

Personal Tax Account, coding notices and underpayments

Personal tax

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Personal tax accounts do not always show the code number that has actually been issued; and a few reminders in relation to PAYE underpayments.

Personal Tax Account

HMRC advise that over 15 million individuals have now accessed their Personal Tax Account (PTA). They anticipate numbers increasing over next few years and have produced a guide on GOV.UK (<https://tinyurl.com/ydaemh3k>) to encourage more people to access their account.

A glitch has come to light that may affect you or some of your clients. Each time an individual opens their PTA, the system automatically 'checks' with the NPS system on pay and tax to date and produces a 'hypothetical' tax code that is shown in the PTA. In most cases this will be the same tax code number that was issued to the individual and their employer or pension payer, but in some cases it will be different. This new 'hypothetical' code may not be issued at all, though. It will only be issued if it has been triggered by certain specific issues.

Currently the PTA gives no indication that the code number has not actually been issued but, following representations, HMRC may include a history of issued codes in the future. In the meantime any codes shown in the PTA should be checked against hard copies.

PAYE underpayments

Shortly, HMRC will be carrying out its annual reconciliation exercise for individuals within PAYE who do not complete tax returns. Where this shows that tax has been underpaid, HMRC will typically try to collect the underpayment by amending a code

number for another tax year. With the change to dynamic coding this means that an underpayment for 2017/18 may well be coded in to be collected during the 2018/19 tax year.

If the taxpayer cannot pay the bill, whether through collection via their coding notice or otherwise due to hardship, they should contact HMRC as soon as possible and explain their circumstances. HMRC can spread the tax due over a number of years or even temporarily put collection of the underpayment on hold.

Of course, all underpayments are not due to be paid by the taxpayer. If the employer (or pension payer) operated the incorrect code number, then strictly, in accordance with the PAYE regulations, HMRC should approach the employer first and only if they can show they took reasonable care and the under-deduction was due to an error made in good faith should the taxpayer be asked to pay the tax due. In such cases HMRC must issue a direction that the taxpayer pay the tax, against which the taxpayer can appeal on the grounds that the employer did not act in good faith or did not take reasonable care, or the underpayment shown is incorrect.

Similarly the underpayment may have arisen due to HMRC not acting on information they hold. In this case the taxpayer needs to make a claim under Extra Statutory Concession A19, if possible. It seems taxpayers are unlikely to be referred by HMRC to suggest employer error or the use of ESC A19.

State pensions in excess of personal allowance

HMRC have confirmed that those individuals whose only income in 2017/18 was a state pension exceeding their personal allowance should be removed from self-assessment and any tax due collected by a simple assessment with tax being due by 31 January 2019.