



HM Revenue
& Customs

Research report

Understanding PAYE Delivery Partners

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Behavioural Evidence & Insight Team

Understanding PAYE Delivery Partners

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Research requirement (background to the project)

The Pay As You Earn (PAYE) landscape has seen a radical shift recently with the introduction of Real Time Information (RTI). The vast majority of those operating payroll schemes now report PAYE information to HMRC in 'real time'. This means they use payroll software to report PAYE information each time they pay their employees or pensioners, instead of sending returns after the end of the tax year. This research seeks to better understand the attitudes, behaviours, capabilities and capacities of employers and intermediaries in a post-RTI world.

Specifically, the research sought to:

- Provide HMRC with a greater understanding of how employers manage Benefits in Kind (BiKs) and Expenses, and to help determine whether they could increase the number of employers who payroll these;
- Explore the PAYE system to better understand the roles and relationships within the PAYE system, specifically between HMRC, employers, payroll providers and individuals and to see how employers can be supported to help individuals and reduce the flow of interactions between individuals and HMRC.
- Understand the impact of RTI on payroll companies; how it is being experienced, attitudes and behaviours since the introduction of RTI; relationships between payroll companies and their clients; and consider the extent to which payroll companies have been, or anticipate being affected by the introduction of RTI.

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When the research took place

This piece of work was made up of three phases of research and four case studies, carried out to the following timelines:

Phase 1 – Delivery Partners, phase 1

- Set up/immersion: October 2013 – November 2013
- Qualitative research: November 2013 – December 2013
- Analysis, reporting and delivery: December 2013 – January 2014

Phase 2 – Delivery Partners, phase 2

- Set up/immersion: December 2013 – February 2014
- Qualitative research: February 2014 – March 2014
- Analysis, reporting and delivery: April 2014 – June 2014

Phase 3 – Delivery Partners, RTI Extension

- Set up/immersion: January 2014
- Qualitative research: February 2014 – March 2014
- Analysis, reporting and delivery: June 2014

4 Company case studies

- 2 case studies took place during phase 1
- 2 case studies took place during phase 2

Who did the work (research agency)

Quadrangle carried out all activities involved in the research, working in close collaboration with the HMRC project team.

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Methodology – Design, participants/sample and data collection

Delivery Partners Phase 1

Set up/immersion:

Purpose:

- To establish the optimal research plan, methodology and sampling

Participants:

- HMRC stakeholders
- Quadrangle project team

The set-up phase included an immersion into documentation provided by HMRC of internal desk research conducted around Benefits in Kind and Expenses, helping to focus and stopping any reinvention.

Qualitative research:

The purpose of the qualitative research was to:

- Understand how employers currently manage Benefits in Kind and Expenses, (i.e. how data is collated, how employers have embedded systems into their business to file, report and account for items to HMRC).
- Understand why employers manage their Benefits in Kind and Expenses in the way they do.
- Understand the barriers/incentives to reforming the administration of BiKs and Expenses .
- Explore how Benefits in Kind and Expenses could be better managed in the future.
- Investigate reaction to payrolling BiKs and Expenses.

Participants:

- Businesses (recruited by free-find)
- Payroll companies (recruited by free-find)

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Method, Data and Tools used, Sample

Depth interviews:

Semi-structured telephone interviews were conducted with 39 respondents, 30 businesses and 9 payroll companies, lasting up to one hour and covering the points of discussion laid out in “the purpose of the qualitative research” above.

- 30 depth interviews with decision makers of BiKs and Expenses within businesses
 - Spread of businesses who managed PAYE for BiKs/Expenses in house, those who outsourced some to a payroll company, and those who outsourced all to a payroll company.
 - Businesses with a range of employee numbers; between 1-49, 50-249, and over 250 employees.
 - Geographic spread across Great Britain and across a diverse range of sectors, including retail, manufacturing and professional services and at a mix of life stage – growing, steady and mature.
- 9 depth interviews with payroll companies who process payrolls and undertake P11D submissions (preparation and/or submission)
 - Spread of payroll companies with a mix of client profiles – mostly SME; mostly Large; both SME and Large.
 - A range of size and number of employees.
 - A mix of payroll companies with differing volumes of P11Ds undertaken for clients.

Delivery Partners Phase 2

Set up/immersion:

Purpose:

- To re-focus and bring clarity to the research and further develop a methodology.

Participants:

- HMRC stakeholders
- Quadrangle project team

The set-up for phase 2 involved a workshop and two working meetings with HMRC to develop the approach, determining the best tools, methods and stimulus for fieldwork.

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Qualitative research:

The purpose of the qualitative research was to:

- Understand the roles and relationships within the PAYE system, seeking the views of businesses and payroll companies on how the Pay As You Earn (PAYE) system *currently* operates.
- Look at how the PAYE system can evolve to remain fit for purpose.
- Understand what the future role of employers, employees and payroll companies could be in terms of their relationship with HMRC.
- Understand what ideas employers had for a better or different PAYE system and how that might affect roles and responsibilities.

Participants:

- Businesses (recruited by free-find)
- Payroll companies (recruited by free-find)

Method, Data and Tools used, Sample

Workshops:

8 creative workshops (one of which was viewed by HMRC) were conducted with employers who are responsible for their businesses' payroll (e.g. Owner, FD, Payroll / HR Manager) and have a turnover of less than £25m. Workshops lasted two hours and covered the points of discussion laid out in "the purpose of the qualitative research" above. The method changed from the original group discussions to workshops to help facilitate 'blue sky' thinking, to help generate creative ideas for the future of the PAYE system.

- Workshops took place in London, Bristol, Birmingham and Manchester
- Range of business size and number of employees; businesses at various life-stages

Depth interviews:

9 depth interviews were conducted with key decision makers in payroll companies who are responsible for their businesses' payroll (e.g. Owner, FD, Payroll Manager), lasting up to one hour and covering the points of discussion laid out in "the purpose of the qualitative research" above.

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- 9 depth interviews with payroll companies who process payrolls and undertake P11D submissions (preparation and/or submission)
 - Spread of payroll companies with a mix of client profiles – mostly SME; mostly Large; both SME and Large
 - A range of size and employee numbers; a mix of payroll companies with differing volumes of P11Ds undertaken for clients

Delivery Partners – RTI Extension

Set up/immersion:

Purpose:

- To agree the scope of the work and develop a detailed project plan

Participants:

- HMRC stakeholders
- Quadrangle project team

The set-up phase included a review of recent research to establish what is known about the customer group.

Qualitative research:

The purpose of the qualitative research was to:

- Understand how RTI is being experienced by payroll companies and retrospectively, their experience of preparing and setting up RTI.
- Understand attitudes and behaviours within payroll companies since the introduction of RTI.
- Illuminate the relationship between payroll companies and their clients, and establish whether this has changed since the introduction of RTI
- To consider the extent to which payroll companies have been affected, or anticipate being affected by the introduction of RTI.

Participants:

- Payroll companies (recruited by free-find)

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Method, Data and Tools used, Sample

Depth interviews:

Semi-structured telephone interviews were conducted with 25 respondents, lasting an average of 45 minutes and covering the points of discussion laid out in “the purpose of the qualitative research” above.

- Depth interviews conducted with owners/senior decision makers of the payroll company.
- Spread of businesses across the UK at various life stages.
- Businesses with a range of employee numbers and with differing sizes of clients.

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Main Findings

Delivery Partners Phase 1: Administering Benefits in Kind and Expenses

1. In most cases, and particularly around Expenses, P11D administration is procedural – employers are not immersed in the why of what they are doing, they are simply following procedures that work well for them and are heavily reliant on software.
2. For businesses with a small number of employees or those with simple affairs, P11D administration is not seen as a burden – the BiKs and Expenses used are few in number and relatively straight-forward.
3. Where there is an element of complexity with BiKs and/or Expenses and a burden can be felt, employers are drawn to ways that allow them to be more efficient. Those aware of Dispensations and/or online P11D reporting, value them and benefit from their use. There is limited appetite to apply for a dispensation amongst those with very simple P11D administration requirements.
4. Most employers have not heard of the possibility of ‘Payrolling’ BiKs and/or Expenses and there is confusion surrounding its meaning.
5. A minority of employers do ‘payroll’ BiKs and/or Expenses – these employers are able to identify very clear advantages for themselves and their employees.
6. Once made aware of the possibility of payrolling, most employers would have no problem adapting to it if required to. However many see little reason for the business to change or incentive in doing so at the moment. Increasing awareness could increase take-up amongst larger or more complex employers where a value exchange is seen to exist (and where the right software/ capabilities are in place). Using stories from advocates to articulate the benefits could help increase up-take. Although fewer in number, this type of (more significant/ complex) employer accounts for a significant proportion of employees.
7. Without any other incentive to change, mandatory reform was identified as the fastest/ simplest way to significantly increase take-up amongst smaller/ less complex employers. However, using the stories from advocates among the larger/ more complex employers could help to influence the behaviour of these smaller/ more simple employers over time.
8. The role of the payroll company is that of an external department, offering services and advice, but they too are generally unaware that there is an opportunity of payrolling BiKs and Expenses.

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Main Findings

Delivery Partners Phase 2

1. On the whole, the PAYE system works for employers and payroll companies, particularly in its most simplistic form i.e. a stable workforce where employees are in receipt of one income, regular salaried payments, and few (if any) taxable benefits. However, a growing proportion of the workforce have more complicated working arrangements and when things do go wrong (for example problems with tax codes) employers feel that the responsibility of resolving problems lies with them.
2. Employers feel they are often the first port of call when employees have questions or queries about tax; they adopt different mechanisms for managing this and engage differently with their employees when trying to resolve tax problems/issues. These mechanisms could be as simple as issuing an individual with a phone number to contact HMRC, or sitting down with them and explaining their tax code and the system and ways of resolving problems. Many employers take on the responsibility of helping their employees with tax queries knowing that it is above and beyond their legal obligation. They offer advice and guidance for both emotional and rational reasons.
3. Employers feel the current PAYE system allows them a degree of autonomy in how they manage PAYE issues and problems for their employees. Part of the reason employers contribute to problem solving over and above what they are required to do is because this support service is voluntary rather than being a formal requirement. Employers feel best placed to choose what level of support they wish to offer and are suspicious of any shift to formalise, refine or mandate this supporting role.
4. Employers generally fit into four broad types: those who provide full support for employees, enhanced support, basic support and no support. The three factors which contribute to these customer types are willingness, capacity and capability.
5. Many of the employers we spoke to feel the goodwill demonstrated by employers to their employees is a by-product of a state of affairs where employees do not understand the PAYE system, their role in it, or how their tax is calculated. The perception among employers therefore is this lack of understanding creates cracks in the system. Individuals are responsible for paying the right amount of tax at the right time (with employers collecting tax at source and paying it to HMRC) but individuals lack the confidence/competence to 'decode' their obligations. Employers feel that when errors occur, employees are ill equipped to deal, understand or rectify them. PAYE's success is that employees can get by knowing very little, relying on the goodwill of employers.
6. There are various suggestions about what a better or different PAYE system could look like in the future but, overall, employers and payroll companies gravitate towards a

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system that focuses on better engagement between employees and HMRC. With better engagement tools provided by HMRC, employees would be empowered to perform the role expected of them. This should make the system work more efficiently, and generate benefits for all.

7. Employers feel there are three core components to an improved future PAYE system:
 - (i) it is digital, founded on education for individuals;
 - (ii) it is simplified. A digital online portal that allows all parties line of sight; HMRC would own and host the account; employees would have full access and employers, limited access. The online account would go some way and be a necessary tool to increasing engagement and education and helping employees retain responsibility for their tax.
 - (iii) The system would benefit from simplification, for example the removal of paper forms and the 'de-coding' of tax codes.

8. Although employers do not want to take on any further formal responsibility, employers that already provide support for employees in relation to PAYE compliance are open to the idea of doing things differently, for example using new tools and channels for supporting employees such as an online portal which would increase the ease and efficiency of the support, problem-solving and information updating which they already undertake. Whilst employers agree they deliver on behalf of HMRC there is no desire to be a partner. The relationship is seen to be more hierarchical in its nature. HMRC has, and will always have, the power of a regulatory authority and should police the system. This is regarded as incompatible in the eyes of employers with a 'partnering' role.

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Delivery Partners – RTI Extension

Main Findings

1. All payroll companies contacted believe that RTI is the right way to go and that it is a positive step forward. They feel that RTI is going well and that it has improved PAYE.
2. They believe that RTI:
 - is a major improvement to the way PAYE is collected;
 - makes the system more efficient by forcing businesses to improve their PAYE administration (for example more up to date records and real time payments); and that
 - it helps to prevent tax cheating or manipulating payments as there is less room for avoiding or delaying PAYE payments.
3. They see RTI as a better tool for the modern age where employees change jobs more frequently than ever before and/or often have more than one job. RTI is well placed to monitor this. They believe RTI will be fairer to employees in the longer term, helping to prevent nasty surprises – such as large tax bills or emergency tax code difficulties.
4. For most payroll companies reporting PAYE in real time is becoming routine. However, although RTI has had a positive start, payroll companies felt that in practice, RTI was ‘not quite there yet’ and that there were some remaining challenges.
 - The biggest challenges reported included claims that HMRC can incorrectly allocate submissions, take too long to return receipts and do not have a workable reconciliation process when submissions do not match payments.* Payroll companies we spoke to would like further clarification on why on or before reporting is important.
 - Payroll companies felt that there was a risk to trust when HMRC communicates directly with the employer about a perceived issue, such as when they believed the amount paid did not match what HMRC thought was due, particularly when it turns out that the correct payment had been made.
 - Many payroll companies also felt that a solution to reconciliation issues would be enabling them to view the Tax Dashboard as this would give them greater visibility of the data. Some payroll agents also reported that HMRC did not always recognise them as an agent.

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*N.B. linked to date of fieldwork i.e. February to early March 2014. HMRC have subsequently addressed this issue.

5. Most payroll companies believe that the majority of the hard work with RTI is over and once reporting problems are sorted / modified, the future of RTI should be positive.
6. Payroll companies reported that the key task of educating their clients was a considerable responsibility, especially the smaller businesses. Some payroll companies started preparing up to 12 months in advance, others immediately before the launch. Payroll companies generally felt left to their own devices by HMRC and consequently sought advice from their software provider. Although this state of affairs was not unexpected, in an ideal world, they would have preferred more and better information and guidance directly from HMRC as well as software providers, which they would have used to inform themselves, build their confidence in the new system and help their clients.
7. Most payroll companies have seen little change in their client base, and did not see RTI as a financial opportunity. Some payroll companies formed at this time or increased their client base. They felt there was a perception amongst (usually) smaller employers of greater complexity in PAYE, brought about by RTI.
8. Payroll companies had not yet experienced 'end-of-year' under RTI. Looking forward, some payroll companies thought the removal of the P35 process would significantly reduce burdens, others pointed to fact that some end of year processes remained and did not foresee big reductions.