

**EXPLANATORY MEMORANDUM TO THE  
INCOME TAX (INCENTIVE PAYMENTS FOR VOLUNTARY ELECTRONIC  
COMMUNICATION OF PAYE RETURNS) AMENDMENT  
REGULATIONS 2005**

**2005 No.826**

1. This explanatory memorandum has been prepared by the Inland Revenue and is laid before the House of Commons by Command of Her Majesty.
2. **Description**
  - 2.1 This instrument amends the regulations that provide financial incentives for electronic filing of returns by small employers to insert a provision to counter artificial arrangements designed to exploit the incentive provisions. It also makes some minor corrections to the regulations.
3. **Matters of special interest to the Select Committee on Statutory Instruments**
  - 3.1 The amendments made by regulations 6(3)(b) and (5)-(7) and 8 will come into force in fewer than 21 days. The 21 day rule is being breached because these amendments counter exploitation of the incentives provisions by artificial arrangements. The amendments will draw attention to this loophole and to have left it open for a further 21 days would have given other people scope to exploit it.
4. **Legislative Background**
  - 4.1 Small employers may currently make their end of year returns on paper or online. Regulations were made in September 2003 which offer financial incentives, over five years, to small employers to file their returns online.
  - 4.2 These amendments insert provisions to counter artificial arrangements designed to unfairly exploit the incentives. They also clarify how the incentives will be paid and make some minor corrections.
  - 4.3 The legislation has been made under the vires of section 143 of, and Schedule 38 to, Finance Act 2000.
5. **Extent**
  - 5.1 This instrument applies to all of the United Kingdom.
6. **European Convention on Human Rights**
  - 6.1 These regulations are subject to the negative resolution procedure, and do not amend primary legislation; accordingly no statement as to compatibility with the Convention rights is required.
7. **Policy background**
  - 7.1 In Budget 2002, the Chancellor announced that he would implement the recommendations of Patrick Carter's Review of Payroll Services.
  - 7.2 The measures announced included the introduction of mandatory online filing of employer's end of year returns, in 3 stages, and financial incentives for small employers to help them make the transition to the new way of working.

7.3 Employers with 250 or more employees will be required to file their 2004/05, and subsequent, end of year returns online.  
Employers with 50 or more employees will be required to file their 2005/06, and subsequent, end of year returns online.  
From 2010 (for 2009/10 and subsequent returns) all employers will be required to file their end of year returns online.

7.4 Small employers, those with fewer than 50 employees, will be offered the following incentives to encourage them to make the switch to online filing early.

- for online filing of their 2004/05 return (due May 2005) £250
- for online filing of their 2005/06 return (due May 2006) £250
- for online filing of their 2006/07 return (due May 2007) £150
- for online filing of their 2007/08 return (due May 2008) £100
- for online filing of their 2008/09 return (due May 2009) £75

## **8. Impact**

8.1 A Regulatory Impact Assessment, covering both the mandatory electronic filing regulations and the incentives was prepared when the regulations were first made. It is available on the Inland Revenue's website at <http://www.inlandrevenue.gov.uk/ria/payroll-services.pdf>. A further assessment is not needed as these amendments do not impose new requirements on employers.

## **9. Contact**

9.1 Carolyn Parmeter at the Inland Revenue (Tel: 020 7147 2400 or e-mail: [Carolyn.Parmeter@ir.gsi.gov.uk](mailto:Carolyn.Parmeter@ir.gsi.gov.uk)) can answer any queries regarding the instrument.