

Payroll Processing - Real Time Information

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PAYROLL PROCESSING - REAL TIME INFORMATION

HMRC is introducing a new way of reporting PAYE - called Real Time Information ('RTI').

From April 2013, all employers are legally required to report Pay As You Earn (PAYE) deductions in real time. This means that information about all PAYE payments needs to be submitted to HMRC online each time a payment is made.

Under the current system employers are only required to submit details of PAYE deductions to HMRC at the end of the tax year. Moving to RTI means more frequent reporting so it will be vital that payroll systems are up to date with full and accurate employee details.

WHAT IS REAL TIME INFORMATION?

RTI requires the equivalent of sending a full year end return online, but the return must be sent to HMRC 'on or before' each monthly payment. If employees are paid weekly, then a weekly return is required.

Initially, all RTI submissions needed to be made 'on or before' the pay date, but recent announcements from HMRC have now relaxed this requirement until the end of

September 2013. This relaxation permits smaller employers (those with 50 employees or less), who may find it difficult to report every payment to employees at the time of payment, to send information to HMRC on the regular payroll run but no later than the end of the tax month (5th).

The RTI regime will replace the need for year end forms P35 and P14s, which were previously sent to HMRC, but form P60s will still be produced and sent out to employees to provide them with details of their annual pay and deductions.

Procedures for taking on new employees will also change, with no need to submit P45s to HMRC. Instead information on leavers and joiners will be reported automatically through the payroll software used.

WHY ARE HMRC INTRODUCING RTI?

It is expected that RTI will mean fewer under or over payments, as tax codes will be updated more frequently to reflect changing circumstances.

For those employees who receive tax credits or other benefits based on their income, adjustments can be made straight away without relying on the employee informing the relevant government department of a change in circumstances.

The new procedures will also give HMRC greater power to collect underpayments, which they will now be aware of at a much earlier stage.

IMPLEMENTATION TIME

RTI comes into effect from 6 April 2013 for all small to medium sized employers. Large employers will have a staged implementation date but need to submit through RTI no later than October 2013.

There are a number of exceptions to the requirement to report PAYE information on or before payment, which allow reporting to be either within 7 days of payment, or in some cases on the next regular payroll report or within 14 days of the end of the tax month. These include:

- Ad hoc payments made outside of the regular payroll, for example certain overtime payments missed from the payroll, or ad hoc payments made 'on account' of earnings.
- Payments to some casual employees or low paid workers for whom employers do not currently have to maintain a payroll deductions working sheet.
- Payments which vary according to work done on the day, are paid in cash or by cheque, at a time or place where it is impractical to report on or before payment and where the employer cannot know in advance what the payments will be.
- Certain benefits and expenses that are subject to NICs but not to tax.
- Notional payments, for example some types of share award.
- Some payments from overseas employers.

Advice should be sought where these payments are expected.

PAYROLL ALIGNMENT

Larger employers, and certain other employees with complex payroll affairs, may be required to align their employee records with HMRC records before their first RTI submission. This involves sending the employee and employer information

online, to check that it is in the correct format and that all relevant information has been included and can be processed.

NEW INFORMATION REQUIRED

Under RTI the following additional information will be required:

- The PAYE and Collection Reference numbers will be required on the return for each pay period.
- The employer's self assessment Unique Tax Reference is required for a sole proprietor or partnership and the Corporation Tax Reference number for a Limited company.
- The number of contracted hours per week must be entered (up to 15.99, 16 to 29.99 or over 30 hours per week).
- Also, if a passport is used to determine the employee's right to work, the passport number also must be reported.
- For employees on maternity leave, their partner's full name should be entered.

IMPACT

- In order to limit HMRC queries, employers and payroll providers will need to report the employees date of birth and either National Insurance number or address, the latter of which will be mandatory for new starters. Obtaining and reporting this information could be a significant burden for some employers.
- From April 2013, forms P38s (student declaration) and forms P46 will no longer be in use. Instead, employers will need to ensure that they carefully maintain their own employee records and declarations. These records may be stored in whatever method/format preferred by the employer but should show all essential details for new employees including their 'previous employment status', as previously dealt with under the form P46 process.
- Under RTI employers are required to file details of all employees, including employees earning below the NICs lower earnings limit, who previously could be paid 'off payroll' without the requirement for detailed reporting.
- For weekly paid employees, where payment details might only have been collated once a month, weekly returns will now be required. Employers using out sourced payroll providers will need to agree with those providers how this information should be provided to them.
- HMRC will know how much PAYE and National Insurance is due each month. Underpayments will be easy for HMRC to identify and it can be expected that there will be an increase in penalties and interest charges raised for late payment or inaccurate returns.

- Where payments present particular difficulties, advice should be sought as to whether they fall into any of the RTI exceptions.

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