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Managing Pay As You Earn in real time: challenges faced by micro-employers

A qualitative research study for HM Revenue and Customs

August 2016

HM Revenue and Customs Research Report 431

The views expressed in this report are those of the authors and do not necessarily represent those of HM Revenue & Customs.

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Glossary

An explanation of terms used throughout this document:

- **Pay As You Earn (PAYE)** is income tax deducted from all payments of wages/salary or other monetary compensation such as sick pay, maternity pay, directors' fees and pensions (but not the state pension). It is deducted by the employer from all payments where the gross pay exceeds an individual's tax-free earnings level (as determined by their tax code). The employer is responsible for deducting PAYE and sending the monies deducted to HM Revenue and Customs (HMRC) each month.

- **Real Time Information (RTI)** is a HMRC programme that aims to improve the way in which employers submit PAYE information about their employees to HMRC. The RTI system is designed to deliver benefits to HMRC, employers and employees. RTI also provides the platform for Universal Credit, a major government welfare reform programme.

- **FPS (Full Payment Submission)** is to be sent *on or before* each payday and informs HMRC about the payments and deductions for each employee. The FPS contains the following compulsory information:

  - ✓ Employer registration details (including PAYE reference);
  - ✓ Personal details for each employee (including full name, address, National Insurance number, and date of birth);
  - ✓ Employment details for each employee (including start date, leaving date where applicable);
  - ✓ Year-to-date data for each employee (including PAYE Income Tax, National Insurance contributions, and statutory pay); and
  - ✓ Pay data for each employee (including payment date and gross pay).

- **FPS Update** can be sent to HMRC after a payday to inform them about corrections to an employee's payments/deductions. It can only be submitted in the tax year the payment was made/the original FPS was submitted.

- **Earlier Year Update (EYU)** is an additional return to be sent where there is a need to correct submissions made in the previous tax year. Employers need to submit an EYU for any employee that requires payroll data for the previous tax year to be corrected, showing the difference between what was originally reported and the correct figure.

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1   Executive summary

1.1   Research aims

The primary research aims are to understand (a) what drives error in reporting Pay As You Earn (PAYE) in real time among micro-employers and (b) how might HMRC best support micro-employers to comply with their PAYE reporting requirements.

Conducted through 45 qualitative interviews in 2016 with micro-employers and their agents, the research involved only those who were known to have received a PAYE late filing penalty from HMRC, and those who had made an amendment after the end of the tax year by submitting an Earlier Year Update (EYU).

1.2   Key findings

1. Regardless of how the micro-employers interviewed as part of this research manage their payroll[1], PAYE management[2] is not integrated into the 'payroll process'. Many do not see it as a coherent, end-to-end process at all, but a set of discrete and dissociated tasks.

2. A lack of understanding of how PAYE real time reporting obligations should be managed is a main source of micro-employer error. Reporting PAYE is often treated separately from the core function of running the payroll, and tied to the (often less frequent) rhythm of paying HMRC and the related tax month deadlines.

3. Dates (knowing what should be done and by when) present the biggest single challenge.

4. Examples of good practice exist, typically when 'running the payroll' and all associated tasks are strictly managed and RTI reporting duties are integrated into the payroll process.

5. Micro-employers' and agents' misunderstanding of RTI reporting is exacerbated by their own behaviours (lack of checks and low prioritisation), which also contribute to error in RTI submissions.

6. Some errors involved in RTI reporting are attributed to factors outside a micro-employer's control and these add to the opportunity for error.

7. When compounded by poor understanding and capacity issues, errors can easily escalate from a single issue that should be easily solved to a cascade of problems that some micro-employers lose control over.

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[1] The process of calculating and delivering pay due to employees within a business, whether this is in-house or outsourced
[2] The process of submitting the required information and tax due to HMRC

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8. Penalties can affect behaviour change but their impact is currently limited by a lack of understanding as to why the penalty was issued and a lack of explanation about the way they are implemented and enforced.

9. There is no shortage of information to educate micro-employers about their duties but the investment required to make best use of the available resources (either in terms of time spent self-educating, or money spent on an advisor or premium software) can cause difficulties for those where time and/or available money is scarce.

10. There are two emerging considerations for HMRC:

The first is the need for HMRC to focus on better rather than more support, specifically, generating more accessible resources – such as a road map to guide micro-employers through the process, highlighting the key requirements to be aware of, with links to the relevant detailed information already available, and a summary of important dates to remember.

The second consideration for HMRC is to introduce clarity and consistency on penalties. The penalty system is an existing communication channel and could be used to raise awareness of the causes of penalties by including more detailed information in the penalty notice letter itself, or signposting to a diagnostic tool to help micro-employers to identify the cause of error.

2   Introduction and methodology

2.1   Research context

Pay As You Earn (PAYE) is HM Revenue and Customs' (HMRC) system to collect Income Tax and National Insurance Contributions from employment and occupational pensions. Real Time Information (RTI) is designed to improve the operation of PAYE by making the system easier and more accurate. It supports HMRC's strategic objectives to provide a professional and efficient tax system, and to transform tax and payments for its customers. RTI also supports Universal Credit, the Government's new welfare programme.

RTI has brought about a significant change in the way employers and agents acting on their behalf interact with HMRC in relation to PAYE. Where payroll[3] information about employees was previously sent in arrears (e.g. at the end of the tax year, employers would submit an annual return to HMRC detailing the employees they had paid that year with their annual gross pay and tax deductions), employers are now legally required to submit each employee's details, gross pay and tax deduction information before or on the same day as the employee is paid, i.e. they report in real time. RTI 'on or before' reporting involves submitting each employee's details, pay and tax deductions electronically using a Full Payment Submission (FPS).

RTI was introduced in a phased roll-out and was officially launched for all employers in April 2013. In its launch year, rules were relaxed for small employers (<50 employees) giving them more time to prepare for and meet their reporting obligations. This temporary relaxation rule meant that small employers were able to submit their FPS on their last pay date in a month rather than on or before every pay date in a month. This relaxation rule was extended for micro-employers – those with up to nine employees – until April 2016. Employers have to inform HMRC via the FPS that they are making use of the relaxation rule.

HMRC also operates a three day grace period for all employers for their FPS reporting. This means that employers will not be penalised for short delays in filing their return until the three day grace period comes to an end.[4]

Since the introduction of RTI, HMRC has undertaken various research studies to understand employers' RTI experiences. Although previous research established that in the majority of cases, RTI was well received and administered correctly,[5] it also revealed that there were particular challenges for micro-employers.[6]

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[3] Payroll is the system of paying employees and keeping employee payment records.
[4] The grace period remains open in the tax year ending in April 2017.
[5] PAYE Real Time Information Main Migration Research, January 2014, Research Report no. 304, Crown Copyright 2014
[6] PAYE Real Time Information (RTI) 'on or before' requirement – Research with micro and small employers, Research Report no 369, Crown Copyright 2015

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Most micro-employers are meeting their 'on or before' reporting requirements without issue, submitting accurate returns to HMRC in full and on time. However, some micro-employers are not, i.e. their FPS reports are not submitted on time or are reported with missing and/or incorrect information. Furthermore, some micro-employers are using other RTI reporting facilities such as Earlier Year Update forms (EYU) in ways not fully expected. EYUs enable employers to amend the data previously reported for their employee when doing so during a later tax year.

These behaviours were concerning for HMRC for a number of reasons. Managing and resolving irregularities (such as late FPS reporting or EYU processing) is resource intensive for HMRC as each has to be investigated and corrected. Reporting errors also have the potential to impact negatively on the employees involved; they could lead to incorrect tax deductions or, in the future, could impact negatively on Universal Credit.

This research explores the challenges experienced and barriers faced by micro-employers when reporting PAYE in real time. Importantly, it involves only those who were known to have either received a penalty from HMRC for submitting a FPS late or with missing/incorrect information, or had made use of an EYU. The research participants are therefore a sub-set of all micro-employers and throughout this report, when the term micro-employers is used, the term means this subset of micro-employers.

2.2   Research aims and objectives

The primary research aims are to understand:

- What is driving error in PAYE real time submissions among micro-employers?

- How might HMRC best support micro-employers to comply with their PAYE real time reporting requirements?

In meeting these aims, the research seeks to establish:

- *Knowledge of requirements and implications:* To what extent do micro-employers understand what they must do to be compliant with RTI reporting, and what do they expect to happen if they are not compliant?

- *Behaviours intended and unintended:* What is currently being done by micro-employers and/or the agents that represent them in relation to RTI reporting and how does this contribute to compliance and non-compliance?

- *Drivers of behaviour:* What underpins behaviour and what opportunities exist to positively influence that behaviour, whether directly with the employer or via their agent?

2.3   Research methodology

The research was carried out in three key stages:

1. A knowledge review of existing research and literature relating to the introduction of RTI, with a focus on micro-employers, to ensure thorough understanding of the research background, context and known challenges.

2. Pathfinder interviews with three agents exploring high level issues (looking across their micro-employer client base), to inform understanding of the main issues/challenges.[7]

3. **A total of 45 qualitative interviews** were conducted between 10th February and 9th March 2016. These comprised:

    *   **30 depth interviews**, primarily face-to-face with an average interview length of 60 minutes, with **micro-employers** who had displayed the following behaviour(s):

        ✓   Had received a penalty for making a late FPS return;

        ✓   Had submitted a FPS return with missing or incorrect information; or

        ✓   Had submitted an EYU to correct information submitted in a previous tax year.

    Participants included employers who:

        ✓   Were fully responsible for processing their own payroll and submitting their RTI returns in-house, or who outsourced their payroll and RTI reporting requirements to an agent;

        ✓   Had different numbers of employees (1-3 or 4-9);

        ✓   Were of different 'ages' and life-stages, from new to more established businesses;

        ✓   Were from a range of sectors; and

        ✓   Were located in four different regions to represent the areas demonstrating a higher proportion of the aforementioned behaviours.

    Figure 1 presents a summary of the employer profiles and Appendix 1 provides more detailed sample information.

    Figure 1: Micro-employer interviews – summary profile

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[7] Pathfinder interviews are consultations with an audience of interest, in this case agents of micro-employer, exploring specific themes and high level issues to enhance our understanding of the context for research. The interviews serve primarily to inform the discussion guide, e.g. making sure the coverage, language and framing of the research is appropriate.

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Behaviour	No. of employees	Payroll/RTI managed:	
		In-house by employer	Outsourced to agent
		No. of interviews	
Penalty for late/missing FPS	1-3	6	4
	4-9	5	3
EYU	1-3	5	1
	4-9	4	2
Total		**20**	**10**

- **15 depth interviews**, all conducted by telephone with an average interview length of 45 minutes, with **agents** who:

  ✓ Worked on behalf of micro-employer clients;

  ✓ Represented employers who had either received a penalty for submitting a FPS late or with missing information, or submitted an EYU; and

  ✓ Reflected different types and sizes of agent.

Figure 2: Interview profiles – agents

Agent type	No. of interviews
Independent accountants	7
National/regional accountants	5
Payroll companies	3
Total	**15**

The **discussion guides** used for micro-employer and agent interviews are provided as Appendix 2.

2.4 Structure of this report

This report is a summary of findings:

- Chapter 3 outlines how micro-employers manage their PAYE obligations, i.e. whether these are managed in-house or outsourced, and how this affects their engagement with the PAYE real time reporting process.

- Chapter 4 identifies the main challenges faced by micro-employers and their agents in meeting their PAYE real time reporting obligations.

- Chapter 5 describes the behaviour with regards to PAYE real time reporting, e.g. good and bad practice.

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- Chapter 6 outlines the understanding (or lack thereof) of micro-employers and agents of HMRC's penalty system for late and incorrect FPS submissions.

- Chapter 7 describes the sources of information used to assist in managing PAYE real time obligations.

- Chapter 8 provides points for consideration and implications for HMRC in terms of how potential non-compliance with PAYE could be mitigated.

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3 Positioning PAYE within the business

3.1 How payroll and PAYE are managed

All micro-employers participating in the research had **relatively simple payroll arrangements** in that they each had one payroll, most had one pay period for all their employees (weekly or monthly) and most employees were on straightforward pay arrangements (hours worked or fixed salaries, with occasional overtime or bonus payments). Even so, there is a range of factors that influence how they manage their payroll and consequently, how they manage their PAYE obligations.

Mindset, aptitude, capability and capacity all influence the approach taken by micro-employers in terms of how they run their payroll and meet their PAYE obligations. At one end of the spectrum, employers keep all their tax accounting, including their payroll in-house and at the other end of the spectrum, all accounting and obligations are outsourced.

3.1.1 Managed in-house

At their most involved, the employer manages not only matters concerning their payroll and PAYE, but also all other tax accounting relating to the business. In some cases, this involves an employee performing a dedicated 'finance manager' type role, but more often, these functions sit with the owner/manager. Those employers that do have a dedicated finance manager are typically businesses with 4-9 employees.

In other cases, payroll and PAYE are managed in-house but many (or all) other tax accounting is outsourced to an agent. This arrangement typically provides easy and important access to an agent for PAYE issues, if required (for example, when dealing with more complex or 'first time' PAYE real time reporting issues).

Looking across the group of employers that are managing their payroll and PAYE in-house, **a minority** can be described as either:

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1. 'Knowledgeable and engaged' – a minority

- Typically self-taught (i.e. not with professional bookkeeping/accountancy qualifications) and curious to learn more and ensure understanding of their obligations. These employers or their nominated employees (who may be operating in a dedicated finance role) are very organised and manage their payroll with clear processes and a strict timetable.

- 'Problems' (i.e. circumstances resulting in receipt of a penalty for late non-receipt of an FPS or the requirement to submit EYUs) are sometimes attributed by the employer to influences outside their control.

- However, when they do experience problems or are faced with a FPS

> penalty and believe this is due to gaps in their own knowledge, the problems are fully investigated to make sure they are understood. Behaviour is immediately changed to avoid the recurrence of these problems.

2. 'Struggling to cope' – a minority

- These employers or their nominated employees are not at all comfortable with their payroll and/or their PAYE obligations, with very few procedures in place to manage the process.

- They are typically not aware that they are doing anything wrong, do not know why they are receiving penalties (or that they have submitted an EYU), and in any case, do not know what to do to avoid repeat occurrences.

However, **the majority** of micro-employers managing their payroll and PAYE obligations in-house can be described as:

3. 'Getting by' – the majority

- Usually, their approach is learned by rote. They 'know what they know' and this is usually enough to make sure they usually meet their obligations. But they know little beyond the basics: PAYE is considered too complicated to encourage further engagement and/or they are not motivated to learn more.

- They try their best to stick to the process they have put in place, but more likely they have adopted procedures from others/have been shown what to do by others who may also have had limited knowledge.

- They are juggling their payroll and PAYE obligations with other commitments in the business so sometimes struggle to prioritise anything beyond making sure that employees get paid.

- They are often uncertain on PAYE and RTI submission details, so struggle when things go wrong. When it does go wrong, they will possibly (though not always), seek advice from an agent, even when this request is outside of their usual agent relationship.

3.1.2 Outsourced

The conscious decision to keep the payroll and all PAYE obligations out of the business and with a third party is driven by a range of factors, but typically because the employer wants to focus all of their and their employees' energy and time on their main business activity. The decision is also driven by:

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1. **General lack of motivation** to engage in the financial matters of the business (such as bookkeeping, accounting, record keeping and tax management);

2. **Limited internal resources** to manage financial responsibilities. They demonstrate a clear focus on generating and delivering on the main business activity rather than the financial matters associated with this; and

3. **'Peace of mind'** associated with investing in expert help.

Employers typically distance themselves from their PAYE obligations, putting full faith in their agent to keep them compliant. Agents believe that most of their clients do not even know what reports are submitted and certainly not when they are submitted and this is supported by those outsourcing.

> *"I know what we're good at and what we're not good at...So I've always outsourced it to an accountant or someone similar... Less aware of that process to be quite honest. It, kind of, goes on behind the scenes."*
>
> *Business size: 4-9, outsourced*

Even when other taxes are managed in-house (e.g. VAT), outsourcing of payroll and PAYE occurs because PAYE and all that it involves is seen as *different in-kind* and/or requiring specialist knowledge. Specifically:

*   PAYE is perceived to be **complex**;

*   The rules are perceived as **'ever-changing'**; and

*   There is great **fear of 'getting it wrong'**; fear for their employees and for themselves getting into trouble with HMRC.

> *"It's a very valuable service, I would say, especially for people like me...it's not our primary concern to deal with…Money matters I'm very bad with."*
>
> *Business size: 1-3, outsourced*

3.2   Engagement with the PAYE process

Regardless of how employers manage their payroll, RTI (and therefore the FPS return) is *not* integrated into the 'payroll process'.

In approaching this research, the hypothesis was that in terms of processing their payroll, submitting RTI returns and meeting all PAYE obligations, micro-employers would typically work to variations of a coherent end-to-end process – such as the process outlined in Figure 3.

Figure 3: PAYE management as an assumed process.
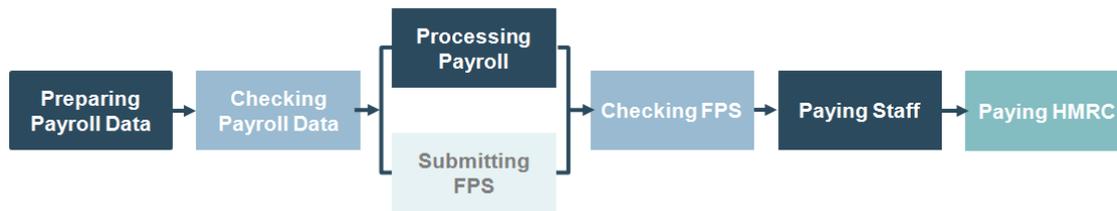
However, most micro-employers do not engage with their payroll and PAYE obligations as part of a coherent linear process. In reality, the activities associated with running the payroll, submitting RTI returns and meeting PAYE obligations are somewhat divorced from each other, representing discrete tasks, as demonstrated in Figure 4. The illustration shows that micro-employers fragment the process and then prioritise these fragments.

Figure 4: The reality of PAYE management.

A common hierarchy of priorities emerges:

1. The main priority for micro-employers is ensuring staff are paid on time

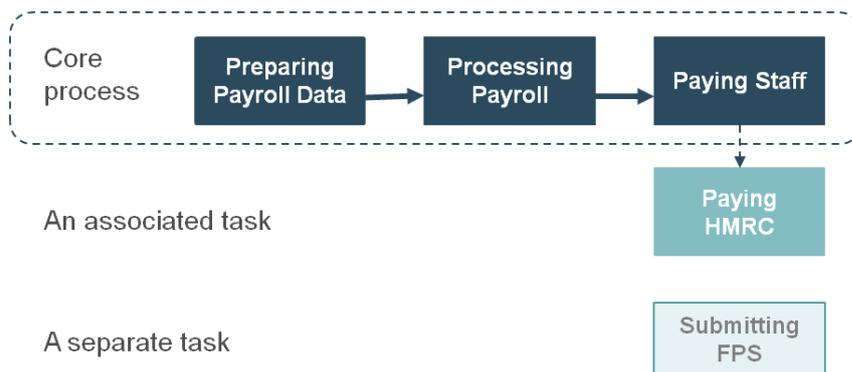2. As a close second priority, paying HMRC to meet PAYE obligations (i.e. paying due Income Tax and National Insurance Contributions) is perceived as a separate (but related) task

3. Of lesser priority is *reporting* payroll transactions, and income tax and National Insurance Contribution deductions in real-time to HMRC. Submitting the FPS return is seen as 'completing the paperwork', and although this is understood to be important, how and why it fits within the payroll and PAYE process is often not clear to micro-employers.

Employers tend to be focussed on making payments on time to staff and HMRC, rather than keeping on top of 'the paperwork'. A general lack of understanding of the *purpose* of the FPS separates it from the other (prioritised) payroll and PAYE tasks. For the most part, employers believe that HMRC requires 'real-time' information to more effectively monitor its own revenue than for any employer or employee purposes. This disconnect between running the payroll and submitting the FPS sits at the heart of the problem.

The only part of the PAYE process that employers can see an explicit link to the FPS is the payment they make to HMRC. **Critically, this removes the FPS from the core function of running the payroll and ties it to the (often less frequent) rhythm of paying HMRC and the related tax month deadlines**. As a result, this element of the 'process' can be de-prioritised by micro-employers, who then fit it in around other business responsibilities. Some are under the impression that as long as they have submitted their FPS by the time they need to pay HMRC, then that 'balances the books' and all is in order. The 'on or before' purpose of RTI is lost.

4 Understanding the key challenges with PAYE real time reporting

4.1 Three key challenges for micro-employers (and agents)

Lack of understanding of how PAYE *should* be managed – particularly what should
be done and by when – creates errors in RTI reporting, resulting in receiving
penalties for late or missing FPS returns or the need to provide an EYU to correct
earlier submissions. A number of challenges exist that help explain this.

4.1.1 Technical understanding of PAYE and RTI

Technical understanding of PAYE is limited to basic 'need to know' information.
This applies mostly to micro-employers rather than to agents.

For employers processing PAYE **in-house**, there are mixed levels of understanding
how things should be done, and little or no understanding of how to reflect any 'non-
routine' or 'first-time' issues in PAYE reporting (such as dealing with maternity or
paternity pay). Overall, there is limited knowledge of where to source information
should non-routine issues arise.

Few make use of HMRC education or support materials which are felt to be difficult
to navigate and understand (as reported in more detail in section 5.2). Instead, they
adopt an approach of learning 'on the job', relying on what they experience through
trial and error. As such, they adopt those practices that make most sense to them,
and repeat the steps as required unless they encounter a problem or are told to do
otherwise.

> *"Luckily I haven't noticed [any errors], and to be honest, I haven't
> thought about what I would do…It would be something I would
> have to get advice on."*
>
> *Business size: 4-9, in-house*

For employers **outsourcing** PAYE, there is no imperative to develop their own
understanding of PAYE and what should happen when, since the responsibility for
understanding requirements and ensuring things are done correctly sits squarely
with their agent.

> *"A lot of these people don't even know what we're doing. They just
> leave it to us...These people are very successful businessmen,
> but the idea of running and doing the accountancy side of it is
> non-existent."*
>
> *Regional/National Accountant*

Agents do try to engage new clients with the process and their requirements within
it so that they do understand their obligations. In reality, however, very few micro-
employers engage with, and retain, this information. For the most part, agents
charged with managing payroll and PAYE processing and submissions on behalf of

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their clients have a reasonable level of understanding themselves of the specific PAYE requirements and obligations that apply to their clients. However, even amongst agents there are some parts of the process that cause confusion, particularly for smaller and/or less experienced agents who may have had less exposure to issues beyond the everyday business as usual requirements. Therefore, in outsourced models of payroll and PAYE management, understanding of requirements is dependent on the competency and capabilities of the agent used.

4.1.2 Shared language between HMRC and customers

A further challenge for employers involves language. There is a clear lack of a 'shared language' relating to PAYE and RTI submissions. Technical terminology (particularly abbreviations) used by HMRC is rarely used and/or understood by micro-employer customers, as summarised in Table 1. This applies equally to employers who manage their affairs **in-house** and those who **outsource** to agents, though the latter group is particularly at odds with HMRC's terminology. Agents are more likely to use the 'right' language although even here, there is low usage of EYU.

Table 1: Use of RTI reporting names

Term	Used by agents	Used by micro-employers	
FPS	All the time	Very limited	Micro-employers are more likely to spontaneously refer to 'submitting the RTI', or 'sending files to the Revenue'.
EPS[8]	All the time	Limited	Micro-employers' awareness is limited to those who have used it. For those that haven't, they may not even know it exists.
EYU	Limited	Scarcely	Even among micro-employers that have submitted an EYU, they often don't recognise this term. Agents may have heard of it but only a minority spontaneously refer to it.

4.1.3 Dates and deadlines for PAYE and RTI

Dates and deadlines – what employers need to do and when – are **the main cause of error and present the main challenges to micro-employers and their agents**.

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[8] The EPS (Employer Payment Summary) is submitted by the employer when they need to reclaim monies from HMRC such as maternity or paternity pay, or the Employment Allowance. It is also submitted when no payments have been processed through the payroll in a month.

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Micro-employers sometimes struggle to meet their RTI obligations, such as submitting their FPS returns on time, due to a misunderstanding rather than any wilful disregard for the system.

Most have dates in mind that they believe they *should* be working towards. However, there are clear inconsistencies in understanding what deadlines relate to, and what should be done by when.

> *"The one thing that nobody told me about was that I must submit them on or before that day, otherwise you get a fine and it wasn't like, particularly clear."*
>
> *Business size: 4-9, in-house*

Micro-employers managing their payroll in-house (and a minority of agents) often confuse and conflate HMRC deadlines, citing the 5th (end of the tax month), or 19th or 22nd (deadlines for payment to HMRC) as the FPS deadline. This misunderstanding can be exacerbated by unfamiliarity with technical language – many are not even familiar with the term FPS – making it harder for them to make sense of their obligations around different dates.

> *"How is [the submission] late when I'm paying HMRC on time?"*
>
> *Business size: 1-3, in-house*

Often unable to differentiate between the dates, micro-employers tend to default to their own priorities (as previously noted, page 12), focussing on payments rather than 'paperwork'. Their priorities are:

1. Paying employees
2. Paying HMRC
3. Submitting FPS returns

Micro-employers are motivated to 'do things right' by HMRC (both in terms of payment and submissions). However, after paying their employees, there is a strong sense that paying HMRC late is the worst thing they could do – so deadlines for payment are top of mind and often misattributed to FPS.

Even where penalties have been issued for late FPS returns, confusion often remains because knowledge has not improved. In many cases, the penalty is attributed to something else (typically late payment to HMRC) so there is no recognition that reporting behaviour *should* change, never mind what that change should involve.

Those outsourcing PAYE receive (and expect to receive) prompts from their agent when information is due, but have little or no understanding of when this information is then submitted to HMRC on their behalf. This creates challenges for agents who

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can struggle to make their clients work within the time parameters of RTI (e.g. submitting payroll information on time); hence even those employers who outsource can receive penalties for late a FPS. Clients do not understand the importance of getting the right information to their agent at the right time.

Some agents are unsure when the exemption for micro-employers ends, and express anxiety about how well prepared their clients will be when this happens.

5 Understanding behaviour with PAYE real time reporting

5.1 How 'bad practice' and 'errors' are defined

As a result of their lack in technical understanding, being unfamiliar with the language of PAYE and RTI, and confusion around dates and deadlines, there is a degree of confusion in, and some inconsistency in understanding of, what generates penalties for late/missing FPS or the circumstances for using an EYU.

For many micro-employers, there is a disconnect between their behaviour and the outcomes of that behaviour. The challenges they face mean they do not always understand what would constitute 'bad-practice' or an 'error', from HMRC's perspective:

- **Submitting an incomplete FPS to HMRC** – This practice is classed as an error by both HMRC and agents. However, a problem arises with micro-employers because their lack of understanding hinders the severity with which such an 'error' is viewed.

- **Late submission of FPS** – Classed as an error to HMRC but perfectly reasonable in certain circumstances to a minority of agents and a small number of micro-employers. Agents often cannot make their clients adhere to timelines, and micro-employers do not adequately understand the dates they should be working to.

- **Submitting an FPS update** – Although HMRC does not class this as an error, it is discouraged. Amongst agents however, it is viewed as an opportunity for flexibility, such as when a client informs them about adjustments they have made to better reflect actual monies paid to employees. As a result, it sometimes slips into common practice.

- **Submitting an EYU** – Although not classed as an error by HMRC, the behaviour was included in this research to understand the circumstances for its use. Agents also do not constitute EYU use as an error, though they use it infrequently and only when they feel there is no other option, e.g. to correct for technical 'glitches' such as where individuals are duplicated. For micro-employers, EYUs are not widely used nor understood. An EYU is only ever used when HMRC or an agent tells them to do so, e.g. to claim their Employment Allowance for a previous year.

- **Late payment of PAYE duties to HMRC** – The only common ground across HMRC, agents and micro-employers is that all parties agree that late payment of PAYE monies to HMRC is an error.

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5.2   Evidence of good practice

There are examples of best practice, typically when 'running the payroll' is strictly managed and PAYE duties are integrated into the process. In such circumstances, errors are reduced or eradicated.

There are three different categories of best practice:

✓ **Systematically collecting and recording information**

These employers use new-starter checklists (usually to their own or their agent's design depending on whether they manage in-house or outsource) to make sure that all the information necessary is collected.

> *"I have said to them that I need starter details at least three to four days before I'm about to run a payroll, you know, to give me time to load the details and to make sure that they're correct."*
> *Independent Accountant*

They enforce strict deadlines for employees submitting information for the payroll and work to tight timelines themselves to check the data.

✓ **Scheduling payroll processing**

Best-practice micro-employers schedule in a fixed time for processing each stage in processing their payroll (data input, data updates, e.g. tax codes, running payroll, printing payslips, etc.) and make sure they stick to it. They fit other responsibilities around this allocated time, and sometimes build in contingency time.

Equally strict regulations are enforced by some agents, who refuse to run the payroll unless *all* FPS required information is provided by their clients i.e. the payroll and FPS are integrated; they believe you cannot process one without the other.

> *"I won't get it until I actually physically email her...Most of the time it will probably be late, so the payroll- it will be submitted late...They're thoroughly in the know...not my fault."*
> *Independent Accountant*

✓ **Having quality checks in place**

Best-practice micro-employers distribute payslips early enough to ensure that employee queries are raised with time to make amendments, should any arise, *before* the FPS must be submitted.

> *"So if payday is Friday I make the payslips available on that Wednesday...staff know this so they all check their payslips...they will spot anything wrong which is great because I submit the RTI on payday just in case I need to amend it."*
> *Business size: 4-9, in-house*

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5.3   Behaviours that signal room for improvement

As detailed in the opening section of this chapter, challenges around PAYE management surround a lack of understanding of the process. However, there are additional sources of error that reflect bad practice rather than knowledge. There are three categories of bad practice that contribute to errors:

✖ **Insufficient checking**

The extent of checking payroll outputs is extremely varied. Different employers assign different levels of checks to make sure their payroll is correct and, whilst *some* form of checking usually occurs, where in the 'process' that happens and who carries it out varies. In many cases, the only real check on whether the correct payments have been processed is when the employees receive their payslips.

Where checking processes are largely absent, this is often due to a perceived lack of need to check data or no opportunity to do so. Such a perception emerges under the following conditions:

o   Little variation in staff pay means employers are often entering the same figures every week/month (i.e. doing it by rote).

> *"We've not got many people, and I know how many hours everyone's worked, because I'm here all the time so I can see what they've been doing. Nobody's ever told me I've paid them wrong."*
>
> *Business size: 4-9, in-house*

o   With small numbers of staff and a clear view of hours worked/salaries, employers rely on 'sense checking' figures once entered into the system rather than having them independently checked.

o   There often isn't anyone else in the business who *can* check it, making it one person's sole responsibility to get it right. There is very little awareness that submissions *can* be made early.

> *"I've just got to make it work as best as I can…If I'm on holiday...It can be a bit of a nightmare then because I've not got the flexibility."*
>
> *Business size: 4-9, in-house*

For those micro-employers outsourcing their payroll, checks are carried out by the employer even less frequently. Even though service level agreements are in place, few employers comply with their timing and sign-off obligations. Once again, at best, the check is only the payslip. Few employers make use of their formal sign-off process with their agent, largely because:

- o There is a general level of trust that agents will 'keep them right' and process the payroll and any associated tasks correctly, chasing their clients for missing information should they require it.

  "A lot of people do get paid the same amount of money...they just assume that it's been dealt with."

  Regional/National Accountant

- o Some agents who provide figures for review (allowing a few days for feedback) – usually where clients have more staff and greater variations in pay – still struggle to engage their clients. Even in these circumstances, where data are shared in good time, employer checks can be light touch.

- o Others process the payroll and send their clients payslips to check but clients then simply issue the payslips to staff. This means any corrections happen retrospectively.

In this latter case, where the employee is essentially the only checker and the process doesn't allow for them to receive their payslip in advance of pay day, the employer increases the chances that:

1. Their FPS is submitted with incorrect information – any identified over/underpayment is processed in the next payroll run OR the employee's pay is corrected (cash, cheque or bank transfer) but formally adjusted in the next FPS.

   Impact: the individual's income is not accurately reported to HMRC.

2. The FPS is submitted late but with the correct information – fear of submitting the wrong information on the FPS, which is a genuine fear among some micro-employers – means that it is often delayed until the employer knows for sure that all the information is correct. Employers do not know they could submit a FPS then a FPS update later to make corrections.

   Impact: the income and FPS match, but the FPS is late.

✕ Prioritising other tasks

In addition to the lack of data checks, and perhaps reflected in the lax attitude towards payroll procedures, employers do not necessarily prioritise their FPS reporting obligations. Those running their payroll in-house can find it extremely difficult to carve out time in their schedule to deal with FPS – or, sometimes, even to deal with their payroll.

This is particularly evident in industries where work volume fluctuates; sometimes the employer feels they have to de-prioritise their payroll and more typically, their PAYE management, until there is time to 'get it done'. Customers come first. The fact that the FPS submission is disconnected from the payroll

process allows these thoughts to prevail and makes them acceptable; the impact is not always understood.

The impact of this can put pressure on agents who are at the mercy of their clients and can, on occasion, be left waiting very close to deadlines for the necessary information to process the payroll and submit the FPS returns.

Some agents (typically those with a higher level of confidence, derived from experience and understanding, support from colleagues and/or an established and stable client base), do not tolerate this and impose strict deadlines. However, other agents (typically, those driven by concerns about client attrition) would manage late receipt of client PAYE data by processing the payroll and FPS out of hours. Alternatively, they might submit the FPS based on a 'best guess' and, in extreme cases, change the payment date to avoid a possible late submission and potential penalty.

> *"If [the payroll information] was a day late, I might change the payment date. So if [my client] came to me on Saturday and gave me the wage [information], instead of processing it on the Friday as the day they would have been paid, I'd pretend that they got paid on Saturday, which I know is strictly speaking not allowed, but I think that it, sort of, saves everybody getting into trouble."*
> *Regional/National Accountant*

✕ Being too small to be seamless

There can be times where life/business circumstances take precedence over administration duties, and if there's no-one else in the business who can submit FPS returns, it may not always be processed on time.

This can apply as much to micro-employers as agents, who themselves can be micro-businesses. The challenge is heightened when they have weekly payroll clients. Whilst some agents are aware that FPS returns can be made in advance – this knowledge is not universal and the smaller agents often feel forced to submit returns on behalf of their clients when the agent is on annual leave.

5.4 Other external factors

✕ Software issues

Software is also a reported problem and has been cited as the cause for some late FPS reporting. HMRC's Basic Tools software is usually selected out of reluctance to spend money. When dealing with a very small and straightforward payroll, micro-employers cannot justify the expense of commercial software.

Whilst most recognise that Basic Tools is a 'basic' package, they also call for a more user-friendly system. Employers expect HMRC's software to enable easy completion of the core functions required, although many have encountered difficulties:

o The key concern is the inflexibility it affords. Users are able to load the software onto only one device, leaving few options if the user is off sick, on holiday or has a problem with their device. Few software packages now operate in this way that it stands out amongst users as an inflexible solution.

o The fact that it cannot accommodate automatic enrolment (the government's new workplace pensions programme) has, in some cases, frustrated users and they feel forced into moving onto commercial software, which they resent buying.

The inability among some commercial software users to submit EYUs on their paid-for software sits uncomfortably with them. When this occurs, users tend to turn to HMRC's Basic Tools, which allows them to relatively easily submit that return.

× **Engagement with HMRC**

From a micro-employer's perspective, there are also circumstances when the problems experienced are attributed (whether correctly or incorrectly) to HMRC – in these cases, employers often feel unable to understand or resolve them. Typically these involve reconciliation problems, where employers are confident they have submitted all the correct information on time but receive correspondence from HMRC to contradict that. The impact of this is that micro-businesses begin to mistrust the system.

There are frequent reports of difficulties when contacting HMRC, and complaints that HMRC slows down the resolution of issues.

o For **micro-employers**, prior experience of long call times can make resolving issues with HMRC a daunting process. Many employees cite long waiting times trying to get through to HMRC, which can take hours out of their working day, whereas others simply give up and put the task off until another day, delaying resolution further.

> *"I never want to ring them again because it was a nightmare getting through. They just play automated messages."*
> *Business size: 4-9, in-house*

o **Agents** also cite long wait times, which can heavily impact their volume of work. Lack of a specific agent line for PAYE queries makes it harder for agents to get through to HMRC which adds to their work load and also delays resolution. Employers often look to their agents for help with PAYE, even if it is not within their remit.

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"It was just constantly on hold. So in the end, I had to get my accountant to write a letter…basically asking what I'm doing wrong, explaining that we cannot get in touch."

Business size: 4-9, in-house

6   Understanding of the penalty system

6.1   Awareness and perceptions

A penalty system operates within RTI to encourage compliance and deter late or incorrect submissions.

Penalties can affect behaviour change but their impact is currently limited. The potential impact of a penalty on actual behaviour is determined by:

1.   The extent to which it is understood by the recipient

There is general awareness that employers who make errors in their PAYE processes and submissions 'could' receive a financial penalty. However, understanding the specific circumstances that generate penalties lacks clarity for a number of micro-employers.

This lack of understanding of what might generate a penalty can be exacerbated by the penalty notice itself, which is felt by those who have received one to lack explanation (possibly reflecting inaccessibility of the language used, with terms such as 'late FPS submission' not readily understood by micro-employers). The absence of explanation results in frustration, with micro-employers left feeling unable to correct the behaviour that caused the penalty notice and concerned that they will make repeated errors, which will incur further penalties.

> *"It didn't even give the details of when it happened. It just said send us £100 and send us £200. There was no breakdown of what we'd done wrong."*
>
> *Business size: 1-3, in-house*

> *"They're fining me, but not explaining what they're fining me for...they should get in touch with you before it comes to that point...we're not all accountants, and I'm literally a very small business. So what I've learned, I've learned myself."*
>
> *Business size: 1-3, in-house*

Furthermore, some employers are so unsure of the process that when asked about penalties, they default the cause of (or believe that) the penalties they have received are for late payment to HMRC rather than late FPS reporting.

> *"If you didn't pay by, I'm not sure what the date is, maybe the 19th or 6th or something. Then you could be fined for late payment."*
>
> *Business size: 4-9, in-house*

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2. Uncertainty around penalty enforcement

Uncertainty about whether penalties are being/will be enforced appears to undermine the potential impact of the penalty system. Amongst micro-employers, there is little to no awareness of HMRC's relaxation period and no awareness at all of the three day grace period.[9] Agents suggest awareness of these measures though few explicitly refer to them. Instead, the common view is that micro-employers and many of their agents are not quite sure if penalties do apply to them, nor whether they will apply in the future.

HMRC has gradually introduced penalties but rather than serve to help micro-employers, there is a risk that this 'phasing in' approach for applying penalties is exacerbating existing confusion. Furthermore, there is some frustration amongst agents who had hoped to use penalties as a 'stick' to better manage their clients and encourage more accuracy and efficiency in provision of payroll data. In these cases, the absence of a penalty has somewhat weakened their position.

3. The perceived 'opportunity cost' vs. 'penalty cost'

Although financial penalties are large enough to act as a real financial incentive for behavioural change, consideration does not always translate into action and the threat of a penalty is not always an effective deterrent.

Penalties may be 'accepted as inevitable', or tolerated in certain circumstances, for example:

- Where the time taken to appeal would cost them more (in terms of time out of the business) than just paying the penalty.

  > *"Sometimes people don't bother because it's too much work getting it cancelled. There's too much letter writing and chasing them...you spend more time just trying to match this deadline and have no time to do business."*
  >
  > *Business size: 4-9, out-sourced*

- Where they have justified the penalty to themselves on the basis of limited capacity and shifting priorities (e.g. taking holiday leave, prioritising revenue generating business activities, etc.).

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[9] Whilst HMRC's three day grace period is in place, employers will not be penalised for short delays in filing their return.

7 Information sources currently used

7.1 Support and guidance

Between agents, software providers and HMRC, there is no shortage of information and support available to educate employers about their PAYE duties and RTI obligations. However, employers need to invest resources, either in terms of financial investment or time spent out of the business, to make best use of it.

Of note, there is very little awareness and therefore minimal use of the service integrated into the software that provides notices and information to employers directly from HMRC. Employers and agents were asked for their opinion on the General Notification System (GNS) but few could offer comment. A small number of employers were aware of it but few could explain its value. Agents were slightly more engaged with the GNS service but again, few could really explain its value or give clear examples of when they had benefited from it.

7.2 Information and support from paid for services

Agents, where available, are the first port of call for any queries relating to PAYE – regardless of whether or not the agent is ordinarily responsible for processing PAYE on behalf of the business. Micro-employers are typically very positive about the support they receive from their agent; whilst payroll specific agents are more likely to be able to provide tailored support, non-payroll specific agents are equally well trusted.

> *"When I get the fines and stuff like that, or if I don't understand anything, I will call [my accountant]... he'll write the letters [to HMRC] explaining...He can sort it all out."*
>
> *Business size: 1-3, in-house*

Commercial software providers are not typically consulted, outside of technical or software specific queries relating to the user interface. However, the user support available through commercial providers is valued, with information about software requirements (and reasons for them) usually easy to obtain and understand, helping to resolve queries quickly.

7.3 Information and support requiring investment of time

HMRC Basic Tools is felt by most to do the job that is required but as a basic service with no dedicated support, users are reliant on other HMRC channels and resources to resolve their queries, which can lead to frustration.

- HMRC telephone support is the only 'two-way' channel available to those who have not invested in support from an agent. However, long wait times and the unclear or inconsistent guidance given when errors or problems arise with PAYE, often results in frustration for these micro-employers.

- Gov.UK may be accessed by some for general information, but for most it is felt to be inaccessible and difficult to navigate. Most would not attempt to use the HMRC pages on Gov.UK to resolve specific queries or issues relating to PAYE, due to difficulties in finding and understanding the relevant information.

- Awareness and use of webinars is very limited. Few can find the time at the necessary time slots to participate. Furthermore, there is no knowledge of HMRC's Employer Bulletin, never mind how to register for it.

- Ultimately, many employers end up simply searching through internet engines for information, seeking the simplest and quickest explanation to their queries.

8 Implications and considerations for HMRC

8.1 Micro-employers need better rather than more support

Ownership and vision of RTI should sit with HMRC

There is a lack of clarity around many aspects of the PAYE process; this is particularly true around dates and deadlines. It is clear that education around the process is required to improve understanding. Only when the process is understood can employers operate with confidence.

Ownership and articulation of this and the vision for what RTI should look like must rest with HMRC for three reasons:

1. HMRC is the only *consistent* information source within the Employer/Agent/ Software relationship. All parties have to engage with HMRC. Not all micro-employers have access to an agent or a commercial software package. Furthermore, agents vary in the extent to which they have the required level of understanding (and capacity) to ensure a consistently thorough understanding of PAYE requirements and obligations amongst their clients, whilst software providers will support employers only on a functional level.

2. HMRC is a recognised source – indeed, it is *the* recognised authority for all parties on PAYE and RTI reporting. Employers do not avoid HMRC as an information source because they do not respect what HMRC has to say; rather, they struggle to process the information as it is currently provided. Employers, particularly those without an agent, have to get their information from somewhere; it is surely better they get that directly from HMRC.

3. Even when payroll and all PAYE and RTI obligations are outsourced, agents may be limited in the way they operate due to conflicting priorities. They have to balance making sure their client is doing everything right vs. making sure their client is happy with the service they receive. Agents may bend the rules; this research provides evidence of this, on dates for example, so as to accommodate client demands. This is a particularly strong pull for newer agents and/or those less confident in asserting their position in terms of where their responsibility begins and ends (perhaps because they have less experience or because of a perceived pressure to retain clients at all costs). Again, HMRC should take ownership of its own system and the messages surrounding it to encourage *all* parties to be compliant.

If it is accepted that HMRC *should* take ownership of the vision and understanding around PAYE and RTI, the challenge is how to go about delivering on this.

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More broadly, there is a need to streamline and bring clarity to existing information sources

Better, not more, support is vital. The majority of micro-employers have sought information or guidance from HMRC at some point – particularly those who do not have access to an agent. Micro-employers need access to a wide range of information. This includes how to deal with 'first time' experiences within RTI such as maternity or paternity pay. Micro-employers are typically not reporting these types of payments correctly until *after* errors have been identified by HMRC. Even some agents have struggled to get the reporting around these payments right first time.

Currently, irrespective of the type of support they require, many micro-employers report a negative experience when trying to access the information they require from HMRC via Gov.UK, describing it as:

- Difficult to find;

- Difficult to navigate;

- Densely written; and

- Not easily digested.

This creates barriers to understanding by adding complexity to a topic already perceived to be challenging.

In the first instance, this could mean re-structuring existing information to make it more accessible. However, there is a sense that a *reduction* in, and *simplification* of, online support materials would enable employers to find and navigate information in a quicker and more efficient manner.

There is felt to be a lot of repetition in the information currently available and even among agents who are more familiar with content, they can find the volume of information unhelpful. It is very easy for those less familiar with the online content to find themselves caught up in a series of links, taken down routes of no relevance to them or having to work out which piece of information is most useful. The outcome is that these time-poor employers often give up.

Specifically, a clearer articulation of PAYE as an end-to-end process is required

Defining and communicating a cohesive PAYE process is the cornerstone of providing better support, and is a prerequisite for improving understanding among employers.

Micro-employers and HMRC visualise and think about the payroll process and related PAYE activities in very different ways. The proportion of micro-employers who envision PAYE as sitting within a coherent and linear process is very limited.

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As a result, there is a vacuum to be filled, which gives HMRC a fertile opportunity to shape and define what best practice should look like, and communicate this in a simple, accessible and visual format, e.g. a diagrammatic roadmap which:

- Provides a clear definition of where PAYE should fit within a cohesive and linear payroll process.[10] The process is fragmented for most micro-employers. RTI is deemed of less critical importance (compared with paying staff and paying HMRC) and is therefore the first casualty when time is pressing. Reports are often submitted late simply because they do not know when they are and why this is important;

- Makes clear the purpose and relevance of the FPS; and

- Clarifies dates and deadlines.

This overview should be easy to find online, and actively signposted wherever there are opportunities to do so (e.g. through direct communications and in penalty notices).

Across all forms of guidance and support, an accessible way of talking about PAYE in real time needs to be developed

Employers find current language and formal terms around PAYE processes and submissions (FPS, EYU, etc.) difficult to understand and not intuitive. This compounds the commonly held perception that the topic is complex, and becomes an additional barrier to engagement and understanding.

What the acronyms mean is a starting point although even when written in full, the report names (FPS, EPS) have no bearing on what employers are actually doing. The names appear better aligned to HMRC than they do employers, and so if these names remain, which presumably they will given that all employers are actively working with them, they need to be explained so as not to turn micro-employers away from guidance that uses this terminology.

Development of an accessible and intuitive language to talk about PAYE should facilitate improved understanding. This should be used consistently, ideally not only through online support, direct communications, and penalty notices, but also by agents and software providers to ensure a common language for talking about PAYE that resonates with all customers.

Again, ownership of developing language and terminology needs to sit with HMRC to ensure:

1. Language and tone are appropriate for HMRC; and

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[10] Whilst HMRC cannot dictate payroll practices/management, it can present a case for best practice.

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2. Roll out and guidance to software providers (and agents) is consistent.

8.2 Introduce clarity and consistency on penalties

Improving the perception of 'fairness' would make penalties more compelling

Most micro-employers accept that it is reasonable for a penalty to be issued to employers who are knowingly not processing and submitting PAYE as they should. However, penalties as they are currently being issued do not seem to be applied fairly.

- Penalties cannot be perceived to be fair if employers do not understand why they are receiving them. As such, without understanding, employers cannot feel penalties are warranted.

- Employers need to be given the opportunity to change/adapt behaviour, for example through issuing warnings ahead of a penalty. Currently, employers do not feel they have the opportunity to improve/change behaviour before penalties are issued (NB if understanding was improved, warnings would not be required)

- Most micro-employers have not heard of the General Notification Service (GNS) that sits within RTI software. Even amongst those who have heard of GNS, there is uncertainty about its purpose and application, so it does not currently work as a system to provide early warning.

Greater consistency in application of penalties could impact positively on behaviour

Current implementation of penalties is not understood. What appears to micro-employers and agents as inconsistent application, is in fact controlled use; but this confusion may be limiting the effect penalties have in changing behaviours.

To maximise impact, penalties need to be issued each and every time – though importantly, recognising the need to allow opportunity to change through prior warning *and* simple explanation.

- If micro-employers are unclear on reasons for penalties, inconsistent application can add further ambiguity.

- As micro-employers are largely unaware of the relaxation period and/or exemptions, HMRC does not benefit from any goodwill with regards this

Similarly, penalties should be enforced consistently, so that (as far as possible) opportunities to appeal a penalty are transparent, clear and consistent.

- Agents are more likely to have the knowledge and resources to be able to challenge penalties (and their ability to do so could make these seem an empty threat to clients).

- In contrast, micro-employers who do not have agents are disadvantaged in this respect, and are often unaware of the possible channels and procedures to challenge a penalty themselves (which makes the penalty appeal unfair).

Penalties are currently a missed opportunity to educate employers

The feedback loop when penalties are applied does not currently provide sufficient (or any) information to help employers understand *where* they went wrong, or how errors can be prevented in the future, as illustrated in Figure 7.

Figure 7: Current Feedback Loop:
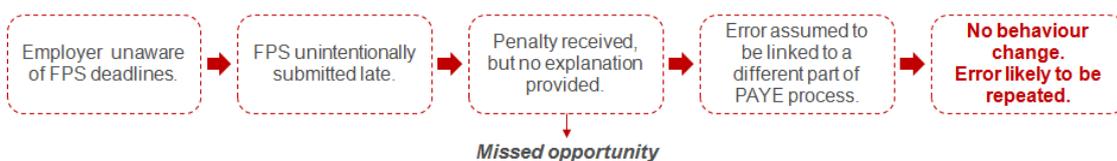
Adding basic information to penalty notices *clearly* stating the reason for the penalty would help micro-employers change their behaviour

- This supports the need for improved knowledge and greater fairness in the system. A penalty notice is an existing channel, requiring no additional investment from HMRC.

- It should be utilised to educate employers by providing relevant and specific support relating to the error that resulted in penalty, and signposting to additional support should it be required.

An online diagnostic tool, signposted in the penalty notice, should be included to help employers 'work through' their problem and understand what to do next time

- There are potential challenges in identifying exactly what an individual business did (or didn't do) to trigger a penalty being issued, which might limit the extent to which relevant and *specific* support can actually be issued with a penalty notice.

- This suggests a possible role for an online diagnostic tool, signposted in the penalty notice, to help businesses understand what went wrong, with links to relevant and specific support that would enable them to learn from their mistakes.

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9 Appendix 1: Micro-employer sample – additional profiling information

Further to section 2.3, the following tables present the micro-employer sample profile by region, age of organisation and sector.

By region:

Region	Payroll/RTI managed:	
	In-house by employer	Out-sourced to agent
	No. of interviews	
London	13	5
West Midlands	8	2
North West	6	7
East of England	3	1

By age of organisation

Age	Payroll/RTI managed: In-house by employer No. of interviews
1-2	5
3-5	8
6-10	8
11-20	4
21 or more	5

By sector:

Age	Payroll/RTI managed: In-house by employer No. of interviews
Accountancy	3
Agriculture	1
Art	1
Charity	1
Childcare	1
Construction	1
Digital production	1
Education	1
Hotels, leisure, and catering	2
IT	2
Landscaping commercial	1
Leisure	1
Local government	1

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Management consultancy	1
Motor trade	1
Plumbing and heating	2
Post office	1
Research information management	1
Retail/wholesale distribution	4
Sales	1
Service	1
Transport and communication	1

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10   Appendix 2: Discussion guides

Micro-employers

Objective: to explore and understand the specific details of the processes micro-employers undertake when submitting PAYE returns, and to identify reasons for error (specifically around the reasons that PAYE data might be submitted late, or with information missing and the particular circumstances that result in the requirement to submit an EYU).

1. Introductions and warm up
2. Overview of business
3. Typical day for interviewee
4. Relationship to PAYE
5. Process mapping
6. Improving compliance
7. Clarification and close

Length of interview: c. 1 hour

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1.   Introductions

- Introductions.
- MRS code of conduct/confirm that the participant is happy for the interview to be voice recorded
- Brief explanation of the research:
    - o HMRC wants to better understand the circumstances around how you prepare and submit PAYE information (in real time), and in particular any difficulties experienced by you with this process.
- Who is Quadrangle and our role
- No right or wrong answers
- Provide reassurance that all information will be confidential and will not be used for the purposes of auditing the business.

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2.   Overview of business

Objective: to understand the business circumstances and gain an understanding of the contextual influences on behaviours. These can be referred to later when discussing what might impact on or create difficulties.

- Basic firmographics
- Profile of staff (if applicable)

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- Average day for their company
- Use of digital services

3.   Typical day for interviewee

Objective: to understand their role in the PAYE submission process and to gain an understanding of contextual influences on behaviours.

- Describe an average day

4.   Exploring relationship to PAYE

Objective: to understand the functional elements of the PAYE submission process, including how this is managed within the business, levels of understanding and confidence, and impact of any changes made to systems and processes as a result of RTI.

- Overview of payroll
- Approach to processing PAYE
- Bookkeeping capabilities
- Level of engagement

5.   Process mapping exercise

Objective: to explore the exact process the interviewee undertakes (from start to finish) to submit PAYE returns, and identify any 'pressure points' where errors are most likely to occur:
- **A.** If payroll is in-house
- **B.** If payroll is outsourced
- **C.** Points applicable to both

Notes on Process Mapping section

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1. Interviewers are to be aware of differences between in-house and outsourced submission processes and ask the relevant block of questions (A or B).

2. Section C should be asked of all interviewees.

3. A maximum of 2 specific situations/touch points to be explored out of the themes/ scenarios outlined. Use these to unpick 'what if' situations as relevant to participant circumstances.

Ask the participant to talk through their typical approach to processing and submitting PAYE returns, focussing on the specific check points outlined below.

A. IF PAYROLL IN-HOUSE

- Collecting and recording payroll data
- Collating information ready for RTI submission
- Preparing, completing and submitting a FPS
- Processing the payroll
- Late submissions and missing information
- Paying staff/employees
- Submitting a correction
  - o Within that tax year:
  - o For a closed/previous tax year
- End of year

B. IF PAYROLL OUTSOURCED

- Collecting and recording payroll data
- Collating information ready for passing to agent
- Checking and confirming or suggesting amendments to the payroll
- Late submissions and missing information
- Paying staff/employees
- Submitting a correction
  - o Within a tax year
  - o For a closed/previous tax year
- End of year

C. POINTS APPLICABLE TO BOTH

- Overall perceptions of the process
- Throughout the process mapping exercise, the interviewer should seek to build a detailed understanding of:
- Any specific pressure points in the process where the interviewee experiences more difficulties. Why is this?

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- If they are any points where they are unclear/uncertain on the correct method/process. Why?
- If they do struggle/are unclear or uncertain, do they seek advice? From where, and why that source?
- Why do they complete the process in this way?
- Specific situations to explore in the context of the process mapping exercise, to identify those touch-points where these could/would impact on the process, or become issues of uncertainty/concern, or potential sources of error.

6.   Improving compliance

Objective: to understand what employers believe constitutes non-compliant behaviour and to understand how non-compliance could be reduced and the perceived role/responsibility of the various parties involved in helping to improve compliance.

- Explore awareness, understanding and usage of the Generic Notification Service (GNS)
- Explore awareness of penalty system
- Extent to which penalties are a serious consideration/concern
- The role and requirement for guidance around processing and submitting PAYE
- Level of Understanding

7.   Follow ups and finish

Objective: any specific points for clarification.

- Any questions for additional clarification
- Thank and close

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Agents

Objective: to explore and understand the specific details of the processes micro-employers undertake when submitting PAYE returns, as understood by Agents, and to explore reasons for error.

1. Introductions and warm up
2. Overview of business
3. Perceptions of clients' relationship to PAYE
4. Process mapping
5. Improving compliance
6. Clarification and close

Length of interview: c. 45 minutes

1.	Introductions

- Introductions
- MRS code of conduct/confirm that the participant is happy for the interview to be voice recorded
- Brief explanation of the research:
  - o HMRC wants to better understand the specific activities involved in preparing and submitting PAYE submissions in real time for micro-businesses, both by agents such as yourself and your clients. In particular, we are looking to explore the specific challenges your micro-employer clients may face in providing timely, accurate and up-to-date information.
- Who is Quadrangle and our role
- No right or wrong answers
- Provide reassurance that all information is confidential and will not be used for the purpose of auditing your or your clients' the business.

2.	Overview of agent's business

Objective: to understand the client portfolio of the agent and understand their ways of working with clients.

- Basic firmographics
- Client portfolio
- Ways of working with clients
- Relationship with clients

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3.   Perceptions of clients' relationship to PAYE

Objective: to understand agents' perceptions of the relationship their micro-employer clients have with PAYE (including engagement with PAYE, capabilities – in terms of the systems and processes they have in place to ensure accurate record keeping and reporting - and any changes to these systems and process as a result of RTI).

- Clients' understanding of PAYE

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4.   Process mapping

Objective: to explore the exact process the interviewee undertakes (from start to finish) to submit PAYE returns on behalf of their client.

Notes on Process Mapping section
A maximum of 2 specific situations/touch points to be explored out of the themes/ scenarios outlined. Use these to unpick 'what if' situations as relevant to participant circumstances.

Ask participant to talk through their typical approach to processing and submitting PAYE returns on behalf of their clients, focussing on the specific process check points outlined below.

- Collecting and recording payroll data
- Processing the payroll
- Client checking and confirming (sign-off) or suggesting amendments to the payroll
- Submitting the RTI submissions to HMRC on or before payday
- Paying staff/employees
- Submitting a correction:
  - o   Within a tax year
  - o   For a closed/previous tax year
- End of year
- Overall perceptions of the process

Throughout this section, the interviewer should probe on:
- If there are any specific points in the process client struggles with. Why?

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- Specific situations to explore/overlay on the process mapping exercise, to identify those touch-points where these could/would impact on the process or become issues of uncertainty/concern, or potential sources of error.

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5.   Improving compliance

Objective: to understand how non-compliance could be rectified and the perceived role/ responsibility of the various parties involved in helping to improve compliance.

- Explore awareness, understanding and usage of the Generic Notification Service (GNS)
- Explore awareness of penalty system (late payment and late/non filing)
- Extent to which penalties are a serious consideration/concern
- Level of client understanding
- The role and requirement for guidance around processing and submitting PAYE

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6.   Follow ups and finish

Objective: any specific points for clarification.

- Any questions for additional clarification
- Thank and close

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