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Last year, I wrote in this letter that P11Ds are far from popular. Finally, it looks as though we could see an end to the system in the next three or four years.

HM Revenue & Custom's (HMRC) consultation on the matter closed in March and it is hard to imagine P11Ds receiving much support. HMRC have said in the past, at a conference I attended, that it isn't a question of whether P11Ds are scrapped, but how it is done.

The consultation outlined three options: introducing payrolling for all employers; providing a statutory basis allowing employers to choose to payroll benefits; or a phased approach eventually leading to mandatory payrolling of benefits. As Cherry Park discovers in her feature on the topic, most commentators believe scrapping P11Ds in one go is the best way forward.

The hope is that HMRC will allow employers and software providers plenty of time to prepare. Three years is the time period most believe is feasible.

We await the results of HMRC's consultation with interest. In the meantime, don't forget that the P11D filing deadline is 6 July.

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An elegant solution?

HMRC's consultation on scrapping the P11D closed in March. **Cherry Park** looks at the likely outcome

The P11D form is one of the top 10 burdens placed on business by regulations, according to the Administrative Burdens Advisory Board. But the end may be in sight for the dreaded form, through which employees' expenses and benefits-in-kind are taxed on an annual basis.

Moves are afoot to abolish it and instead put benefits and expenses through the payroll, as is already done in countries such as Ireland and Canada.

Consultation

HM Revenue and Customs (HMRC)

recently completed a consultation with employers, payroll agents, software providers and representative bodies on its proposal to tax benefits and expenses through the payroll from April 2011, during which it received "many responses", and through which it believes a "constructive dialogue" →

The IPP supports a mandatory approach to payrolling benefits rather than allowing employers to choose the method

was held, although the results are yet to be announced.

One organisation which played a large part in this consultation and believes it was instrumental in instigating it, is the Institute of Payroll Professionals (IPP). So what did the IPP say to HMRC? "I set about challenging HMRC on their current P11D process. I asked why they have the form, what they do with it, and where the data goes," reveals Karen Thomson, the IPP's associate director of policy and research.

An IPP survey of its members showed that 86% thought the P11D process could be simplified, and over 70% were in favour of taxing benefits-in-kind through the payroll. "Our members have constantly asked for a number of years why benefits-in-kind

could not be put through the payroll," notes Thomson.

The IPP supports a mandatory approach to payrolling benefits rather than allowing employers to choose the method of taxing them, with a lead-in time of around three years, because there is a lot to do. "There would have to be changes to primary legislation through parliament. Software would need to be changed, the way expenses and benefits are calculated now would need to be changed, there would need to be a change of attitude, and payroll professionals would need to be trained," Thomson catalogues.

Ireland

The system dealing with benefits-in-kind was changed from P11D to PAYE in Ireland in 2004. According to

Eamonn Corcoran, chief executive of the Irish Payroll Association, in the UK such a change would be less dramatic than it was in Ireland, where previously only a limited number of employers had to complete P11Ds, and not even every year. "A lot of benefits-in-kind were not reported, so the government had a bigger incentive to put them through PAYE than in the UK," he remarks.

"There is a feeling that the change was rushed through. There was an awful lot of work for payroll people," laments Corcoran. "Often HR and local managers don't know what constitutes a benefit-in-kind and what information is required by payroll to do the calculations in a timely manner. It is causing a lot of confusion — it's a nightmare."

So how has it settled down? "From the Revenue's point of view it is working wonderfully, as it is getting lots of extra money, but from a payroll point of view it's a mess," asserts Corcoran. "The Revenue is not taking enough account of the day-to-day practical problems employers are encountering, or doing enough to educate them, so they can train their staff. It needs to identify contentious issues and a central, dedicated team of experts should be available to answer queries."

Canada

"There are distinct advantages in taxable benefits being processed through the payroll, as it can be set up to be administered in conjunction with regular pay and assessed for relevant statutory deductions accordingly," says Steven van Alstine, vice-president, compliance programmes and services at the Canadian Payroll Association. "For example, if a benefit such as employer life insurance is based on salary, the benefit can be linked automatically to re-calculate based on salary updates."

However, van Alstine warns: "This may be perceived to be cumbersome for those organisations that do not have this linked from a system perspective and therefore there could be administration involved on every pay."

Advantages and disadvantages

"There are no real positives to the current P11D approach, as not

Software provider views

How easy would it be to develop your software to account for payrolling benefits?

KCS Rightsource: "We have an extremely flexible platform for payroll software, so we do not anticipate major disruption in the provision of payroll benefits."

Application Lynx: "With a little configuration it is possible to have Oracle Software to account for payrolling benefits."

Ceridian: "Payrolling benefits at source has always been available with our payroll services."

IRIS: "Very. As a software provider, we broadly welcome any legislation designed to simplify expenses and benefits. Transferring this feature into our various payroll packages would be relatively easy as all of the required information is already there."

TeamSpirit: "Our software is modular, therefore elements of the functionality in our existing P11D module could easily become an integral part of our payroll module."

PKF: "Most payroll software producers have avoided producing their own P11D software due to the very different nature of each. Forcing the two to be combined will lead to a reduction in the quality of solutions as companies struggle to service both requirements."

Pyramid HR: "We already incorporate payroll benefits if flagged as P11D, so it would be very easy to develop it to account for payrolling benefits."

PAS: "We have already developed a module for the Republic of Ireland's legislation that deals with the payrolling of benefits."

Do you think payrolling benefits is the answer?

Yes: 92%

No: 7%

including benefits in the payroll system makes little sense,” remarks Ian D’Cunha, director, product marketing and development at ADP. “The current approach leads to a large amount of paperwork, is disjointed and leads to confusion and cost. There is no doubt that including benefits within payroll processing and reporting would bring long-awaited efficiency, clarity and cost-savings for employers, employees and indeed HMRC.”

But there are possible downsides to payrolling benefits. For an employee with a company car, for example, should the whole of its taxable value be included as part of the employee’s income for the first tax month? Adrian Hobbs, technical editor of *Pay Magazine*, points out: “If an employee suddenly has to pay a lot more tax for one particular pay period that would have a prejudicial effect on their disposable income and financial budgeting.”

Some taxable benefits would have to be estimated, because they are affected by changes that happen during the tax year, so there is the issue of dealing with the differences between estimates and actuality.

The HR view

And what does HR think of these proposals? According to Charles Cotton, reward specialist at the Chartered Institute of Personnel and Development (CIPD), they could make life a bit more complicated. “At least

with the P11D you have time to review what’s gone on over the year, make sure it has been done properly and make amendments as necessary, while if you do it through the payroll you might not have that luxury,” he says.

But from an HR perspective, showing salaries and benefits all on one payslip is an effective way of communicating them. “The advantage in the long-term would be an opportunity for HR to explain what has been done and why and about the rewards provided to individuals and potential employees. It could be a push towards the total reward approach already adopted by larger organisations, allying reward to the organisation’s objectives,” says Cotton.

Software

The costs of developmental software would have to be met by the employer and it would need to be up and running before any changes. So what do the software providers themselves think? Keith Francis, legislation manager for TeamSpirit Software, doesn’t foresee too many problems. He says: “If payrolling of benefits goes ahead it would not make much difference to us... all it would mean is that our current P11D module would become obsolete. It is those software providers that produce standalone P11D software that would experience problems, as they would no longer have a market.

“Software and service providers

should already be preparing for the expected changes,” states D’Cunha. “Employers need to be satisfied that their current payroll providers will be ready and will provide them with continuity of support. Payroll departments and providers will need to ensure that interfaces with other products are efficient, inexpensive to set up, and help avoid the need for duplicate keying of data.”

Overall, most observers seem to think the proposals are a good idea, and will, in the long run, remove a lot of the administrative burden placed on payroll professionals. The consensus seems to be that the best option is to change the system across the board in one go, rather than making it optional, or dragging it out. As Cotton says: “While there may be a challenge for business in the first year to communicate what is happening, the change may have a long-term advantage for the organisation as employees start to appreciate what’s being done.”

So will HMRC go ahead with it? It looks like it has a bit more work to do before deciding if, when, and how it will implement the proposals. It would need to talk to smaller organisations, and be willing to look at some of the more intricate benefits, such as loans and living accommodation with a view to simplifying their valuation for tax purposes. And perhaps HMRC would do well to learn from the example of the Irish Revenue. ■

Case study: Schroders

Global asset management company Schroders has been putting the medical benefits it offers its 1,200 UK employees through the payroll since April 2002. From July 2006, it has also been payrolling its flexible benefits, so that salary sacrifice arrangements can be used.

“Initially we had been producing 1,200 P11Ds with just one benefit on them,” explains John Nolan, payroll and benefits manager at the company. “So the main reason we changed was to cut down drastically on the paperwork of processing the P11Ds, and also to relieve employees of the burden of including them in their self assessment returns every year. Payrolling also brings the benefits we offer staff to

the attention of employees on a monthly basis. This can be a good retention tool in highlighting the total remuneration package.”

Nolan says it was not difficult to negotiate with their regional tax office to allow them to collect tax on benefits this way. “They were very co-operative and the process was straightforward once a timetable for introducing it had been agreed,” he remembers. P11Ds are still completed for those who have company cars and those affected by relocation etc, but the company now produces fewer than 50 P11Ds instead of 1,200 of them.

The transition period took around three months for the medical benefit, while the

flexible benefits package was phased in over six to nine months. Payrolling benefits is more work for payroll as some benefit administration has moved to the department, and NICs on benefits still have to be accounted for separately. “Day-to-day, my staff are answering more questions on benefits than they used to when it was done on an annual basis,” notes Nolan. “But ultimately, because PAYE is linked to benefits, payroll staff gain a greater understanding of the way the company and packages work, and it broadens their horizons,” he adds. “And because you are dealing with it and reporting it in real time, the data is cleaner.”

Supplier information



COMPANY NAME	product name	contact details	website	number of current users (companies)	names of existing clients	preferred client size	starting price for an annual licence
Application Lynx	Oracle Payroll	Matt Underwood: 0870 770 9842	applicationlynx.co.uk	20+	On request	400 to 2,000+	Price on application
ASR Computers	HR Professional	Steve Knapman: 01582 714 800	asr.co.uk	20 to 30	Provident Financial Services, MPSGI & Lundbeck	100 to unlimited	Priced per P11D
Carval Computing	Uniwage	Emma Clare: 0870 787 3256	carval.co.uk	80	Helphire Group, Royal Mint & Sara Lee Courtaulds	300 to 1,000	From £351 to £500
Ceridian	P11D Organiser	Response team: 0800 733 337	ceridian.co.uk	170	On request	2 to unlimited	Price on application
Frontier Software	CHRIS21	Martin Whitehouse: 0845 370 3210	frontiersoftware.com	200	West Lothian Council, Alexon & Cancer Research	200 to 2,000	More than £751
IRIS Software Group	P11D	Justin Carl: 0844 815 5700	iris.co.uk	3,100	Britannia Accident Assist & Biorad Laboratories	1 to 50	Less than £100
KCS Rightsource	P11D	Emma Barrett: 020 8660 2444	kcsrightsource.com	250	Next, Specsavers Optical Group & CSC Computer Sciences	1 to unlimited	Price on application
KPMG	P11D Solutions Software	P11D Helpdesk: 020 7311 3400	kpmg.co.uk/p11d	350	On request	1 to 20,000	From £351 to £500
Logica	Payfact/Oracle	Debbie Bromley: 0161 927 8186	logica.co.uk	150	Sellafield Ltd & Vodafone	500 to unlimited	Price on application
NorthgateArinso	P11D Solution	Sally Greene: 0800 035 0545	northgate-hrs.com	—	On request	250 to 1 million	Price on application
Personal Audit Systems	P11D Organiser	Sohail Juna: 0161 232 5475	p11dorganiser.co.uk	1,000+	Royal Bank of Scotland, Siemens & Virgin Media	500 to 250,000	From £200 to £350
PKF	P11D Enterprise	Jennifer Nethersole: 020 7065 0462	pkfp11d.co.uk	1,700	Bank of America, Lancashire County Council & Serco	10 to 100,000+	Less than £100
Pyramid HR	Pyramid HR	Steve Morris: 01926 485 085	pyramidhr.co.uk	20	GCap Media, Interserve FM & Jeldwen	10 to 20,000+	Price on application
Select Software	HR Insight, Clearvision & Pay	Sales: 08701 660 333	selecthr.co.uk	42	Pincent Masons, Screwfix Direct & Marshall MG	250 to 10,000	From £351 to £500
Star Computers	EBS	Ian P Thompson: 01869 337 744	starplc.com	1,000+	Tenon, Vantis & RSM Bentley Jennison	50 to 1,000+	From £200 to £350
TeamSpirit	TeamSpirit	Joanne Ward: 01376 519 413	teamspiritsoftware.co.uk	95	FKI Group, HMV & Sue Ryder Foundation	100 to unlimited	Price on application
Topaz	EMS	Keith Brown: 01773 531 551	topaz.co.uk	80	British Sugar, NFT Logistics & Midland News Assoc.	350 to unlimited	Price on application
Wealden Computing Services	P11D Expert	Jane Broughton: 020 8364 7177	wealden.net/p11d.htm	47	Jaeger, Thyssen Krupp Elevators & Anglian Ruskin University	80 to unlimited	Price on application

Standard features



✓ = Yes
X = No

COMPANY NAME	HMRC approved facsimile of required forms	automatic P11D calculation and production	electronic submission of forms to HMRC	brings forward last year's data	records HMRC dispensations and PSAs	calculates extended class 1A NIC provisions	calculates VAT on fuel	CO2 emissions data for cars registered from 1 Jan 1998	captures business and private mileage	produces employee benefits statements	delivers employee benefits statements by email	allocates common benefits and expenses to another individual	allocates common expenses and benefits on a batch basis	creates P11Ds for multiple companies	transfers company cars from one employee to another	management report service	fleet management	transaction audit log
Application Lynx	✓	✓	✓	X	X	✓	X	✓	✓	✓	✓	X	✓	✓	X	✓	X	X
ASR Computers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Carval Computing	X	✓	✓	✓	X	✓	✓	✓	✓	✓	X	X	✓	✓	✓	X	✓	✓
Ceridian	X	✓	✓	✓	✓	✓	X	X	✓	✓	✓	X	X	✓	✓	✓	X	✓
Frontier Software	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IRIS Software Group	✓	X	X	✓	X	X	X	✓	X	✓	X	X	X	✓	✓	X	X	X
KGS Rightsource	✓	✓	✓	✓	X	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓
KPMG	✓	✓	✓	✓	X	✓	X	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	X
Logica	✓	✓	✓	✓	X	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
NorthgateArinso	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Personal Audit Systems	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
PKF	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
PyramidHR	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	X	X	✓	✓	✓	✓	✓
Select Software	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	X	✓
Star Computers	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	X	X	✓	✓	✓	X	X
TeamSpirit	✓	✓	✓	X	✓	✓	✓	✓	✓	X	X	X	✓	✓	✓	✓	✓	✓
Topaz	X	✓	X	✓	X	✓	✓	✓	✓	✓	X	✓	X	✓	✓	X	X	✓
Wealden Computing	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	X	✓	✓	✓	✓	X	✓

System information



COMPANY NAME	How can the system be purchased?		How can you access the system?				What systems can it be integrated with?					What support & maintenance is available? I= included In cost A= additional cost X= not offered									do you offer an outsourcing service?
	modular	standalone	windows	other	via web browser	multi-user acces	payroll	HR	finance	pensions	expenses	implementation	customisation	initial training	ongoing training	online help screens	online tutorials	telephone helpline	technical guide	upgrades	
Application Lynx	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	I	A	A	A	I	A	A	I	I	X
ASR Computers	✓	✓	✓	X	X	✓	✓	✓	✓	✓	✓	I	A	I	A	I	A	I	I	I	✓
Carval Computing	✓	X	✓	X	X	✓	✓	X	X	X	X	A	A	I	A	I	X	I	I	I	X
Ceridian	✓	✓	✓	X	X	✓	✓	✓	X	X	X	I	A	X	X	I	I	I	I	I	✓
Frontier Software	✓	X	✓	✓	✓	✓	✓	✓	X	X	✓	A	A	A	A	I	I	I	I	I	✓
IRIS Software Group	✓	✓	✓	X	X	✓	✓	✓	X	X	X	A	A	A	A	I	I	I	X	X	✓
KCS Rightsource	✓	X	✓	✓	✓	✓	✓	✓	X	X	X	A	A	A	A	I	I	I	I	I	✓
KPMG	X	✓	✓	X	X	X	✓	X	X	X	X	I	A	A	A	I	I	I	I	I	✓
Logica	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	I	X	I	A	I	X	I	I	I	✓
NorthgateArinso	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	I	I	I	A	I	I	I	I	I	✓
Personal Audit Systems	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	I	A	A	A	I	I	I	I	I	✓
PKF	X	✓	✓	X	X	✓	✓	✓	✓	✓	✓	A	A	A	A	I	I	I	I	I	✓
Pyramid HR	✓	X	✓	X	✓	✓	✓	✓	X	X	✓	A	A	A	A	I	I	A	I	A	✓
Select Software	✓	✓	✓	X	X	✓	X	✓	X	X	X	I	A	I	A	I	I	I	I	I	X
Star Computers	X	✓	✓	X	X	✓	✓	✓	✓	✓	✓	A	X	A	A	I	A	I	A	I	X
TeamSpirit	✓	X	✓	✓	X	✓	✓	✓	✓	✓	✓	A	A	A	A	I	X	I	X	I	✓
Topaz	✓	X	X	✓	X	✓	X	✓	X	✓	✓	A	A	A	A	X	A	I	X	I	X
Wealden Computing	✓	✓	✓	X	X	X	✓	✓	✓	✓	✓	A	A	A	A	A	A	A	A	A	✓