

## Information Note March 2013

### Real Time Information

This is the biggest pay related change to impact organisations since the introduction of Pay as You Earn (PAYE) in 1944.

Real Time Information (RTI) is a new way of telling Her Majesties Revenue & Customs (HMRC) about PAYE payments at the time they are made as part of the payroll process. Payroll software will collect the necessary information and send it to HMRC online.

This means we will be submitting PAYE throughout the year a part of the payroll process rather than at the end of the year as we do now.

RTI is only concerned with the submission of information – the payment arrangements of deducted monies will remain unchanged.

In July 2010 HMRC issued a discussion document about the current PAYE system and the reasons there was a need for improvement. Issues discussed include:

- PAYE processes have remained unchanged for 66 years
- In 2009/10 it generated £249 billion tax & National Insurance Contributions (NICs) costing less than 1p for every £1 collected
- PAYE works well, particularly where a tax payers employment remains stable
- PAYE was designed for life in 1944 - in 2010 it doesn't work well for employees for various reasons:
  - Changing payroll operations; moving away from weekly cash payments to monthly BACs payments using computer systems
  - Changing working patterns; a job for life is no longer the norm, the labour market is a transient one with full, part and flexi time employees. There is also a number of people over State Pension age who continue to work as well as people holding multiple jobs requiring multiple tax codes.

The document outlined modernisation of the computer systems at HMRC culminating in the National Insurance and PAYE Computer System (NPS). This system is the result of a migration and merger of two databases PAYE and National Insurance Recording. Although there were many problems in the merger the system now holds a single tax account for each tax payer containing tax, NICs and employment information.

The document included information such as:

#### How could it work?

- Most current PAYE operations continue as normal, with the calculation of pay, tax, NICs and Student Loan deductions remaining with the employer
- At the point the payment is made through the payroll via BACs an additional file would be created and sent to HMRC

#### What Improvements could RTI make?

- HMRC will also know, in real time, the monies that the employer should be remitting monthly or quarterly – at present the only reconciliation between what is paid and what is due is made at year end

- On receipt of this additional file, HMRC will know in real time, where an employee is working, how much they are earning and paying in tax and NICs. For new starters and leavers, the P45 / P46 process for the employer is greatly simplified and real time data exchange will enable HMRC to get the tax code correct for more people, more of the time.
- Year-end reporting would be simplified – information is submitted on a per pay period basis so administration at year-end is reduced.

#### Tax Credits & DWP Pensions

- As NPS will hold benefit, welfare and Tax Credit information, updated in real time, the chances of error, fraud or overpayment is reduced.

#### Reduced Fraud, Error and Overpayments

- Tax credit error could be reduced as research suggests that errors and fraud are the results of mistakes made by customers making the claim in the first instance. Real time income information will ' help customers get their calculations right'
- Real time income information will have a similar positive affect on the payment of benefits which fluctuate according to income – Council Tax Benefit and Housing Benefit.

#### Improved Administration

- Where payments from the benefits system are income-related, like Council Tax and Tax Credits, the administration burden of notifying changes is removed. This helps both Government and claimants.
- As income figures are known at HMRC, processing of claims for Tax Credits will be speedier and accurate

#### Enabling Future Reforms

- Given a real time sharing of information with the Department of Work and Pensions, this would enable future benefit reforms

#### What could it mean for Employers?

- Year-end, starting and leaving procedures would be simplified, reducing the administration burden
- However, there was recognition that payroll software would need to change

#### What could it mean for Payroll Software?

- This would need to be enhanced plus BACs changes as well

#### What could it mean for HMRC?

- Operating costs would reduce as a result of streamlining the starter and leaver process
- Further cost savings as a result of the streamlining of the year-end process
- RTI would allow the cleansing and matching of data to that held by employers as employees change employment
- Ensuring compliance by tackling the late or underpayment of PAYE and NICs liabilities
- Tackling error and fraud in areas like benefits and Tax Credits

The discussion document welcomed views from all areas of the payroll industry and asked whether the initiative would be supported, what the perceived issues were and particularly how the system could be implemented and run in a cost-effective and simple way.

The RTI submission will contain a wide range of personal and payment information, such as:

- Employer identity information (PAYE Reference etc.)
- Employee identity information (name, address, date of birth, etc.)
- National Insurance Number (NINO)
- Passport Number (eligibility to work validation)
- Hours Worked
- Tax code, NI Category
- All P46 information (including P46 (Car) and P46 (Expat))
- Gross Payment, including Statutory Payments
- Tax paid, NICs paid plus year-to-date values
- Net Payment

In total, over 100 items were documented as a requirement of the RTI file.

- On a monthly basis, as now, the employer would pay HMRC the net tax and net NICs, taking into account any adjustments that may be required as a result of normal payroll processing (tax, NI corrections etc.)
- RTI would not impact on benefits-in-kind and the P11D process would remain, 'for the time being'. Employers who payrollled benefits would continue to do so and report the information via RTI
- Joiners and leavers information would be submitted via the RTI file (P45s & P46s), therefore, there would be no need for these to be submitted by employers. Similarly, the P14 and P35 administration would not be required, however, the obligation for the employer to issue the P60 would remain.
- The BACS channel would be the most effective way of transmitting the RTI file to HMRC and this would complement HMRC's desire to get the information at, or before, the net payment is made to the employee. However, recognising that 10% of payments are made outside of the BACS system, HMRC would provide an alternative electronic channel – Government Gateway / Basic Tools etc.

Chapter 5 of the document was entitled 'An option for exploiting Real Time Information' and introduced the concept of Centralised Deductions (in essence the payroll department would send HMRC the gross payment to be made each pay period, the statutory payments and third party deductions would remain the responsibility of the employer, HMRC would calculate the necessary tax and NICs deductions making the net payment to the employee and keeping the statutory deductions. The most important line in the chapter is the line that Centralised Deductions is 'one possible longer-term proposal'. Simply put it is an option that could come as a result of the introduction of RTI.

Centralised Deductions were always intended to be, and remain, part of the longer-term project of the Government's objective of Improving the Operation of PAYE.

## The Universal Credit

In November 2010 the Department of Work and Pensions (DWP) published a White Paper entitled 'Universal Credit – Welfare that Works'. The paper was written as a result of a previous DWP consultation into the welfare benefit and Tax Credit system. The consultation outlined Government's intention to reform, simplify and streamline the benefit and Tax Credit System and highlighted the issue of poor work incentives and complex welfare benefit and Tax Credit system. It stated the overall Government objective to make employment a more affordable option as opposed to unemployment and the benefits system – 'making work pay'.

The DWP White Paper showed that RTI and Universal Credit are intrinsically linked. The discussion document talked about RTI 'enabling future reforms' to the benefits system and the White Paper made it clear that part of this was in the form of the Universal Credit. It was clear that Universal Credit cannot work without RTI, and the new benefit is set to go live in October 2013 – it follows that RTI must be live at this date.

RTI is not just about the exchange of tax and NICs information; it is about providing information which will be used to determine an employee's entitlement to State Benefit.

### The RTI Transition Timetable

April 2012	Pilot commences with 10 employers – the Controlled Go Live
May – June 2012	Remaining pilot employers, up to 300 – Phase 1 Pilot
July 2012	Further 1,300 volunteer pilot employers 'invited' – Phase 2 Pilot
November 2012	Depending upon the success of the above, a further 250,000 volunteers invited
April 2013 – October 2013	Commence migration of all remainder employers – large employers will have a staged implementation and will be notified accordingly

### **From 6 April 2013**

The only advice that HMRC have been publicising regarding a 'go live' date is that:

*'most employers will start operating the new PAYE process from April 2013'*

CDDFRA will (via DCC BureuLive) provide Real Time Information for the first time on the 16<sup>th</sup> April 2013 for RDS Salary with Wholetime and Non-uniformed Salaries on the 30<sup>th</sup> April 2013.