# Real Time Information (RTI): Improving the operation of Pay As You Earn

## Who is likely to be affected?

All employers operating Pay As You Earn (PAYE) are directly affected. The term 'employers' includes pension providers and secondary contributors*. Since April 2014 employees responsible for reporting their own payments to HMRC are also included.

Over time, employees will benefit from improvements in the increased accuracy of PAYE, for example, when changing jobs. ‘Employees’ includes annuitants, those in receipt of pensions and taxable state benefits.

## General description of the measure

In April 2012 HM Revenue & Customs (HMRC) began a phased introduction of Real Time Information (RTI). The Income Tax (Pay As You Earn) Regulations 2003 ("PAYE Regulations) were amended to reflect reporting in real time. Under RTI, information about tax and other deductions under the PAYE system is transmitted to HMRC by the employer every time an employee is paid. Employers using RTI are no longer required to provide information to HMRC using Forms P35 and P14 after the end of the tax year, or to send Forms P45 or P46 to HMRC when employees start or leave a job.
Since April 2014 all employers have been required to report in real time with 1.9m schemes covering 48m employees now reporting through RTI.

## Policy objective

RTI brings PAYE into the 21st century by making it easier for employers, pension providers and HMRC to administer and, over time, more accurate for some individuals by improving the processes relating to joiners and leavers.

## Background to the measure

The June 2010 Budget announced that the Government intended to consult employers and payroll providers on mechanisms that could support more frequent or real time collection of PAYE information.

A discussion paper ‘Improving the operation of Pay As You Earn (PAYE)’ was published on 27 July 2010. A second stage of consultation ‘Improving the operation of Pay As You Earn (PAYE): Collecting Real Time Information’ began on 3 December 2010, and a summary of responses to this consultation was published on 30 September 2011. These documents can now be found on the National Archives website at: http://webarchive.nationalarchives.gov.uk/20140206144824/ http:/www.hmrc.gov.uk/consultations/index.htm.

In readiness for the introduction of RTI, amendments were made to the PAYE Regulations which govern the operation of the PAYE system in March 2012. As a consequence of the lessons learned from the pilot, further amendments were required in 2013.

* as defined in section 7 of the Social Security Contributions and Benefits Act 1992

Since the introduction of those amendments, further amendments have been made to allow for an extension for employers who employ no more than 9 employees to the "on or before" reporting easement introduced in October 2013 and for, the switching on of new interest rules as well as the phased introduction of Late Filing Penalties from 6 October 2014.

HMRC has engaged extensively with employers, software developers, agents and other interested parties about the design and introduction of RTI. Since the introduction of RTI HMRC has continued to work closely with interested parties to better understand how RTI changes have affected employers in practice. HMRC has undertaken a programme of independent research to better understand the issues and impact of moving to RTI on employers, and to provide a representative view of employers' experience following the first full year of implementation. This research programme has allowed us to monitor employers' migration to RTI and to see how their experience has developed. The research has also informed our analysis on updating the costs contained in this updated TIIN (last updated and published on 15th March 2013).

# Detailed proposal

## Operative date

Employers were required to use RTI from April 2013.

## Current law

The current law on employers' obligations to report deductions from payments to employees is contained in regulations relating to PAYE, National Insurance contributions (NICs) and the Construction Industry Scheme (CIS). These are:

- the Income Tax (Pay As You Earn) Regulations 2003 (SI 2003/2682);
- the Social Security (Contributions) Regulations 2001 (SI 2001/1004); and
- the Income Tax (Construction Industry Scheme) Regulations 2005 (SI 2005/2045).

Under these regulations, employers are required to report to HMRC payments made to employees, along with information about deductions from these payments, each time a payment is made. The information is reported using a return, which is required to contain certain details about employees' pay and deductions. These returns are also used to report changes in employment. There is therefore no longer any requirement for an employer to complete and send to HMRC forms P45 and P46.

RTI changes also extended to the collection of income contingent student loan repayments, where employers make deductions from the earnings of employed borrowers. HMRC collects repayments through the UK tax system on behalf of the Department for Business, Innovation and Skills (BIS), and thus the introduction of RTI also impacted the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470).

## Proposed revisions

Secondary legislation will amend the PAYE Regulations referred to above, as from 6 March 2015, to remove the requirement for employers to complete the End of Year checklist when making their final Full Payment Submission (FPS) for the tax year from 2014-15 onwards.

The end of year checklist is a box on the FPS that, when ticked, opens the end of year declaration, consisting of seven questions. This was a feature of the now defunct P35, which has been incorporated into the design of the FPS. Having evaluated the process with internal and external stakeholders we are now removing the mandation for completing the checklist from 6 March 2015 and the PAYE Regulations are being amended to remove this requirement from that date.

## Summary of impacts

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| **Exchequer impact (£m)** | RTI is not expected to affect annual levels of receipts from income tax or National Insurance contributions, or student loan repayments deducted by employers. However HMRC anticipate that regular collection and submission of information may lead to improvements in the timeliness and accuracy of payments from employers to HMRC during the tax year.<br><br>The availability of RTI data is expected to lead to Exchequer savings from reduced fraud, error and overpayments in tax credits. The latest estimates of these savings were are published in Autumn Statement 2014: £170m in 2014-15, £235m in 2015-16, and £250m in 2016-17. |
| **Economic impact** | RTI is not expected to have any significant economic impacts. |
| **Impact on individuals and households** | RTI makes PAYE more accurate for employees during the year, by improving the processes when employees change jobs.<br><br>RTI data is used by the Department of Work and Pensions (DWP) to support the operation of Universal Credit, so there are indirect impacts on individuals in receipt of in and out of work benefits received through Universal Credit. RTI will also impact on tax credit claimants, as RTI data is used as part of the tax credit award calculations. |
| **Equalities impacts** | Two groups were identified as potentially having difficulties in implementing RTI: Care and Support employers and employers who have satisfied HMRC that they are unable to file online.<br><br>Care and support employers are individuals who employ a personal assistants to provide services to a disabled or elderly person in their home. Employers in this group who are content to file their PAYE data online joined RTI from April 2013, and were able to use HMRC's free updated Basic PAYE Tools (available for all employers who employ 9 or fewer employees) to submit RTI data via the internet. Care and support employers also have the option to file quarterly on paper, and those wishing to use this option began reporting from April 2014 (with their first quarterly returns being filed in July 2014). This date was deferred from April 2013 in line with customer feedback, and allowed more time for HMRC to thoroughly test the new paper forms and guidance with the customers who would be using them. There are currently around 1200 employers who file their returns using the paper option. This figure has reduced from approximately 2000 employers in January 2014 following a letter sent to each employer which included within it a guidance booklet and a CD copy of Basic PAYE tools inviting them to file online.<br><br>Other employers who are currently exempt from online filing are those employers who are unable to use an approved method of electronic communications. This group includes employers with disabilities which may prevent the use of electronic communications, employers with very low levels of digital literacy, or those in rural locations without adequate internet services. In these cases, employers are expected to demonstrate that they are also unable to file returns via a third party, for example by |

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| | using an agent or via HMRC's Basic PAYE Tools product. This product was designed to allow employers to submit RTI using 'Dial Up' connections as well as broadband, and (like most commercial software products) operate offline until the point at which information is submitted to HMRC, minimising the time periods for which connection to the internet is required. However, HMRC recognises that very small numbers of employers are at present unable to file digitally. There are currently less than 50 employers in this category. And where HMRC is satisfied that this is the case employers are offered the option to file their PAYE payroll information data on paper. HMRC's intention is that this option will remain available to those employers for three years from April 2014 and is currently considering possible options to support this group to move onto a digital channel from April 2017.<br><br>Opportunities to promote equality:<br>RTI is expected to make the 'leaver' and 'joiner' process smoother which, over time, should mean that those who change jobs frequently are more likely to pay the right amount of tax at the right time. This group tends to be lower paid. RTI also supports the introduction of Universal Credit by DWP, which will be a responsive, dynamic system designed to adjust credit payments (benefits) according to income. Work to encourage and support employers unable to file digitally onto a digital channel also provides opportunities to promote equality, since being able to access a digital channel can bring with it many wider benefits. |
| **Impact on business including civil society organisations** | Since the previous version of this TIIN (published in March 2013) HMRC has constructively engaged with external stakeholders to better understand how RTI changes have affected businesses in practice. This productive dialogue helped inform and target the independent research and has been invaluable in building a wider picture of the impacts on businesses.<br><br>The programme of in-depth independent external research has provided significant insight into the customer experience of employers moving to RTI. In addition to providing representative and quantitative assessment, it has included more exploratory, qualitative elements to extract specific detail of customer experience. HMRC has used this research to better understand the challenges or problems that some employers have encountered when moving to or reporting in real time.<br><br>Research Results can be viewed here:<br>During pilot http://www.hmrc.gov.uk/research/report264.pdf<br>Pilots after end of year http://www.hmrc.gov.uk/research/report281.pdf<br>Employers main migration http://www.hmrc.gov.uk/research/report304.pdf<br>Employers after End of Year migration http://www.hmrc.gov.uk/research<br><br>The ongoing administrative burden savings are estimated using HMRC's Standard Cost Model (SCM). SCM methodology is the standard approach adopted by HMRC for assessing business impacts, and presents an average view across all businesses once they have become familiar with the new process. Savings for the changes to the joiners and leavers processes (P45 and P46, though the P45 will still be provided to departing employees) and the end of year reconciliation process (P35, P14 and P38A, though employers will still need to provide a P60 to each employee) are estimated at approximately £322.5m per year. |

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| | The previous TIIN anticipated that the P45 process would be removed entirely, however part of this process still remains and so the benefits are reduced by £7.5m<br><br>Savings will be partially offset by the new requirements for employers to collect and submit information to HMRC each time employees are paid, although for employers using payroll software this will be an automated process. HMRC's assessment of the new ongoing administrative burden is £30m per year. These costs are broken down as follows:<br>- the payroll hash code (linking RTI submissions and payments made to employees) £4m;<br>- additional information included in RTI submissions not previously collected £10m;<br>- higher quality/more data to be input for new joiners £2m;<br>- the closure of the Simplified PAYE Deduction Scheme (SPDS) £750,000; and<br>- costs associated with submission of data to HMRC (for monthly/weekly RTI submissions) £12m.<br><br>Reflecting on the research analysis and engagement with external stakeholder, it is clear is that ongoing benefits of RTI will build over time as businesses gain confidence and familiarity of what they need to do, and system improvements are embedded. Steady state net savings of £292.5m across the business population as a whole should therefore be achieved in 2015-16.<br><br>Research and stakeholder engagement has also provided greater understanding of transitional and one-off costs.<br><br>These costs are spread across all PAYE schemes and will vary with the size of business, these costs totalling £292m mainly occur in 2013-14.<br>Included in the previous TIIN and unchanged:<br>- the need to check and amend data held about existing employees, estimated as £35m (on average around £20 per PAYE scheme); and<br>- training and familiarising staff with the new processes, estimated as £85m (on average around £50 per PAYE scheme).<br>Updated in this TIIN:<br>- updates to payroll software and processes, estimated as £62m (on average £40 per scheme);<br>- agent set up costs incurred by employers preparing for reporting real time information to HMRC, estimated at £28m (on average £15 per scheme);<br>- requirement to report on or before a payment is made instead of at month end, estimated £25m (on average £15 per scheme);<br>- final tax/NICs return of the year, including the employer End of Year Checklist and declaration, due to be removed from 2015 and until then the cost is estimated at £35m (on average £22 per scheme);<br>- other issues including disputed charges, familiarisation errors, duplicate employments causing costs to employers spending time to investigate and correct, estimated at £22m (on average £15 per scheme);<br><br>Some employers had complained that their bank charges have increased because of RTI. Further research by HMRC found that very few employers reported increase to their banking costs, and so for impact purposes any additional banking costs to employers has been assessed |

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| | as negligible. |
| **Operational impact (£m) (HMRC or other)** | HMRC was allocated £108m of additional funding in the Spending Review 2010 period (ending in April 2015) to facilitate delivery of the RTI Programme.<br><br>The availability of RTI data is expected to create opportunities for HMRC to improve its enforcement and compliance activities. However neither the resource impacts of any changes in this activity nor the resulting impacts on tax receipts and expenditure have yet been quantified. |
| **Other impacts** | Small employers:<br>RTI aims to reduce administrative burdens for all employers, including small employers (upon whom the burden of PAYE currently fell disproportionately). The aim is to achieve this by integrating employee payment and reporting to HMRC into a single payroll process.<br><br>Small and micro employers could not be excluded from the requirement to submit RTI on or before making the payment because up to date information about their employees will be required both for improvements to the operation of PAYE, and for the operation of Universal Credit. It is important that the employees of small employers should not be disadvantaged.<br><br>HMRC recognised that some small employers who pay employees weekly, or more frequently, but only process their payroll monthly may have required longer to adapt. Consequently, HMRC extended the temporary reporting relaxation for employers with fewer than 50 employees to report monthly on or before the last pay day in the month until April 2014. Further customer insight also led to a transitional arrangement for existing employers with 9 or fewer employees to report monthly on or before the last pay day in the month until April 2016 (providing they had 9 or fewer employees on 6 April 2014 and 6 April 2015). |

## Monitoring and evaluation

HMRC will continue to monitor the introduction and ongoing operation of RTI, through communication with external stakeholders and businesses and information collected from HMRC's RTI system.

## Further advice

If you have any questions about this change, please contact Noel Robson on 03000 554077 (email: noel.robson@hmrc.gsi.gov.uk).

## Declaration

David Gauke MP, Financial Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.