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REAL TIME INFORMATION: ARE YOU READY?



From April 2013, HM Revenue & Customs (HMRC) is introducing a new way of reporting PAYE, known as Real Time Information, or RTI. The new system will see fundamental changes to the way in which employers and pension providers must report the payments and deductions they have made under PAYE. This guide provides an overview of the RTI regime, and how the new requirements may affect you.

THE BACKGROUND TO THE SCHEME

Under the Pay as You Earn (PAYE) system, employers deduct an appropriate amount of income tax and national insurance contributions (NICs) from employees' wages, in accordance with PAYE codes, tables and other instructions and procedures laid down by HMRC. Over the course of a year, the amounts deducted should be a close match to the actual tax and NIC liability due.

Employers deduct the tax and NICs, add their own employer's NICs, and pay the total to HMRC, net of certain adjustments, every month or quarter. However, it is not until the end of the tax year, when the annual return is completed, that the overall liability is reviewed and calculated.

Under this system, inaccuracies can go undetected for long periods of time, with the result that individuals can go for extended periods inadvertently paying the wrong amount of tax.

The aim of the new RTI system is to ensure that the correct deductions are made from pay, resulting in more individuals paying the right amount of income tax and NICs throughout the tax year.

THE NEW RTI SYSTEM

While essential aspects of the system will remain the same (ie. the use of tax codes, deducting tax and NICs, and calculating pay), RTI will require employers and pension providers to submit information to HMRC regarding deductions they have made for PAYE, NICs and student loans **when or before each payment is made**, rather than at the end of the year.

HMRC believes that RTI will make the process simpler and less burdensome for employers, by:

- making it easier to ensure individuals pay the right amount of tax following a change of job

- removing the need to submit year end forms P14 and P35, and form P38A for casual employees – although you will still need to provide P45s and P60s to your employees, and to complete forms P11D and P11D(b) in respect of taxable benefits and allowances
- simplifying the PAYE end of year reconciliation process for employers and HMRC
- removing much of the uncertainty that leads to errors in the tax credits system.

The information on individuals' employment income will also be used to support the administration of the new Universal Credit welfare benefit, which is due to come into force in October 2013.

TIMESCALE FOR THE CHANGES

The new system is being phased in from April 2013, with all micro, small and medium-sized businesses and most large employers and payroll bureaux set to begin sending payroll information to HMRC in real time from this date. Businesses employing more than 5,000 people will arrange a 'migration date' between April and October with HMRC. The scheme will be mandatory for all employers from October 2013.

HMRC has agreed that any new PAYE schemes set up from November 2012 will be allowed to send payroll information in real time, as will employers joining HMRC's RTI trial before March 2013. In addition, existing employers who in 2012/13 use or switch to software which is RTI compliant will also be allowed to report using the new system. Small employers, with nine or fewer employees, can use the free HMRC Basic PAYE Tools package instead of commercial payroll software.

HMRC will notify employers 4-6 weeks before they must begin using RTI. However, much of the impetus has been placed on employers, and it is important that you prepare for the move ahead of time. You may need to change some of your business systems and procedures to ensure that your information is correct and that your staff will be paid on time. Failure to submit PAYE data on time via RTI could also lead to penalties.

GETTING RTI-READY

✓ Check your data

You need to check in advance that your payroll data is accurate and in an appropriate format for RTI. The information that you submit will be matched against records held on HMRC's databases, and any discrepancies could lead to inaccurate tax calculations or trigger a compliance check. See our **employee data checklist** below for tips on ensuring the accuracy of your employee information.

✓ Update your payroll software

If you currently use payroll software, you will need to update it so that it is capable of processing and submitting RTI data. If you use a payroll provider, make sure that they are RTI-ready.

If you do not use payroll software, you will need to take steps to ensure that you are able to submit data to HMRC electronically by the deadline.

As mentioned on page one, if you are an employer with nine or fewer employees you can use either the free HMRC Basic PAYE Tools package or commercial payroll software, which will allow you to submit the data to HMRC when you complete the payroll. However, HMRC recommends that employers with more than nine employees use more appropriate software available from commercial software providers.

✓ Update your Bacs references

If you pay your employees by direct Bacs, you must include a cross-reference or 'hash' in the submission and Bacs payment instruction.

If you make payments via a payroll bureau, bookkeeper or agent you should discuss with them what changes you may need to make to your PAYE processes.

Did you know?

Over 80% of the problems caused by inaccurate payroll data are due to an incorrect name, date of birth or national insurance number.

Employee data checklist

Name: Ensure that individuals' names are submitted in full, spelt accurately, and listed in the correct order, so: Alison Mary Smith, not A Smith, Smith A or Alison M Smith. Avoid using shortened versions, or covering entries such as 'unknown' or 'A.N.Other'.

DOB: Do not use a default date of birth, and make sure the date is in the correct format (day, month and full year of birth).

NI: Ensure that you submit the correct national insurance number, which will take the form of two letters, followed by six numbers, ending with the letter A, B, C or D.

You can verify employee details by checking them carefully against an official document, such as a passport, birth certificate or full driving licence, and by making a national insurance number verification request (see right).

MAKING AN RTI SUBMISSION

There are several types of submission under the new RTI system, as set out below.

FULL PAYMENT SUBMISSION (FPS)

An FPS is the main type of submission, and contains details of all employee payments and deductions, including income tax, NICs and student loans, together with details of any new employees and those who have left the business.

An FPS is required *each time an employer makes a payment to an employee*, either at or before the time of payment, whether this is weekly or monthly, and it includes those whose income is below the lower earnings limit for NICs.

The first FPS should include all employees who have been employed during the current tax year, including starters and leavers, or those who have not yet received a payment, together with the hours normally worked.

Employers can submit a first FPS for each part of their payroll, eg. one first FPS for weekly pay, one for monthly pay and another for leavers. Subsequent FPS' will only contain pay and deduction details for those employees that are actually being paid on that payday.

When you send your final submission for the tax year, you must indicate that this is the case and answer the relevant questions and declarations.

You may also be required to make the following submissions, depending on your individual circumstances:

EMPLOYER ALIGNMENT SUBMISSION (EAS)

This is used to match and align employee records with those held by HMRC, before you submit further information. You will need to submit an EAS if you have a large PAYE scheme with over 250 employees, if your PAYE scheme is split between different payroll providers or you have two or more payroll systems, or if you are unable to make a single FPS submission due to bandwidth restrictions.

EMPLOYER PAYMENT SUMMARY (EPS)

An EPS can be submitted where no payments are made to any employees in a pay period. The submission is also used where you need to advise HMRC of an alteration to your overall PAYE and NIC liability, recover statutory payments, etc.

If you want a deduction to apply to a specific tax month, the EPS must be received by the 19th of the following month.

NATIONAL INSURANCE NUMBER VERIFICATION REQUEST

This allows employers to validate an employee's national insurance number, or to trace a number where it is not known.

EARLIER YEAR UPDATE

This submission is used after 19 April to correct any of the year to date totals submitted in your final FPS for the previous tax year, and will only apply to RTI years.

This article is for general guidance only. We can offer assistance with all your payroll needs, from helping you to maintain accurate records to managing your payroll function on your behalf. Please contact us for further information.

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