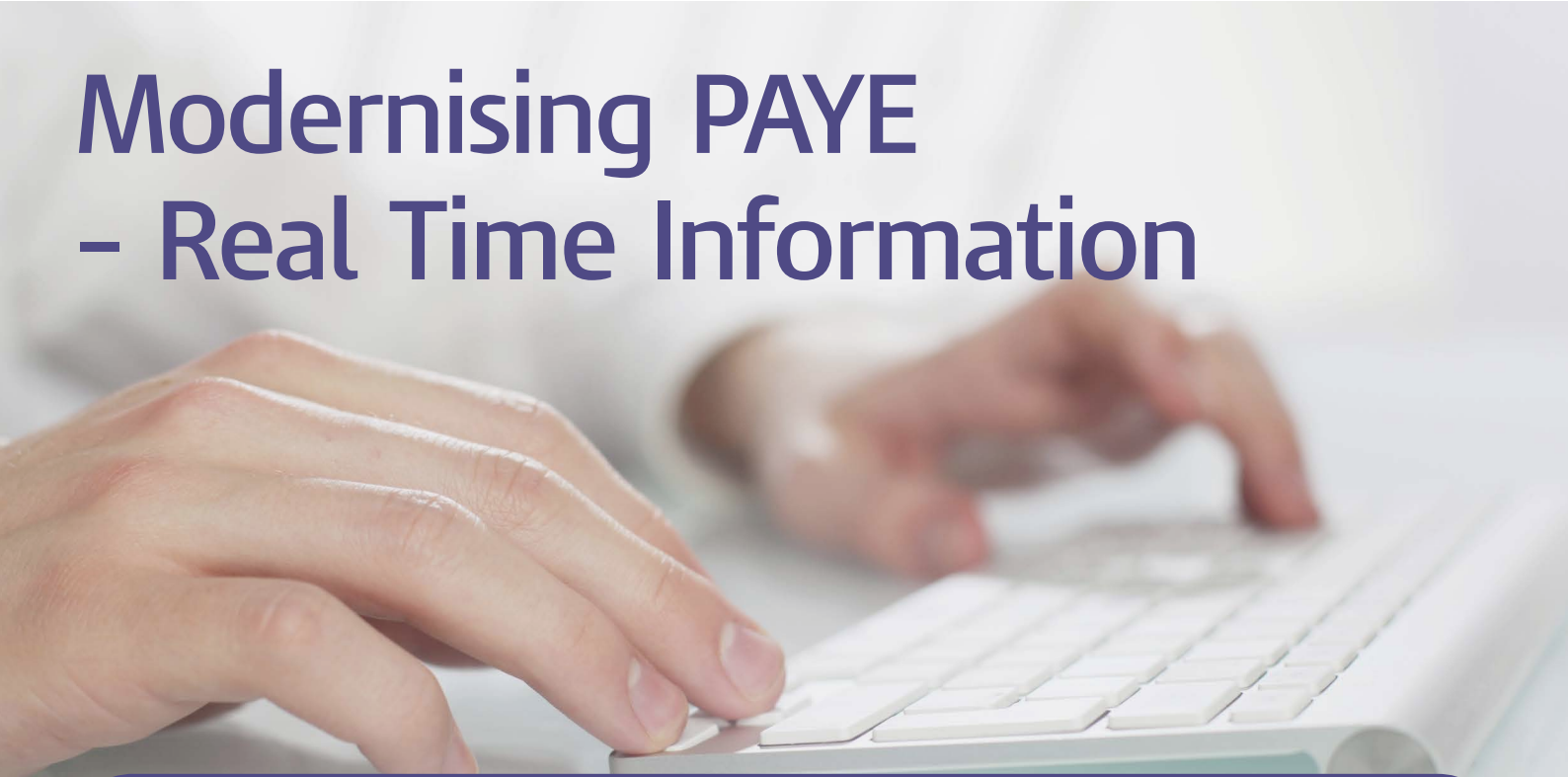


Modernising PAYE – Real Time Information



From April this year, the way that employers report PAYE (Pay As You Earn) tax, national insurance and other payroll deductions to HMRC is changing. This briefing provides background information about the changes and explains what we are doing to help employers get ready for the new way of reporting PAYE.

What is Real Time Information for PAYE?

All employers, whatever their size, will now need to send payroll information to us when they pay their employees, rather than at the end of the tax year, as they do at present. This will start from the first pay day on or after 6 April; this is what we mean by Real Time Information for PAYE, or RTI for short. RTI will not affect how, or when, employers pay their employees.

Why we are changing PAYE by introducing RTI

The current PAYE system has remained largely the same for the past 70 years, though employment patterns have changed markedly, with millions more people changing job every year, or having more than one employer. This makes it more difficult for us to keep an individual's employment record up to date. RTI will make the PAYE system more up to date and support the introduction of

Universal Credit by providing the Department for Work and Pensions with real time information about wages and tax so they can assess the right amount of benefit.

The benefits of RTI

Employers will no longer have to prepare and submit a separate annual return (forms P35 and P14) and RTI will simplify the reporting requirements for employees who join or leave during the year. This will remove one of the biggest administrative burdens on businesses, by integrating PAYE reporting with normal payroll routines. We estimate that, when fully operational, RTI will save employers up to £300 million in administration costs. The vast majority of employers taking part in the RTI pilot have said that reporting PAYE in real time is easier than they expected and that it will save them time at the end of the tax year.

For most employers, reporting in real time will be simpler, because it will be integrated with normal payroll practices and payroll software will do almost all of the work.

However, we do understand that some businesses pay their employees in different ways, such as cash payments per shift, and this can make reporting payroll information on or before the day they are paid difficult. In these cases, employers will have up to a week after they have paid an employee to report the necessary information to us.

For individuals, RTI will in time help us improve the accuracy of tax codes and tax credit awards, meaning fewer people will need to pay additional tax at the end of the year, and any overpayments or underpayments will be smaller in value.

RTI will also help us to ensure that employers are paying the right amount of payroll taxes each month, by speeding up the collection of the billions of pounds that we estimate are owed by employers, which are not currently paid in full until the end of the financial year. Better and more regular payroll information will also help us to reduce the level of Tax Credits overpayments, error and fraud by about £300 million a year.

Testing the RTI system

Since April last year, we have been running a pilot of the new system with a cross section of employers and pension providers, from more than 200 different industries. By the end of March this year, pilot employers will have reported PAYE records for around six million individuals in real time. We have included a range of employers, from farmers to people employing nannies, as well as those in public services and small retailers. Most employers in the pilot are small, with nine or fewer employees – but the largest scheme has more than half a million individuals. The pilot has shown us that the technology is in place and that it works, and it has given us the opportunity to identify and resolve issues before we roll out RTI to all employers.

What employers need to do now

To prepare for RTI, employers should follow these simple steps:

- Hold accurate and up-to-date information about all their employees, especially their name, date of birth, gender, address and a valid National Insurance number
- Employers using commercial payroll and/or Bacs software should speak to their provider and upgrade their existing software if necessary

- Employers using an agent, payroll bureau or payroll service should check with them about what they need to do to get ready for RTI
- Employers with nine or fewer employees can use one of the free payroll software packages or HMRC's free Basic PAYE Tool. An RTI-ready version will be available for download from the HMRC website on 2 April.

We are not expecting all employers to join RTI on 6 April itself. Rather, employers will start to report PAYE in real time according to their normal payroll cycle from 6 April. We anticipate that for some employers it will take a little while to get into the routine of reporting RTI on or before the date of payment to their employees.

What we are doing to help

We wrote in February to more than 1.4 million employers to remind them to start reporting in real time from April and help them prepare. These letters follow the reminders that we sent to employers in October last year. We are also launching a national advertising campaign with advertisements appearing in the national press, radio and online from 11 March. We want to help and support businesses to meet their new PAYE reporting obligations. We will not issue any automatic penalties to employers for in-year late filing of RTI until April 2014.

We are also offering:

- Pre-recorded and live Webinars (web seminars), available from the 'know where to find extra help' section of the RTI pages of our website
- YouTube video 'Accurate Employee Information matters'
- Face-to-face events across the country between March and May. Employers can book an event through www.business-events.org.uk
- Online interactive sessions, including regular Twitter Q&A @HMRCgovuk.

To find out more

Please visit the RTI pages on our website at www.hmrc.gov.uk/rti