as that proposed under PAYE modernisation will come with a substantial change to how employers execute and manage their payroll processes. From a software system perspective it will be necessary to re-define processes for our clients and educate them with respect to usage of new functions developed to comply with remittance and reporting of statutory figures under PAYE modernisation. Clients will have to consider how they themselves administer this function. Such tasks may include, filing of returns, taking action on any exceptions and processing of acknowledgement receipts from Revenue. Software suppliers will be required to actively engage with their clients through user forums to inform them of the implications of the introduction of PAYE modernisation and to update them periodically on timescales and progress.

It will be required to update training documentation and to ensure that all clients, as the new functionality will be mandatory, are suitably trained so that they are in a position to comply with the new requirements through usage of the new software functions.

Once new software has been released to clients, it will be necessary for clients to ensure that their data is sufficiently *cleansed* prior to commencing returns using the new process.

Test System Availability and Capability

While software suppliers face many challenges with respect to facilitating such a large scale development, there are some matters which are not within their control but which they have a key dependence upon. The obvious one is the availability of a suitable test facility and environment, capable of mirroring the Revenue's real PAYE modernisation infrastructure as it will be following the go-live date. The PSDA has raised many issues with the existing ROS PIT environment in the past. The current test environment is very restrictive in terms of test volumes. For example, in the case of P35 files, size is restricted to 2mb. When we consider the volume of transactions and level of information that may be required to process real-time information, following each payroll run, having a test system capable of processing that data in a timely manner, while reporting back detailed validation and exception messages, will be an absolute must for any payroll software supplier.

Submission

There has been a long standing tradition of late notification of software changes from Revenue to payroll software suppliers over the years. While matters have improved somewhat since 2013, following the movement of the Budget announcement to October, software suppliers still express frustration at the announcement of substantial changes to calculations at relatively short notice. Two recent cases include changes announced in October 2015 to introduce PRSI credits from January 2016 and changes announced in November 2015 to change USC week 53 calculation rules in December 2015.

Bearing in mind just some of the challenges facing software suppliers listed above, we submit that the timescale to reach an operational state, approximately 24 months as outlined in the consultation paper, is likely to be insufficient.

4. Technical constraints

Depending on proposals with respect to how the end-to-end process for remittance of figures (employer) and issuing of acknowledgement receipts (Revenue) is implemented, due consideration should be given to technical requirements.

Consider a large company processing and managing payrolls for 50,000 employees paid at different frequencies. Consideration should be given to the potential need for the employer to generate many files on a periodic basis. Several of these files may contain thousands of transactions. A secure link to Revenue capable of handling large transaction volumes would be required to accommodate this level of throughput. A mechanism for Revenue to acknowledge receipt and successful processing of files would be required. Rather than potentially returning one file per year to the Revenue (P35 for company) the employer may find themselves returning several files per week with the associated burden of preparing the data and verifying the returns.

From a software supplier's perspective, requirements with regard to file formats, content, encryption, file transmission requirements and so on, should all be flagged early in the consultation process.

5. Implementation Phasing

An important consideration with respect to rolling out new functionality and processes on this scale is implementation phasing. Consideration should be given to the value of selecting pilot employers and the timescales associated with respect to completion of a successful pilot programme. From the PSDA's perspective, our preference would be to construct a forum to facilitate regular meetings between the PSDA and Revenue project teams to allow us to work collaboratively with Revenue, from project initiation and planning through to pilot phase and go-live.

The go-live plan may require that companies are phased across to the new processes over a specific timeframe, perhaps based on company size or sector. From a software supplier perspective this may require that both the old method for statutory returns (P30s, P45, P35 etc.) and the new method (PAYE modernisation) are maintained, in parallel, for a specific period of time. There is an obvious cost and resource overhead associated with this. With this in mind, it may be worth trying to contain the rollout to a 12 month window, between tax years.

6. Irregular Pay Processing

It is worth noting that both software suppliers and the authorities must consider how irregular pay processing is to be accommodated within the PAYE modernisation process. There are many processes which may be termed *irregular*, for example, bonus payroll runs to pay additional monies to employees following a *main* payroll run, irregular pay such as that made to directors and hourly paid employees, pay to employees who have left in this tax year or the previous tax year, adjustments to statutory values following the final year submission to revenue and so on.

The manner in which different payroll systems handle the above scenarios may differ from supplier to supplier. It is therefore imperative that the business rules, data content and validation requirements are clearly agreed and understood up-front to prevent a scenario where there is misinterpretation of the specification and different software suppliers develop different solutions, all of which may be sanctioned as *valid* by the authorities. If software suppliers have learned anything from large scale projects, such as SEPA banking for example, it is that there is no such thing as a *standard specification*.

7. Cost of Project to Payroll Software Suppliers

While the potential benefits of such an initiative as PAYE modernisation are without question, the cost to software suppliers of a protracted project on this scale, in terms of development resources and other associated costs will be high. Areas which are likely to contribute to costs include...

- Cost of the development resources to complete the project life cycle; analysis, development, QA, testing, rollout
- Training resources
- Software maintenance costs. Potentially maintaining software for both old (now) and new (PAYE modernisation) processes during Revenue rollout phase
- Helpdesk resources. Likely to be over-utilised during rollout, parallel processes and post go-live period until bedding down is complete. **However**, if PAYE returns are to be made following each payroll run then potentially the helpdesk overhead could be the equivalent to that of annual peak period, tax year-end, all of the time i.e. there will be a persistent demand for assistance with respect to issues concerning ongoing returns to Revenue. *Note that Revenue support areas are likely to face similar challenges*
- With the above in mind, lines of demarcation need to be clarified with respect to which queries fall within Revenue's domain and which fall within the software supplier's domain. The experience to date with ROS is that Revenue directs the vast majority of employer queries to the software supplier even in instances where clearly the problem relates to the ROS system. Revenue must clearly outline its employer support model for PAYE modernisation and agree this with the PSDA.
- Software deployment costs. Cost to release software; documentation, physical media, download options, installation resources etc.

8. Project Prerequisites

Test System Commissioning and Availability

A suitable test environment, mirroring that of the to-be live environment, must be available at least 12 months before any planned project pilot phase. This will ensure that software suppliers have the tools available to them to ensure that their systems are functioning correctly and output is compliant with Revenue specifications.

Early engagement with suppliers

Dates should be provided for completion of the stakeholder submission review exercise and expected first engagement meetings. This will allow software suppliers to prepare and alert their internal teams to a potential project kick-off date.

Development and Communications Planning

A project plan should be provided at the earliest opportunity outlining key dates concerning delivery checkpoints such as scope definition, requirements specification, development, testing, deployment, pilot, go-live and with due consideration to deliverables on both sides, Revenue and software suppliers.

A communications plan should be provided at the earliest opportunity indicating the engagement model between Revenue and software suppliers, Revenue and employers, Revenue and the general public etc.

If Jan 1st 2019 is to be viewed as a realistic target date for live operation of PAYE modernisation then the above should be supplied no later than Q1 2017.

Revenue Payroll Process Vision

As part of the early engagement process with stakeholders, Revenue should clearly outline their vision for the new employer payroll process.

Appendix A illustrates a potential to-be process flow which assumes that a return is required following each pay run

Project Pilot Scope

Careful consideration should be given to the project pilot scope and Revenue's intentions here should be clearly outlined early in the process, Q1 2017, so that those stakeholders impacted have plenty of advance notice of early engagement. Our recommendation is that this pilot should cover all software suppliers and a cross section, in terms of size and sector, of employers.

9. Other Considerations

Ability for Employers to access and amend returned data at employee level

One of the biggest challenges facing employers will be reconciliation of figures, particularly with regard to previous and current returns. Establishing where the difference may lie will be a huge challenge for the employer, as figures are reported at a high level (e.g. P30 returns) while the underlying problem may exist at employee level. This might require a portal or other secure means to allow employers to access data that they have previously returned, and to allow for *deep diving* into data at employee level and for corrections to be made where required.

Changes and notification to software suppliers

Timely notification of changes will be essential to the successful implementation and maintenance of the proposed system. There must be adequate lead-in time for software suppliers to, not only, make changes to their systems but also allow for inclusion of additional data if required.

Payroll Advisors to Revenue

Revenue should consider having some full time payroll practitioners engaged on such a project. This may assist in terms of addressing any apparent knowledge gaps on the part of the technical teams when trying to scope payroll data requirements and business rules associated with same for PAYE Modernisation.

Duplicate Records for the Same Employee

Consideration should be given to the fact that a single employee may have multiple employment sources. In some instances this could result in a single file containing more than one record for an individual for example. Consider a scenario where an individual is paid as a pensioner on one payroll group but also as an employee, working in a part-time capacity, also on that payroll group. The file may contain two records in this instance, for the same individual.

Cumulative Values Supplied on Files

Consideration should be given to reporting cumulative, and periodic, figures. This would make the matter of correcting figures relating to the previous period a lot simpler. For example, the transmission file in period 2 may contain corrections (adjusted cumulative values) to correct values that had been submitted in period 1.

Employer Penalties for Late Submissions

Consideration should be given to the phased introduction of a new system. Initially employers should be encouraged to implement the changes by, for example, offering simplified processes. Imposition of penalties for late submission should only be introduced after the system is well established. Any introduction of penalties for late filing should be based on company size to take the pressure off smaller employers in particular.

Reporting schedule

The proposal states that a return will be made as part of the payroll run. This has the potential to cause problems if, for example, internet access is required to complete the payroll process, and will pose many challenges for employers, especially smaller companies. The general consensus among software suppliers is that it would be extremely difficult to implement such a process within a relatively small period of time given the technical changes required to facilitate frequent, high volume, data exchange. The proposal will be a sea change for employers with their processes engaging electronically with Revenue. There will be considerable challenges for employers in having to make, potentially, several returns per month.

Appendix B outlines a potentially simpler process for making PAYE returns that may help to reduce pressure on employers to comply with rules such as the *on or before* rule.

One or Two-way Data Traffic

It is not clear at this point whether it is intended that data will flow in one direction only, from employer to Revenue, or whether this is to be a two-way solution with the employer/system automatically retrieving data, such as tax cert (P2C) information, directly from Revenue. This should be made clear from the outset as the decision will impact on processes and also technical design.

Impact of Timescales on Supplier Software Rollout

Different suppliers have different means of issuing software upgrades. On a protracted project such as this, it may be necessary to issue more software upgrades than the usual number planned for an average year. For those suppliers who distribute software on physical storage media (e.g. DVD) this could prove to be costly and logistically challenging.

10. Clarifications

PSDA members have raised a series of questions in relation to the content of the PAYE Modernisation consultation paper. Answers to these will improve members' understanding of objectives and therefore assist in clearly defining the project goals, so leading to a more focused effort to arrive at a *common* software solution.

1. The consultation paper mentions "*Revenue will, through real-time reporting by the employer, have the most up to date information possible to **determine that each employee is subject to the tax deduction that is appropriate***"

Q. How will Revenue determine if the tax deduction is appropriate? The consultation document states that Revenue will carry out periodic reconciliations throughout the year of employees' tax deductions. Can we have clarification on this mechanism/process?

2. Following on from the above, to ensure that tax calculation is calculated correctly for any individual there are a host of parameters required; taxable pay, year-to-date tax figures, P2C data, payment after leaving?, payment for previous year?, tax basis, PAYE exclusion order?, subsidiary employment? and so on

Q. Has Revenue got a clear understanding of all of the possible scenarios that determine an employee's tax liability in a given period?

3. Assuming that calculation of tax liability, and reconciliation of this calculated figure with employer provided figures, is an objective of Revenue...

Q. What would the action on Revenue's part be should Revenue decide that the tax calculation is incorrect? What if the P2C details applied by the employer were correct yet Revenue's calculated tax figure is still different to that of the employer?

4. The consultation document states that *the objective of PAYE Modernisation is that Revenue, employers and employees will have the most accurate, up to date information relating to pay and tax deductions ("Tax deductions" in this context includes Tax, PRSI and USC)*

Q. Is it Revenue's intention that the employer returns all pay, deduction, statutory values (PRSI, Tax, USC, PRD, LPT), pension, tax cert details etc. from each payroll run? If this is the intention then this would imply that the objective is more than simply ensuring that the tax calculation is correct. Please confirm so that our understanding of scope is correct.

5. If Revenue intend on performing a reconciliation exercise on tax calculation figures...

Q. How often would this reconciliation take place? What would the communication and output from this exercise look like?

Q. Would the figures for USC and PRSI also be reconciled? This would require that USCable and PRSlable pay is detailed on the employer submission.

Q. How will Revenue accommodate retrospective changes e.g. an overpayment in month 1 was adjusted with a negative in month 2? The user discovers that a payment was made to an individual outside of payroll and must now be accounted for in payroll so that the tax liability is accommodated. The employer would need to report the revised taxable pay year-to-date figure in this instance.

6. The consultation document mentions that the new process will *reduce administrative cost for employers*.

Q. Can Revenue outline what new responsibilities will now sit with employers as a result of a requirement to potentially make a submission to Revenue following each payroll run? What penalties may result from a late return? A weekly, fortnightly, monthly return requirement would suggest that there will be additional administrative cost to the employer.

7. PRSI reporting.

Q. What are the intentions for PRSI reporting? This is a notoriously troublesome area, where reporting is concerned, with combinations of classes, employee/employer values, insurable weeks all recorded and reported at year-end. The calculation itself has become more complex recently with the introduction of PRSI credits. The consultation document states that one of the objectives is to eliminate P35 filing and P60 form production. PRSI is currently reported on both at sub-class level. The suggestion therefore is that PRSI will need to be returned on submissions to Revenue.

Q. How would retrospective changes to PRSI sub-class information be made e.g. 10 weeks were incorrectly recorded against sub-class AL. They should have been recorded against sub-class AX?

8. Considering that one of the goals is to eliminate P35 filing, presumably all of the data currently reported via P35 would need to be in scope for this new return. So not only would Revenue require data to assist with reconciliation of tax liability values but would also require other data fields such as...BIK, medical insurance, pension values, PRSI contribution and insurable weeks breakdown, pension tracing numbers, reckonable pay for all statutory deductions, exemption indicators, tax basis, LPT details, medical insurance details etc.

If the same validation logic, as that applied to annual P35 returns, is to be applied to the new returns then this will conceivably lead to processing bottlenecks, very high overheads on support, many missed deadlines and so forth.

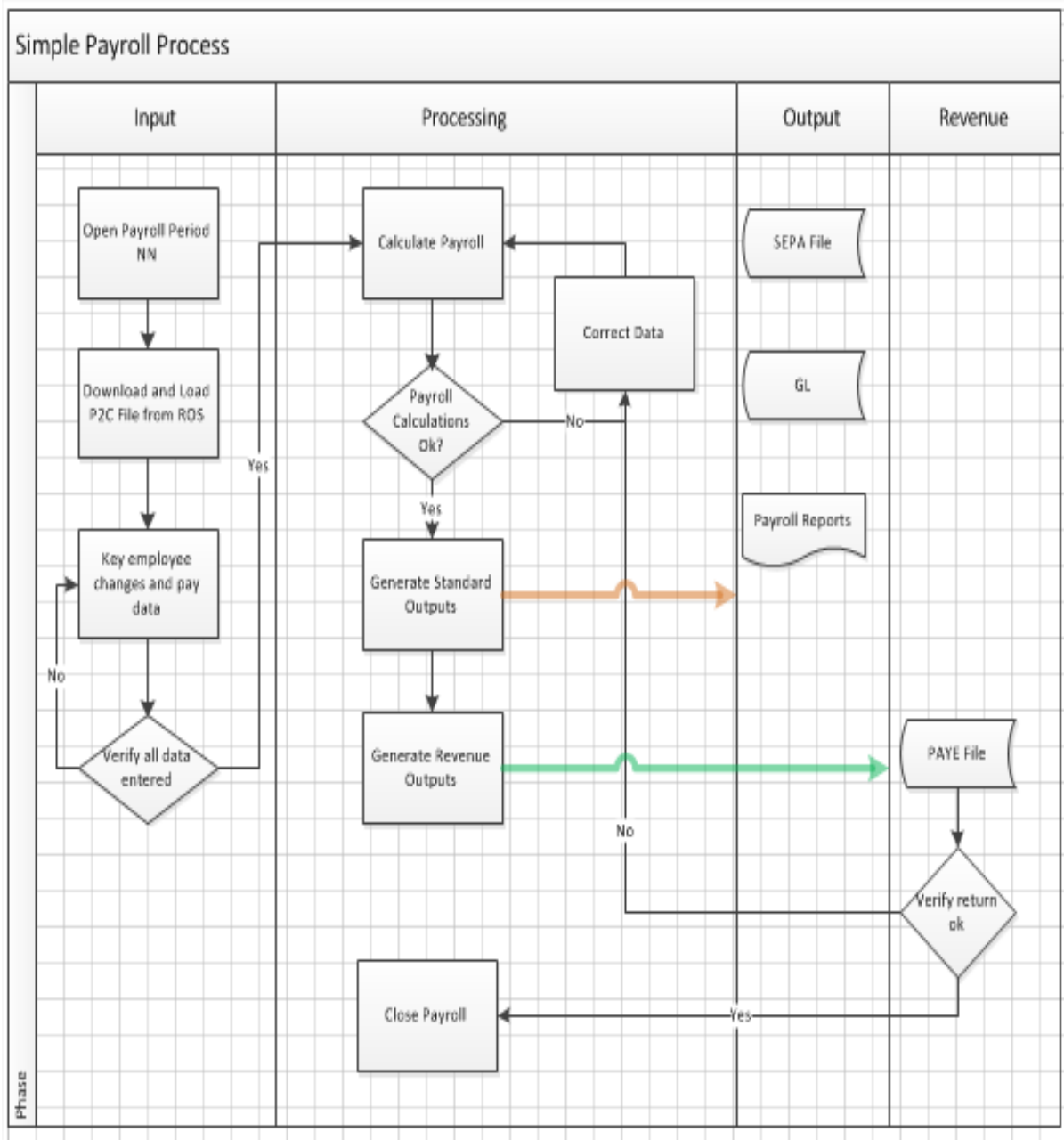
9. If Revenue successfully manages to implement a system, and mechanism, capable of calculating an individual's tax liability given a set of data and parameters supplied by the employer then the next logical step may be for Revenue to seek to calculate this liability on a pay frequency basis i.e. similar to RCT for example, Revenue would receive parameters from the employer and then instruct back the exact amount of tax to be deducted.

Q. What are the long term objectives of PAYE modernisation should Revenue successfully implement a solution for accurately calculating tax liability? Is it possible that such a system could be extended to other statutory deductions?

End of Document

11. Appendix A

Example of a Simple Payroll Process (PAYE Return from each payroll run)



12. Appendix B

Alternative Return Process (PAYE monthly return)

In the event that an employer is not required to submit PAYE returns following each payroll run but rather perhaps make a single monthly return

1. P2C details retrieved electronically by the employer. A P2C *request* could be performed prior to each payroll run
2. Illness benefit details could be provided by Revenue as part of the P2C instruction
3. The payrolls for the month are processed and these payrolls may be processed for different pay frequencies e.g. weekly, fortnightly, 4-weekly
4. P45 (3) and P45 (1) forms could be submitted electronically to Revenue if these returns are still required.
5. A consolidated PAYE file (similar to the annual P35) could be submitted monthly by the 15th of the following month. This will include figures (this period and year-to-date) relating to the various payrolls that have run for this company since the last return. Year-to-date figures are provided so that adjustments to previous returns can be made in the current period.
6. The submission could be made electronically, so that it is "one click" for the user.

13. Appendix C

Observations of the UK experience

Data and Software Program Changes

There has been much friction between software suppliers and HMRC in the UK in relation to the timing of changes and the provision of adequate notice.

Technical constraints

In the UK, reporting can be incorporated into regular EDI processing. In other cases, a separate option for online filing (File By Internet) is available.

Ability for Employers to access and amend returned data at employee level

The BCS and other interest groups in the UK have been lobbying HMRC for a secure method to allow employers to access and amend data that they have previously returned.

UK RTI Changes and notification to software suppliers

This is an ongoing struggle for software suppliers in the UK. In previous years where suppliers would have received 9 to 12 months advance notice of impending changes impacting on payroll software, recent changes to RTI have only been notified 6 months in advance. A case in point concerns recent changes announced to RTI for P11Ds. The spec from HMRC was finalised on Oct 12th 2016 with an expectation that the solution will be live for April 2017.

Cumulative Values Supplied on Files

Employers in the UK report cumulative, and periodic, figures via RTI. This simplifies the correcting of figures relating to the previous period. For example, the transmission file in period 2 may contain corrections (adjusted cumulative values) to correct values that had been submitted in period 1.

Implementation Phasing

Many lessons could be learned from the UK (RTI) experience where the pilot phase took place over a period in excess of 18 months. These timescales should be considered in the context of any overall mandatory go-live date.

Employer Penalties for Late Submissions

In the UK, HMRC commenced with a relaxed policy in relation to issuing of penalties for late RTI returns. While its stance has been hardening year-on-year since go-live, HMRC still operates exemptions on filing deadlines with consideration to company size.

“On or Before” Rule

In the UK, HMRC’s deadline for return of the **Full Payment Submission** is pay day, the day on which employees are due to be paid following each pay run. This is known as the *on or before* rule and has posed many challenges for employers, especially smaller companies.

The introduction of the “on or before” rule in the UK had widespread impact.

1. Employers, especially smaller companies, were widely impacted due to changes to long standing payroll procedures
2. Payroll bureaus were heavily impacted as a considerable procedural change to their business models was required
3. Payroll software support, particularly with the doubling-up of support with the introduction of the new system overlapping the closing off of the old system.
4. HMRC struggled on occasion, particularly when their systems went down, which happened quite regularly in the first year.
5. Employers and bureaus had to contend with inconsistent internet connectivity.

It is our view that much consideration should be given to deadlines for submission of the new PAYE returns. If there is no consequence to missing a deadline then there may be a high degree of non-compliance. If there is a consequence to missing the deadline then this should be balanced and take into consideration employer circumstances.