



Income Tax (Earnings and Pensions) Act 2003

2003 CHAPTER 1

PART 11

PAY AS YOU EARN

CHAPTER 1

INTRODUCTION

682 Scope of this Part

- (1) This Part provides for the assessment, collection and recovery of income tax in respect of PAYE income.
- (2) The provisions of this Part are contained in—
 - this Chapter (which gives the meaning of “PAYE income”),
 - Chapter 2 (PAYE: general),
 - Chapter 3 (PAYE: special types of payer or payee),
 - Chapter 4 (PAYE: special types of income),
 - Chapter 5 (PAYE settlement agreements), and
 - Chapter 6 (miscellaneous and supplemental).
- (3) Provision for PAYE regulations is made by Chapters 2 to 6.

683 PAYE income

- (1) For the purposes of this Act and any other enactment (whenever passed) “PAYE income” for a tax year consists of—
 - (a) any PAYE employment income for the year,
 - (b) any PAYE pension income for the year, and

Status: This is the original version (as it was originally enacted).

- (c) any PAYE social security income for the year.
- (2) “PAYE employment income” for a tax year means income which consists of—
- (a) any taxable earnings from an employment in the year (determined in accordance with section 10(2)), and
 - (b) any taxable specific income from an employment for the year (determined in accordance with section 10(3)).
- (3) “PAYE pension income” for a tax year means, subject to subsection (4), taxable pension income for the year determined in accordance with any of the following provisions—
- section 571 (United Kingdom pensions),
 - section 578 (United Kingdom social security pensions),
 - section 581 (approved retirement benefits schemes: pensions and annuities),
 - section 584 (approved retirement benefits schemes: unauthorised payments),
 - section 591 (former approved superannuation funds: annuities),
 - section 596 (approved personal pension schemes: annuities),
 - section 599 (approved personal pension schemes: income withdrawals),
 - section 602 (approved personal pension schemes: unauthorised payments),
 - section 616 (certain overseas government pensions paid in the United Kingdom),
 - section 621 (the House of Commons Members' Fund),
 - section 634 (voluntary annual payments).
- (4) “PAYE pension income” does not include any taxable pension income determined in accordance with section 584 that would not be such income if section 587 (marine pilots' benefit fund) were omitted.
- (5) “PAYE social security income” for a tax year means taxable social security income for the year determined in accordance with section 658(4) or (5) (taxable United Kingdom social security benefits).

CHAPTER 2

PAYE: GENERAL

684 PAYE regulations

- (1) The Board of Inland Revenue must make regulations (“PAYE regulations”) with respect to the assessment, charge, collection and recovery of income tax in respect of all PAYE income.
- (2) PAYE regulations may, in particular, include any such provision as is set out in the following list.

LIST OF PROVISIONS

1. Provision—

- (a) for requiring persons making payments of, or on account of, PAYE income to make, at the time of the payment, deductions or repayments of income tax calculated by reference to tax tables prepared by the Board of Inland Revenue, and

- (b) for making persons who are required to make any such deductions or repayments accountable to or, as the case may be, entitled to repayment from the Board.
 2. Provision for the collection and recovery, whether by deduction from any PAYE income paid in any later year or otherwise, of income tax in respect of any such income which has not been deducted or otherwise recovered during the year.
 3. Provision for the production to, and inspection by, persons authorised by the Board of wages sheets and other documents and records for the purposes of satisfying themselves that income tax has been and is being deducted, repaid and accounted for in accordance with the regulations.
 4. Provision for requiring an employer or former employer to provide any information, within a prescribed time, about payments or other benefits provided or to be provided, including those provided or to be provided in connection with—
 - (a) the termination of a person’s employment, or
 - (b) a change in the duties of or general earnings from a person’s employment.
 5. Provision for the way in which any matters provided for by the regulations are to be proved.
 6. Provision—
 - (a) for requiring the payment of interest on sums due to the Board which are not paid by the due date,
 - (b) for determining the date (being not less than 14 days after the end of the tax year in respect of which the sums are due) from which such interest is to be calculated, and
 - (c) for enabling the repayment or remission of such interest.
 7. Provision for requiring the payment of interest on sums due from the Board and for determining the date from which such interest is to be calculated.
 8. Provision for the assessment and charge of income tax in respect of PAYE income.
 9. Provision for appeals with respect to matters arising under the regulations which would otherwise not be the subject of an appeal.
 10. Different provision for different cases or classes of case.
 11. Any incidental, consequential, supplementary and transitional provision which appears to the Board to be expedient.
- (3) The deductions of income tax required to be made by PAYE regulations under item 1 in the above list may be required to be made at the basic rate or other rates in such cases or classes of case as may be provided by the regulations.
- (4) Interest required to be paid by PAYE regulations under item 6 or 7 in the above list must be paid without any deduction of income tax and may not be taken into account in computing any income, profits or losses for any tax purposes.
- (5) PAYE regulations must not affect any right of appeal to the General or Special Commissioners which a person would have apart from the regulations.
- (6) It does not matter for the purposes of PAYE regulations that income is wholly or partly income for a tax year other than that in which the payment is made.
- (7) PAYE regulations have effect despite anything in the Income Tax Acts.

Status: This is the original version (as it was originally enacted).

- (8) In this Act and any other enactment (whenever passed) “PAYE regulations” means regulations under this section.

685 Tax tables

- (1) The Board of Inland Revenue must construct tax tables with a view to securing that so far as possible—
- (a) the total income tax payable in respect of PAYE income for any tax year is deducted from PAYE income paid during that year, and
 - (b) the income tax deductible or repayable on the occasion of any payment of, or on account of, PAYE income is such that the following proportions are the same—
 - (i) the proportion which the total net income tax deducted since the beginning of the tax year bears to the total income tax payable for the year, and
 - (ii) the proportion which the part of the tax year which ends with the date of the payment bears to the whole year.
- (2) References in subsection (1) to the total income tax payable for the year are to be read as references to the total income tax estimated to be payable for the year in respect of the income in question—
- (a) subject to a provisional deduction for allowances and reliefs, and
 - (b) subject, if necessary, to an adjustment for amounts overpaid or remaining unpaid on account of income tax in respect of PAYE income for any previous year.
- (3) For the purpose of estimating the total income tax payable as mentioned in subsection (1)(a), it may be assumed, in relation to any payment of, or on account of, PAYE income, that the following proportions will be the same—
- (a) the proportion which the income paid in the part of the tax year which ends with the making of the payment bears to the income for the whole year, and
 - (b) the proportion which that part of the tax year bears to the whole year.

686 Meaning of “payment”

- (1) For the purposes of PAYE regulations, a payment of, or on account of, PAYE income of a person is treated as made at the earliest of the following times—

Rule 1

The time when the payment is made.

Rule 2

The time when the person becomes entitled to the payment.

Rule 3

If the person is a director of a company and the income is income from employment with the company (whether or not as director), whichever is the earliest of—

- (a) the time when sums on account of the income are credited in the company’s accounts or records (whether or not there is any restriction on the right to draw the sums);
- (b) if the amount of the income for a period is determined before the period ends, the time when the period ends;

Status: This is the original version (as it was originally enacted).

- (c) if the amount of the income for a period is not determined until after the period has ended, the time when the amount is determined.
- (2) Rule 3 applies if the person is a director of the company at any time in the tax year in which the time mentioned falls.
- (3) In this section “director” means—
 - (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that board or body,
 - (b) in relation to a company whose affairs are managed by a single director or other person, that director or person, and
 - (c) in relation to a company whose affairs are managed by the members themselves, a member of the company,and includes any person in accordance with whose directions or instructions the company’s directors (as defined above) are accustomed to act.
- (4) For the purposes of subsection (3) a person is not regarded as a person in accordance with whose directions or instructions the company’s directors are accustomed to act merely because the directors act on advice given by that person in a professional capacity.

CHAPTER 3

PAYE: SPECIAL TYPES OF PAYER OR PAYEE

687 Payments by intermediary

- (1) If any payment of, or on account of, PAYE income of an employee is made by an intermediary of the employer, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of the income of an amount equal to the amount given by subsection (3).
- (2) Subsection (1) does not apply if the intermediary (whether or not a person to whom PAYE regulations apply) deducts income tax from the payment the intermediary makes, and accounts for it, in accordance with PAYE regulations.
- (3) The amount referred to is—
 - (a) if the amount of the payment made by the intermediary is an amount to which the recipient is entitled after deduction of income tax, the aggregate of the amount of the payment and the amount of any income tax due, and
 - (b) in any other case, the amount of the payment.
- (4) For the purposes of this section a payment of, or on account of, PAYE income of an employee is made by an intermediary of the employer if it is made—
 - (a) by a person acting on behalf of the employer and at the expense of the employer or a person connected with the employer, or
 - (b) by trustees holding property for any persons who include or class of persons which includes the employee.

688 Agency workers

(1) If the remuneration receivable by an individual under or in consequence of any contract falls to be treated under section 44 (agency workers) as earnings from an employment, the relevant provisions have effect as if the individual held the employment with or under the agency.

(2) If—

- (a) the remuneration receivable by an individual under or in consequence of any contract falls to be so treated under section 44, and
- (b) a payment of, or on account of, PAYE income of the individual is made by a person acting on behalf of the client, and at the expense of the client or a person connected with the client,

section 687 and, in relation to any payment treated as made by the client under section 687, section 710 have effect in relation to the payment as if the client and not the agency were the employer for the purposes of the relevant provisions.

(3) In subsections (1) and (2)—

- “the agency” and “the client” have the same meanings as in section 44;
- “the relevant provisions” means this Chapter except section 691, Chapter 4 of this Part and section 710.

689 Employee of non-UK employer

(1) This section applies if—

- (a) an employee during any period works for a person (“the relevant person”) who is not the employer of the employee,
- (b) any payment of, or on account of, PAYE income of the employee in respect of that period is made by a person who is the employer or an intermediary of the employer or of the relevant person,
- (c) PAYE regulations do not apply to the person making the payment or, if that person makes the payment as an intermediary of the employer or of the relevant person, the employer, and
- (d) income tax is not deducted, or not accounted for, in accordance with the regulations by the person making the payment or, if that person makes the payment as an intermediary of the employer or of the relevant person, the employer.

(2) The relevant person is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount given by subsection (3).

(3) The amount referred to is—

- (a) if the amount of the payment actually made is an amount to which the recipient is entitled after deduction of income tax, the aggregate of the amount of the payment and the amount of any income tax due, and
- (b) in any other case, the amount of the payment.

(4) If, by virtue of any of sections 693 to 700, an employer would be treated for the purposes of PAYE regulations (if they applied to the employer) as making a payment of any amount to an employee, this section has effect as if—

- (a) the employer were also to be treated for the purposes of this section as making an actual payment of that amount, and

- (b) paragraph (a) of subsection (3) were omitted.
- (5) For the purposes of this section a payment of, or on account of, PAYE income of an employee is made by an intermediary of the employer or of the relevant person if it is made—
 - (a) by a person acting on behalf of the employer or the relevant person and at the expense of the employer or the relevant person or a person connected with the employer or the relevant person, or
 - (b) by trustees holding property for any persons who include or class of persons which includes the employee.
- (6) In this section and sections 690 and 691 “work”, in relation to an employee, means the performance of any duties of the employment of the employee and any reference to the employee’s working is to be read accordingly.

690 Employee non-resident etc.

- (1) This section applies in relation to an employee in a tax year only if the employee—
 - (a) is not resident or, if resident, not ordinarily resident in the United Kingdom, and
 - (b) works or will work in the United Kingdom and also works or is likely to work outside the United Kingdom.
- (2) If in relation to an employee to whom this section applies and any tax year it appears to the Inland Revenue that—
 - (a) some of the income paid to the employee by the employer is PAYE income, but
 - (b) some of that income may not be PAYE income,the Inland Revenue may, on an application made by the appropriate person, give a direction for determining a proportion of any payment made in that year of, or on account of, income of the employee which is to be treated as PAYE income.
- (3) In this section—
 - (a) “the appropriate person” means the person designated by the employer for the purposes of this section and, if no person is so designated, the employer, and
 - (b) any reference to a payment made by the employer includes a reference to a payment made by a person acting on behalf of the employer and at the expense of the employer or a person connected with the employer.
- (4) An application under subsection (2) must provide such information as is available and is relevant to the application.
- (5) A direction under subsection (2)—
 - (a) must specify the employee to whom and the tax year to which it relates,
 - (b) must be given by notice to the appropriate person, and
 - (c) may be withdrawn by notice to the appropriate person from a date specified in the notice.
- (6) The date so specified may not be earlier than 30 days from the date on which the notice of withdrawal is given.
- (7) If—
 - (a) a direction under subsection (2) has effect in relation to an employee to whom this section applies, and

Status: This is the original version (as it was originally enacted).

- (b) a payment of, or on account of, the income of the employee is made by the employer in the tax year to which the direction relates,
the proportion of the payment determined in accordance with the direction is to be treated for the purposes of PAYE regulations as a payment of PAYE income of the employee.
- (8) If in any tax year—
- (a) no direction under subsection (2) has effect in relation to an employee to whom this section applies, and
- (b) any payment of, or on account of, the income of the employee is made by the employer,
the entire payment is to be treated for the purposes of PAYE regulations as a payment of PAYE income of the employee.
- (9) Subsections (7) and (8) are without prejudice to—
- (a) any assessment in respect of the income of the employee in question, and
- (b) any right to repayment of income tax overpaid and any obligation to pay income tax underpaid.
- (10) In a case where section 689 applies—
- (a) the references to the employer in subsection (3)(a) are to be read as references to the relevant person, and
- (b) any reference to a payment made by the employer is to be read as a reference to a payment treated, for the purposes of PAYE regulations, as made by the relevant person.

In this subsection “the relevant person” has the same meaning as in section 689.

691 Mobile UK workforce

- (1) This section applies if it appears to the Board of Inland Revenue that—
- (a) a person (“the relevant person”) has entered into or is likely to enter into an agreement that employees of another person (“the contractor”) are in any period to work for, but not as employees of, the relevant person,
- (b) payments of, or on account of, PAYE income of the employees in respect of work done in that period are likely to be made by or on behalf of the contractor, and
- (c) PAYE regulations would apply on the making of such payments but it is likely that income tax will not be deducted, or will not be accounted for, in accordance with the regulations.
- (2) The Board may give a direction that, if—
- (a) any of the employees of the contractor work in any period for, but not as employees of, the relevant person, and
- (b) any payment is made by the relevant person in respect of work done by the employees in that period,
income tax is to be deducted in accordance with the provisions of this section by the relevant person on making the payment.
- (3) A direction under subsection (2)—
- (a) must specify the relevant person and the contractor to whom it relates;

- (b) must be given by notice to the relevant person; and
 - (c) may at any time be withdrawn by notice to the relevant person.
- (4) The Board must take such steps as are reasonably practicable to ensure that a contractor is supplied with a copy of any notice under subsection (3) which relates to him.
- (5) If—
- (a) a direction under subsection (2) has effect, and
 - (b) any employees of the contractor specified in the direction work for, but not as employees of, the relevant person so specified,
- income tax is, subject to and in accordance with PAYE regulations, to be deducted by the relevant person on making any payment in respect of that work as if so much of the payment as is attributable to work done by each employee were a payment of PAYE income of that employee.

692 Organised arrangements for sharing tips

- (1) PAYE regulations may make provision with respect to organised arrangements for tips to be shared among employees by a person (“P”) who is not the principal employer.
- (2) PAYE regulations may include provisions which, for the purposes of PAYE regulations—
- (a) treat every payment made by P to an employee by way of the employee’s share of any tips (including the retention by P of P’s own share if P is an employee) as a payment of PAYE income by P, and
 - (b) treat P as the employer in relation to every such payment.
- (3) PAYE regulations may also include provisions which—
- (a) apply if P has failed to comply with any of the requirements of PAYE regulations, and
 - (b) treat the principal employer, for the purposes of PAYE regulations, as making payments to the employees of any tips paid over to P by the principal employer.
- (4) In this section—
- “the principal employer” means the person under whose general control and management the employees work;
 - “tips” means gratuities and service charges.

CHAPTER 4

PAYE: SPECIAL TYPES OF INCOME

Income provided by means of vouchers and tokens

693 Cash vouchers

- (1) If a cash voucher to which Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) applies is received by an employee at any time, the employer is to be treated, for the purposes of PAYE regulations, as making at that time a payment of

Status: This is the original version (as it was originally enacted).

PAYE income of the employee of an amount equal to the amount ascertained under section 81(2) (benefit of cash voucher treated as earnings).

- (2) This section does not apply to the provision of a cash voucher if—
 - (a) the voucher is used to meet expenses, and
 - (b) if the amount for which the voucher is capable of being exchanged had been paid directly to the employee by his or her employer, the amount would not have been PAYE income except by virtue of section 70 (sums in respect of expenses).
- (3) This section does not apply to the provision of a cash voucher if it is exchanged for an amount which—
 - (a) is used to meet expenses, and
 - (b) if it had been paid directly to the employee by the employer, would not have been PAYE income except by virtue of section 70.
- (4) PAYE regulations may exclude from the scope of this section the provision of cash vouchers in circumstances specified in the regulations.
- (5) A cash voucher provided for an employee and appropriated to the employee—
 - (a) by attaching it to a card held for the employee, or
 - (b) in any other way,
 is to be treated for the purposes of this section as having been received by the employee at the time when it is appropriated.

694 Non-cash vouchers

- (1) If a non-cash voucher to which this section applies is received by an employee, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 87(2) (benefit of non-cash voucher treated as earnings).
- (2) This section applies to a non-cash voucher to which Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) applies if—
 - (a) either of the conditions set out below is met with respect to the voucher, and
 - (b) the voucher is not of a description for the time being excluded from the scope of this section by PAYE regulations.
- (3) The first condition is met with respect to a non-cash voucher if it is capable of being exchanged for anything which, if provided to the employee at the time when the voucher is received, would fall to be regarded as a readily convertible asset.
- (4) The second condition is met with respect to a non-cash voucher if (but for section 701(2)(b)) it would fall itself to be regarded as a readily convertible asset.
- (5) A payment under subsection (1) is made—
 - (a) in the case of a non-cash voucher other than a cheque voucher, at the time when the cost of provision is incurred or, if later, the time when the voucher is received by the employee;
 - (b) in the case of a cheque voucher, at the time when the voucher is handed over in exchange for money, goods or services.
- (6) For the purposes of subsection (5)—

“cheque voucher” has the same meaning as in Chapter 4 of Part 3;

Status: This is the original version (as it was originally enacted).

“cost of provision”, in relation to a voucher provided by an employer, has the meaning given by section 87;

and a cheque voucher that is posted is to be treated as handed over at the time of posting.

- (7) A non-cash voucher provided for an employee and appropriated to the employee—
- (a) by attaching it to a card held for the employee, or
 - (b) in any other way,
- is to be treated for the purposes of this section as having been received by the employee at the time when it is appropriated.

695 Credit-tokens

- (1) On each occasion on which an employee uses a credit-token provided to the employee because of the employee’s employment to obtain—
- (a) money, or
 - (b) anything which, if provided to the employee at the time when the credit-token is used, would fall to be regarded as a readily convertible asset,
- the employer is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 94(2) (benefit of credit-token treated as earnings).
- (2) The use of a credit-token by an employee to obtain money is excluded from the scope of this section if the money—
- (a) is used to meet expenses, and
 - (b) if it had been paid directly to the employee by the employer, would not have been PAYE income except by virtue of section 70 (sums in respect of expenses).
- (3) PAYE regulations may make provision for excluding from the scope of this section any other description of use of a credit-token.

Income provided in other ways

696 Readily convertible assets

- (1) If any PAYE income of an employee is provided in the form of a readily convertible asset, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of that income of an amount equal to the amount given by subsection (2).
- (2) The amount referred to is the amount which, on the basis of the best estimate that can reasonably be made, is the amount of income likely to be PAYE income in respect of the provision of the asset.

697 Enhancing the value of an asset

- (1) This section applies if—
- (a) any PAYE income of an employee is provided in the form of anything enhancing the value of an asset in which the employee or a member of the employee’s family or household already has an interest, and

Status: This is the original version (as it was originally enacted).

- (b) that asset, with its value enhanced, would be treated as a readily convertible asset if PAYE income were provided to the employee in the form of the asset at the time of the enhancement.
- (2) Section 696 has effect as if—
- (a) the employee had been provided, at the time of the enhancement, with PAYE income in the form of the asset (with its value enhanced), instead of with what enhanced its value, and
 - (b) the reference in subsection (2) to the provision of the asset were a reference to the enhancement of its value.
- (3) Any reference in this section to enhancing the value of an asset is a reference to—
- (a) the provision of any services by which the asset or any right or interest in it is improved or otherwise made more valuable,
 - (b) the provision of any property the addition of which to the asset improves it or otherwise increases its value, or
 - (c) the provision of any other enhancement by the application of money or property to the improvement of the asset or to securing an increase in its value or the value of any right or interest in it.
- (4) There is excluded from the scope of what constitutes enhancing the value of an asset for the purposes of this section any enhancement of value arising on the acquisition by the employee (whether or not as a result of the exercise of a right to acquire shares) of—
- (a) any shares acquired by the employee under a scheme approved under Schedule 3 (approved SAYE option schemes) or 4 (approved CSOP schemes), or Schedule 9 to ICTA (approved profit sharing schemes),
 - (b) any right over or interest in shares obtained or acquired by the employee under such a scheme, or
 - (c) any shares acquired by the employee as a result of the exercise of a right over shares obtained before 27th November 1996,
- if the shares in question form part of the share capital of a company falling within section 701(3).
- (5) PAYE regulations may make provision excluding such other matters as may be described in the regulations from the scope of what constitutes enhancing the value of an asset for the purposes of this section.

698 PAYE: shares ceasing to be only conditional or being disposed of

- (1) This section applies if—
- (a) either of the following events occurs—
 - (i) shares cease, without the employee ceasing to have a beneficial interest in them, to be shares in which the employee’s interest is only conditional;
 - (ii) in a case where shares have not so ceased, the employee sells or otherwise disposes of the employee’s interest or any other beneficial interest in the shares; and
 - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 427(1).
- (2) This section also applies if—

- (a) an event occurs which is treated for the purposes of section 427 (charge on interest in shares ceasing to be only conditional or on disposal) as an event falling within subsection (1)(b) of that section by virtue of section 431 (disposal where employee dies); and
 - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 427(1).
- (3) If this section applies, sections 684 to 691 and 696 have effect as if—
 - (a) in addition to the provision to the relevant person of the employee’s interest in the shares, a further interest in those shares were provided to the relevant person at the time of the event in question; and
 - (b) the further interest were not subject to any terms by virtue of which it would fall for the purposes of Chapter 2 of Part 7 (conditional interests in shares) to be treated as only conditional.
- (4) Section 696 as applied by subsection (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income in respect of the provision of the asset were a reference to the amount on which tax is likely to be chargeable by virtue of Chapter 2 of Part 7 in respect of the event in question.
- (5) Expressions used in this section and any provisions of Chapter 2 of Part 7 have the same meanings in this section as in those provisions.

699 PAYE: conversion of shares

- (1) This section applies if—
 - (a) at a time when the employee has a beneficial interest in them, shares are converted into shares of a different class as a result of an entitlement to convert them which has been conferred on the holder, and
 - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 438(1).
- (2) This section also applies if—
 - (a) an event occurs which is treated for the purposes of section 438 (charge on conversion of shares) as an event falling within subsection (1) of that section by virtue of section 444 (conversion in consequence of death); and
 - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 438(1).
- (3) If this section applies, sections 684 to 691 and 696 have effect as if, in addition to the original provision to the relevant person of the convertible shares, the shares into which they were converted were also provided to the relevant person at the time of the event in question.
- (4) Subsection (3) applies in a case where the convertible shares were themselves acquired—
 - (a) by means of a taxable conversion (as defined in section 439(6)), or
 - (b) by means of a series of such conversions,as if the reference to the original provision of the convertible shares were a reference to the provision of the shares which were converted by the earlier or earliest conversion.
- (5) Section 696 as applied by subsection (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income in respect of the

Status: This is the original version (as it was originally enacted).

provision of the asset were a reference to the amount on which tax is likely to be chargeable by virtue of Chapter 3 of Part 7 (convertible shares) in respect of the event in question.

- (6) Expressions used in this section and any provisions of Chapter 3 of Part 7 have the same meanings in this section as in those provisions.

700 PAYE: gains from share options

- (1) This section applies if—
- (a) a gain is realised by the exercise, assignment or release of a right to acquire shares, and
 - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 476 or 477 (charge on exercise etc. of share option).
- (2) In the case of the exercise of a right to acquire shares, section 696 has effect as if the relevant person were being provided with PAYE income in the form of the shares—
- (a) at the time the relevant person acquires the shares in the exercise of the right, and
 - (b) in respect of the employment because of which the relevant person was granted the right.
- (3) In the case of the assignment or release of a right to acquire shares, sections 684 to 691 and 696 have effect—
- (a) in so far as the consideration for the assignment or release takes the form of a payment, as if so much of that payment as does not exceed—
 - (i) the relevant proportion of the amount chargeable by virtue of section 476 or 477 in respect of the assignment or release of the right, less
 - (ii) the amount of any relief likely to be available under section 481 (deductible amount in respect of secondary Class 1 contributions met by employee),
 were a payment of PAYE income of the relevant person; and
 - (b) in so far as that consideration consists in the provision of an asset, as if the provision of the asset were the provision of PAYE income in the form of the asset—
 - (i) to the relevant person, and
 - (ii) in respect of the employment because of which the relevant person was granted the right.
- (4) Section 696 as applied by subsection (2) or (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income in respect of the provision of the asset were a reference to—
- (a) the relevant proportion of the amount chargeable by virtue of section 476 or 477 in respect of the exercise, assignment or release of the right, less
 - (b) the amount of any relief likely to be available under section 481.
- (5) PAYE regulations may make provision for excluding payments from the scope of subsection (3)(a) in such circumstances as may be specified in the regulations.
- (6) In this section—
- “asset” includes anything to which subsection (7) applies;

Status: This is the original version (as it was originally enacted).

“the relevant proportion” means the proportion that so much of the consideration as takes the form of a payment, or (as the case may be) consists in the provision of an asset, bears to the whole consideration; and anything to which subsection (7) applies is treated as a readily convertible asset for the purposes of section 696 as applied by subsection (3)(b) or (4).

- (7) This subsection applies to—
- (a) any cash voucher;
 - (b) any non-cash voucher —
 - (i) which is capable of being exchanged for anything which, if provided to the employee at the time when the voucher is received, would fall to be regarded as a readily convertible asset, or
 - (ii) which (but for section 701(2)(b)) would fall itself to be regarded as a readily convertible asset; and
 - (c) any credit-token which is capable of being used to obtain—
 - (i) money, or
 - (ii) anything which, if provided to the employee at the time when the token is used, would fall to be regarded as a readily convertible asset.
- (8) Expressions used in this section and section 476 or 477 have the same meanings in this section as in that section.

Supplemental

701 Meaning of “asset”

- (1) In this Chapter “asset” includes any property and in particular any investment of a kind specified in Part 3 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ([S.I. 2001/544](#)).

This is subject to subsection (2).

- (2) In this Chapter “asset” does not include—
- (a) any payment actually made of, or on account of, PAYE income;
 - (b) subject to section 700(6), any cash voucher, non-cash voucher or credit-token;
 - (c) the following—
 - (i) any shares acquired by the employee (whether or not as a result of the exercise of a right to acquire shares) under a scheme approved under Schedule 3 (approved SAYE option schemes) or 4 (approved CSOP schemes), or Schedule 9 to ICTA (approved profit sharing schemes),
 - (ii) any right over or interest in shares obtained or acquired by the employee under such a scheme, or
 - (iii) any shares acquired by the employee as the result of the exercise of a right over shares obtained before 27th November 1996,
if the shares in question form part of the ordinary share capital of a company falling within subsection (3); or
 - (d) any description of property for the time being excluded from the scope of this section by PAYE regulations.
- (3) A company falls within this subsection if it—
- (a) is the employer (“the employer company”);

Status: This is the original version (as it was originally enacted).

- (b) has control of the employer company; or
 - (c) either is, or has control of, a company which is a member of a consortium owning either the employer company or a company having control of the employer company.
- (4) In this section “share” includes stock.
- (5) For the purposes of this section a company is a member of a consortium owning another company if it is one of a number of companies which between them beneficially own not less than 75% of the other company’s ordinary share capital and each of which beneficially owns not less than 5% of that capital.

702 Meaning of “readily convertible asset”

- (1) In this Chapter “readily convertible asset” means—
- (a) an asset capable of being sold or otherwise realised on—
 - (i) a recognised investment exchange (within the meaning of the Financial Services and Markets Act 2000 (c. 8)),
 - (ii) the London Bullion Market,
 - (iii) the New York Stock Exchange, or
 - (iv) a market for the time being specified in PAYE regulations;
 - (b) an asset consisting in—
 - (i) the rights of an assignee, or any other rights, in respect of a money debt that is or may become due to the employer or any other person,
 - (ii) property that is subject to a warehousing regime, or any right in respect of property so subject, or
 - (iii) anything that is likely (without anything being done by the employee) to give rise to, or to become, a right enabling a person to obtain an amount or total amount of money which is likely to be similar to the expense incurred in the provision of the asset; or
 - (c) an asset for which trading arrangements are in existence, or are likely to come into existence in accordance with—
 - (i) any arrangements of another description existing when the asset is provided, or
 - (ii) any understanding existing at that time.
- (2) For the purposes of this section trading arrangements for any asset provided to any person exist whenever there exist any arrangements the effect of which in relation to that asset is to enable—
- (a) that person, or
 - (b) a member of that person’s family or household,
- to obtain an amount or total amount of money that is, or is likely to be, similar to the expense incurred in the provision of that asset.
- (3) PAYE regulations may exclude any description of arrangements from being trading arrangements for the purposes of this section.
- (4) References in this section to enabling a person to obtain an amount of money are to be read—
- (a) as references to enabling an amount to be obtained by that person by any means at all, including in particular—

- (i) by using any asset or other property as security for a loan or advance, or
 - (ii) by using any rights comprised in or attached to any asset or other property to obtain any asset for which trading arrangements exist; and
 - (b) as including references to cases where a person is enabled to obtain an amount as a member of a class or description of persons, as well as where the person is so enabled in the person's own right.
- (5) For the purposes of this section an amount is similar to the expense incurred in the provision of any asset if it is, or is an amount of money equivalent to—
- (a) the amount of the expense so incurred, or
 - (b) a greater amount, or
 - (c) an amount that is less than that amount but not substantially so.
- (6) In this section—
- “money” includes money expressed in a currency other than sterling;
 - “money debt” means any obligation which falls to be, or may be, settled—
 - (a) by the payment of money, or
 - (b) by the transfer of a right to settlement under an obligation which is itself a money debt;
 - “warehousing regime” means—
 - (a) a warehousing or fiscal warehousing regime (within the meaning of sections 18 to 18F of the Value Added Tax Act 1994 (c. 23)); or
 - (b) any corresponding arrangements in a State other than the United Kingdom which is a Contracting Party to the Agreement on the European Economic Area signed at Oporto on 2nd May 1992 as adjusted by the Protocol signed at Brussels on 17th March 1993.

CHAPTER 5

PAYE SETTLEMENT AGREEMENTS

703 Introduction

This Chapter provides—

- (a) for employers to make agreements with the Inland Revenue (“PAYE settlement agreements”) under which they agree to be accountable to the Board for sums in respect of income tax on general earnings of their employees; and
- (b) for such earnings to be treated for certain purposes of the Income Tax Acts as excluded from the employees' income.

704 Sums payable by employers under agreements

(1) PAYE regulations may provide—

- (a) for a person to make a PAYE settlement agreement with the Inland Revenue; and

Status: This is the original version (as it was originally enacted).

- (b) to such extent as may be prescribed, for that person's accountability, and the sums to be accounted for, in respect of income tax on general earnings of that person's employees to be determined—
 - (i) in accordance with the agreement, and
 - (ii) not in accordance with PAYE regulations which would apply apart from this Chapter.
- (2) Without prejudice to the generality of section 684(2), any power of the Board to make PAYE regulations with respect to sums falling to be accounted for under such regulations includes power to make the corresponding provision with respect to sums falling to be accounted for in accordance with a PAYE settlement agreement.

705 Approximations allowed in calculations

PAYE regulations may provide for a PAYE settlement agreement to allow sums which an employer is to account for—

- (a) to be computed, if two or more persons hold employments to which the agreement relates, by reference to a number of those persons all taken together;
- (b) to include sums representing income tax on an estimated amount taken to be the aggregate of the amounts of PAYE income consisting of—
 - (i) taxable benefits provided or made available by reason of the employments to which the agreement relates, and
 - (ii) expenses paid to the persons holding those employments; and
- (c) to be computed in a manner under which they do not necessarily represent an amount of income tax which would be payable (apart from the agreement) by persons holding employments to which the agreement relates.

706 Exclusion of general earnings from income etc.

PAYE regulations may provide—

- (a) that sums accountable for by an employer under a PAYE settlement agreement, or any other sums, are not to be treated for any prescribed purpose as tax deducted from general earnings;
- (b) that an employee is to have no right to be treated as having paid tax in respect of sums accountable for by the employer under such an agreement;
- (c) that an employee is to be treated, except—
 - (i) for the purposes of the obligations imposed on the employer by such an agreement, and
 - (ii) to such further extent as may be prescribed,
 as relieved from any prescribed obligations of the employee under the Income Tax Acts in respect of general earnings from an employment to which the agreement relates; and
- (d) that such earnings are to be treated as excluded from the employee's income for such further purposes of the Income Tax Acts, and to such extent, as may be prescribed.

707 Interpretation of this Chapter

In this Chapter—

Status: This is the original version (as it was originally enacted).

“employment” means any employment the general earnings from which are (or, apart from any regulations made by virtue of this section, would be) PAYE income and related expressions are to be construed accordingly;

“prescribed” means prescribed by PAYE regulations;

“taxable benefit”, in relation to an employee, means any benefit provided or made available, otherwise than in the form of a payment of money, to the employee, or to a person who is a member of the employee’s family or household.

CHAPTER 6

MISCELLANEOUS AND SUPPLEMENTAL

708 PAYE repayments

- (1) PAYE regulations may provide that no repayment of income tax may be made under such regulations to a person—
 - (a) during a period for which the person has claimed jobseeker’s allowance, or
 - (b) at a time when the person is prevented by the trade disputes provisions from being entitled to a jobseeker’s allowance, or would be so prevented if the person otherwise met the conditions for entitlement.
- (2) Different provision may be made with respect to—
 - (a) persons within subsection (1)(a), and
 - (b) persons within subsection (1)(b).
- (3) “The trade disputes provisions” means—
 - (a) section 14 of JSA 1995, or
 - (b) Article 16 of JS(NI)O 1995.

709 Additional provision for certain assessments

- (1) This section applies if—
 - (a) an assessment to income tax is made as respects relevant income (with or without other income), and
 - (b) the assessment is made after the end of the period of 12 months following the tax year for which it is made.
- (2) In so far as it relates to relevant income, the assessment is to be made in accordance with the practice generally prevailing at the end of that period.
- (3) “Relevant income” means income which—
 - (a) has been taken into account in the making of deductions or repayments of tax under PAYE regulations, and
 - (b) was received not less than 12 months before the beginning of the tax year in which the assessment is made.

710 Notional payments: accounting for tax

- (1) If an employer makes a notional payment of PAYE income of an employee, the employer must deduct income tax at the relevant time from any payment or payments the employer actually makes of, or on account of, PAYE income of the employee.
- (2) For the purposes of this section—
 - (a) a notional payment is a payment treated as made by virtue of any of sections 687, 689 and 693 to 700, other than a payment whose amount is given by section 687(3)(a) or 689(3)(a), and
 - (b) any reference to an employer includes a reference to a person who is treated as making a payment by virtue of section 689(2).
- (3) Subsection (4) applies if, because the payments actually made are insufficient for the purpose, the employer is unable to deduct the full amount of the income tax as required by subsection (1).
- (4) The employer must account to the Board of Inland Revenue at the relevant time for an amount of income tax equal to the amount of income tax the employer is required, but is unable, to deduct.
- (5) PAYE regulations may make provision—
 - (a) with respect to the time when any notional payment (or description of notional payment) is made;
 - (b) applying (with or without modifications) any specified provisions of the regulations for the time being in force in relation to deductions from actual payments to amounts accounted for in respect of any notional payments;
 - (c) with respect to the collection and recovery of amounts accounted for in respect of notional payments.
- (6) Any amount—
 - (a) which an employer deducts as mentioned in subsection (1), or
 - (b) for which an employer accounts as mentioned in subsection (4),
 is to be treated as an amount which, at the time when the notional payment is made, is paid by the employee in respect of the employee's liability to income tax.
- (7) "The relevant time" means—
 - (a) in subsection (1), any occasion—
 - (i) on or after the time when the notional payment is made, and
 - (ii) falling within the same income tax period,
 on which the employer actually makes a payment of, or on account of, PAYE income of the employee;
 - (b) in subsection (4), any time within 14 days of the end of the income tax period in which the notional payment was made.
- (8) In subsection (7) "income tax period" has the same meaning as in the Income Tax (Employments) Regulations 1993 (S.I. 1993/744), or any subsequent regulations making corresponding provision.

711 Right to make a return

- (1) A person who has PAYE income for a tax year in respect of which deductions or repayments are made under PAYE regulations may by notice require the Inland

Revenue to give that person a notice under section 8 of TMA 1970 (personal return) for the tax year.

- (2) A notice to the Inland Revenue under subsection (1) must be given no later than 5 years after the 31st October next following the tax year.

712 Interpretation of this Part

- (1) In this Part—

“employee” means a person who holds or has held employment with another person;

“employer” means—

- (a) in relation to an employee, a person with whom the employee holds or has held an employment, and
- (b) in relation to any PAYE income of an employee, the person who is the employer of the employee in relation to the employment in respect of which the income is or was provided or, as the case may be, by reference to which it falls to be regarded as PAYE income.

The above definitions are subject to sections 688 and 710(2)(b).

- (2) Sections 4 and 5 apply for the purposes of this Part as they apply for the purposes of the employment income Parts.