



PAYE SETTLEMENT AGREEMENTS – CALL FOR EVIDENCE

Issued 15 September 2026

ICAEW welcomes the opportunity to comment on the PAYE Settlement Agreements (PSA) – call for evidence, published by HMRC on 23 June 2026, a copy of which is available from this [link](#).

ICAEW has collated information from members and employers of various sizes and across various industries. The PSA remains an invaluable tool for UK employers, ensuring minor, irregular and impracticable benefits and expenses are subjected to tax and national insurance but allowing for the reasons why this cannot always be achieved on a real time basis.

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This response of 15 September 2026 has been prepared by ICAEW's Tax Faculty.

Internationally recognised as a source of expertise, ICAEW's Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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KEY POINTS

1. The PAYE Settlement Agreement (PSA) is an easement tool for reporting benefits which are minor, irregular or impracticable to report and tax via payroll during the tax year. Employers value this easement immensely despite the fact that it can be a time consuming and resource intensive task.
2. Improvements could be made to make HMRC's online tool to make it more appealing to a wider customer base, however most employers have a longstanding PSA in place and are comfortable with their current processes.
3. Employers were keen to highlight that the PSA is not used for mainstream benefits and all benefits and expenses are payrolled wherever possible but maintain any adjustment to the current PSA easement is likely to increase the administrative burden on the employer, whether that be the timescale for data gathering or another element of the process.
4. Respondents also indicated that they preferred to err on the side of caution using the PSA to capture all minor, irregular or impracticable benefits that had not otherwise been subjected to tax or NIC during the year and applying a blended rate and gross up reflective of the tax bands of the relevant employee populations across the UK.

ANSWERS TO SPECIFIC QUESTIONS

Question 1 -5

5. ICAEW is responding as a representative body having sought feedback from our members and other stakeholders. Our responses reflect the experience and views of our members and volunteers who are employers and agents representing companies of various sizes and across multiple industries.

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.

6. Overwhelmingly the feedback we received is that the volume of expenses included in the PSA has increased over the past five years. This does not always mean new or different types of expenses and benefits, but the volume of expenses has generally been on the upturn since 2021. This tends to reflect the growth and expansion of the business, but in some cases can also be attributed to cost of living and rising prices meaning less benefits meet the trivial benefit or other exemptions. In addition, several benefits and expenses were not paid during the COVID years of 2020 and 2021 as travel and staff entertaining were restricted, which also accounts for the comparable increase during the previous five-year period.

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?

7. All respondents were clear that performance related benefits do not meet the conditions to qualify as a trivial benefit and gave examples such as birth or bereavement where the trivial benefit exemption might be applied. Employers tend to err on the side of caution if there is any uncertainty and include items in the PSA rather than treat these as trivial benefits.

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?

8. The £50 limit is the most common deciding factor. Respondents also noted that this limit has been in place since 2016 and is considered outdated by many. A review of this limit would be welcome.

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.

9. For most employers it is consideration of whether items are minor, irregular or impracticable to report. Larger organisations may collate data from various systems and often from third parties as well, which means timing and scale also play a part in the decision-making process.
10. In general, however, employers will report and process items via payroll in real time wherever possible, but the PSA allows some flexibility where this is not practicable. Some employers do use the PSA as a mop up tool to capture minor and irregular benefits or expenses that have been paid for and not otherwise reported or processed during the tax year.

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.

11. Most employers are well versed with the PSA timeline. We did not receive any feedback critical of the process to add or remove categories; in fact, some fed back that where the request was made online, approval seemed to be virtually automatic. HMRC reviews can be time consuming; however, in most cases the PSA is part of a larger employer compliance review. Those who have been through a review have typically had their PSA process and calculations scrutinised but not significantly amended and are therefore confident with their current approach.

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.

12. Most of the respondents we consulted have had a PSA in place for several years so were unable to provide much insight into cost or resource issues in setting up a new agreement and process.

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.

13. We are not supportive of a definitive list as the PSA is an easement tool and this would dampen some of its flexibility. There will always be variations of norms between employers and industries, and the current framework allows for this. Some respondents suggested more scenario examples might assist in removing some of the subjectivity, especially for larger organisations where the individual responsible for the PSA may not have more than superficial knowledge of the relevant employees' roles.

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

14. Despite the increased use of automation tools, the PSA remains a time consuming and labour-intensive process for most organisations. As might be expected, larger organisations tend to have a higher volume of benefits and expense as well as a higher number of employees, resulting in more to report on their PSA. Employers are at various stages of automation, but in all cases tend to still be following a manual data gathering process which is time consuming. In terms of cost of resources, respondents fed back various times scales from three weeks to up to three months of preparation time (of a full time employee).

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?

15. The main feedback we received on this was operational. Feedback from those who utilise the online HMRC tool is that inputting the figures into the form up to three times (for England/Northern Ireland, Wales and Scotland) is very time consuming – if this could be automatically populated via an upload this would significantly improve the operational side of this process and likely increase use of the tool. It would also reduce the margin for error that the current manual process risks.

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?

16. We have not received any feedback to suggest this approach would be of benefit to employers who currently use PSAs.

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.

17. Such benefits are likely to be provided in the course of normal business and often without prior analysis (eg, staff lunch), rather than a decision to provide a benefit to a particular employee group. This is reflected in the fact that the PSA tends to be a retrospective exercise to gather and ensure these types of minor and irregular benefits have been captured.

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.

18. ICAEW has previously raised concerns that this revision to guidance in 2021 is not consistent with the legislation. We have attached a previous letter on this matter along with this response for further information – please see Appendix 2.

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?

19. All respondents confirmed that they ascertain the split of tax rates and the percentage of Scottish and Welsh taxpayers across the payroll in the relevant tax year and apply these percentages to the total cost of the benefits.

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.

20. All respondents confirmed that they would use the employee's or group of employee's actual marginal tax rate where identifiable. For expenses relating to multiple employees where individuals and individual costs cannot be identified, (eg, staff entertaining), a blended rate is used, based on the proportion of staff in each banding, across each nation of the UK.

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.

21. The feedback received indicates that most employers do tax at the first chargeable rate in such circumstances or that it is unlikely that this scenario would arise.

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

22. HMRC guidance is more frequently consulted by smaller or newer employers, whereas larger organisations tend to have experienced in-house teams or the ability to consult external advisers where necessary. That said, some members have fed back that they have used the current guidance available to train other team members or offshore outsourcing centres and found the examples useful, in particular the trivial benefit and long service awards conditions and the approved list for subscriptions which are all clear.

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.

23. The size of the organisation is going to impact the time, resource and costs of this process, and how this shapes the preparation and review process. Equally, larger organisations have been able to invest into automation and may therefore have been able to streamline their processes. HMRC online tools are currently more suited to smaller employers with fewer benefits and less complex arrangements.

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?

24. The existing PSA process is time consuming and data intensive, but it is a welcome easement for employers who have for the most part embedded the task into their annual compliance process.
25. Employers and members were keen to reiterate that the PSA is an invaluable tool in managing their tax obligations where real time reporting and payroll processing is just not practical. Employers are usually prudent and are generally more likely to overstate benefits and expenses and overpay tax and NIC on PSAs but value the tool to ensure all benefits and expenses have been captured at the end of the tax year.

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

26. Yes – taxfac@icaew.com

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory.** Tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament. A clear statutory basis ensures legitimacy, accountability, and public trust in the tax system.
2. **Certain.** As far as possible, the application of tax rules and compliance processes should be certain. Taxpayers should not normally need to resort to the courts to understand how the rules apply to their affairs.
3. **Simple.** The tax system should be easy to understand for all taxpayers and advisers. Complexity undermines trust, creates unfairness, and discourages compliance.
4. **Easy to administer.** Tax liabilities should be straightforward to administer for HMRC, agents, and all taxpayers. Taxes should be designed to work effectively in a digital environment, while administration must remain accessible to those with limited digital capability.
5. **Properly targeted.** Anti-avoidance rules and other targeted measures should be proportionate, clearly defined, and carefully scoped to achieve their policy objective without undermining simplicity or certainty. Poorly targeted measures add complexity and uncertainty, harming compliance.
6. **Stable.** Changes to the tax system should only be made when clearly justified by economic, social, or environmental goals. Transparent, purposeful reforms build confidence and move the system toward greater coherence and long-term stability.
7. **Subject to proper consultation.** Other than in exceptional circumstances, tax changes should be subject to open and meaningful consultation. Adequate time for stakeholder input improves policy quality, practicality, and public trust.
8. **Regularly reviewed.** Tax rules, reliefs, and policy-driven interventions should be subject to regular, transparent review to assess whether they remain relevant, effective, and aligned with current policy goals. Outdated or unjustified provisions should be reformed or repealed to maintain coherence.
9. **Fair and accessible.** The tax system should be fair and accessible in design and in operation, ensuring equitable treatment of taxpayers. Revenue authorities must exercise their powers proportionately, and all taxpayers should have timely access to HMRC assistance, independent appeal, and redress.
10. **Efficient.** The tax system should raise revenue in a way that minimises unnecessary distortions, compliance burdens, and resource misallocation. While all taxes affect behaviour to some degree, tax design should avoid cliff edges, unintended incentives, or inefficiencies that reduce economic wellbeing unless these serve a clearly defined policy aim.

For more information, please see [Ten Tenets for a Better Tax System | ICAEW](#)

APPENDIX 2



14 January 2021

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Dear Richard

PAYE SETTLEMENT AGREEMENTS: 0% TAXPAYERS

We are concerned that the change that HMRC has made to its guidance at [PSA1160](#) regarding how to calculate the tax under a PAYE settlement agreement (PSA) for employees who are non-taxpayers is not in accordance with the law, specifically Regulation 108 of the Income Tax (PAYE) PAYE Regulations 2003 which explains how to calculate the grossed up tax on a PSA. We also understand that HMRC is putting the change into practice and writing to employers to ask them to revise calculations in a way which we do not believe is consistent with the letter nor the spirit of the legislation.

HMRC guidance at [PAYE Settlement Agreements](#) states that:

*“A PAYE Settlement Agreement (PSA) allows you to make one annual payment to cover all the tax and National Insurance due on **minor, irregular or impracticable** expenses or benefits for your employees.*

*If you **get a PSA** for these items you will not need to:*

- *put them through your payroll to work out tax and National Insurance*
- *include them in your **end-of-year P11D forms***
- *pay Class 1A National Insurance on them at the end of the tax year (you pay Class 1B National Insurance as part of your PSA instead)”*

The consultation response at:

[Simplifying the PAYE Settlement Agreement \(PSA\) process - summary of responses](#)

published in December 2016 explains that:

*“Pay As You Earn (PAYE) Settlement Agreements (PSAs) were introduced in the 1990s, as an administrative easement for employers and HMRC. They allow employers to settle, in a single payment, the income tax liability on certain, typically minor, benefits in kind (BiKs) and expenses payments. Employers with a PSA are liable for the income tax and NICs payable under them, **their employees are relieved of liability on the benefits and expenses included in the agreement.** A PSA will also allow employers to reduce record keeping and paper work for themselves and their employees and use a practical and flexible way of dealing with many of the minor and ‘one-off’ benefits found in today’s employment packages.” (Emphasis added)*

It seems clear from these comments that the purpose of the PSA is to ease the administration for the employer by allowing the employer to pay the tax due instead of the employee. It is not intended to be a tax raising measure. In particular, the consultation document explained that the employees are relieved of the tax liability in respect of the benefits included in the PSA. We wish to highlight at this point that employees cannot be relieved of an income tax charge if they would not be liable on a benefit because, for example, all their income is covered by the personal allowance.

The guidance in PSA1160 now contradicts the above view by stating that:

“Where an employee pays no tax with the employer, they should be included as being liable at their first chargeable rate of tax, the basic rate if England/Northern Ireland, and Wales, and starter rate if resident in Scotland, for PSA calculation purposes.”.

We do not believe this is correct not only because we agree with the earlier explanations of the purpose of the PSA but also because of the clear statements in SP5/96. A copy of SP5/96 is attached for convenience. This states that:

“PAYE settlement agreements (PSAs)—formerly known as annual voluntary settlements (AVSs)—are arrangements under which employers can settle in a single payment the income tax liability on largely, minor benefits in kind and expenses payments given to their employees.”

*“However, the key intention of PSAs is flexibility. It is intended that inspectors will regard PSAs as a useful way of **reducing burdens** for employers and HMRC alike” (Emphasis added)*

*The tax due should be **grossed up taking into account the effective marginal rates of tax of the individual employees** covered by agreement” (Emphasis added)*

The above is clear that you use the rates of tax of the individual employees, i.e. there would no tax if the employee is not a taxpayer. We believe that this is consistent with authority to make PAYE regulations in s684 ITEPA 2003 . S684(1) states that:

“The Commissioners must make regulations (“PAYE regulations”) with respect to the assessment, charge, collection and recovery of income tax in respect of all PAYE income.”

The regulations can only charge or collect income tax and the income tax is a tax on the individual. The regulations do not have the power to charge income tax on the employer when no tax would be due on the individual.

Our understanding of how the regulation is supposed to operate is that:

- the aggregate of the amounts of expenses and BiK computed in accordance with reg 108(2)(a) and (b) should include amounts attributable to non-taxpayer employees, as this figure has to take into account the factor in reg 108(2)(c), namely the total number of employees in receipt of the qualifying earning comprised in the PSA, but
- the calculation of the tax should, as stated in reg 108(3)(a), take into account only those employees chargeable to income tax at the rates cited in reg 108(2)(d), i.e. basic rate and above and Scottish and Welsh rates.

This is also confirmed by the fact that reg 108(2)(c) refers to:

“the total number of employees in receipt of qualifying general earnings”

and reg 108(2) (d) refers to:

“the number of **those employees** respectively chargeable to income tax—”

It is clear that the reg envisages that the total number of employees could be larger than those chargeable. If this was not the case, reg 108(2) would be otiose because the total number would be those under reg 108(2)(c).

This is confirmed in Simons E4.11110 PAYE settlement agreements which we reproduce below for convenience:

“The calculation of the tax payable under an agreement is made in three stages.

(1) An estimate is made of the amount of expenses and benefits included in the agreement which would (after deduction of allowable expenses) have been charged to tax

(2) A calculation is made of the tax which would be chargeable on the amounts in (1) taking into account the number of employees concerned whose marginal tax rates are respectively the basic rate, the higher rate, the additional rate, and any Scottish rate

(3) The amounts of earnings in (1) are grossed up by reference to the various marginal rates in (2) of the employees. This is necessary because

those amounts are effectively net payments which are not going to be charged to tax on the employees”.

In view of the above, would you either explain the legal vires behind the change in PSA1160 which says that non-taxpayers must be treated as if they were basic rate taxpayers when calculating the tax due or please revise the guidance.

We do not feel that in view of the pandemic that this is the right time to increase tax on employers but that is a matter for the Government to decide. If more tax is to be raised by this change in HMRC guidance/approach, we believe a change in law is required and the any tax increase should not be imposed retrospectively.

We look forward to hearing from you and we are very happy to discuss this further if required

Yours sincerely



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