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CALL FOR EVIDENCE: PAYE SETTLEMENT AGREEMENTS

Response by Association of Taxation Technicians

1 Introduction

1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the HMRC Call for Evidence on PAYE Settlement Agreements ('the Call for Evidence') issued on 23 June 2026[1]. We also welcomed the opportunity to discuss the Call for Evidence with HMRC officials on 21 July 2026.

1.2 The primary charitable objective of the ATT is to promote the education and study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

1.3 We were disappointed by the short consultation period of just 12 weeks, particularly as it spanned the summer holiday period. This has placed considerable pressure on stakeholders seeking to engage constructively across multiple Calls for Evidence and consultations at the same time. The volume of Calls for Evidence and consultations issued during this period has reduced the time available to analyse proposals in detail, gather evidence and obtain input from members.

Meaningful stakeholder engagement is particularly important for a Call for Evidence of this nature. We therefore encourage HMRC to consider the responses received carefully and to undertake further stakeholder engagement where appropriate before finalising any reforms. We also encourage HMRC and HM Treasury to take account of the cumulative impact of overlapping Calls for Evidence and consultations and, wherever possible, avoid consultation periods that coincide with major holiday periods.

1.4 We would be pleased to discuss any aspect of this submission further. Relevant contact details can be found in Section 8.

2 About you

2.1 Question 1: What type of organisation are you

2.2 The ATT is a representative body.

[1] https://www.gov.uk/government/calls-for-evidence/paye-settlement-agreements-call-for-evidence/paye-settlement-agreements-psas

2.3 Question 2: Organisation size or client base

2.4 We are responding to the Call for Evidence as the leading professional body for those providing UK tax compliance services. We represent more than 10,000 members and Fellows together with over 7,000 students, many of whom provide employer compliance services and/or are involved with the preparation and submission of PAYE Settlement Agreements (PSAs) to HMRC. Other members work in in-house roles and prepare and submit PSAs on behalf of their employer.

2.5 Question 3: Sectors

As a representative body, our members and students work across a broad range of sectors and industries. We therefore do not consider any single sector, or limited group of sectors, to be representative of the individuals whose views are reflected in this response.

2.6 Question 4: Your role in PSA reporting or processing

Question 5: Do you currently have a PSA agreement with HMRC?

2.7 We are responding in our capacity as a professional body and are not commenting on our own employer compliance obligations.

3 How PSAs are used in practice

3.1 Question 6: Over the past 5 years, how has the volume or types of expenses and benefits included in your PSA changed? Please describe the key drivers behind any changes, such as developments in business operations, workforce patterns, administrative systems, costs, guidance, or HMRC engagement.

3.2 PSAs play an important role in allowing employers to meet their reporting obligations without the administrative burden of reporting what may be relatively small amounts on Forms P11D for individual employees. This is particularly relevant when payroll is outsourced or handled within a central department.

Based on feedback from members, PSAs are commonly used for staff entertainment, late night taxis, emergency childcare and dependent care, as well as visa and global mobility costs.

The COVID pandemic has been a significant driver of change in employment practices over the last six years. During the pandemic, there was a shift from traditional in-person staff entertainment towards remote forms of staff entertainment and gifting. As many organisations moved to hybrid working models, this had an impact on benefits and expenses paid by employers.

Post pandemic, increased international mobility and remote working arrangements have changed the types of expenses and benefits that employers may need to report, including visa and global mobility costs. PSAs can provide a practical and administratively efficient way of dealing with the associated tax consequences.

Feedback from members suggests that both the volume of items included in PSAs and employers' reliance on PSAs have increased in recent years. One contributing factor is that several reliefs and exemptions have not kept pace with inflation. This includes the exemption for annual parties and other social functions in s264 ITEPA 2003 (which has remained £150 per year (including VAT) since April 2003) and the exemption for trivial benefits in s323A ITEPA 2003 (which has remained at £50 since it was introduced in April 2016). As a result, items that might previously have fallen within a statutory exemption are increasingly being dealt with through a PSA. The ATT has previously called for both thresholds to be reviewed and uprated to in line with inflation.[2]

[2] https://www.att.org.uk/trivial-benefits-exemption and https://www.att.org.uk/annual-parties-and-other-social-functions

4 How organisations decide what to include in a PSA

4.1 Question 7: How clear do you find the boundary between benefits that can be treated as trivial benefits and those that can be included in a PSA?

4.2 Feedback from our members indicates that interpretation of the boundary between benefits that can be treated as trivial benefits and those that can be included in a PSA can be challenging. A particular area of concern is the inability to apply the trivial benefits exemption in s323A ITEPA 2003 where there is a legitimate expectation to receive a benefit, for instance where it is mentioned in a staff handbook, intranet or similar platform.

Members can find it difficult to determine whether such a reference creates an expectation that prevents the exemption from applying, particularly where the employer retains discretion over whether and when the benefit will be provided. Clearer guidance and worked examples in this area would be helpful.

Before the trivial benefits exemption was put into legislation, employers could ask HMRC to treat a benefit as exempt on the grounds it was trivial, with no set monetary limit. This meant that gifts like a Christmas hamper or a bouquet of flowers given to an employee who was unwell or had experienced a bereavement was generally accepted as a trivial benefit, regardless of the cost to the employer. As the £50 limit in s323A ITEPA 2003 has not increased since it was enacted in April 2016, some benefits that may have been previously considered trivial now fall outside of the exemption because their cost exceeds the statutory limit.

4.3 Question 8: When a benefit cannot be treated as a trivial benefit, which aspects of the rules most commonly lead you to conclude that? For example, is it the £50 limit, the type of benefit or the reason it is being given?

4.4 In our experience, the key reason why a benefit cannot be treated as a trivial benefit is the £50 limit in s323A ITEPA 2003, which has not increased since it was introduced. Other examples include gifts provided in recognition of work carried out or services performed or where there was a salary sacrifice or contractual arrangement to provide the benefit.

A further area of difficulty arises where an employee receives a cash reimbursement for the cost of purchasing a benefit on behalf of their employer but is not the recipient of the benefit itself (for example, where administrative colleague arranges for flowers when an employee is sick or experiences a bereavement and is reimbursed for this). HMRC's stated position[3] is that the reimbursement of cash by an employer in these circumstances is not covered by the trivial benefit exemption. This is particularly relevant to smaller businesses, where employees may not have access to a corporate credit card and may therefore incur expenditure personally before being reimbursed by their employer.

Outside this Call for Evidence, the ATT has submitted a budget representation to HM Treasury highlighting the concerns noted in our response to Question 7 and the need for the £50 limit in S323A ITEPA 2003 to be reviewed. Based on the Bank of England inflation calculator[4], the £50 limit would now be at least £70 if it had been uprated in line with inflation.

[3] EIM21866
[4] https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator

4.5 Question 9: How do you decide whether a benefit or expense should be reported through a PSA rather than the standard PAYE reporting routes? This may include consideration of whether items are minor, irregular, or impracticable to report, as well as any operational, data, timing, system, or organisational barriers, and their scale where possible.

4.6 This will vary depending on the size of the employer and the nature of the benefit or expense. Although, it is our understanding that the "impracticable" condition will often be a key factor in determining what is reported through a PSA. In other cases, employers may conclude that the cost of reporting items on individual Forms P11D cannot be justified based on the level of tax payable.

Employers may currently be able to report items on Form P11D, but it is where payroll entries are necessary that this can be impracticable and it is often not possible to provide whoever is processing the payroll with the necessary information to meet Real Time Information deadlines . This is particularly relevant for global mobility related benefits, where the information may not be available ahead of any payroll cut-off deadline.

On a practical level, there are some items such as emergency dependent care, where the reporting is generally on an annual basis and this would make reporting of Class 1 National Insurance in real time difficult. There are also exemptions like relocation expenses above the £8,000 limit in s273 ITEPA 2003 or the late night taxi exemption in s248 ITEPA 2003, where the conditions need to consider the number of journeys in a tax year.

5 Managing, operating and agreeing PSA arrangements in practice

5.1 Question 10: Could you include examples of where timings work well and where they create challenge? This may include experiences of adding or removing items, dealing with HMRC reviews or queries, and managing PSAs across years where benefits vary.

5.2 Feedback from our members suggests that timings work well where employers do not need to adjust the items included on their PSA. There can be difficulties when items need to be added or removed to a PSA, which depends on how quickly HMRC can respond to the communication from the employer or their agent.

HMRC does have a G-Form for advising amendments or cancellations to PSAs, but it is our understanding that the person completing the form does not have to be an authorised agent. As such, it is open to the possibility of submissions from someone other than the employer. We would recommend that HMRC reviews the process so that it is easier for genuine agents to make changes to PSAs on behalf of their clients, whilst preventing those without authorisation from doing so. HMRC could better link this to agent approval processes and a more digital approach, such as that advocated in our response to Question 23.

5.3 Question 11: What time, resources or costs are involved for your organisation in establishing a new PSA or amending an existing PSA? Where relevant, describe the main activities involved (for example identifying benefits, using advisers, or engaging with HMRC), and whether these tend to be one-off or recurring.

5.4 This will depend on the size of the employer, and the nature of the benefits or expenses involved. In many cases, the employer will decide to use an agent with particular expertise to enable them to apply the PSA rules correctly. This could be because they do not have the relevant knowledge in-house or do not have the capacity to deal with the PSA.

Beyond liaising with an adviser and/or HMRC, the process of establishing or amending a PSA can be complicated. Employers need to undertake extensive data collection involving payroll systems, expenses systems, general ledgers, procurement cards, travel providers and benefit providers. In many cases, the information needed to identify whether the scope of the PSA needs to be changed and carrying out the necessary calculations can take several months.

Where an adviser is involved, there will be both the one-off costs of setting up and updating a PSA as required, along with supporting the preparation and submission of PSA calculations to HMRC. This can be particularly complicated where employees are resident throughout the UK, as PSA calculations now need to consider tax rates in Scotland, Wales and the rest of the UK separately.

5.5 Question 12: Some stakeholders have told HMRC that a definitive list of what can be included in PSAs would be helpful. Would this support more consistent application of the rules? Please explain why or why not.

5.6 Whilst an illustrative or non-exhaustive list may be useful to employers in determining what may or may not be included in a PSA, we would not support a definitive or exhaustive list.

Feedback from our members suggests that many existing enduring PSAs contain bespoke items. A prescribed list could therefore result in employers having to seek variations to their existing PSAs where a benefit is not included on the list. This could lead to a significant increase in correspondence with HMRC, increasing the administrative burden for both HMRC and employers.

We consider that retaining an element of flexibility within the PSA framework is essential. PSAs are intended to provide a practical means of dealing with minor, irregular or impractical-to-report benefits, and the circumstances in which such benefits arise can vary considerably between employers. A rigid list would risk excluding benefits that meet the underlying criteria for inclusion simply because they are not specifically identified on the list. This could result in disproportionate administrative burdens for employers, particularly where the benefit is low value or arises only occasionally.

We therefore do not support a definitive list. However, we would support HMRC developing a non-exhaustive list of common benefits identified through this call for evidence, accompanied by clear guidance explaining why and in what circumstances those benefits may be included in a PSA. This could provide employers with greater certainty and promote more consistent application of the rules without removing the flexibility of the existing framework.

5.7 Question 13: What time, resources or costs are involved in operating the annual PSA calculation and submission cycle?

5.8 As noted above, there will be both the one-off costs of setting up and updating a PSA as required, along with supporting the preparation and submission of PSA calculations to HMRC. The gross-up calculations will depend on whether multiple tax rates need to be considered. Some employers will deal with this in-house and others will use an agent.

5.9 Question 14: Are there aspects of the current PSA contract arrangements, amendment process or calculations that could benefit from change? If so, which aspects, and why?

5.10 We would strongly encourage HMRC to consider introducing group-wide PSA agreements to help reduce the compliance cost for corporate groups. It would be particularly helpful for companies involved in mergers and acquisitions if there was one overarching PSA and any new companies in the group could be added into this on joining the group. This would avoid the need to re-apply for a PSA every year. A single agreement to cover all PSA schemes in a corporate group would reduce the administrative burden of creating separate PSAs for each acquisition and provide greater consistency in employment taxes compliance across the group. Group wide arrangements already work successfully in many aspects of Corporation Tax compliance.

In determining what would be a group for this purpose, HMRC could consider aligning the connected company provisions used for Employment Allowance and Apprenticeship Levy. This may need to be adjusted for companies joining the group during the year where The Transfer of Undertakings (Protection of Employment) Regulations 2006 applies.

5.11 Question 15: Can you think of an alternative approach without a contract to better support compliance and reduce administrative burdens? For example, would a system be practical where an employer elects to apply the PSA rules where certain criteria are met and makes a declaration of compliance when submitting calculations?

5.12 Whilst we agree that the process needs to be easier for employers, this does not necessarily need to involve changing the nature of PSAs so they become more like a return under the Taxes Management Act 1970. Although there may be benefits for smaller employers, feedback from our members suggests that large and medium-sized employers are likely to seek pre-clearance from their HMRC Customer Compliance Manager in advance. As such, the existing process would still apply in many cases, albeit in a different way. We do however feel that technology could play a role in improving the experience for employers and/or agents – please see our response to question 23.

6 PSA calculations

6.1 Question 16: Describe the approach you use, and the factors you consider, when providing a minor, irregular or impractical to report benefit to an employee who does not have an employment income tax liability.

6.2 Feedback from our members indicates a frustration with HMRC's current expectation to calculate tax at the employee's first chargeable rate of tax, even if that employee does not have an employment tax liability. This is particularly an issue for employers with high levels of low income or part-time earners (such as supermarkets and other employers in the retail sector).

Employers only have access to information on the employment income and benefits in kind from that employment. They are unable to take account of income from any other employments or other sources of income such as property income or dividend income. As such, any calculation employers are able to make is not reflective of the employee's overall tax position so HMRC's insistence of the first chargeable rate is not necessarily appropriate.

We would encourage HMRC to consider introducing a 0% band in PSA calculations where an employee has no employment income tax liability. This would provide a fairer treatment for employees with income below the personal allowance or who are absent from work on statutory leave.

6.3 Question 17: Are there any specific circumstances where you consider that HMRC's approach to applying the first chargeable rate of income tax to PSA items does not work as intended? If so, please describe the circumstances and explain why.

6.4 As noted above, we would recommend that HMRC allows employers to use a 0% band in PSA calculations. It should be reasonably practical for employers to determine whether an employee's income, based on their Form P60 or P45 together with any benefits reported on Form P11D is below the personal allowance.

Beyond the 0% band issue, the PSA calculation generally works well. However, because of diverging tax rates, calculations can become more complex where employers have employees throughout the UK, due to break down the calculation for taxpayers in Scotland, Wales and the rest of the UK.

6.5 Question 18: Where a single category of benefits is provided to employees in different tax bands (for example, basic, higher, additional, Scottish or Welsh rates), how are those items allocated across the relevant bands? What method do you use in practice?

6.6 Feedback from members suggests that most employers would normally consider their head count and whether the employee has a S prefix to indicate they are a Scottish taxpayer or a C prefix to indicate they are a Welsh taxpayer.

In some cases, a particular benefit may only apply to employees in a specific part of the UK and the employer can allocate costs accordingly in their PSA calculation. For example, if the PSA included relocation costs and all affected employees were based in England, there would be no need to consider Scottish or Welsh tax rates.

6.7 Question 19: What gross up methodology do you apply? For example, do you apply a single gross up rate across all items (such as using the highest applicable marginal tax rate), or do you apply different gross up rates for different groups of employees based on their tax bands? Please describe your approach, including any assumptions or calculations you rely on.

6.8 Whilst practices may vary, it is our understanding that most employers apply different gross up rates based on different groups of employees. This can present a challenge when including Scottish taxpayers in the PSA calculation, where there are up to six tax bands and the relatively small gap between some bands can make it difficult to determine the correct band to use.

Although employers may use different methodologies, we feel it is important that HMRC should accept documented, reasonable methodologies based on available payroll and employment data.

6.9 Question 20: How do you approach PSA calculations in cases where an employee has no PAYE income tax liability arising from employment with this employer? Please describe the approach you use and the factors you consider.

6.10 Please see our response to question 16 above.

6.11 Question 21: What types of HMRC guidance or worked examples do you find most useful in helping you prepare PSA calculation?

6.12 It would be useful for employers to have access to more detailed guidance that they can use covering a range of sector-based scenarios. As noted in our response to questions 16 and 17, further clarity on any potential 0% band and how it should be applied would also be welcome.

To help achieve better consistency in calculations, it would be beneficial for employers to have guidance on mixed-rate employee populations, including taxpayers throughout the UK. This could include clarification of HMRC's expectations where the value of a benefit would move an employer into a higher tax band if it had been reported on Form P11D or via the payroll.

As noted in our response to question 12, we feel that employers would welcome an indicative list of benefits which could or could not be included in a PSA. It is important that this is not exhaustive, enabling HMRC to update as new trends in benefits and expenses payments evolve.

7 Impacts across different types of employers

7.1 **Question 22: Based on your experience or professional perspective, do the impacts of PSA policy, rules, or processes differ between SMEs and large employers, or for specific workforce groups? Please include any examples or evidence.**

7.2 Yes, as smaller employers may have more straightforward PSA calculations, but may need greater support in understanding and operating the PSA process. Larger employers are likely to have more complex data gathering processes and administrative procedures. Employers who are based throughout the UK are likely to have to more complicated calculations, due to exposure to diverging tax rates across the UK.

7.3 **Question 23: Do you have any additional comments or insights on PSAs, including experiences or considerations not covered by the questions above that you would like to share?**

7.4 We feel that it is important for HMRC to consider opportunities for better use of technology as part of the PSA process. Feedback from members has indicated frustration at the recent closure of the PSA submission email box, resulting in some submissions having to be made by post. This does not align with HMRC's wider digital by default objectives.

In addition, most PSA calculations tend to be calculated using a spreadsheet, with the figures later having to be re-keyed into HMRC systems. This creates a risk of transposition errors and additional administration costs for HMRC and employers. We recommend that HMRC develops an Application Program Interface (API) for the PSA process, which would incentivise software developers to develop products that can accurately calculate PSA liabilities. This could enable HMRC to capture the Income Tax and Class 1B National Insurance liabilities more accurately, enabling employers to have confirmation of the amount payable ahead of the payment deadline.

A digital approach would also help address current delays in PSA calculations being processed by HMRC. Members have reported situations where payments must be made using default payment references, with HMRC subsequently needing to reallocate those payments once the PSA calculation has been processed and the correct reference established. Streamlining this process would reduce administrative burdens for both employers and HMRC.

Whilst we recognise that any move to a more digital approach or the developing an API takes time, we would suggest that it is important for HMRC to retain flexibility over calculation formats until a structured digital or API route exists.

Any future digital solution should also allow authorised agents to submit, amend and manage PSA arrangements on behalf of their clients.

8 Future engagement

8.1 **Question 24: If necessary, would you be willing to be contacted for limited follow up to clarify specific aspects of your response?**

8.2 Yes. We would be pleased to join in any discussion relating to this Call for Evidence. Should you wish to discuss any aspect of this response, please contact us at atttechnical@att.org.uk.

9 Note

9.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or ‘Taxation Technician (Fellow)’ and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.