



## Modified Payroll for International Assignees

Employers who have tax equalised individuals working in the UK on assignment can use a Modified PAYE arrangement to pay over PAYE tax withholding obligations to HMRC. The primary advantage of the arrangement is that PAYE can be calculated and reported on an estimated basis once per month. The modified scheme also allows for PAYE schemes with five assignees or less to make payment to HMRC on a quarterly basis which may provide cash flow savings for smaller operations.

Under the terms of the agreement the employee is entitled to specified net cash earnings and non-cash benefits to ensure that the employee is no better or worse off than if they had stayed in their home country. The employer undertakes to meet the UK income tax liability arising from the earnings and to ensure that the employee's UK tax affairs are handled by a professional tax advisor.

### Putting in a place a modified payroll arrangement

An application under EP appendix 6 modified PAYE scheme needs to be made to HMRC. The employer must commit to making good any errors that occur in the calculation of tax due to the incorrect operation of PAYE or incorrectly applying a code number.

### EP Appendix 6 - Modified payroll: a quick summary

Below is a quick summary of the rules for modified payroll schemes:

- The scheme only applies where all general earnings are tax equalised
- At the start of each year the employer estimates the total taxable pay (including benefits) for the year, calculates the estimated annual tax liability and pays 1/12th of that tax each month
- A review is carried out in December to April in the year to adjust for material changes, bonuses, share gains, etc.
- P11d's can be submitted by 31 January following the year
- The employer meets any further liability due on submission of the employee's tax return

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- PAYE can be adjusted for foreign tax where an agreement has been reached with HMRC.
- PAYE can also be adjusted for employee contributions into an overseas pension scheme where the employee qualifies for tax relief
- An apportionment of earnings under Section 690 can be made for overseas workdays and any grossing up will be after the earnings have been apportioned between UK and non-UK duties.

HMRC accepts that some payments (e.g. ad hoc payments made outside the regular payroll, earnings delivered by an overseas employer) are difficult to report so some of them will not have to be reported for PAYE purposes “on or before” the time they pay their employee.

However, HMRC also states that they will apply a common sense approach to deciding whether they agree that employers of expatriates have a reasonable excuse for not telling them on time about any tax and NICs due on payments and notional payments made in-year.

For more information please contact:



**Nick Butler – Managing Director, JC Payroll Services**

[Nick.butler@jcpayroll.co.uk](mailto:Nick.butler@jcpayroll.co.uk)

Tel: +44 (0) 1635 553221



**Sarah Robert – Head of International Services**

[srobert@jamescowper.co.uk](mailto:srobert@jamescowper.co.uk)

Tel: +44 (0) 118 9590261

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