

Real Time Information

Do you know the rules?

Real Time Information (RTI) is widely described as the biggest change to PAYE since the introduction of the system in the 1940's. It has a significant effect on every employer in the country and brings with it new responsibilities for reporting and exposure to penalties for getting things wrong. It's was introduced in April 2013. Do you know everything you need to know?

What Is It

RTI is a new way of reporting pay and deductions made under PAYE. Reports have to be sent to HMRC online each time an employee is paid. This replaces the old system under which detailed reports were only sent at the end of the tax year (see Timing of RTI reports).

RTI does not affect the way employees are paid, but if you use BACS to pay your employees a new four character code must be added into the BACS payment file. Other payment methods, such as cash, cheque, or internet banking, don't need this extra code.

RTI doesn't change the date on which you must pay over PAYE deductions to HMRC. This remains the 22nd of each month for electronic payments, and the 19th for postal payments.

Why the change

RTI was needed to support Universal Credit, the new state benefit which replaces Working and Child Tax Credits and many other state benefits from October 2013 onwards. The information submitted by employers under RTI is transferred from HMRC to computers held in the Department of Work and Pensions (DWP), so they can accurately assess the income of each benefit claimant and top up the claimant's income as necessary with Universal Credit.

A secondary effect is to make the PAYE information HMRC holds more accurate and up to date. So at the end of the tax year, when the HMRC computer tallies up the tax paid by each individual under PAYE, there are fewer under and over payments of tax. In other words more employees pay the right amount of tax at the right time.

What's in it for you?

The Government claims RTI reduces the employers' compliance costs. We don't agree with this, particularly due to the extra information you need to record for each employee (see below), the fact you have to report under PAYE for more staff than under the old rules, the more frequent reporting to HMRC, and also taking into account training and software costs.

The following forms are no longer needed under RTI:

- P35 and P14 at the end of the year;
- P46 and the need to file P45 for starters and leavers with HMRC.

This makes the end of year payroll procedures easier, but instead employers need to supply accurate data to HMRC in every RTI report made during the Tax year. You still have to issue forms P60 to your employees by the 31 May after the end of the tax year and answer certain statutory declarations at the year end.

Who is covered

You need to submit an RTI report (know as an FPS) containing data for every person on the payroll in the tax year. **That includes all casual and occasional employees, even if they earned below the tax and National Insurance (NI) thresholds.** However, workers who are aged under 16 (e.g. newspaper boys/girls) do not have to be included in FPS as long as they do not earn above the tax and National Insurance thresholds.

New terms

The reports needed for RTI all have three letter acronyms as follows:

Employment Alignment Submissions (EAS)

Employers have to make an EAS before they submit their first FPS.

Full Payment Submissions (FPS)

This must be made on or before each date an employee is paid subject to the relaxations discussed below. It includes all the details of payments and deductions made, as well as all the personal and demographic details about employees such as address and date of birth.

Employer Payment Submissions (EPS)

This report advises of statutory payments that can be set against tax due as reported in the FPS. The EPS must be used to report when no payments have been made to an employee in a period.

National Insurance Number Verification Request (NVR)

Refers to an employer's formal request to verify or obtain a National Insurance Number (NINO) for an individual employee.

Earlier Year Update (EYU)

This is required when an adjustment is needed to the details of an earlier tax year.

Existing Data

Under RTI it is essential that the information you hold for each employee is correct, RTI also means more information is required to be kept for employees than under the old rules. The most important items to check are the NI number, date of birth and employee's given name.

NI Number (NINO)

Children in the UK are given a NINO when they reach 15 ³/₄ years old, if their parent claimed child benefit for them. Migrants into the UK, if entitled to work here, should apply for a NINO, but many don't bother. If someone can't verify their NINO, you can use the new NVR submission (see above) to request a number from HMRC. A temporary NINO shouldn't be used in any circumstances.

Date of Birth

The date should be in the format DD/MM/YYYY (day, month, year). Default dates such as 01.01.1901 should not be used.

Gender

This is a person's current gender.

Full name

This is the name as displayed on the employee's passport (if they have one), or birth certificate. Ensure you have the name in this order: first name, middle name(s), surname (family name), with the correct spelling. It's important to include middle names where the employee has them to help HMRC match payments to their records, if some other data item is missing such as NINO.

Don't use shortened versions of names such as Rob for Robert or made-up names such as AN Other or 'unknown'.

Address

The employee's address must be included on each RTI submission although it remains the employee's responsibility to inform HMRC of any change of address.

New Information

You will need to collect some new data items for RTI which were not previously required for PAYE reporting as follows:

Hours worked

The DWP need to know approximately how many hours an employee works in order to calculate the amount of tax credit due (to be Universal Credit in due course). This means you need to select one of the following bands of weekly hours the employee is expected to work:

- A.** Up to 15.99 hours
- B.** 16 to 29.99 hours
- C.** 30 hours or more
- D.** Other

HMRC expect the category **D** to be used for people who receive a pension and thus do not work any hours at all. However, category **D** can be used for zero-hours staff or as we currently understand it, where you do not know normal hours. You don't have to record the exact hours worked, only the normal hours the employee is expected to work.

Partner's name

The family name and first name of the employee's partner is only be required if the employee wants to make a claim for additional statutory paternity pay (ASPP). You don't need to collect this information for every employee.

Passport number

You only need to record the passport number where you do not have a National Insurance Number, or you have collected it as part of the checks you do to ensure a person is entitled to work in the UK. If these checks are not done in the payroll department, and you have been supplied with a National Insurance Number, you don't need to change your processes to store the passport number as part of the payroll data.

Timing of RTI reports

On or before

'On or before' refers to the rule that requires employers to submit their RTI return (FPS) to HMRC at the same time, or before, they pay net wages to their employees.

You must submit the FPS on or before the date you pay your employees, not the day when you run the payroll calculations and pay tax over to HMRC. You must therefore let us know your exact payment dates in advance of making the payments, we can't run payroll after you have paid your employees! However, this 'on or before' requirement is relaxed slightly in the following circumstances.

Casual workers

This includes payments made in cash to crop-pickers according to the amount picked, or to bar staff for the hours worked on a single night. In these cases you must make the RTI report on the earlier of seven days after the day the payment was made and your next regular payroll run. This could mean your need to run your payroll every week rather than once a month.

Ad-hoc payments

These are payments made outside of the normal payroll run for example where a new starter is notified late or an overtime payment has been missed by mistake. In these cases the RTI report can be made the next time the payroll is run.

Benefits and expenses

This will include payments of an employee's private bills. The RTI report must be made on the earlier of the day you calculate the Class 1 NIC due on the payment and 14 days after the end of the tax month in which the payment was made.

Notional payments

Where there is no transfer of money to the employee, the RTI report must be made on the earlier of the time you operate PAYE on the payment and 14 days after the end of the tax month in which the payment was made. An example is the award of shares which are taxed as if the value was salary.

Loans and advances

It is important to identify the nature of each payment made to directors and other employees. In particular, where directors draw cash out of their own company, it must be clear at the time of payment whether those funds represent pay, a loan, an advance or perhaps a dividend.

Loans are subject to PAYE, and are not required to be reported under PAYE, but a loan that is written off will become subject to NIC at that point.

An advance of salary should be subject to PAYE, and must be included in the RTI report.

Dividends are not subject to PAYE if they are correctly calculated and declared as dividends. Illegal dividends may be reclassified as salary and then as RTI report will be required.

Penalties

Penalties apply automatically for late submission of the FPS.

Penalties also apply immediately for incorrect reports, if these errors are picked up during an HMRC inspection.

Penalties for late payment of PAYE Tax and NI also continue to apply as normal, but the issuing of these penalties is more timely from HMRC as they now know during the year what you should have been paid as a result of your RTI submissions.

Conclusion

This Fact Sheet highlights some of the more important aspects of PAYE reporting under RTI which are likely to be relevant to employers in general. If you want to discuss how your business will be affected more specifically please contact us to discuss your concerns.