HM

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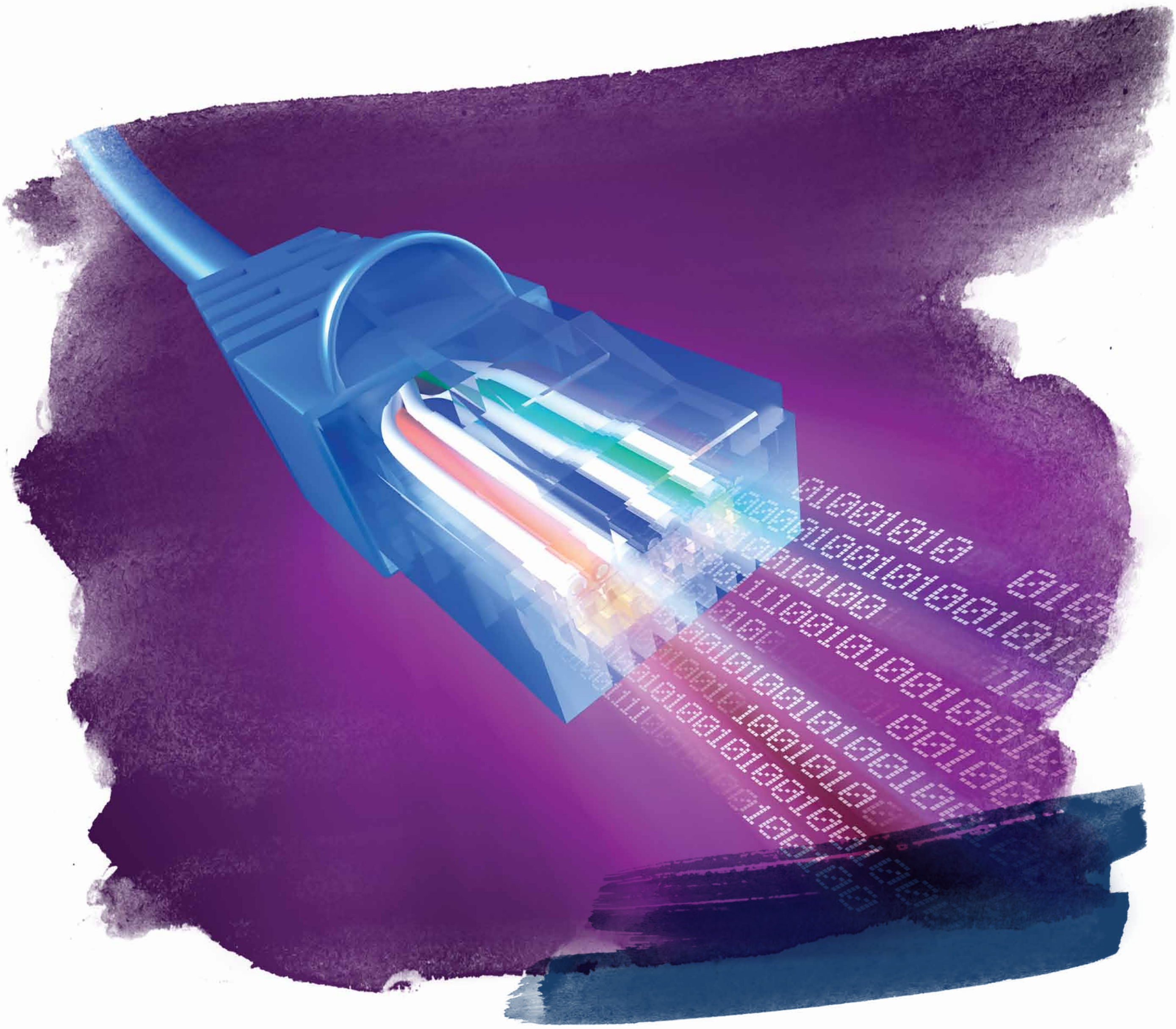
KEY GUIDE

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 Child Maintenance Service to be used for the calculation of child maintenance.

RTI timetable

HMRC conducted a live pilot of the RTI service with volunteer employers of all sizes from April 2012 to March 2013. By the end of the 2012/13 tax year, HMRC had over 41,000 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 when HMRC's system has been configured for 2013/14, followed by employers with 5,000 employees or more between June and September.

Focus point

The relaxation of the deadline for certain small employers is very specifically targeted, and even those to whom the relaxation does apply are still expected to conform by 5 October 2013.

On 19 March 2013, HMRC announced a relaxation of the deadline to report in real time for certain employers with fewer than 50 employees. This will allow employers who process and pay their employees weekly but only run their payroll (either themselves or through an agent) monthly to submit a return to HMRC at the end of each tax month at the latest, instead of with or before each weekly payment.

This should not be taken as a blanket exemption for small employers. It is specifically aimed at those who have difficulty in making the transition to weekly reporting in April 2013. Those employers are still expected to move to weekly reporting by 5 October 2013 or, alternatively, to switch to monthly employee payments.

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, or with employees paid with more than pay frequency e.g. weekly and monthly records or by two payroll systems or providers, an Employer Alignment Submission (EAS) must be sent ahead of the first payroll run for 2013/14.

- Subject to the above conditions, employers with fewer than 250 records can either send an EAS, or use their first Full Payment Submission (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 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. Using preferred forenames and surnames will not cause an EAS or FPS to be rejected, however.

NI numbers are the easiest way to match the RTI data to an individual, so where these are known they will need to be filed along with accurate dates of birth and gender (both of which are mandatory). 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 and, conversely, create a record for employees it had not previously received a P46 or P45 for to set the record up. 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.

Focus point

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.

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 on or before the payment date. 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. Even if the payment date falls on a weekend, it must not be changed because this is the date used to assess which tax month the payment applies to. For example, pay day is scheduled for 6 April 2013 (the start of the first month of the 2013/14 tax year). Because 6 April 2013 is a Saturday, the payment is moved forward a day – to Friday, 5 April 2013 (the end of the 12th month of the 2012/13 tax year). This change means that the payment will not be picked up in the correct tax month/year.

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

Once live on RTI an employer stops submitting P46s and P45s to HMRC. A new starter declaration will be included in the FPS, and this captures the statements that would have been completed on the P46 or derived from the P45. In a change of process, all employees must complete statements A – D, currently on the P46, even if they have a P45. Every new starter who HMRC is notified of will also 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 identity fraud is prevalent.

Focus point

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.

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 issues.

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 19th of the month after the month just ended i.e. the EPS for May 2013 must be received by 19 June. The employer most pay over the amount as derived from all the FPSs sent for the tax month. The employer is not able to reduce the remittance for any payments that were reworked or stopped after the FPS was sent to HMRC.

Automated in-year late payment penalties will be introduced from April 2014 where remittances are less than those calculated by HMRC as due. The EPS can also be used to indicate that no employees will be paid for up to six months, and to inform HMRC that a sub-contractor has had tax deducted from an invoice, because this can be used to offset any PAYE liability.

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 and a pension scheme number to be included if the employer has a contracted-out pension scheme. 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 April. HMRC has brought that deadline forward a whole month, to 19 April, but for the first year of RTI a penalty will not be generated as long as the final EPS/FPS is received by 19 May 2014 (2013 for pilot employers). If an employer discovers that an employee's data needs to be amended post-submission, this can be done using an Earlier Year Update. Changes required before 19 April can be done through an amended FPS/EPS.

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

A lot has been learned during the course of the live pilot. Here are some useful points to bear in mind.

- Ensure you can access the totals in your FPS and EPS in case you need to provide evidence to HMRC of the liability calculated and submitted by your software. Use the liability and payment viewer on HMRC's website to check what HMRC calculates is due.
- If you have casual employees who work for you more than once in a tax year, ensure that your software uses the payroll ID field correctly to alert HMRC that this is a new period of employment.
- Once you send an EPS in any tax year to recover a statutory payment, ensure that you continue to report the YTD recovery figure for the rest of the relevant tax year.
- Make sure you have he account office reference stored in your payroll software, because this is a mandatory piece of ID data for the employer to have.

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