



Real Time Information

Are you prepared?

Roy Pinnock & Co. LLP
CHARTERED ACCOUNTANTS &
REGISTERED AUDITORS

Wren House, 68 London Road, St Albans, Hertfordshire AL1 1NG

Tel: 01727 840361 Fax: 01727 840831

E-mail: office@pinnockco.co.uk

Partners: Neil Grimson FCA, Natalie Coleman FCCA

Real Time Information (RTI) is widely described as the biggest change to PAYE since the introduction of the system in the 1940s. It will have a significant effect on every employer in the country, and brings with it new responsibilities for reporting and exposure to penalties for getting things wrong. It's coming in April 2013. Are you ready?

What is it?

RTI is a new way of reporting pay and deductions made under PAYE. Reports will generally have to be sent to HMRC online each time an employee is paid. This replaces the current system under which detailed reports are only sent at the end of the tax year (see Timing of RTI reports).

RTI does not affect the way employees are paid, but if you use BACS to pay your employees a new four character code must be added into the BACS payment file. Your payroll software should generate this code if it's needed. Other payment methods, such as cash, cheque, or internet banking, don't need this extra code.

RTI doesn't change the date on which you must pay over PAYE deductions to HMRC. This remains the 22nd of each month for electronic payments, and the 19th for postal payments.

Why the change?

RTI is needed to support Universal Credit, the new state benefit which will replace Working and Child Tax Credits and many other state benefits from October 2013 onwards. The information submitted by employers under RTI will be transferred from HMRC to computers held in the Department of Work and Pensions (DWP), so they can accurately assess the income of each benefit claimant and top up the claimant's income as necessary with Universal Credit.

A secondary effect will be to make the PAYE information HMRC holds more accurate and up to date. So at the end of the tax year, when the HMRC computer tallies up the tax paid by each individual under PAYE, there should be fewer under- and over-payments of tax. In other words more employees should pay the right amount of tax at the right time, but this advantage will take a few years to become apparent.

What's in it for you?

The Government claims RTI will reduce employers' compliance costs. This is unlikely, particularly in the first year due to the extra information you need to record for each employee (see below), and taking into account training and software costs.

Once RTI is fully functional the following forms will no longer be needed:

- P35 and P14 at the end of the year;
- P46 for starters.

This will make the end of year payroll procedures easier, but instead employers will need to supply accurate data to HMRC in every RTI report made during the tax year. You will still have to issue forms P60 to your employees by 31 May after the end of the tax year and form P45 when they leave.

RTI start date

Some employers have already joined RTI as part of a pilot scheme. Others are joining the pilot programme between November 2012 and March 2013.

If you employ fewer than 5,001 people you will be required to use the RTI system from 6 April 2013, unless you have agreed a different start date with HMRC. Once you receive an 'invitation' from HMRC to use RTI, you must join the RTI system from the date directed.

HMRC will ask new employers to take up RTI when they register for PAYE. However, you can ask to use the current PAYE reporting system until 6 April 2013.

Businesses that employ over 5,000 people will join RTI on specified dates up to October 2013. HMRC will contact these employers directly to agree their 'migration date'.

Individuals who employ carers in their own homes for their own or their family's needs are called 'care and support employers'. If such people currently submit PAYE reports on paper forms, and don't use an agent to help them, they will have until 6 April 2014 to migrate to RTI.

More than a software change

There are a number of things you need to do to prepare for RTI (see below). But the most important task is to check that your

payroll software will be RTI-ready for your RTI start date, which in most cases will be 6 April 2013. Certain long-established payroll products won't be upgraded for RTI, so check with your software provider as soon as possible, to ensure you can switch to an RTI-compliant product in time.

HMRC's Basic PAYE tools software will be RTI-compliant from February 2013, but this new version will only be suitable for small payrolls of up to 9 employees. If you currently use this software for

10 or more employees, you will have to find an alternative.

If you don't use a payroll software package at present, we can help you make RTI submissions using our own commercial software, but we need to discuss how this can work for your business.

Getting ready

The other important tasks you need to do before your RTI start date are:

- Check the existing data you hold for your employees (see below);
- Collect the new data items needed for RTI submissions; and
- Train all staff for the RTI procedures.

Who is covered?

You need to submit an RTI report (known as an FPS) containing data for every person on the payroll in the tax year. That includes all casual and occasional employees, even if they earned below the tax and National Insurance (NI) thresholds. However, workers who are aged under 16 (e.g. newspaper boys/girls) do not have to be included in the FPS.

“There are a number of things you need to do to prepare for RTI”

New terms

The reports needed for RTI all have three letter acronyms as follows:

Full payment submission (FPS)

This must be made on or before each date an employee is paid, subject to the relaxations discussed below. It includes all the details of payments and deductions made, as well as all the personal and demographic details about employees such as address and date of birth.

Employer alignment submission (EAS)

Employers who have 250 or more employees will have to make an EAS before they submit their first FPS. Smaller employer can make an EAS if they wish, but if they don't, all the information about all employees on the payroll in the tax year must be included in the first FPS they make.

Employer payment submission (EPS)

This reports advances of statutory payments that can be set against tax due as reported in the FPS. The EPS must be used to report when no payments have been made to an employee in a period.

Earlier year update (EYU)

This is required when an adjustment is needed to the details for an earlier tax year.

Existing data

Well before your RTI start date you should ask each of your employees to check that the information you already hold for them is correct. The most important items to check are the NI number, date of birth, and employee's given name.

NI number (NINO)

Children in the UK are given a NINO when they reach 15½ years old, if their parent claimed child benefit for them. Migrants into the UK, if entitled to work here, should apply for a NINO, but many don't bother. If someone can't verify their NINO, you can use the HMRC form CA6855 to trace missing numbers for employees. A temporary NINO shouldn't be used in any circumstances.

Employers with more than 250 employees must make an employer alignment submission (EAS) of their payroll data to HMRC before RTI starts, which will highlight any missing or incorrect NINOs. The RTI submission will not fail if a NINO is missing.

Date of birth

The date should be in the format DD/MM/YYYY (day, month, year). Default dates such as 01.01.1901 should not be used.

Gender

This is the person's current gender.

Full name

This is the name as displayed on the employee's passport (if they have one), or birth certificate. Ensure you have the names in this order: first name, middle name(s), surname (family name), with the correct spelling. It's important to include middle names where the employee has them to help HMRC match payments to their records, if some other data item is missing, such as the NINO.

Don't use shortened versions of names such as Rob for Robert, or made-up names such as A N Other or 'unknown'.

Address

The employee's address must be included on each RTI submission, although it remains the employee's responsibility to inform HMRC of any change of address.

New information

You will need to collect some new data items for RTI which are not currently required for PAYE reporting, as follows:

Hours worked

The DWP need to know approximately how many hours an employee works, in order to calculate the amount of tax credit due. This means you need to select one the following bands of weekly hours the employee is expected to work:

- A. Up to 15.99 hours
- B. 16 to 24.99 hours
- C. 30 hours or more
- D. Other

HMRC expect the category **D** to be used for people who receive a pension and thus do not work any hours at all. However, category **D** can be used for salaried and zero-hours staff. You don't have to record the exact hours worked, only the normal hours the employee is expected to work.

Partner's name

The family name and first name of the employee's partner will only be required if the employee wants to make a claim for additional statutory paternity pay (ASPP). You don't need to collect this information for every employee.

Passport number

Don't panic. You only need to record the passport number where you have collected it as part of the checks you do to ensure a person is entitled to work in the UK. If these checks are not done in the payroll department, you don't need to change your processes to store the passport number as part of the payroll data.

Timing of RTI reports

You must submit the FPS on or before the date you pay your employees, not on the day when you run the payroll calculations and pay the tax over to HMRC. However, this 'on or before' requirement is relaxed slightly in the following circumstances:

Casual workers

This includes payments made in cash to crop-pickers according to the amount picked, or to bar staff for the hours worked on a single night. In these cases you must make the RTI report on the earlier of seven days after the day the payment was made, and your next regular payroll run. This could mean you need to run your payroll every week rather than once a month.

Ad-hoc payments

These are payments made outside of the normal payroll run, for example where a new starter is notified late or an overtime payment has been missed by mistake. In these cases the RTI report can be made the next time the payroll is run.

Benefits and expenses

This will include payments of an employee's private bills. The RTI report must be made on the earlier of the day you calculate the Class 1 NIC due on the payment and 14 days after the end of the tax month in which the payment was made.

Notional payments

Where there is no transfer of money to the employee, the RTI report must be made on the earlier of the time you operate PAYE on the payment and 14 days after the end of the tax month in which the payment was made. An example is the award of shares which are taxed as if the value was salary.

Loans and advances

It will be important to identify the nature of each payment made to directors and other employees. In particular, where directors draw cash out of their own company, it must be clear at the time of payment whether those funds represent pay, a loan, an advance or perhaps a dividend.

Loans are not subject to PAYE and are not required to be reported under PAYE, but a loan that is written off will become subject to NIC at that point.

An advance of salary should be subject to PAYE, and must be included in the RTI report.

Dividends are not subject to PAYE if they are correctly calculated and declared as dividends. Illegal dividends may be reclassified as salary and then an RTI report will be required.

Penalties

Once RTI is bedded in, penalties will apply automatically for late submission of the FPS and for incorrect reports, if these errors are picked up during an HMRC inspection. However, these RTI penalties are unlikely to apply before April 2014.

Conclusion

This bulletin highlights some of the forthcoming changes to PAYE reporting under RTI which are likely to be relevant to employers in general. If you want to discuss how your business will be affected more specifically, please contact us to discuss your concerns.

