**Dynamic coding - Impact**

Dynamic coding is built around the concept of Estimated Pay (Est Pay) which drives the allocation of allowances, decisions about primary income sources and ultimately, therefore, an employee’s PAYE tax code. As employers or agents submit FPSs the Est Pay changes, and this can, in turn, lead to a revised code.

The main landing page for PAYE within your **personal tax account** allows you to:

* view your income streams and see which one HMRC considers your primary source;
* amend your estimated pay by selecting the ‘check your taxable income tab’; and
* look at your current tax code and its constituent parts and inform HMRC if allowances or reliefs are incorrect.

**Trigger events**

The main trigger events which have been deployed so far to change PAYE codes under dynamic coding have been:

* reacting to changes in annualised estimated pay reported by taxpayers;
* reacting to reports of benefits in kind from employers (P11D, P46(car)) or from taxpayers;
* reacting to reports from taxpayers of allowances/reliefs changing.

The most recent HMRC agent webinar on dynamic coding said that another trigger would be deployed in November around fluctuations in pay reported by employers, but there is no detail on this yet.

**What problems have emerged so far?**

***Variable pay***

The Full Payment Submission (FPS) by the employer simply reports total taxable pay for both the current period and YTD. If those figures increase, and another trigger has caused HMRC to review the code at the same time, for example, a bonus in August at the same time as a P11D is processed, HMRC extrapolate that to mean there has been a permanent uplift to salary.

Where this higher Est Pay takes an employee over £100,000, personal allowances start to be tapered away and those allowances are fully removed if Est Pay is £123,000 or more.

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***Confusing FPS figures***

Employees should be aware that the PTA displays all the FPS received, not just the latest YTD figures. However, the total at the bottom of the breakdown screens is derived from other HMRC sources and is a YTD figure.

***Duplicated records***

We still have the spectre of duplicated records hanging over all PAYE schemes. Despite HMRC’s assertions that they have finessed RTI to stop their systems interpreting a change in personal data as a new source of income, it still happens far too regularly.

For example, I have been attempting to correct the code of an employee, where the insertion of an employee number for pension purposes in July led HMRC to assume he had two employments with the same employer, and consequently an incorrect reallocation of allowances.

I have been told by both the employer helpline and the personal tax helpline that the taxpayer cannot remove a duplicated employment through the PTA, this must be done by a phone call from the taxpayer.

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***Whose job is it?***

HMRC staff on some of the dynamic coding webinars have told agents that it is an employer’s responsibility to inform HMRC as soon as a new benefit in kind is provided – it isn’t.

Employers report benefits in kind via the P11D after tax year end and quarterly on the P46(car) in the case of new company cars and fuel benefit. If an employee wants their tax code adjusted to reflect a benefit in kind they need to tell HMRC via their PTA. This will trigger an in-year adjustment that will collect all the tax due for 2017/18 in the months that are left in the year by putting the employee on a non-cumulative code.

So, the later in the tax year the benefit is reported, the more significant the impact

***Tax refunds***

One of the selling features of dynamic coding was that taxpayers who overpay tax will now get refunds in-year. However, a micro-employer (particularly care and support employers with a fixed local authority budget) will not be able to fund these tax refunds as they have insufficient other tax and NI to offset them against.

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**What can agents do?**

Tax agents can’t access their client’s PTA even if they have authorisation to actHMRC says they are working on giving agents a view function for the PTA, but not an update facility and no timescale has been given for that enhancement.