

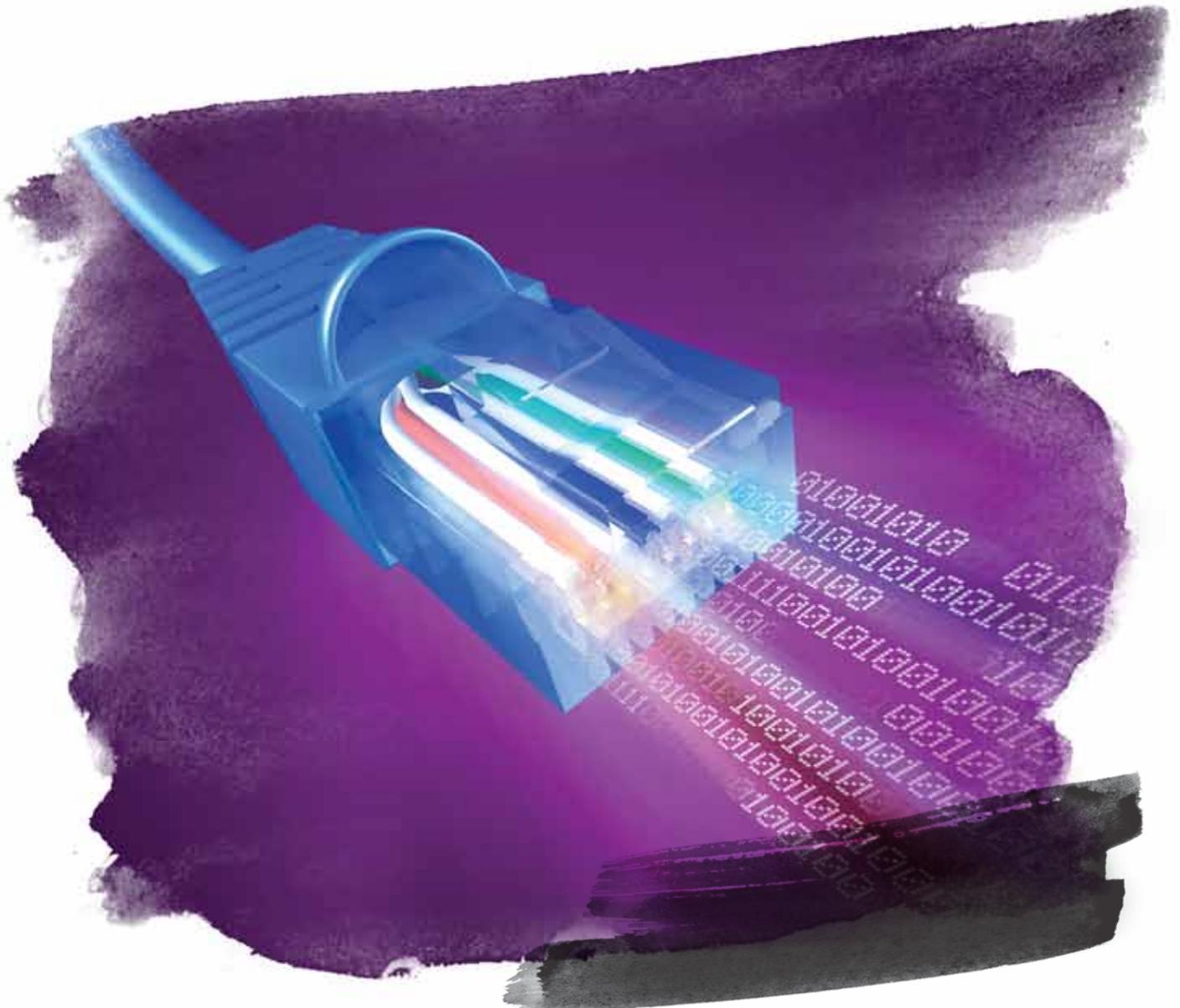


Chartered Accountants, Registered Auditors & Chartered Tax Advisers



KEY GUIDE

Understanding Real Time Information



Introduction

Real Time Information (RTI) reporting starts to take effect from April 2013. The UK's 40 million taxpayers will begin to have their earnings data sent to HM Revenue & Customs (HMRC) on or before their payment date, rather than at the end of the year. All employers and pension providers will have moved to RTI by October 2013.

Since its inception in 1944, PAYE has largely remained unchanged. Even with the introduction of online reporting in 2004/05, the same forms have been submitted to the same timetable. That's now set to change for all 1.6 million PAYE schemes.

Receiving earnings data in real time will gradually allow HMRC to adjust tax codes in-year to make PAYE work more effectively. This will mean that fewer individuals will be caught up in post-year-end adjustments. HMRC will also be able to provide the Department for Work and Pensions (DWP) with actual earnings and personal data that can be used to validate and adjust Universal Credit claims.

Universal Credit is the new overarching state benefit that is to be introduced from April 2013. RTI data will also be passed to the Office for National Statistics, and to the Child Maintenance and Enforcement Commission to be used for the calculation of child maintenance.

RTI timetable

HMRC has been conducting a live pilot of the RTI service with volunteer employers of all sizes since April 2012. By the end of the 2012/13 tax year, HMRC hopes to have over 250,000 PAYE schemes live on RTI ahead of the full rollout that begins in April 2013. HMRC's migration strategy is that small employers will go live at the start of the tax year (actually likely to be mid-April, when HMRC's system has been configured for 2013/14), followed by employers with 5,000 employees or more between June and September.

This means that all employers will need to ensure that their payroll software is RTI-enabled for the start of 2012/13, but that they are still able to use their current software until HMRC informs them of their actual RTI start date.

Getting ready for RTI

Because HMRC will use RTI data to update tax and National Insurance (NI) records, as well as pass it to other government departments, it is vital that the incoming data can be matched accurately to the right taxpayer record – not easy when there are 48 million records.

Aligning employee data with that held by HMRC is the first stage of moving to RTI. This will be achieved in one of two ways, depending on the size of the employer.

- For employers with 250 or more records in their PAYE scheme, an Employer Alignment Submission (EAS) must be sent when requested by HMRC.
- Employers with fewer than 250 records can either send an EAS, or use their first payroll submit (FPS) to align their records.

Payroll software will prepare the EAS or the expanded first FPS, but it will be the employer's responsibility to make sure that its data matches HMRC's. Employees are



Focus point

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likely to have lodged their full forename and surnames with HMRC, so if employers can use those fields as well as, or instead of, the forename and surname an employee uses at work that will help enormously.

NI numbers are the most secure way to match the RTI data to an individual, so these will need to be correctly filed along with accurate dates of birth and gender. When aligning their records, employers will need to include everyone currently 'on the books', even if they aren't being paid at the moment (perhaps because they're on maternity leave or are a casual employee). HMRC will close the record of anyone not included on the EAS on the assumption that they have left the employer. If it finds that any NI numbers submitted by the employer are wrong, it will send an electronic alert requesting that the employer amends its records.

One of the new features in RTI is that the law requires that a new employee's key personal data be verified, for example with a passport or birth certificate. Some employers may need to brief recruitment agencies about this requirement, or amend the design of their application forms to capture both this information and the name people want to be known by at work (if it's different from the name on their official documents).

Full payment submission

Once an EAS has been accepted, the employer has moved to RTI. The data from its next payroll run will have to be sent to HMRC. If the employer didn't do an EAS because of its size, its FPS will be expanded to include everyone still on file who has been paid since the start of the tax year. Even if the employer did an alignment, there will have been a gap between sending that file and its first payroll run, so its payroll software will include any data that has changed since it first sent the alignment, for example any starters or leavers.

After the first FPS, the payroll run becomes easier. Only the earnings and personal data from each run will need to be sent to HMRC, either on or before the payment date. It's important that the file arrives on or before the payment, because employees who are paid by BACS will have a four-digit ID set on their FPS record and a matching ID on the BACS file.

HMRC will use the matching ID on the BACS file to verify that the bank payment has also gone through the payroll. If an employer pays by BACS using a service user number, it will therefore also need to change its BACS file to incorporate the new reference that its payroll software will generate. At the moment there is no cross-referencing required for any other payment method.

Starters and leavers

As soon as an employer is switched to RTI it can stop submitting P46s and P45s to HMRC. A new starter declaration will be included in the FPS, and this will capture the statements that would have been completed on the P46 or derived from the P45. Every new starter who HMRC is notified of will have their NI number verified. This is a new service that will check that the number is in the right format and that it belongs to the individual concerned, so it should be a real bonus in sectors where NI fraud is prevalent.



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Where HMRC finds that a NI number is incorrect or not being used by the right person, it will advise the employer electronically. If payroll software provides it, there is a new ad-hoc NI number verification that can be triggered for up to 100 existing employees each time the FPS is sent. Over time, employers can check the validity of all NI numbers on file and ensure there are no gaps.

Paying HMRC

There is no change to the dates your remittances have to be with HMRC, but for the first time it will be able to calculate the payment due that month or quarter from the FPS files that have arrived in the preceding month. If an employer needs to reclaim any statutory payment compensation, it will need to let HMRC know that it is not in default and that the payment over is going to be reduced. This is done using a file called the Employer Payment Summary (EPS). That needs to arrive on or before the remittance date so that HMRC understands why the payment is lower and does not charge the employer a penalty.



Focus point

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End of the year

Yes, there still is something to do even though the FPS and EPS have been filed throughout the year. On the last file that the employer intends to send for the year – probably the month 12 EPS – the file will be marked to that effect. This will prompt the questions that are currently completed on the P35 to be included with that file. This will close the scheme down for the year and ensure that a ‘failure to file penalty’ is not incurred if the P35 isn’t received by 19 May. HMRC has brought that deadline forward a whole month, to 19 April. If an employer discovers that an employee’s data needs to be amended post-submission, this can be done using an Earlier Year Update.

There’s no change to the requirement to provide P60s by 31 May or P11Ds, P9Ds and the P11D(b) by 6 July.

Next steps

While this is a big change to reporting PAYE data there is no change to the calculation routines. By now you should have:

- Talked to your payroll and BACS software suppliers about the upgrades to software and when these will be available.
- Briefed your HR team about the changes to verifying new starter data, in particular NI numbers. Set up a project team internally to see what processes need to change to meet the new reporting deadlines and avoid any penalties for non-compliance.
- Assessed the impact on your employees, who for the first time will see a direct correlation between payroll data and their state benefit payment. Do you need to improve payroll accuracy to minimise queries from employees about fluctuations in their Universal Credit?

This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. This guide represents our understanding of law and HM Revenue & Customs practice as at October 2012.



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