

This is an area that HMRC will review as part of normal compliance activity with customers. Therefore, if you identify any issues when applying this guidance or identify any potential errors, please contact your HMRC Customer Compliance Manager

Unintentional Overpayments of Salary

The following has been agreed with HMRC.

Overpayments of salary will occasionally occur and the following guidance deals with how to recover overpayments correctly for tax purposes under RTI.

Summary

The treatment on how to recover unintentional overpayments of salary differ depending on whether the recovery is made during the same tax year the overpayment was made or if it relates to a previous, closed tax year.

In closed tax years, recovery of the overpayment should always be made from employees' net pay (i.e. pay after all deductions have been taken).

For overpayments being recovered within the same tax year, the recovery may be made from the employees' gross pay. However, public-sector bodies should take relevant steps to ensure the correct tax is paid to HMRC when recovery is made gross.

For more information on this, refer to the guidance in **Paragraph 1.19 of Employer further guide to PAYE and National Insurance contributions** [here](#).

For adjustments that relate to closed tax years it is important that an Earlier Year Update is submitted for the tax year in question as this impacts not only on the tax and NIC position but also, for example, entitlement to tax credits and child benefit. Additionally, with the introduction of the Apprenticeship Levy from 6 April 2017, the public-sector body would also need to consider whether any adjustment is required to the Apprenticeship Levy remittances in the earlier year. Again, this would be undertaken through amending the RTI returns.

The additional HMRC guidance below confirms the process for correcting RTI returns and P60s and a link to the relevant guidance in the HMRC Apprenticeship Levy Manual.

<https://www.gov.uk/payroll-errors/correcting-pay-or-deductions>

<https://www.gov.uk/payroll-annual-reporting/give-employees-p60-form>

<https://www.gov.uk/payroll-errors/correcting-payments-to-hmrc>

<https://www.gov.uk/hmrc-internal-manuals/apprenticeship-levy/alm10100>

It might also be possible, depending on the amount of the overpayment, for there to be liability under the beneficial loan legislation. Generally, no tax liability will arise where the total balance outstanding on all beneficial loans (season ticket loans, advance of salary and overpayments etc) do not exceed £10,000 at any point in the tax year in question. Further guidance on beneficial loans can be found [here](#).

If you have any questions on the above, please get in touch with your hub contact.