**Dynamic coding**

Dynamic coding, also called PAYE refresh, allows in year tax code adjustments more frequently to reflect their total income.

The monthly payroll information from employers will be used to implement what is being referred to as PAYE refresh.

This is a new approach which aims to use information more dynamically to amend tax codes. In practical terms this means individuals may see more frequent changes of PAYE codes, and underpaid tax will be recovered over shorter periods.

***P800 procedure***

Currently when a P800 tax calculation is issued, any resulting tax underpayment is normally coded out from the following tax year. **The P800s for 2016/17**, which may not be distributed until **September 2017**, ***will be implemented as a coding change immediately rather than six months later in April 2018.***

**Large underpayments**

Very significant numbers of people could end up paying back underpayments from the prior tax year, while at the same time paying a potential underpayment for the current year. This could increase the number of queries employers and tax agents will receive from employees.

It will also increase the volume of tax code changes that will have to be implemented - that’s assuming the codes are right in the first place! If the employee has selected to “go paperless” when they activated their PTA, they will get a text message to prompt then to check their PTA for the new code.

**Safeguards**

HMRC have confirmed the following safeguards will alleviate the potential impact of these changes:

The underpayment must be less than £3,000 (the sum of 2017/18 potential underpayment and the 2016/17 actual underpayment);

The coding adjustment can’t result in the individual’s tax liability being more than double what it was originally; and

No more than 50% of taxable pay can be deducted in tax.

**PAYE Repayments**

If the P800 calculation produces a tax repayment, HMRC facilitate the refund via the PTA. This facility was introduced in November 2016. HMRC hope to introduce in year repayments through the PTA in due course.

**Interaction with PTA**

HMRC estimates that by 31 March 2017, seven million taxpayers will have activated their Personal Tax Account (PTA). All 40m UK taxpayers have an account ready and waiting for them.

Activating the PTA means one can see, and challenge, incorrect tax codes.

***Hardship mitigation***

A mechanism to query codes and also, but there’s little detail\* about this and yet dynamic coding starts in May 2017.

HMRC will not amend a code for a change that leads to £10 or less of a change in the tax to be collected for the year.

\*Will be on P2 – due to Purdah at HMRC unable to obtain draft of the new P2 – this is still being worked on!

*Note*

PTA - <https://www.youtube.com/watch?v=rz2P_l8dMd8>

Allegedly there is also a YouTube visdeo of dynamic coding – could not find it!