

Real Time Information

Major changes to your payroll



Why the change?

Are you ready

Employers payroll systems

Accuracy of employee data is key

Timely payment of PAYE

PAYE paperwork

Profit extraction strategies

Action required

From April this year, employers will have to report detailed payroll information to HM Revenue & Customs (HMRC) when paying their staff.

Known as Real Time Information (RTI), it's being described as the biggest change to the Pay As You Earn (PAYE) system since its introduction in 1944!

Until now, payroll information has been submitted after the end of the tax year in the 'annual return form'. But employers will now be required to disclose information about employees' hours worked and earnings, each time they are paid.

Why the change?

The main reason is 'Universal Credit', the new single payment intended to simplify benefits for the unemployed and low earners, due to be introduced in October this year. Universal Credit replaces income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Income Support, Child Tax Credits, Working Tax Credits and Housing Benefit.

By using the information submitted through RTI, it's intended that benefit payments will be adjusted on a monthly basis. The current system is open to abuse and often leads to problems and errors, notably in relation to tax credit payments and overpayments. It is estimated that a reduction in fraud and errors will save some £2 billion over five years.

HMRC will notify employers 4-6 weeks prior to when they must begin RTI submissions. The majority of employers will be affected, the rules include individuals who employ nannies, for example.

Are you ready?

Employers payroll systems

HMRC will contact all employers asking for their employee data which will then be checked against its database and validated. This is known as the Employer Alignment Submission (EAS) or a first Full Payment Submission (FPS).

This first submission must cover not only current employees but also joiners and leavers in the tax year. The information required includes the employee's full name, address, date of birth and national insurance number.

Employers must therefore be able to submit this employee data to HMRC. Those with nine or fewer employees will be able to use HMRC's free 'Basic PAYE Tools' but others will have to use compliant commercial payroll software or a payroll services provider, such as a payroll bureau or accountant, who has the right software (our payroll bureau can do this).

Accuracy of employee data is key

If an employee's data has not been validated by HMRC, it will not be possible to process payments to them.

It is therefore crucial that employee data is accurate. Shortened names may cause problems – for example Jo rather than Joanne, as may maiden names and made up dates of birth e.g. 01/01/1900.

Businesses with more than 250 employees must send in an 'Employer Alignment Submission (EAS) so that HMRC can match the information against the data in their records. Those with less employees can voluntarily submit an EAS.

The full pay, tax and national insurance information for each employee must be filed, together with the hours worked (under 16, 16 or over but less than 30, or 30 and over) and validated before they are paid. This is the FPS. There are some minor exceptions, where reporting is allowed up to seven days after payment has been made, covering those such as crop pickers who are paid in cash based on that day's work, for example.

Extra time may also be allowed in relation to benefits in kind which are subject to class 1 NICs but not PAYE (home telephone charges for example).

Real Time Information (RTI)

Timely payment of PAYE

In recent years HMRC has become increasingly concerned about, or perhaps wise to, late payment of PAYE and NICs. 'In-year' penalties and interest designed to encourage payment by employers of the correct amount of PAYE on a monthly basis have been introduced.

A substantial proportion of businesses which fail have significant PAYE and NI arrears. These are sometimes regarded as self-sanctioned sources of funds, significantly easier to obtain and perhaps more flexible than a bank loan! In the past, as long as the deductions declared on the 'employers' annual return form, P35' submitted after the end of the tax year reconciled with the total payments made, little attention was given to whether payments had been made at the right time in the year.

As HMRC will know the amount you should be paying based on the FPS, it will not be possible to use PAYE and NI to assist with general cash flow, whether subject to a subsequent penalty and interest or not.

PAYE paperwork

P14 forms and employers summary form P35 - these will no longer be required at the end of each tax year. Instead, employers will simply flag the last pay period in the tax year.

P45 forms will still be needed for leavers, and P46 forms for joiners without a P45 must still be completed, but will no longer need to be submitted to HMRC.

P60s (certificate of pay and tax deducted) must still be provided to employees and the form P11d must continue to be used to report details of expenses payments and benefits etc.

Profit extraction strategies

Business owners who draw a mixture of salary/bonus, dividends, benefits (including loans) and reimbursed expenses will need to ensure that the decision over which option has been taken has been made, properly recorded, and, if it is salary/bonus, reported

to HMRC at that time. Payments below the National Insurance Lower Earnings Limit will need to be declared for each pay period, whereas in the past they would only have been included in the end of year supplementary P38A return form. For dividends, the board minutes, vouchers and the accounting entries should be completed at the appropriate time.

Action required

Employers should make sure all their employee data is accurate and up to date without delay, and that they have decided how to structure their own income, so that salaries and bonuses are reported accurately.

London

10 Orange Street
Haymarket
London
WC2H 7DQ

T +44 (0)20 7312 0000
F +44 (0)20 7312 0022
E advice@shipleys.com

Godalming

3 Godalming Business Centre
Woolsack Way
Godalming
Surrey
GU7 1XW

T +44 (0)1483 423607
F +44 (0)1483 426079
E godalming@shipleys.com

www.shipleys.com



Shipleys is a member of AGN International, a worldwide association of separate and independent accounting and consulting firms.

Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

© Shipleys LLP 2013.