ICAEW CHARTERED ACCOUNTANTS

David Cutter & Co
Chartered Accountants

2 Lyttleton Court, Birmingham Street,
Halesowen, West Midlands B63 3HN

Tel: 0121-550-8525
Fax: 0121-585-7341
Email: info@davidcutter.co.uk
Web: www.davidcutter.co.uk

Payroll - in Real Time?

As you are no doubt aware employers are responsible for reporting details of employees' pay, expenses and benefits to HM Revenue and Customs (HMRC). They are also responsible for making the relevant deductions from the payments, broadly income tax, national insurance contributions and student loan deductions.

This Briefing deals with the significant changes to the way payroll information will need to be submitted to HMRC under Real Time Information (RTI).

The new procedures will not only impact on how the information has to be submitted but also the timing and will result in changes to your payroll processes. The briefing is relevant whether you deal with the payroll yourself or whether we deal with the payroll on your behalf.

PAYE - A bit of history

The current Pay As You Earn (PAYE) system was introduced in 1944 as a result of the growing number of taxpayers which led to the need for a more efficient tax collection system.

Under PAYE although payroll is generally run weekly or monthly, the details of payments and deductions made for individual employees are not submitted to HMRC until after the end of the tax year. At that time a full breakdown of payments and deductions is then submitted using the year end forms P35 and P14. As this detailed breakdown of information relating to each employee's circumstances is not reported until after the end of the tax year inaccuracies (which create under or over payments) can take a long time to be spotted and rectified.

RTI – overview

RTI is mandatory for all employers and is to be implemented from April 2013.

Under RTI employers, or their agents, will be required to make regular payroll submissions for each pay period during the year detailing payments and deductions made from employees each time they are paid.

Whilst the majority of payroll systems are gearing up to ensure that they are able to deal with the new compliance requirements of the RTI system, there are some important changes which will need to be made to the way you process your payroll.

HMRC are keen to get RTI up and running as it will enable them to ascertain details of an employee's circumstances on a more timely basis. It will also provide details for Universal Credit, the new state benefit system which is due to start being rolled out from October 2013 onwards.

Get ready!

RTI is being phased in for batches of employers but each employer will have to follow the same sequence of events as detailed below.

Data Validation

The first step in the RTI process is that you will need to send employee data to HMRC which they will validate using their own databases.

Therefore, to avoid any discrepancies during the validation procedure you need to ensure that the employee information you currently hold is complete and up to date.

In particular you need to ensure that the following employee details are accurate:

- full employee name
- date of birth
- national insurance number (NINO)
- full postal address (this is a mandatory field where the NINO is unknown)
- gender.

HMRC are advising that it may be a good idea to check the relevant information with employees before submitting the information to HMRC.

Tip - New employee details

Under RTI you will not be able to process pay for new employees which fail the HMRC validation checks. Therefore, please ensure the appropriate checks are carried out and the correct employee information is obtained for all new employees from April 2013.

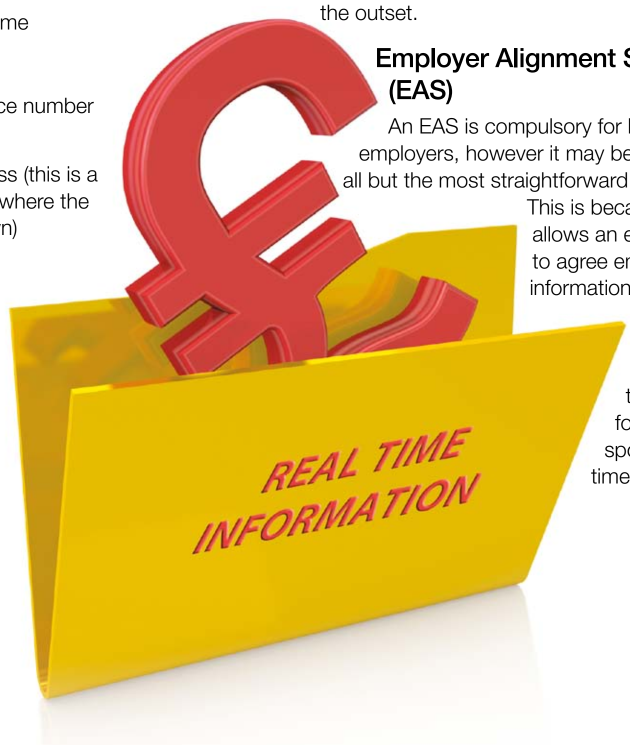
If you do not have a NINO for an employee then the employee's full postal address will have to be reported to HMRC each time you pay them!

HMRC notification

HMRC are planning to stagger the start dates of RTI across employers. Employers will be allocated a start date of somewhere between April 2013 and October 2013. For employers with fewer than 5,000 employees this is set to be April 2013. New employers, setting up their payroll scheme from now on, will be offered the opportunity to begin operating under RTI from the outset.

Employer Alignment Submission (EAS)

An EAS is compulsory for large employers, however it may be advisable for all but the most straightforward of payrolls. This is because the EAS allows an employer to agree employee information with HMRC prior to the first RTI payroll run, rather than waiting for errors to be spotted at the time of payment.



The EAS allows HMRC to validate the employee information held on an employer's payroll, any discrepancies can be sorted out in advance.

Full Payment Submission

The first Full Payment Submission (FPS) an employer makes to HMRC is to include details of all employees. This would include:

- employees currently on the payroll
- employees who left before the current payroll run, (but were employed in 2013/14) including the leaving date shown on their P45
- employees you are not paying this time, perhaps because they are on maternity leave or an unpaid absence, or because you pay them quarterly or annually.

Any subsequent FPS will only include details for those employees an employer is paying that time.

Payroll processing

The payroll FPS an employer makes each pay period must be sent to HMRC on or before the date employees are paid. Therefore, employers may need to introduce an earlier cut off date for pay periods after which you will be unable to make any changes for that pay period.

This may cause difficulties as the following example illustrates

> **Example**
>
> *Mike forgot to sign off the overtime returns for his team. The payroll has already been processed and the wages calculated ready for payment on the last Friday of the month. It is now Wednesday of that week.*
>
> ***Options***
>
> 1. *The payroll could be amended and a FPS submitted showing the revised figures by Friday.*
> 2. *If the FPS has already been submitted to HMRC a further FPS could be made to detail the payments of overtime and deductions.*
> 3. *The employees get paid on Friday using the payroll figures which have already been processed. Upset at not receiving their overtime the team ask for this to be paid as an advance. If the employer wants to make this advance payment in respect of the wages then a further FPS would need to be made to submit details of the payments and deductions made in respect of the overtime payments.*

Employer Payment Summary

Employers may also have to make a further return to HMRC each month (EPS) to cover the following situations:

- where no employees were paid in the tax month
- where the employer has received advance funding to cover statutory payments
- where statutory payments are recoverable (such as SSP, SMP, OSPP and ASPP) together with the SMP NIC compensation payment
- where a NIC holiday is being claimed or
- where CIS deductions are suffered which could be offset (companies only).

HMRC will offset the amounts recoverable against the amount due from the FPS to calculate what should be payable. The EPS needs to be with HMRC by the 19th of the month to be offset against the payment due for the previous tax month.

Payments to HMRC

Please bear in mind that under RTI HMRC will be aware of the amount due on a monthly/quarterly basis. This will be part of the information reported to HMRC through the FPS and EPS.

HMRC will expect to receive the PAYE and NIC deductions less the payments each month or quarter (small employers only).

Some further complications

Wages

Under RTI it will not be possible to put through wages at the year end of the business and assume this has been paid throughout the year, for example to utilise a family member's national insurance lower earnings limit which gives them a credit for state pension and statutory payment purposes.

Wages should be paid regularly and details provided to HMRC through the RTI system on a timely basis.

Casuals

The HMRC guidance on RTI includes rules which will be difficult for some employers to work within. For those employers who have casual staff the following HMRC guidance will cause difficulties:

'Under RTI employers operating PAYE will have to tell HMRC about payments of earnings to all employees, even where an employee earns less than the lower earnings limit (LEL), currently £107 a week. This is a change from the current situation where employers do not have to maintain a P11 if someone for example earns £20 a month, being well below the LEL.'

Employers who have casual staff currently let HMRC have details of their pay at the end of the year using a P38A. Unfortunately, this procedure is not available under RTI. HMRC need details of pay when or before payment is made.

> **Example**
>
> *Norman runs a pub. He uses casual bar staff to cover busy times which are usually Friday and Saturday nights. He pays the staff £7 an hour at the end of the shift getting the staff to sign for their wages and then passes the information to his bookkeeper for processing in due course.*
>
> *As the staff can be unreliable (and occasionally send someone else or go home early if the evening is quiet) Norman is reluctant to process wages in advance. However, under RTI HMRC need to receive an EPS when the payment is made to the casual staff.*

Students

Currently where a student only works in the college holidays it is possible for them to complete a form P38(S). The completion of this form allows employers to allow the student to be paid without deduction of PAYE although national insurance contributions are still payable. This favourable treatment assumes that the student's wages will fall below the personal allowance for the year, currently £8,105.

Unfortunately this favourable treatment will not be available under RTI and students will have to be taxed in the normal cumulative way which allows only a proportion of the personal allowance to be set against each payment. Where they end up paying tax, they will need to recover this from HMRC by claiming a refund.

The end of the P35 procedures

Under RTI the P35 procedures will no longer be necessary. For most employers therefore the last P35 form which will need to be completed will relate to 2012/13.

RTI penalties

The current penalties which apply to late submission of forms P35 will apply to the final RTI submission for the tax year. So where the return is late HMRC can use the late penalty provisions which charge a penalty of £100 per month per 50 employees (or part thereof). They can also impose further penalties where the return is inaccurate due to careless or deliberate errors and when payments are late.

HMRC have started a consultation on the introduction of penalties for RTI. This consultation is currently ongoing and looks at various options for possible penalties on all RTI submissions.

The future

RTI is a big change to PAYE and will take some time for employers and their agents to get to grips with. HMRC are frequently updating their guidance on the new procedures. We will keep you informed of developments but if you would like to discuss any aspect of this Briefing in more detail, please do get in touch.