PAYE Real Time Information Pilot End of Year Customer Experience Research

HM Revenue and Customs Research Report 281

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Disclaimer

Contents

1. Glossary

For the purpose of this research report the definitions below have been used.

End of Year (EOY) return	An annual summary of employer payments to all its employees under the current PAYE system
Full Payment Submission (FPS)	Under RTI system, employers submit a FPS to HMRC on or in advance of each payday, showing the amount paid to employees, deductions such as Income Tax & National Insurance contributions, and starter/leaver dates if applicable.
Basic PAYE tools (BPT)	HMRC provides some basic tools for employers to help them run a PAYE system for their employees. For example, the tools allow employers to keep their employees' payroll records in an electronic format. It works out the tax and National Insurance contributions for employees in each pay period. The tools are designed for employers with nine or fewer employees. Those with more employees are encouraged to use an appropriate commercial payroll product or service.
Employer Payment Summary (EPS)	A type of submission made under RTI that includes data to enable HMRC to calculate employer liability. This submission will only be needed where the employer needs to notify HMRC of adjustments to their overall liability.
Earlier Year Update (EYU)	EYU is used to correct any of the year-to-date totals submitted in the final Full Payment Submission (FPS) for the previous tax year.
Employer Alignment Submission (EAS)	HMRC matches an employer's employee details with the records they hold on the employees. HMRC refers to this as payroll alignment. All existing employers operating PAYE must pass through this matching process when they change to reporting payroll information in real time. To enable the matching process to take place, those employers who are large (250+ employees) or who have a complex payroll system (their PAYE scheme is 'split' because the business has more than one payroll provider, two or more payroll systems - for example monthly and weekly - or the business is unable to make a single FPS submission because of bandwidth restrictions) have to submit their employee records using an EAS before they submit their first FPS. Other employers can submit their employee records for payroll alignment when they send their first FPS, although they can choose to submit a separate EAS if they wish.
PAYE	Pay As You Earn PAYE is a withholding tax on income payments to employees. Amounts withheld are treated as advance payments of income tax due. PAYE is required in the UK on all payments of salary or other compensation. PAYE applies only if the compensation is expected to reach National Insurance Lower Income Level (£8,105 per year for 2012–2013). The amount of PAYE is determined by the employer based on the tax code and National Insurance category. The tax code is determined by HMRC based on the employee's expected tax allowances, exemptions and reliefs for the full tax year, and partly by the employee's expected other income.

2. Executive Summary

2.1. Introduction

Real Time Information (RTI) is a key government programme which aims to improve the way in which employers submit PAYE information about their employees to HMRC. RTI is expected to bring significant benefits to businesses, taxpayers and HMRC, but migration to the new system has required employers to prepare and make changes to existing processes.

Following the completion of considerable research, consultation and development work, HMRC piloted RTI among volunteer employers. To evaluate the pilot, HMRC commissioned research amongst the volunteer businesses at each of three stages of the pilot. The overriding impression from that research was that RTI has been a largely positive experience for pilot participants. The key findings are summarised in Chart 1.

Chart 1. Summary of feedback from earlier stages of RTI Pilot research

Preparation	Experience	Longer term expectation
Vast majority **confident** about their RTI preparation. (N.B. Most were also confident about existing PAYE)	RTI was **easy** for most employers Majority reported **no problems** with RTI **No change** in payroll running **costs** for most. Main **benefits** seen as; simplicity of process, increased accuracy, smoother starters and leavers. About one third saw a **downside**. Almost all say **employees not affected**. **Software providers** have provided significant levels of **support**. BPT users reliant on HMRC.	Majority anticipate that **burden** will **decrease** once **end of year** is taken into account. Indications of positive behaviour change re **reporting changes to employee circumstances**. Minority report they are more likely to **pay HMRC in full**.

Research was conducted to measure and evaluate the everyday experience of employers taking part in each of the three stages of the RTI pilot. The indications from the research were that employers were expecting RTI to simplify what is required of them at EOY and therefore reduce the overall burden of reporting. In order to assess whether these expectations had been realised, HMRC commissioned a further stage of research to better understand the pilot employers' experience of RTI after the end of the fiscal year.   It is this further research project which is the subject of this report.

The aim of this research was to measure and provide insights into the RTI EOY experience and about the benefits and burdens for employers compared with reporting under the previous PAYE system. Both qualitative and quantitative research were used to meet the research objectives

Where possible, the respondents for the **quantitative** research were the individuals who had already participated in the earlier research (assuming they had agreed to participate in future research) plus some further stage 3 pilot participants who had not been previously interviewed. A total of 756 telephone interviews were conducted between 19 June and 17 July 2013, with a response rate of 59%.

The sample for the **qualitative** research consisted of a sub-sample of 28 of those employers who had been interviewed at the quantitative stage and who had agreed to further research. This sample was selected so as to provide a broad spread of employers on key demographic and attitudinal criteria. The qualitative interviews were carried out between 3 and 12 July 2013.

2.2. Key findings

The anticipated benefits in previous research of an easier and less expensive EOY under RTI have generally been borne out. In-depth qualitative analysis of the customer journey revealed that RTI has reduced the burden on some employers by eliminating the most time-consuming parts of the current process.

Those employers reporting technical difficulties or who were less confident about the EOY process going into it did have a less positive EOY experience. Nevertheless they anticipated that next year will be better.

Levels of confidence in understanding EOY requirements under RTI were generally high. Prior to EOY, 91% of employers were very (36%) or fairly (55%) confident of their understanding. Just 9% said that they were not confident. Post EOY, confidence had increased further such that 54% of employers were very confident that they had done everything required and a further 41% of employers were fairly confident.

Types of pilot employer who were less likely to be confident about EOY under RTI were micro businesses. This less confident group was also more likely than average to have sought support from HMRC (64% vs. only 48% of those who were very confident). This support would appear to have been effective because 72% of the not very/not at all confident group then rated themselves as either very or fairly confident post EOY. However, the channel of support employers were most likely to use to contact HMRC for support was the telephone (72%).

Employers' overall assessment of EOY under RTI was positive. Three-quarters of employers said that EOY had been either very (28%) or fairly (49%) easy to deal with under RTI. Only 9% said it had been difficult. Furthermore, over half of employers said that they found EOY under RTI easier to deal with than they expected and almost all said that they expected EOY to be either as easy, or easier, next year compared to this year.

The types of employer who were less likely to find EOY easy/easier under RTI were the ones already highlighted as being less confident about EOY under RTI, namely micro businesses.

As predicted in the previous research, RTI has generally lowered the EOY **burden** on pilot employers.

Prior to RTI, when asked to rate out of 5 the burden of end of year, where 1 meant minimal burden and 5 great burden, 55% rated it as 1 or 2 out of 5. Under RTI, 80% did so. When asked directly whether they think the level of burden of EOY has increased, decreased or stayed the same under RTI, 61% said that it had decreased. Only 5% said it had increased. A third felt it had stayed the same. The most common reason given by employers who felt that the burden had increased was technical problems (65%). More generally, those who were not very/not at all confident prior to RTI about their understanding of EOY requirements under RTI and/or found it more difficult than expected and needed help, were more likely to say that the EOY burden had increased under RTI.

In terms of **time** taken, 92% of employers described EOY as taking less time (57%) or the same amount of time (34%) than it did under the previous system. Only 8% said it took more time. This was borne out in the estimated number of hours spent, which fell overall. Two thirds of pilot employers (70%) reported hours spent on EOY under RTI where the same or less than under the previous system, a quarter indicated that time spent had increased. Again, employers who were not confident about RTI EOY processes beforehand or encountered more difficulty than expected were more likely to report an increase in time spent.

The majority view (69%) was that RTI has made no difference to EOY payroll **running costs**. Eighteen per cent judged the costs to be lower and 12% thought that they were higher. Similarly, the majority view (77%) is that the costs of EOY next year will be the same as this year. Fifteen per cent expected them to be less and 7% expected them to be more than this year. Employers who were less confident about EOY beforehand and those who had found EOY under RTI more difficult than they had expected were more likely to anticipate EOY costs being **lower** next year. . This reinforces the former group's expectation of the ease of EOY next year compared to this year, and underlines their optimism that things will improve.

There is little evidence of any increase in **agent** or **banking costs** as a result of RTI.

Almost half (47%) of pilot employers using commercial software reported an increase in software costs in the year they migrated to RTI, but only a fifth reported any costs directly for the RTI upgrade or support. This is likely to reflect that many pilot employers received free upgrades and suggests at least some of the increase in software costs might be due to the need to upgrade their payroll software more generally. Software costs have risen again this year, although the level of increase was lower.

Most pilot employers (79%) sought support at EOY – either from HMRC (54%) or their software provider (45%). The most commonly mentioned reason for needing support at EOY, amongst those who sought it, was help with a technical issue (46%). The next most common reason for employers to seek HMRC support at EOY was to get an explanation of what they needed to do (36%). This suggests that a fair proportion of the support required was to improve users' basic understanding of EOY requirements, with almost half of those who were not confident about EOY under RTI beforehand requiring support for this reason. Just under a third of users sought support on a question about a specific EOY task (31%) and a quarter of support users said they had been in touch to check that their submission had been successful.

The most commonly used channel through which support from HMRC was obtained was the telephone (72%). Around half used the HMRC website and a third used email to contact HMRC. The sorts of employer most likely to seek support from HMRC by telephone were micro businesses (75%), BPT users (79%) and those who were not confident about RTI EOY beforehand (82%). Use of the website and email increased with size of employer and for website use in particular, confidence of employer.

Almost all employers had heard of EPS (91%) and had submitted one (90%). Understanding of what an EPS was for and when it would be used was not as universal, though. Only 40% had a clear understanding. Only a minority of employers had heard of EYU (39%) or submitted one (27%). Of those

aware of EYU, 46% had a clear understanding of when and why it should be used. It is possible that these results reflect a lack of familiarity with the RTI process **names** used by HMRC and that under the new digitised RTI system, these are not separate processes requiring separate 'returns', but simply extra elements of the submission process. It is likely that different software functionality and terminology contributed to this lack of familiarity.

The research also explored employers' views of the RTI system overall. Three-quarters of employers described a benefit of the RTI system compared with the previous system, which is a similar finding to the stage 3 research, but lower than the nine in ten who mentioned any at stages 1 and 2. The most commonly cited benefit of RTI was EOY time savings. This underlines the impact of EOY simplification in reducing the overall burden on employers. Half of employers felt that there was at least one downside of the RTI system, which is an increase on previous stages of research. The most commonly cited downside was technical issues, mentioned by around one in ten. Lack of guidance /help was mentioned by 6%.

Most employers felt that there had been no change in their behaviour as a result of the introduction of RTI, but where there was a change, it was on balance positive and suggested increased compliance as they have gone through the first year of RTI.

The introduction of RTI has had most positive effect on employers notifying HMRC of a change in employee circumstances. Two-fifths of employers claimed to be more likely to report a change in employee circumstances, which is important for the accuracy of Universal Credit payments. A quarter said that they would be more likely to notify HMRC if an employee's earnings fell under the National Insurance lower earnings limit. One in ten said they were now more likely to pay HMRC in full as a result of RTI, with micro businesses more likely than other sizes of business to say this.

3. Introduction

3.1. Background

Real Time Information (RTI) is a key government programme which aims to improve the way in which employers submit PAYE information about their employees to HMRC. RTI is expected to bring significant benefits to businesses, taxpayers and HMRC, but migration to the new system requires employers to prepare and make changes to existing processes. Most significantly it requires employers to send HMRC details of employees' payments and deductions in 'real time' (on or before the day of each payment).

Following the completion of considerable research, consultation and development work, HMRC piloted the approach among volunteer businesses. The pilot was rolled out in three sequential stages, first to around 325 PAYE schemes in April 2012 (stage 1), then to around 1300 schemes in July (stage 2) and finally a 65,000 schemes in November (stage 3). Employers volunteered for the pilot or were recruited through software providers (including users of HMRC Basic PAYE Tools, known as BPT). More support was offered by HMRC at earlier stages of the pilot, with stage 3 employers receiving a similar level of support to that planned for the final migration to all employers, which took place from 6 April 2013.

The timeline for RTI migration is shown in Figure 1.

Figure 1.   Real Time Information migration timeline
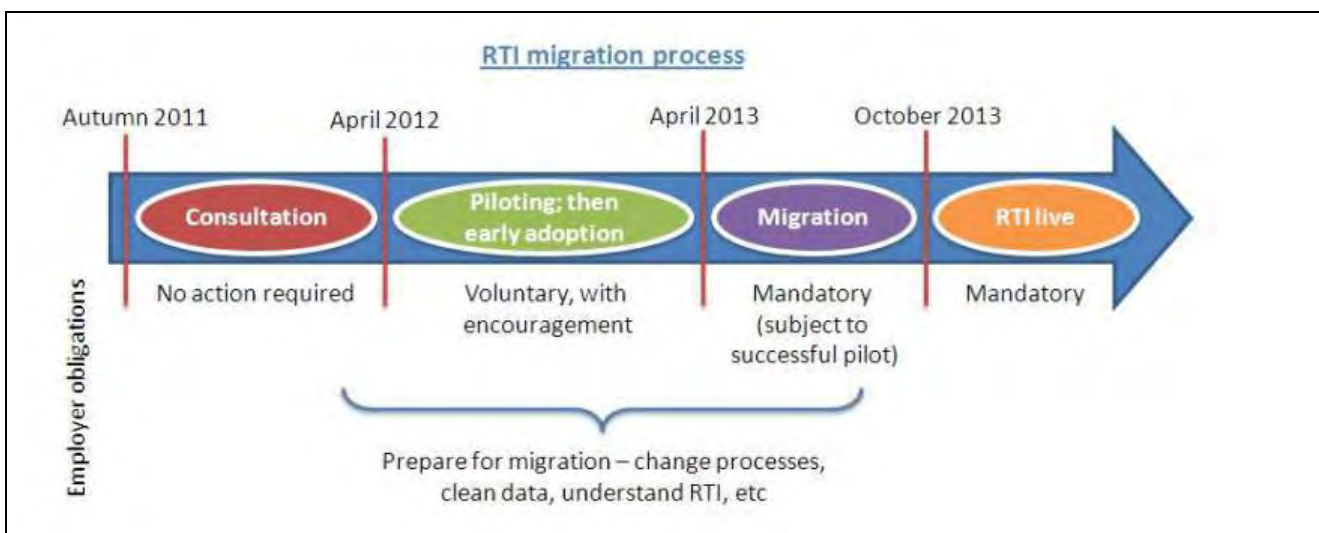
The move to RTI has required employers to make some changes to their existing payroll processes:

- Reports to HMRC are made as part of the regular pay run; employers are able to submit information via the Government Gateway. Large employers and large payroll bureaux are more likely to use Electronic Data Interchange (EDI) for their PAYE submissions.
- Where the employer pays their employees via the BACS system they are required to include a cross reference in the payment instruction and in the PAYE return so that HMRC can validate the amount paid with the amount reported.
- RTI data has to conform to a common quality standard, and employee information (National Insurance Number, Date of Birth, etc) needs to be cleaned and aligned with the records held by HMRC before migration to RTI
- The use of updated payroll software (in-house, third-party or HMRC tool) to allow for the submission of RTI data.

The RTI system should deliver benefits, such as greater stability and less risk of over- or underpayment of tax for employees, simplification for employers at the end of year (removing the current End of Year return) and for dealing with leavers and joiners, and reduced scope for error and fraud, thus benefiting HMRC, employers and employees.

The RTI pilot contributes to the review of the costs and benefits of RTI to employers, how well the pilot employers dealt with the need for data quality, along with a broader view of the experiences of pilot employers.

To evaluate the pilot, HMRC commissioned research amongst the pilot businesses at each stage, to measure employers' experience of taking part in the RTI pilot programme, particularly how well the employers' experience matched their expectations and providing indicative measures of the impact of RTI, including burden. This research built up a picture of how employers found preparing for RTI, the initial implementation, and their experience after their first few RTI submissions when the system was more embedded[1].

Research was conducted to measure and evaluate the everyday experience of employers taking part in each of the three stages of the RTI pilot, meaning that the RTI experience at EOY was yet to be captured. The indications from the research were that employers were expecting RTI to simplify what is required of them at EOY and therefore reduce the overall burden of reporting. In order to check that this was in fact the case in practice, HMRC commissioned a further stage of research to better understand the pilot employers' experience of RTI after the first full financial year. It is this further research project which is the subject of this report.

3.2. Research Aim and Objectives
The aim of this research was to measure and provide insights into the RTI EOY experience, benefits and burdens for employers compared with reporting under the previous PAYE system.

More specific objectives were to

1. Assess the RTI **EOY** experience in the following ways:

    - Confidence and ease of dealing with new EOY processes

    - Perception of burden and work involved new EOY processes and whether these have changed compared to the previous system

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[1] http://www.hmrc.gov.uk/research/report264.pdf

- Perception of change in payroll, agent and banking costs due to new EOY processes

- Estimate of hours involved in dealing with new EOY and payroll processes

- Estimate of extra (£) spend on agent help due to RTI

- Estimate of extra (£) spend on software due to RTI

- Support used for EOY

- Awareness, understanding and use of Employer Payment Summary (EPS) and Earlier Year Update (EYU)

2. Assess the **overall** RTI experience in the following ways:

- Benefits and drawbacks

- Impact on compliance and reporting behaviour

- Ease of reporting on or before paying employees

- How leavers and joiners are handled

3.3. Methodology

The research involved quantitative and qualitative research. The qualitative research was designed to explore issues arising in the quantitative research and to look in more depth at issues of particular interest to the RTI programme team.

Quantitative research generally asks a standardised questionnaire of a relatively high number of individuals. The individuals are usually a sample of the population in question. The output is a series of statistics with an estimable level of accuracy. Qualitative research, on the other hand, generally involves a relatively small number of individuals but explores a topic in the sort of depth that is impossible in a time-constrained, rigid interview.

This report incorporates the findings from both the quantitative and the qualitative research.

3.3.1. Quantitative research

All employers interviewed in the RTI pilot research were in scope for the EOY quantitative research, plus some further Stage 3 employers were sampled who had not been interviewed previously.

The individual interviewed on behalf of an employer was the person who had most involvement with the RTI pilot and with implementing RTI, and ideally was the person previously interviewed during stages 1, 2 or 3 of the pilot research, where relevant.

A total of 756 employers were interviewed for the EOY research, with a split by source as shown in Table 1.

Table 1. Quantitative research interview numbers

Source	Number of completed interviews
Previously interviewed at Stage 1 of pilot	81
Previously interviewed at Stage 2 of pilot	378
Previously interviewed at Stage 3 pilot	208
Fresh sample from Stage 3 pilot	89
TOTAL	**756**

Interviews were conducted by telephone between 19 June and 17 July 2013 and took an average of 20 minutes.

Further details of the sampling and data collection are given in Appendix A.

A copy of the questionnaire is provided in Appendix B.

3.3.2. Qualitative research

Qualitative interviews were conducted face-to-face amongst 28 of the quantitative respondents between 3 and 12 July 2013.   Each interview took an average of 60 minutes.

Contact was made with selected quantitative research respondents to make an appointment for a follow up qualitative research interview. Respondents were selected to reflect a broad spread in terms of business size and payroll software used (commercial software, both off-the shelf and customised and HMRC Basic PAYE Tools). In addition, employers were selected in terms of the reported EOY burden (decreased, stayed the same, increased) in order to understand what changes in EOY processes had resulted in a decreased burden as well providing insight into why some employers were experiencing no change, or an increase, in burden.

Further details of the sampling, data collection and analysis are given in Appendix A.

A copy of the recruitment guide and the discussion guide are provided in Appendix B.

3.4.   Key findings from the earlier stages of the RTI Pilot research programme

The RTI Pilot research programme provides a picture of how employers found preparing for RTI, its initial implementation, and their experience after their first few RTI submissions when the system was more embedded.

The overriding impression of the pilot from these stages of research is of a largely positive experience. RTI was easier and less of a burden than pilot employers had expected. Even with decreasing levels of HMRC support to employers, stage by stage, employer confidence levels remained as high as under the previous system.

Inevitably, there were some short term implementation issues for employers, but the pilot provided the opportunity to smooth many of these out, and fine tune suitable guidance (particularly web guidance) and support. Even with transitional issues during the pilot, the vast majority of pilot employers anticipated a reduced long term burden under RTI.

Smaller commercial software users seemed at greater risk of problems, particularly those using off the shelf software. However, software providers were thought to be responsive in sorting out any software related issues. Users of HMRC Basic PAYE tools (BPT) were likely to find HMRC support helpful, as long as technical problems were sorted out quickly. Larger employers wanted more reassurance, particularly that they have successfully submitted something to HMRC.

HMRC offered a range of useful support for employers during the pilot, particularly during the implementation phase, including the Readiness Checklist and update emails, along with online support. These played an important role for employers alongside advice from software providers.

Once RTI was embedded, there was little evidence of any impact for the majority of employers on payroll costs, the use of an agent, or downsides for employees, or any increase in burden. There was some confusion over costs from software providers, and a potential fear of additional work for some employers with a weekly payroll. There was also a risk for those who pay staff on a casual basis that a minority may find it hard to submit via RTI before they pay their staff.

Research to evaluate the experience of employers in each stage of the pilot took place ahead of the fiscal EOY. However, employers were clearly able to anticipate potential benefits of RTI for EOY, particularly as this time approached later in the pilot.

3.5. Reporting notes

Where percentages shown in charts or tables do not total to exactly 100% (or where they do not exactly total to a summary statistic given, such as agree/disagree), this will be due to rounding to the nearest whole number, or due to the exclusion of those who said "don't know".

The following caveats around the research findings should be noted:

- All employers taking part in the pilot were volunteers and, as such, are not representative of employer population; they may be more organised as businesses and the fact that they volunteered to take part in the pilot will impact on their attitudes.

- All pilot employers were already users of PAYE software, which will not be the case for all employers.

- Interviews were conducted only amongst employers; the views of agents acting on behalf of employers were not covered.

4. Experiences of End of year under RTI

To evaluate the EOY experience, this chapter explores the EOY customer journey and how this has changed under RTI. In particular, confidence in understanding the requirements of the new system and perceptions of the burden, work and various costs involved compared to the previous system are explored.

4.1. The EOY customer journey

The qualitative research explored the EOY customer journey in depth and asked employers to recall EOY before RTI had been introduced and to indentify each of the stages that they went through. The interviews identified slightly different journeys according to whether, pre-RTI, they were running a manual payroll or a computerised payroll that used HMRC's BPT or software with automated functionality, or software from other providers with less automated functionality. These journeys reflect pilot employers' perceptions of the pre-RTI journey. The journeys are shown below in Figure 2.

Figure 2.   Pre-RTI EOY customer journey
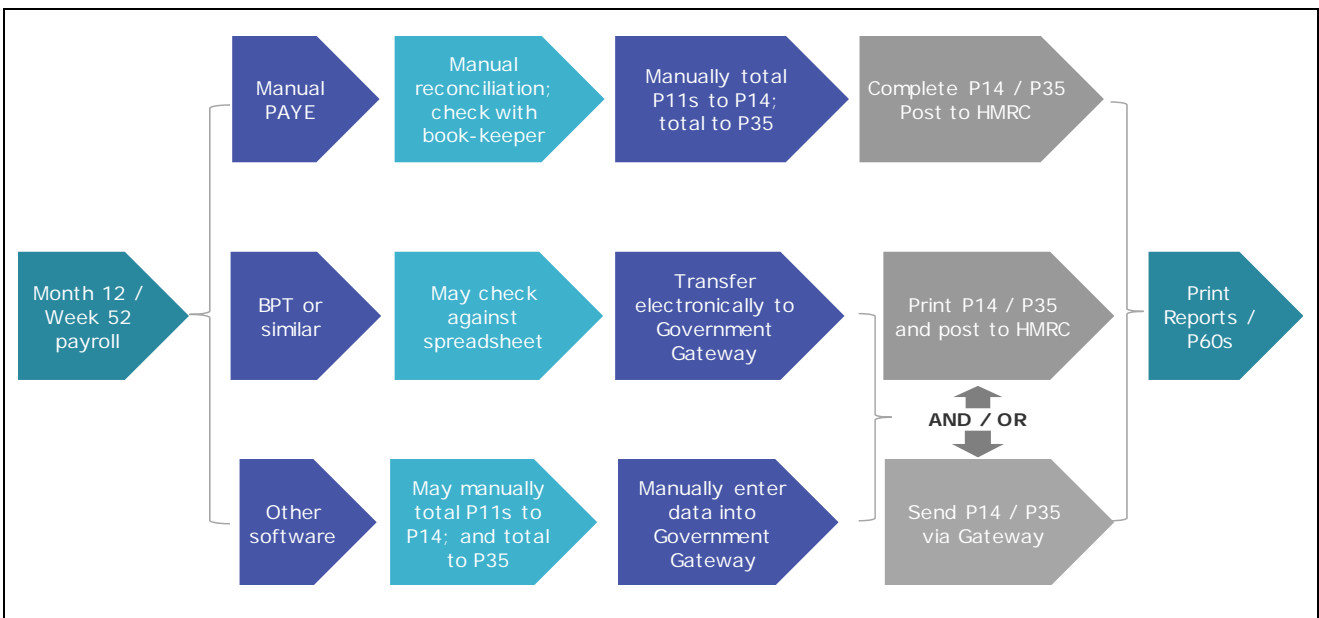
Where payroll was run manually, all the calculations and end of year submissions (P11, P14, P35) were undertaken by hand, sometimes using spreadsheets, with all the submissions being sent by post to HMRC. For software users, the key difference was whether their software would automatically transfer

end of year information directly to HMRC through the Government Gateway or whether the data had to be manually entered. The end of year forms (P14, P35) were then either sent electronically or by post, depending on their software arrangements. Employers commented that the EOY could be very time-consuming, identifying a number of points in the journey that added to the time burden, although those employers that were able to transfer their data electronically through the Government Gateway indicated fewer points in the process that were burdensome. These more time consuming aspects are shown as egg timers in Figure 3 below. In addition, when discussing the EOY process and the amount of time it took, employers varied in the tasks they included. While some considered the process to end with their submissions to HMRC, others included the time taken to print end of year internal management reports as well as bringing together, and packing up, the documentation to be sent to their accountant or auditor.

Figure 3.   Time-consuming aspects of the pre-RTI EOY customer journey
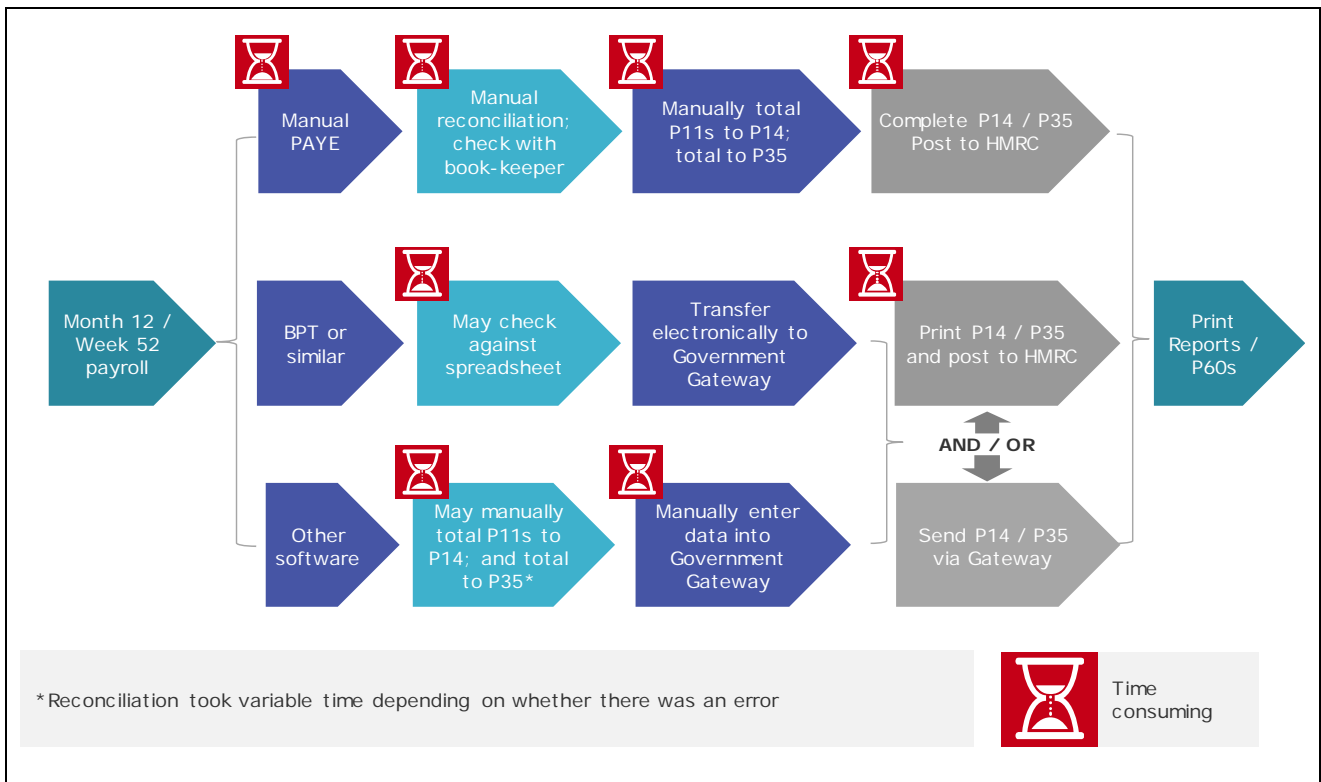
Employers could also increase the end of year burden by double-checking their manual calculations or the calculations arising from their software – based payroll systems, double-checking their entries into the Government Gateway and spend additional time reconciling the end of year calculations where there was an error, even where errors were very small.

> 'Before I would do it all manually. Print off the payment summary and add it up individually. Check that it all adds up. Type it in to the Government Gateway. Check that I had entered it all correctly. Send it. Then print off the management reports and P60's'

> (1-5 employees; previously manual payroll, now BPT)

> 'I was 50p out. I always make sure everything I send to HJMRC is 100% correct…It took me two days to find the error, but I got it right and then sent it off in the usual way.'

> (1-5 employees; BPT)

Commenting on the current EOY process, employers universally indicated in the qualitative research that the RTI EOY process is significantly streamlined and removes most of the time consuming processes (Figure 4). However, despite the simplified process, the time burden did not necessarily reduce, and is discussed later in section 4.4.3.

Figure 4.   RTI EOY customer journey
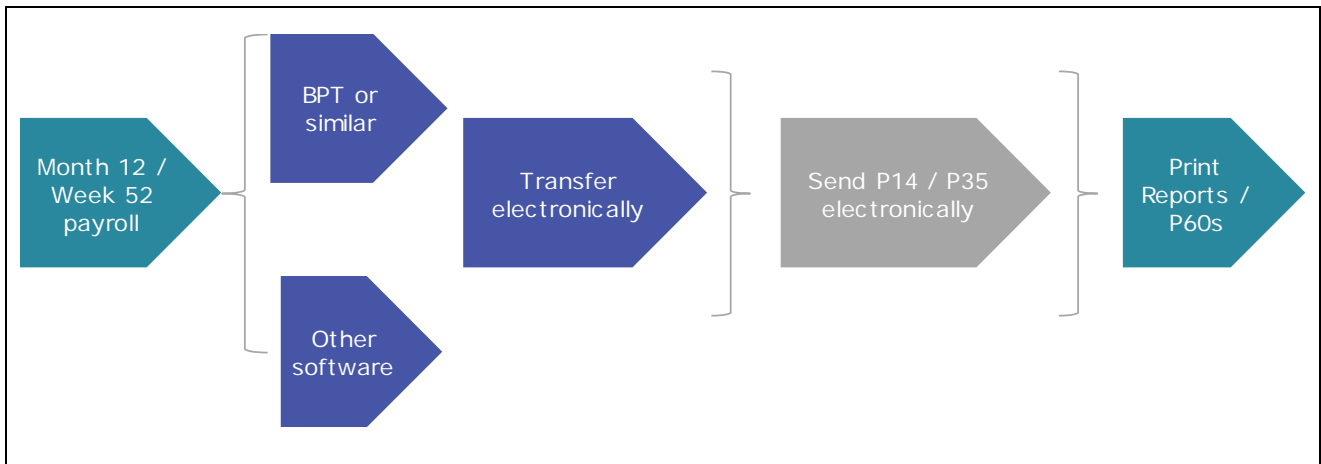
4.2. Understanding of requirements of EOY process

Employers obviously needed to understand the RTI EOY process in order to carry it out proficiently. Prior to the EOY, almost all employers (91%) were already either very (36%) or fairly (55%) confident that they understood what was required of them. Levels of confidence increased further post-EOY, with over half (54%) then saying that they felt very confident that the business did everything required of it (Figure 5).

Figure 5.   Level of confidence in understanding RTI EOY requirements/did everything required
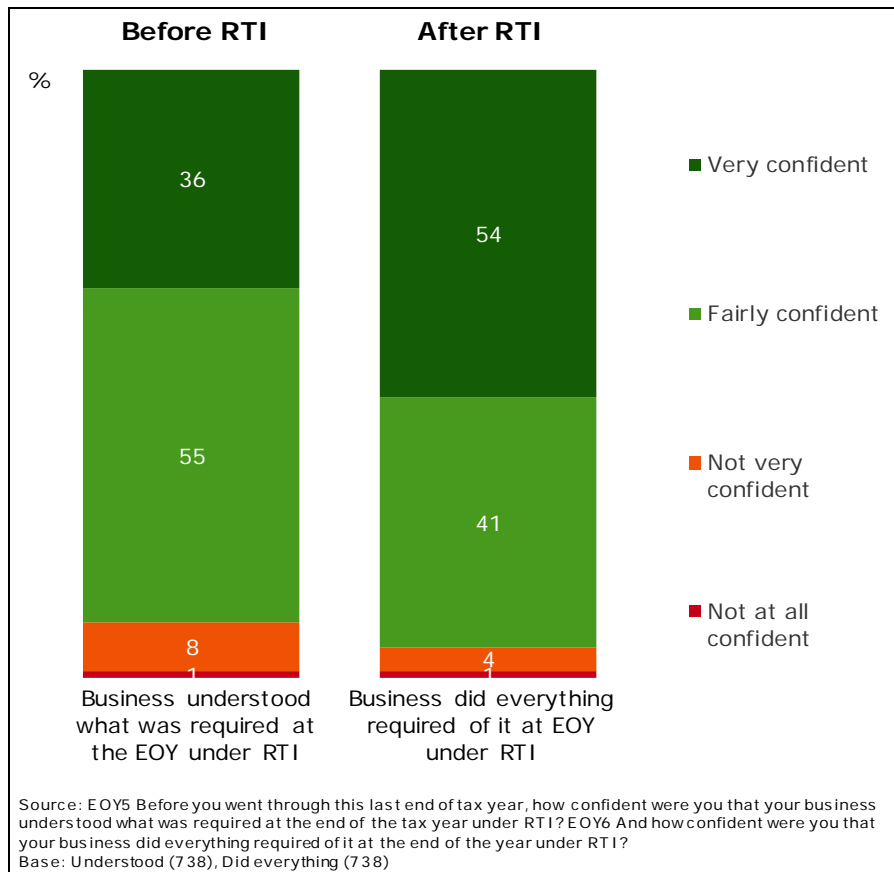
Micro businesses (fewer than 10 employees) were more likely than others to be not very or not at all confident prior to EOY. The larger the business, the more likely it was to be confident. Customised software users were also the most likely to be very confident. This pattern was also the case for confidence after EOY. However, for simplicity, Table 2 compares sub-groups' pre-EOY confidence levels only.

Table 2. Level of confidence in understanding RTI EOY requirements prior to EOY

	% very confident	% not very/not at all confident	Sub-group base size
BUSINESS SIZE			
0-9	31	14	397
10-49	37	4	189
50-249	40	3	60
>250	58	3	64
SOFTWARE USED			
BPT	28	16	308
Off the shelf	36	6	306
Customised	52	2	101
TOTAL			
(All who do any payroll tasks in-house under RTI)	**36**	**9**	**738**

Those who were not very/not at all confident about understanding RTI EOY requirements prior to EOY were more likely to have sought support from HMRC (64% vs. only 48% of those who were very confident – see Section 4.5). This support would appear to have been effective; 72% of the not very/not at all confident group rated themselves as very (30%) or fairly (42%) confident post EOY. These are lower levels of confidence than amongst employers who were more confident to begin with, but represent a considerable shift from the pre-EOY state (Table 3).

Table 3. Post-EOY confidence by pre-EOY confidence

	PRE-EOY CONFIDENCE		
	Very confident (n=265) %	Fairly confident (n=403) %	Not very/not at all confident (n=69) %
POST-EOY CONFIDENCE			
Very confident	84	38	30
Fairly confident	12	59	42
Not at all/not very confident	4	2	26
Total	100	100	100

Base: All respondents

4.3. Overall view of EOY process under RTI

Employers' overall assessment of EOY under RTI was explored quantitatively in several ways and also qualitatively. This assessment was resoundingly positive.

Three-quarters of employers said that EOY had been either very (28%) or fairly (49%) easy to deal with under RTI. Only 9% said it had been difficult (Figure 6). These were more likely to be those employers who were not confident they understood the requirements pre EOY.

Figure 6.   Ease of dealing with EOY under RTI

Source: EOY14 How easy or difficult has it been for your business to deal with the end of year under RTI?
Base: All respondents (756)
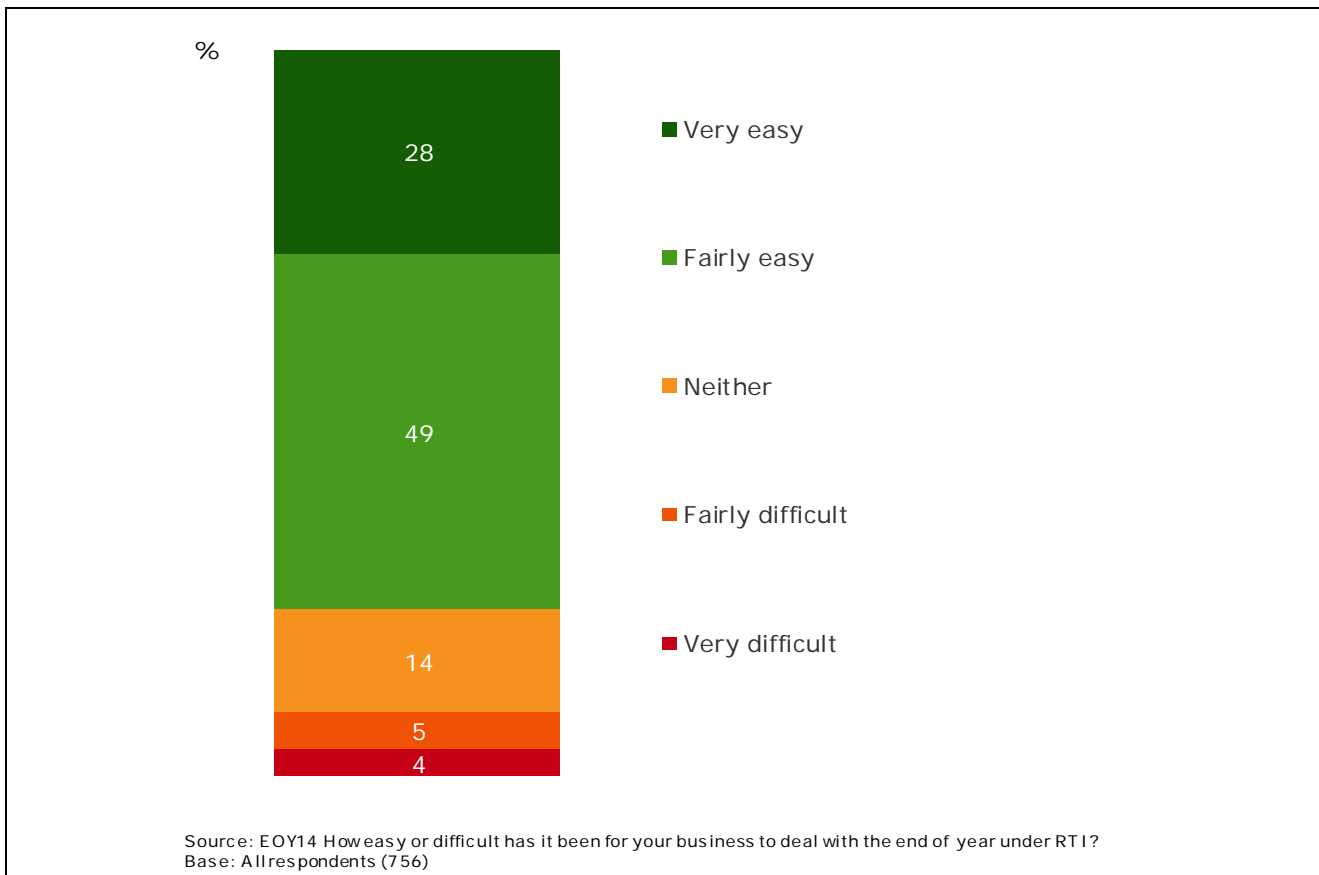
The qualitative research sheds light on why employers tended to find EOY easy under RTI. The key reasons were its speed and low manual involvement, which in turn reduced errors and work. In addition, there was no longer a need to post EOY documents to HMRC, which not only reduced the time and cost of the EOY process but also meant that there no longer any problems of EOY documents going astray in the post. Overall, employers in the qualitative research described the EOY process as: *'easy'; 'seamless';* and *'less stressful than previous years'.*

EOY under RTI was also assessed compared to expectations. Over half of employers said that they found EOY under RTI easier to deal with than they expected. Only 12% found it more difficult. Almost all said that they expected EOY to be either as easy, or easier, next year compared to this year. Only 2% anticipated that it would be more difficult than this year (Figure 7).

Figure 7.   Ease of EOY compared to expectations and anticipated ease next year compared to this year

EOY under RTI was easier/more difficult compared to expectations

A lot easier	29
A little easier	25
The same	32
A little more difficult	5
A lot more difficult	7

End of next tax year will be easier than it was this year

A lot easier	22
A little easier	22
The same	53
A lot more difficult	1

Source: EOY7 Compared with your expectations, was the first end of year under RTI easier or more difficult than you expected? EOY8 Do you think the end of the next tax year will be easier than it was this year?
Base: EOY (738), End of next year (738)

With the simplified and streamlined EOY process, the qualitative research provides some verbatim illustrations of how employers tended to anticipate a relatively straightforward experience at EOY next year:

'Next year will be easier.   I will know what I am doing and so I won't have to look in the manual.'

(1-5 employees, Automated software)

'…business as usual next year. It will be a bit quicker too.'

(1-5 employees, BPT)

'..I can't see it being any different – just the same…very easy.'

(1-5 employees, Automated software)

Despite the generally very positive experience of EOY under RTI, there were some employers who found EOY difficult, or more difficult than expected. In the qualitative research, the causes of negative experiences were software glitches, lack of familiarity with software, difficulty getting through to their software provider or HMRC helplines and erroneously believing that the EOY reporting date had been brought forward by a month[2].

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[2] We understand that for the financial year 2013 / 2014 EOY submissions are due earlier; some employers had misinterpreted this and thought that this applied to 2012 / 2013 as well.

The quantitative research revealed that employers who found EOY difficult/more difficult than expected tended to be micro businesses, and related to this BPT users (first two columns of Table 4). These are the same groups highlighted earlier as also being less likely to be confident about EOY under RTI. However, these groups are no more likely than other employers to think that EOY will be more difficult **next** year (third column of Table 4).

Table 4. Difficulty dealing with EOY requirements under RTI

	% fairly/very difficult (Base: all)	% a lot/a little more difficult compared with expectations (Base: all who do any payroll tasks in-house under RTI)	% a lot/a little more difficult next year compared with this year (Base: all who do any payroll tasks in-house under RTI)	Sub-group base size (range is All to Those who do any payroll tasks in-house under RTI)
BUSINESS SIZE				
0-9	13	17	2	402-397
10-49	2	4	2	192-189
50-249	3	3	0	66-60
>250	6	11	2	65-64
SOFTWARE USED				
BPT	15	21	3	313-308
Off the shelf	2	4	1	311-306
Customised	8	7	1	105-101
TOTAL	**9**	**12**	**2**	**756-738**

Table 5. Ease of dealing with EOY requirements under RTI

	% very/fairly easy (Base: all)	% a lot/a little easier compared with expectations (Base: all who do any payroll tasks in-house under RTI)	% a lot/a little easier next year compared with this year (Base: all who do any payroll tasks in-house under RTI)	Sub-group base size
BUSINESS SIZE				
0-9	72	48	46	402-397
10-49	90	69	42	192-189
50-249	80	65	38	66-60
>250	71	48	42	65-64
SOFTWARE USED				
BPT	67	44	49	313-308
Off the shelf	88	69	42	311-306
Customised	73	50	40	105-101
CONFIDENCE PRE-EOY				
Very confident	82	48	32	265
Fairly confident	81	63	49	403
Not very/not at all confident	41	39	61	69
TOTAL	**77**	**55**	**44**	**756-738**

4.4. Level of burden of EOY under RTI

Employers' perception of the level of burden of EOY under RTI was explored generally and then specifically in terms of the amount of work, time and cost involved. The hypothesis being tested is that the EOY process under RTI lowers the burden on employers compared to the previous system.

4.4.1. Overall view of level of burden of EOY

Employers were asked to rate the level of burden of EOY prior to RTI and under RTI, which allows a comparison of the two. They were also asked directly whether they felt that the burden of EOY had increased or decreased under RTI.

The level of burden was rated on a scale of 1-5 where 1 is a minimal burden and 5 is a great burden. The level of burden of EOY prior to RTI was low, but it was rated even lower under RTI. Prior to RTI, 55% rated the EOY burden as 1 or 2 out of 5. Under RTI, 80% did so (Figure 8).

Even amongst those who rated the burden of EOY under the old system as great (score of 4-5), 61% rated the burden of EOY under RTI as low (score of 1-2).

Figure 8.   Level of burden of EOY

Source: EOY1 – How great was the burden of completing your EOY return under previous system?/EOY2 – How great was the burden of completing your EOY return under RTI?/EOY3 – Under RTI, do you think the burden of end of year payroll processes has increased/decreased under RTI?/EOY4 – What has caused this increase in burden at the end of the tax year?
Base: Previous system (737), RTI (738)
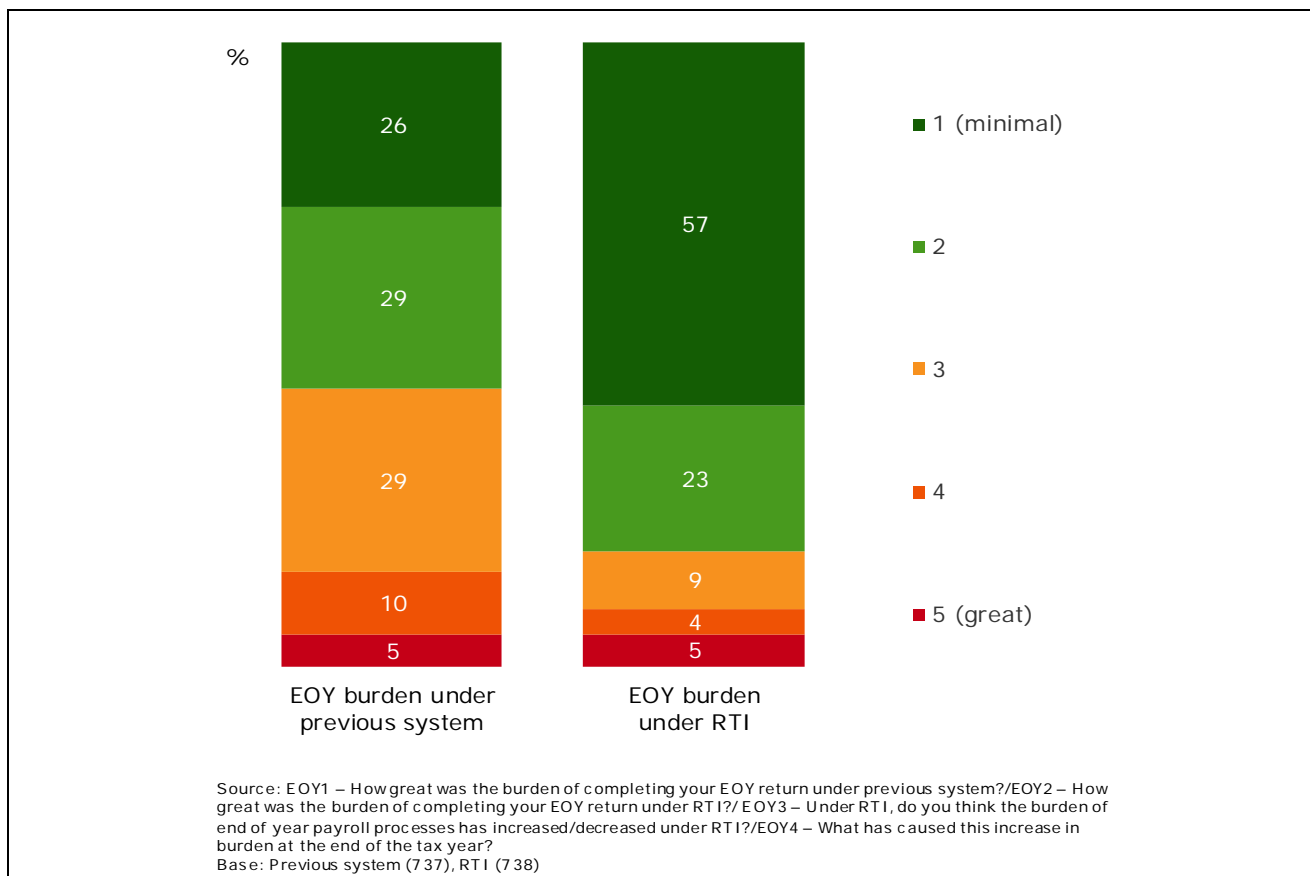
When asked directly whether they thought the level of burden of EOY has increased, decreased or stayed the same under RTI, 61% said that it had decreased. Only 5% said it had increased. A third felt it had stayed the same (Figure 9).

Figure 9. Change in the level of burden at EOY under RTI

%

Burden decreased: 61
Burden stayed the same: 33
Burden increased: 5
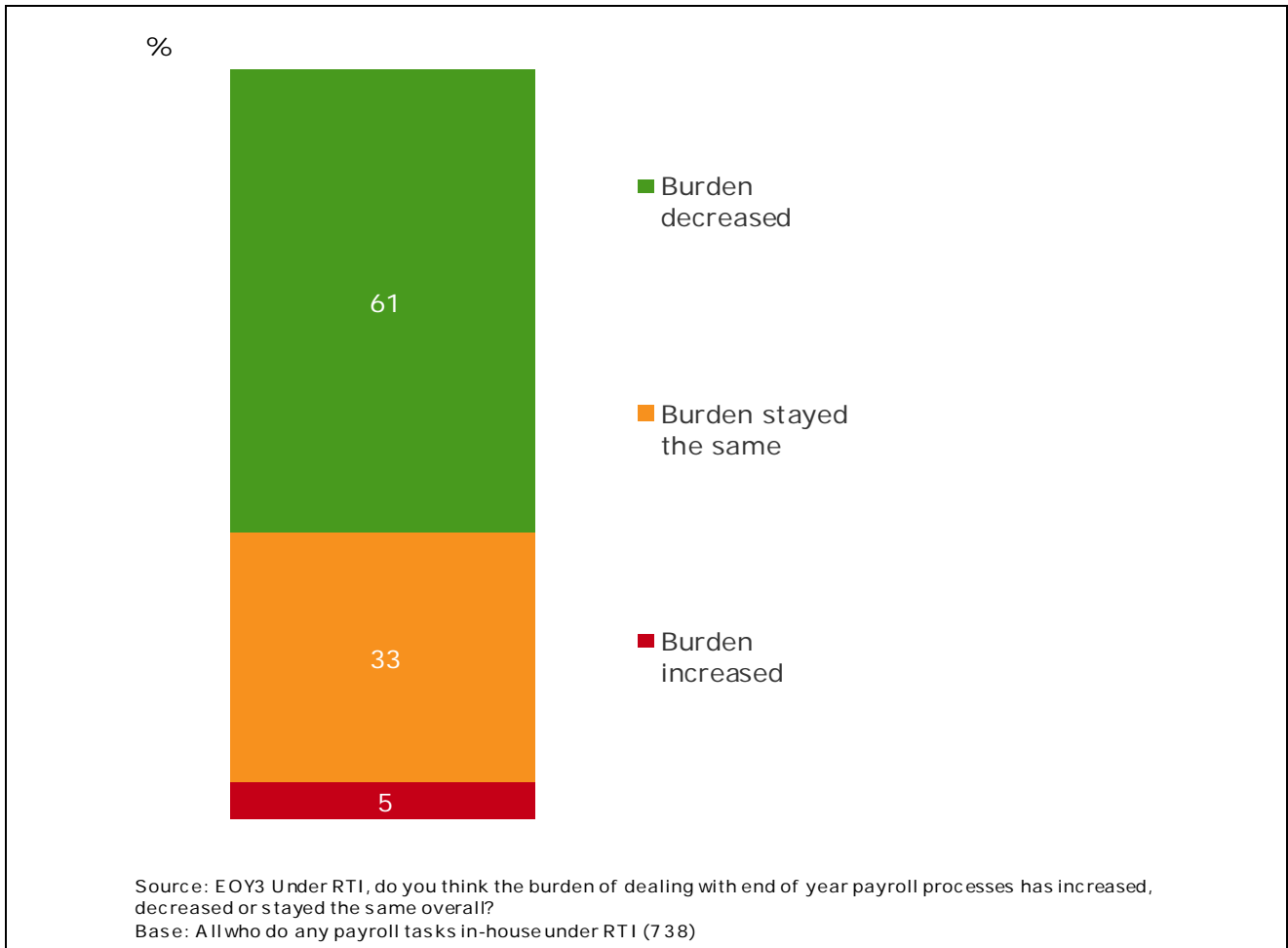
The most common reason given by the pilot employers who felt that the burden had increased was technical problems (65%). These employers tended to be micro businesses and BPT users, but due to the small base size this should be treated as an indicative finding. Some example verbatim descriptions of the sorts of technical difficulties they encountered were:

'It was because the system was creating EPSs which I couldn't submit so I had to phone HMRC who told me that I didn't need to submit an EPS. It was a system generated EPS and it's still there so I'm now getting error messages each month saying there are EPSs that are unsubmitted and I'm getting one EPS generated each month, one for the end of year, one for April, May, and June. And I can't submit them because they're empty. Also, because it was new and I suppose because it was different there were error messages that when I rang HMRC they said they knew about, but I'd wasted time following it up. Why didn't they put anything it on the website? Wasted a lot of time.'

(1-5 employees, BPT)

'The issues that we've found with figures not being returned on the monthly FPS. There was no help available because the dedicated helpline was closed before year end. Lack of readiness of HMRC staff. Most hadn't had their RTI training. Because we'd had issues on FPS we had to do Earlier Year Updates. The HMRC Basic Tools software wasn't released until the end of May so we had to write to explain why we hadn't filed on time. I've still got one negative issue and that's

with the technical team. We need to do an Earlier Year Update which shows a tax rebate in March and the software can't take a negative figure.'

<div align="right">(1-5 employees, Automated software)</div>

'Having to go into my software twice, once to prepare and once to file. Huge amount of work involved in amending submissions that have already been made.'

<div align="right">(150+ employees, customised software)</div>

As might be expected from other findings relayed above, those who were not very/not at all confident prior to RTI about their understanding of EOY requirements under RTI were more likely to say that the EOY burden had increased under RTI (17% vs. 5% - Table 6).

Table 6. Burden of dealing with EOY requirements under RTI

	PRE-EOY CONFIDENCE		
	Very confident **(n=265)** %	**Fairly confident** **(n=403)** %	**Not very/not at all confident** **(n=69)** %
Burden increased	5	3	17
Burden stayed the same	38	29	32
Burden decreased	56	67	48
Total	100	100	100

Base: All who do any payroll tasks in-house under RTI

Further illumination on the comparative experience under RTI compared with under the previous system was provided by the qualitative research. Employers that said the EOY burden had decreased were, pre-RTI, undertaking a manual payroll or using payroll software that did not automatically transfer their data through the Government Gateway. As a consequence there had been a considerable reduction in time required to undertake the EOY, as well as no longer being required to print off and send forms to HMRC.

> 'The end of year is much easier as I just press the button. The end of year summary is done; the P14 and P35 is done for you'

> (1-5 employees, BPT)

BPT and other users of automated software were primarily those that indicated that the EOY burden had stayed the same. In their view, the process was '*almost identical*' as they were able to transfer information directly to HMRC via the Government Gateway. On balance they thought that next year might save a few minutes as they would be more familiar with the RTI EOY process and that any software glitches that some had experienced would be ironed out.

> 'It was very similar to how it was before…just had to open up the Government Gateway and then submit online. It was very simple. There are no real changes .'

> (1-5 employees, Automated software)

Five reasons were given to explain why some employers indicated that the EOY burden had increased: a problem with their software (BPT and commercial software), a calculation error that took time to sort out, undertaking a manual reconciliation check, checking that their EOY submission had arrived at HMRC, or checking with HMRC that the submission that they had made was correct.

> 'It wasn't anything specifically about RTI. It was because I didn't close Month 12 properly and I spent half an hour on the phone [with software provider] trying to sort it out.'

> (10-49 employees, Automated software)

> 'We did a manual check this year. But if we don't get any queries [from this year] then I might not do it next year. We'll see. It depends on how confident I feel.'

> (6-9 employees, Automated software)

> 'I called HMRC…just to check that they got it [EOY]. It's the first time and I didn't know what to expect.'

> (1-5 employees, BPT)

Overall, those employers taking part in the qualitative research thought that next year would be simpler and that the time burden would decrease. However, they emphasised that it would be useful if HMRC could confirm receipt of their EOY submission and that it was in the correct format for processing. Ideally, they also wanted to know whether their EOY was financially correct and that the year was now complete, although they recognised that this might not be possible as HMRC would need to review each EOY submission.

4.4.2. Amount of work at EOY compared to a normal RTI submission

In addition to their view on the overall burden of EOY under RTI, employers were asked whether they thought the work involved in EOY under RTI was the more, less or the same as for a normal RTI submission. Over nine in ten said it was either the same or only a little more work than a normal RTI submission. Seven per cent said it was a lot more work (Figure 10).

Figure 10. Amount of work at EOY compared to a normal RTI submission
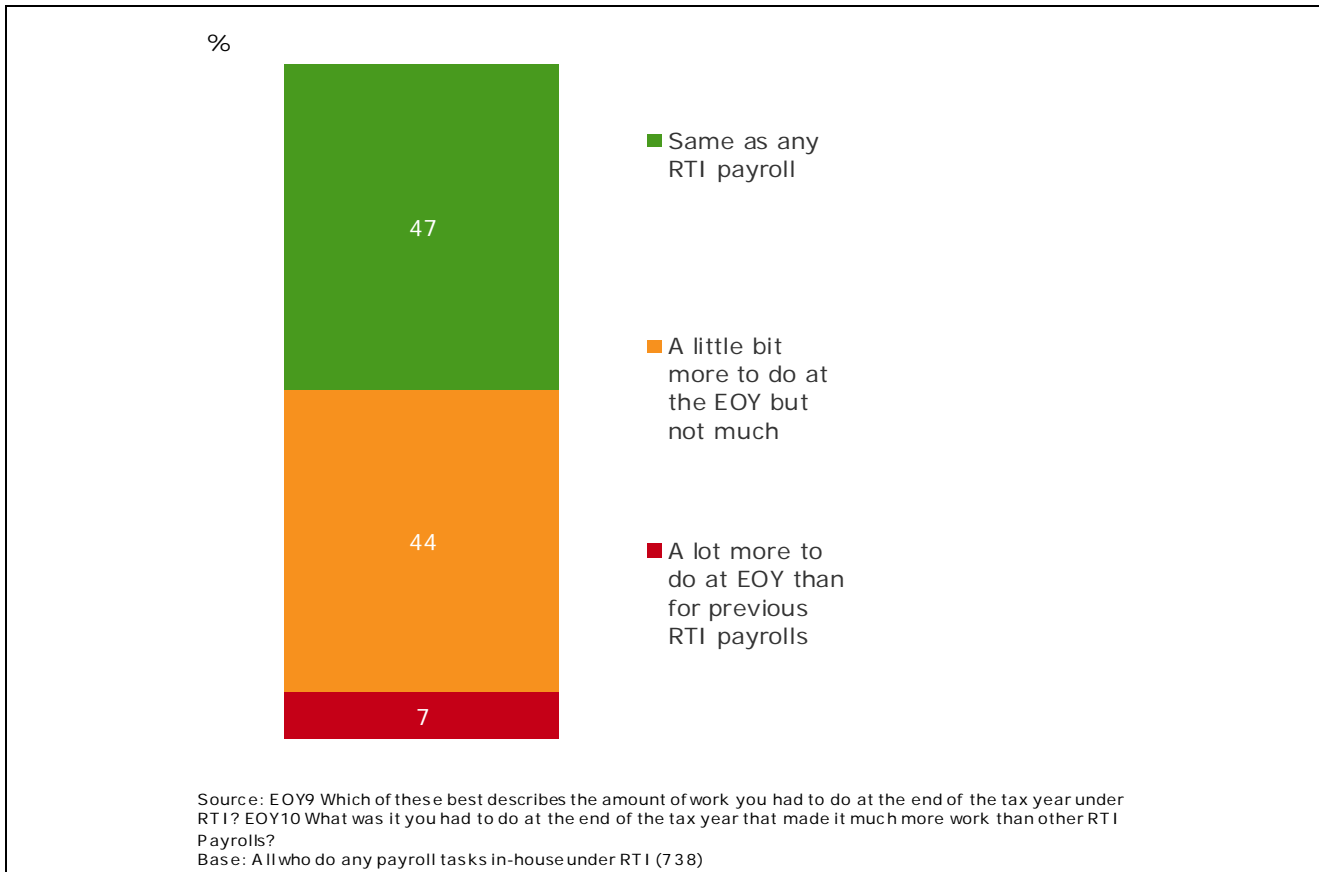
Source: EOY9 Which of these best describes the amount of work you had to do at the end of the tax year under RTI? EOY10 What was it you had to do at the end of the tax year that made it much more work than other RTI Payrolls?
Base: All who do any payroll tasks in-house under RTI (738)

Employers who were not confident about RTI EOY processes beforehand were more likely to say they found the EOY payroll under RTI a lot more work than a normal RTI payroll (19%). Those who said they found EOY under RTI more difficult than they expected were also more likely to say this (35%).

The most common reason given by the 48 employers who said RTI at EOY was more work than a normal RTI submission was that they did not understand what they had to do and needed a lot of help. This logically links to the higher incidence of under-confident employers in this group. The next most common reason for EOY being more work was having a technical problem. Some example verbatim descriptions of the sorts of technical difficulties they encountered were:

> '*I had to delete payroll periods, re-enter details, change my database and update an earlier year because of technical issues.*'

> (1-5 employees, BPT user)

'A technical problem that HMRC failed to acknowledge.'

(1-5 employees, BPT user)

'The returns generated during the whole pilot from my software were blank, nobody told me. At year end HMRC had no information from me so I had to submit the entire year update using earlier year updates.'

(10-49 employees, Automated software)

A small number reported that they checked the work they had done at EOY by replicating what they would have done under the old system to ensure it was correct.

4.4.3. Amount of time taken by EOY under RTI

The amount of time taken by EOY under RTI was explored both descriptively and absolutely.

In descriptive terms, 91% of employers said that under RTI, EOY takes less time (57%) or the same amount of time (34%) than it did under the previous system. Only 8% said it took more time (Figure 11).

Figure 11.   Amount of time taken by EOY under RTI

%

24	■ A lot less
33	■ A little less
34	■ About the same
5	■ A little more
3	■ A lot more

Source: EOY11 Under RTI, do you think it takes your business more, less or about the same amount of time to complete your payroll processes at the end of the tax year?
Base: All who do any payroll tasks in-house under RTI (738)
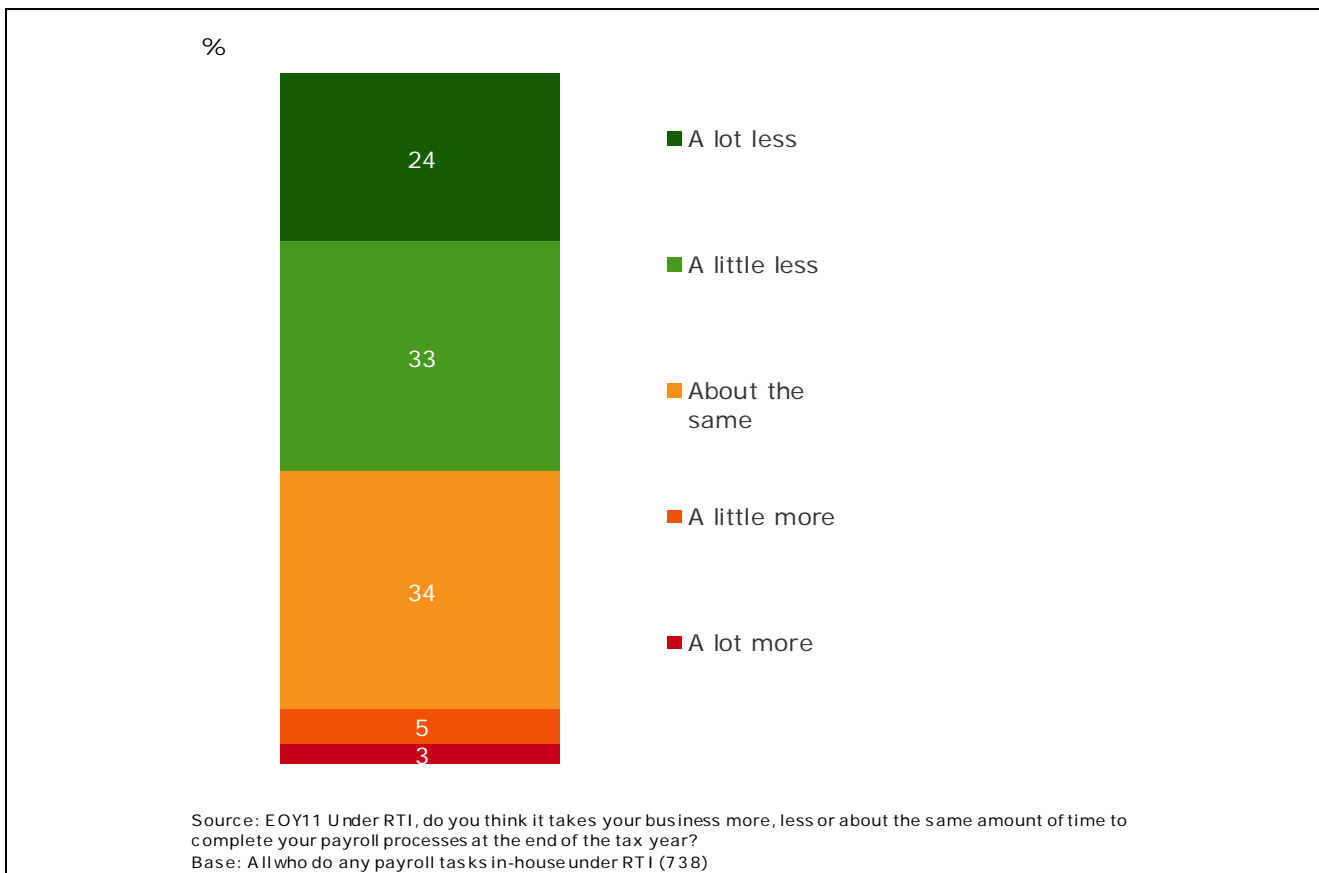
In a similar pattern to that seen earlier, employers who were not confident about RTI EOY processes beforehand were more likely to say that EOY under RTI takes more work than under the previous system (17%). Those who said they found EOY under RTI more difficult than they expected were also more likely to say this (32%).

In absolute terms, the number of hours spent by employers on EOY under RTI was less than under the previous system. Employers were firstly asked to estimate the number of hours taken prior to RTI to prepare and submit the EOY return. Then they were asked to estimate the number of hours taken under RTI at EOY. A simple comparison of the two sets of figures provides an indication of the extent of the reduction in work at EOY under RTI. Pre RTI, most employers (61%) spent four hours or less doing their EOY submission, with three fifths of these (38% in total) spending two hours or less. Under RTI, the proportion of employers t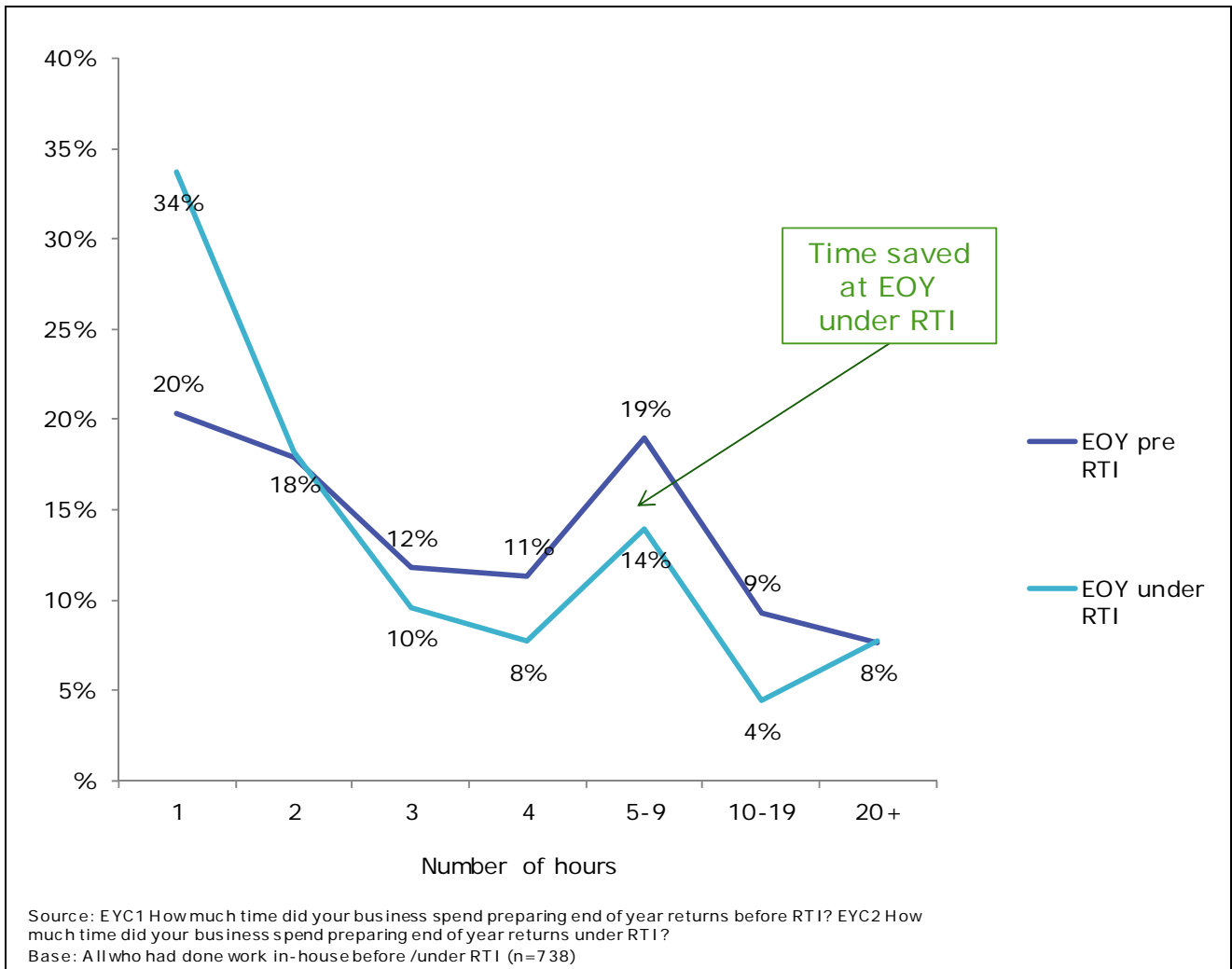hat spent four hours or fewer increased to just over two thirds (69%), with three quarters of these (52% in total) spending up to two hours.

Another way to describe the difference is to plot a frequency graph of time taken at EOY pre RTI and also at RTI and to compare the two lines (Figure 12). In Figure 12, the pre RTI line is higher than the at RTI line from 2 hours onwards. This gap between the two lines from this point indicates the amount of time saved by RTI for the sample overall.

Figure 12. Time taken for EOY – pre RTI and under RTI

Source: EYC1 How much time did your business spend preparing end of year returns before RTI? EYC2 How much time did your business spend preparing end of year returns under RTI?
Base: All who had done work in-house before /under RTI (n=738)

The number of hours usually spent by employers on an ordinary RTI submission was also established. A comparison between this and the number of hours on EOY under RTI provides an indication of the scale of the additional time involved at EOY compared to a normal RTI submission. Nine out of ten businesses (89%) spent no more than four hours on an ordinary RTI submission, with eight out of ten (81%) taking no more than two hours. This compares with just over half (52%) spending up to two hours on their EOY submission under RTI. It is not clear from this research if this will always be the case or if this is a one-off difference due to it being the first EOY submission under RTI and therefore being an unfamiliar process.

Another way to describe the difference is to plot a frequency graph of time taken at EOY and also at a normal RTI submission and to compare the two lines (Figure 13). In Figure 13, the EOY line is higher than normal payroll line from 2 hours taken onwards. This gap between the two lines from this point indicates the extra amount of time tak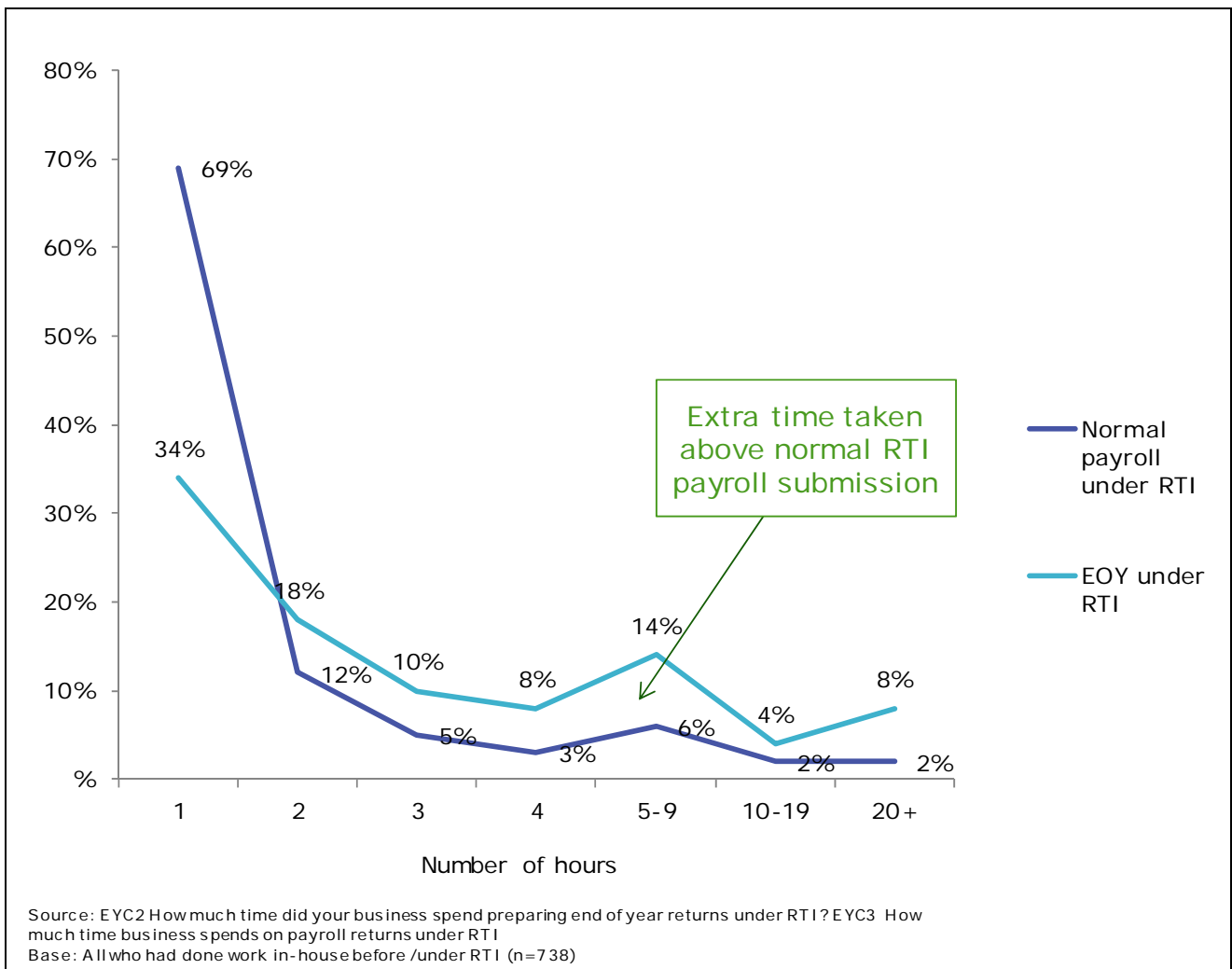en at EOY for the sample overall. A further comparison of the time taken at EOY vs. a normal submission for each employer shows that an RTI EOY took longer than a normal RTI submission for 51% of employers, with a further 37% saying it took the same time. Only 8% felt it took less time, whilst the remaining five percent were unable to make a direct comparison. This corresponds to the finding in the previous section where most employers judged that EOY takes either the same amount of work or slightly more than a normal RTI submission.

Figure 13.   Time taken for EOY compared to a normal RTI payroll submission

Source: EYC2 How much time did your business spend preparing end of year returns under RTI? EYC3 How much time business spends on payroll returns under RTI
Base: All who had done work in-house before /under RTI (n=738)

4.4.4. Cost of running EOY payroll under RTI

Employers were also asked to judge the impact of RTI on EOY payroll costs compared to the previous system and whether they expected the costs to increase or decrease next year compared to this year.

Compared to the previous system, the majority view (69%) was that RTI has made no difference to EOY payroll costs. Eighteen per cent judged the costs to be lower and 12% thought that they were higher (Figure 14).

Figure 14.   Costs of running EOY payroll compared to the previous system

Source: EOY12 In terms of the cost of running payroll at the end of the tax year have they increased/decreased under RTI? EYC4 Has there been any increase in costs for anyone outside the business you pay to deal with payroll? EYC7 Have your banking costs increased? SCS2 how much did your business pay for its commercial payroll software in total in the last tax year, in 2012-2013? SCS3 how much did your business pay for its commercial payroll software in total in the tax year before last, in 2011-2012?
Base: All respondents (756)

Similarly, the majority view (77%) was that the costs of EOY next year will be the same as this year. Fifteen per cent expected them to be less and 7% expected them to be more than this year (Figure 15).

Figure 15.   Costs of running EOY payroll next year compared to this year

%

3	■ A lot less
12	■ A little less
77	■ About the same
6	■ A little more
1	■ A lot more
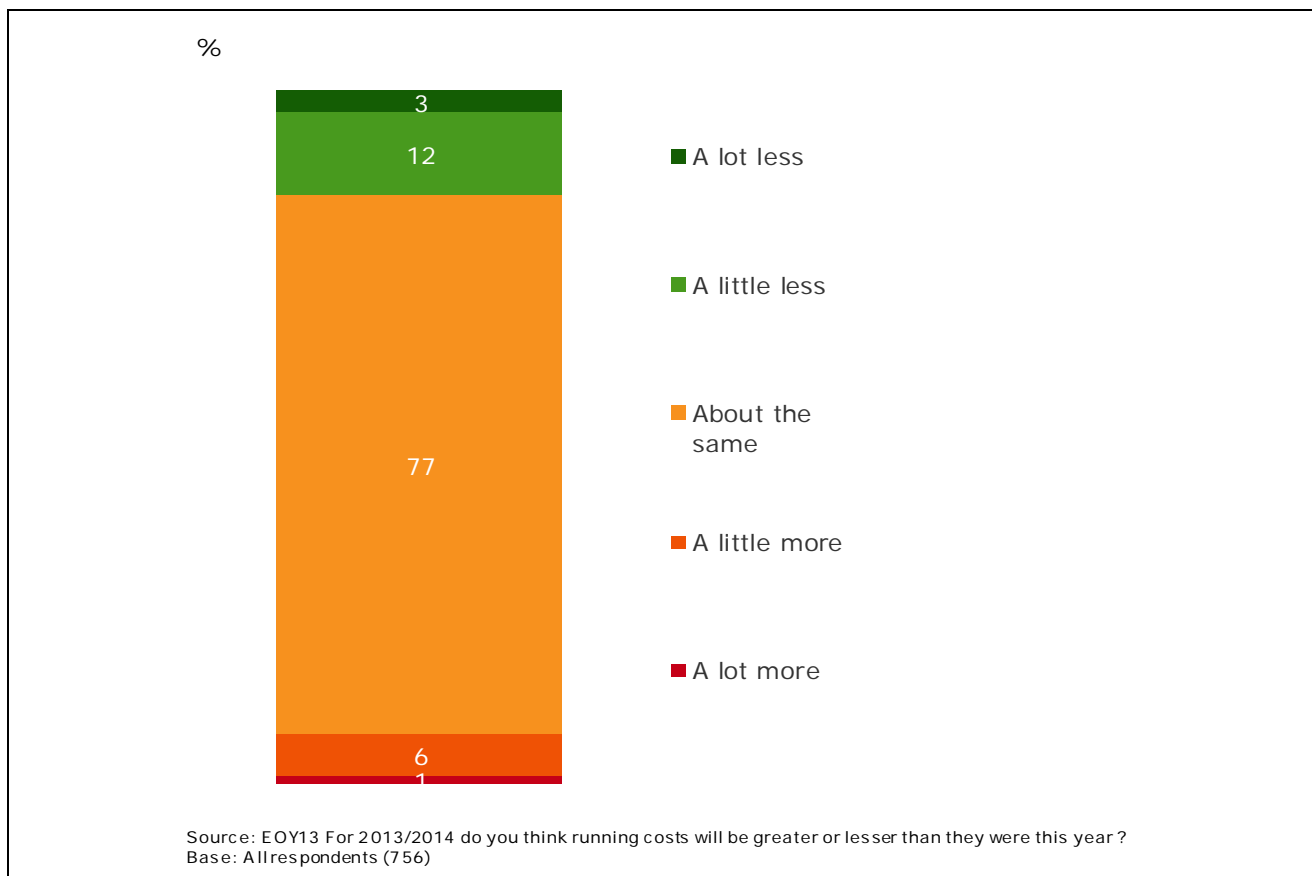
The sorts of employers who were more likely than average to anticipate EOY costs being lower next year were those who were less confident about EOY beforehand and those who had found EOY under RTI more difficult than they had expected (Table 10). This echoes the findings amongst the former group for the overall view of the ease of EOY next year compared to this year (see Table 5 in Section 4.3).

Table 10. Anticipated costs of EOY next year compared to this year

	Lower costs anticipated next year (Base: all)	Sub-group base size
CONFIDENCE PRE-EOY		
Very confident	14	265
Fairly confident	15	403
Not very/not at all confident	25	69
EASE OF EOY UNDER RTI COMPARED WITH EXPECTATIONS		
More difficult	32	88
Same	10	237
Easier	15	405
TOTAL	**15**	**756**

There was little difference by sub-group in the proportion of employers who were more likely than average to anticipate EOY costs being higher next year.

4.4.5. Cost of agents and banking under RTI

Employers that outsourced their payroll activities were in general thought to be under-represented in the sample, but some employers interviewed did outsource at least some payroll tasks. Employers who had used an agent to help with payroll pre RTI were asked whether there had been an increase in the cost to their business of such help due to RTI overall. Of the 70 employers in this category, the vast majority (90%) indicated that there had been no increase in agent costs. Only 5 of the employers said there had been an increase in costs, so it is not possible to report on the amount of cost increase incurred and whether this was a one-off set up cost or an on-going increased cost.

Further substantiation of the lack of increased agent costs due to RTI comes from the observation that 71% of employers who used an agent pre RTI said there was no change to the running costs of EOY payroll under RTI compared to the previous system. A separate question to the same group about change due to RTI in the **extent** to which they use an agent showed a similar picture: two-thirds said there was no change in this respect, 11% brought all the work in-house instead, 13% used an agent less and just 9% used an agent more. Furthermore, 99% of those who carried out all payroll tasks in-house before RTI continued to do so during RTI.

Employers were also asked if their banking costs had increased as a result of RTI. Almost all (97%) reported no increase, so concerns (based on anecdotal feedback) about employers incurring additional bank charges seem unfounded.

4.4.6. Spend on commercial software under RTI

Employers spent more on commercial payroll software when they moved to RTI.

Those who use commercial payroll software were asked how much they had spent on it in the current tax year (2013/14), last tax year (2012/13) and in the one before that (2011/12). These time periods equate respectively to when use of RTI has been established for a while, in the first year of using RTI, and pre-RTI. For the 2012/13 tax year, employers were also asked to distinguish how much of the spend was for upgrades and support for dealing with RTI specifically.

Figure 16 shows a graphical comparison of the spend pre-RTI and in the first year of RTI. The 2012-13 line is slightly higher than the pre-RTI 2011-12 line. This small gap between the two lines from this point reflects the extra amount spent at the introduction of RTI. It suggests there has been a small increase in costs, with 50% of employers paying more than £500 in 2012-13, compared with 45% in 2011-12. However, some of the software spend at the switch to RTI could have been due to their taking the opportunity, or being forced, to have a general upgrade as part of the switch to RTI, rather than due to RTI per se.

Figure 16.   Spend on payroll software in the first year of RTI compared to pre-RTI

Source: SCS2 how much did your business pay for its commercial payroll software in total in the last tax year, in 2012-2013? SCS3 how much did your business pay for its commercial payroll software in total in the tax year before last, in 2011-2012?
Base: All those who had paid for commercial payroll software (n=407)
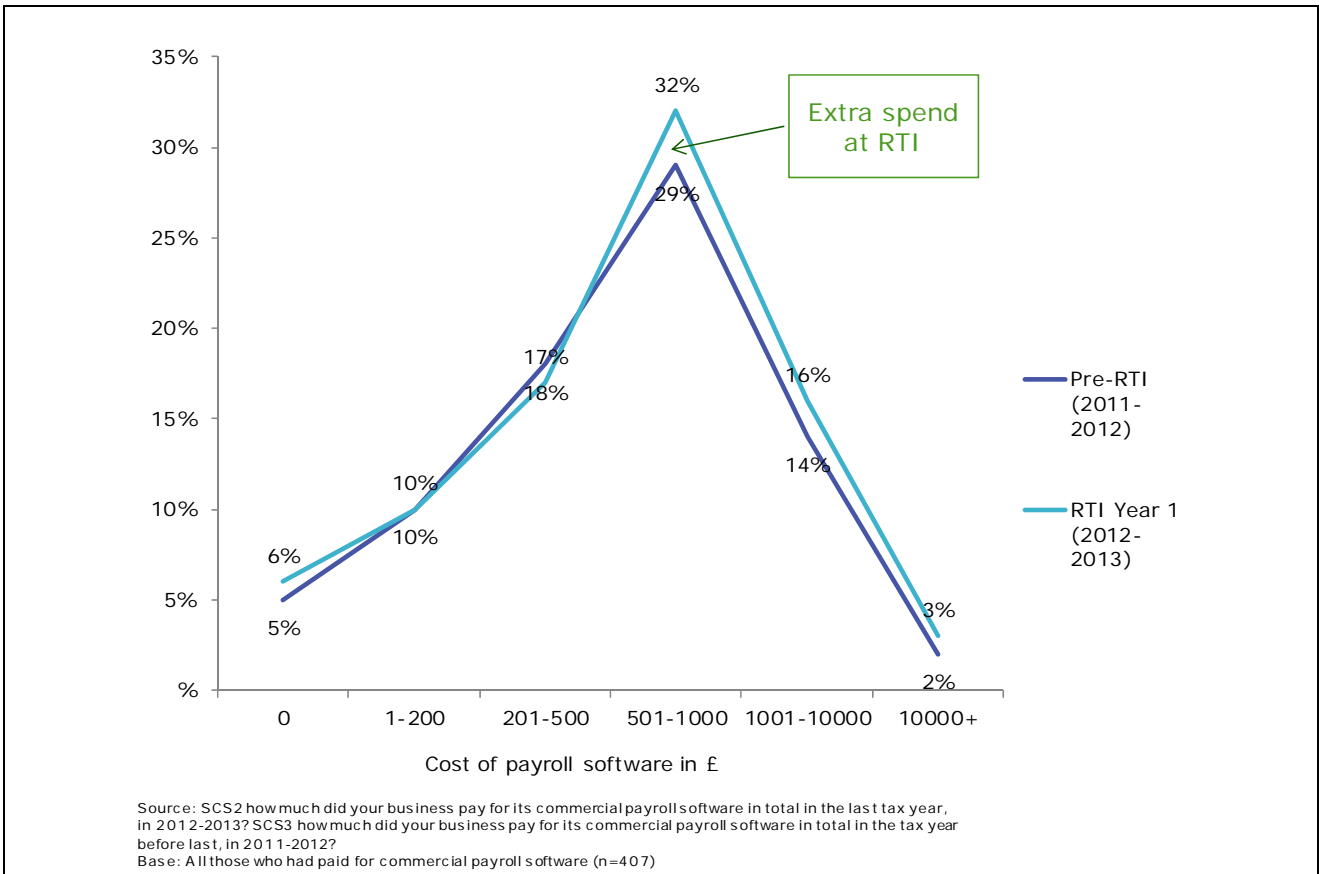
An analysis of the change in spend from 2012-12 to 2012-13 for each employer underlines the conclusion that the introduction of RTI coincided with a slight increase in spend on payroll software for most employers using commercial software. Forty seven per cent of such employers reported an increased spend between these two years (Figure 17). There was no significant difference by size of employer, but users of off the shelf software were more likely than those using customised software to have increased their spend (52% vs. 31%).

Figure 17.   Change in spend on payroll software pre-RTI to first year of RTI

%

47	■ More
24	■ Same
6	■ Less
22	■ Don't Know

Source: SCS2 how much did your business pay for its commercial payroll software in total in the last tax year, in 2012-2013? SCS3 how much did your business pay for its commercial payroll software in total in the tax year before last, in 2011-2012?
Base: All those who had paid for commercial payroll software (n=407)
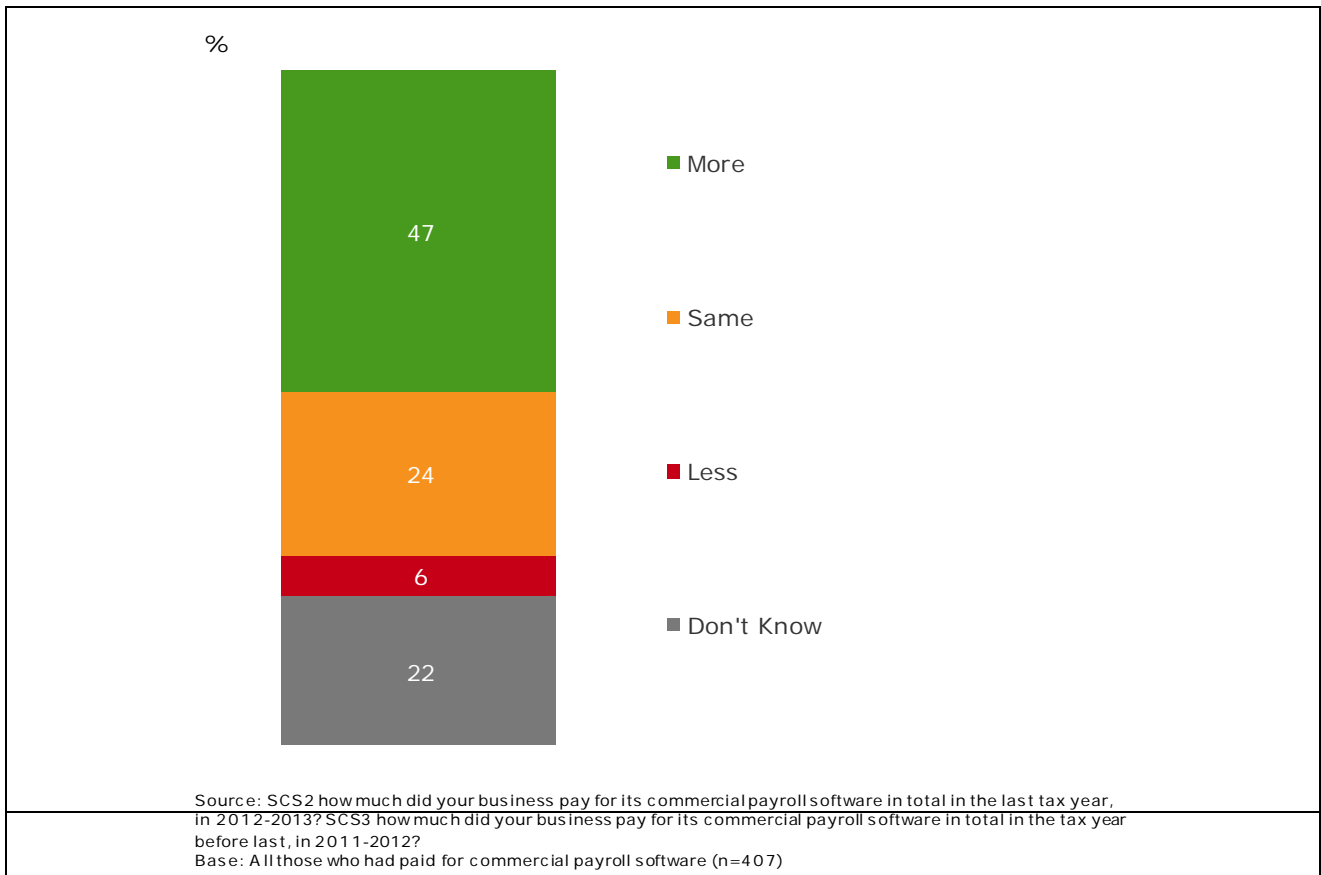
Employers were asked to distinguish in their 2012-13 spend how much was for RTI upgrades and support specifically. Almost two thirds of employers using commercial software (64%) reported that they had incurred no additional costs as a result of migrating to RTI. This is likely to reflect, at least in part, that many of the pilot employers received free upgrades, in recognition of their role in trialing the new software. A further 16% of employers were unable to provide estimates of the cost of their software in 2012/13, but of those that could, most indicated that the cost for RTI upgrades and support specifically was up to £500.

Spend on software **after** the introduction of RTI in 2013-14 was similar to the level at the introduction of RTI in 2012-13, but still slightly higher than pre RTI. Forty nine per cent of employers reported that they were paying £500 or more for software in 2013-14 in absolute terms, compared with 50% of employers paying more than £500 in 2012-13, and 45% in 2011-12.

Thirty nine per cent of employers using commercial software reported an increased spend between 2012-13 and 2013-14, compared with 47% between 2011-12 and 2012-13, with 32% reporting costs have stayed the same (up from 24% across the previous two years). Nine per cent reported a decrease over the last year compared with 6% across the previous two years. There was no significant difference by size of employer or type of software used.

4.5. Support at EOY under RTI
Eight in ten employers received or sought advice about the 2012/13 EOY (Figure 18). HMRC was the most frequently mentioned source of support (54%), followed by a software provider (45%).

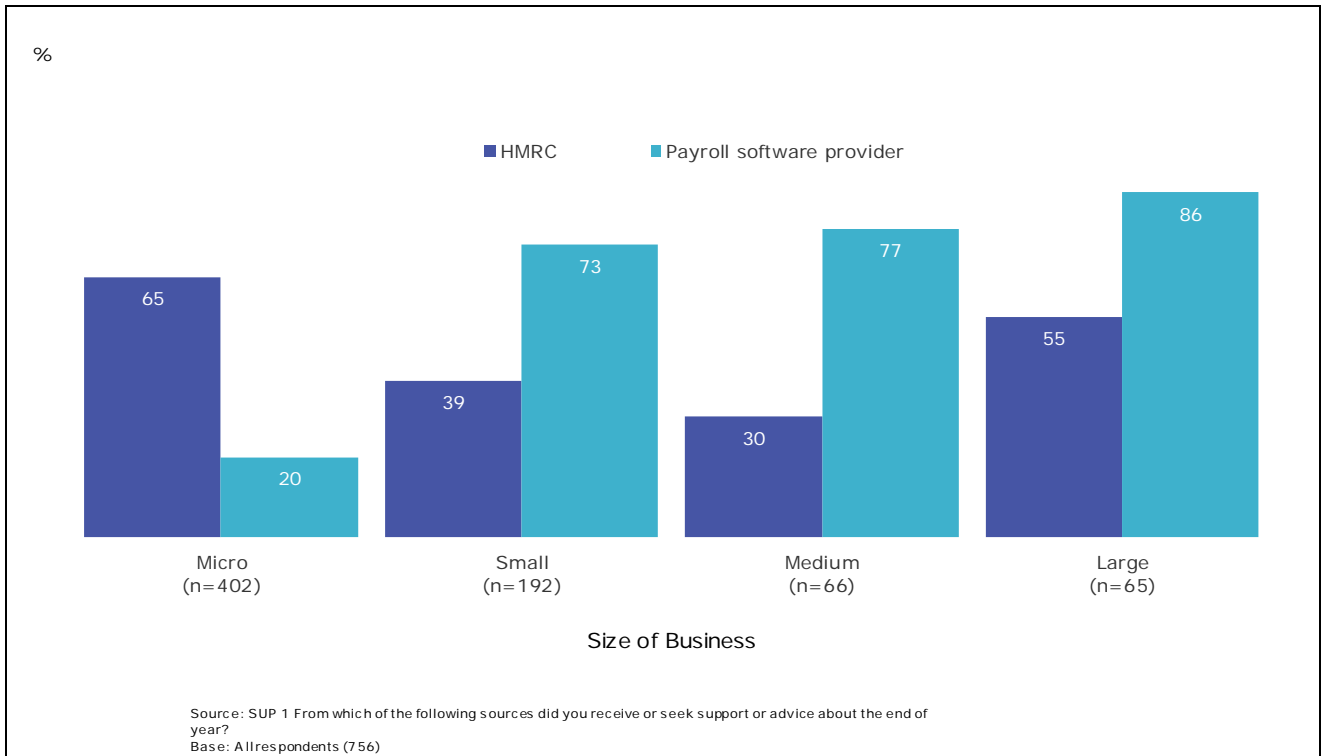Figure 18.   Sources of support at EOY under RTI

%

Any — 79
HMRC — 54
Payroll Software Provider — 45
Accountant or Payroll Bureau — 6
Other — 3

Source: SUP 1 From which of the following sources did you receive or seek support or advice about the end of year? SUP 2 In which of the following ways did you receive support or advice from HMRC at the end of year ?(n=411)
Base: All respondents (756)
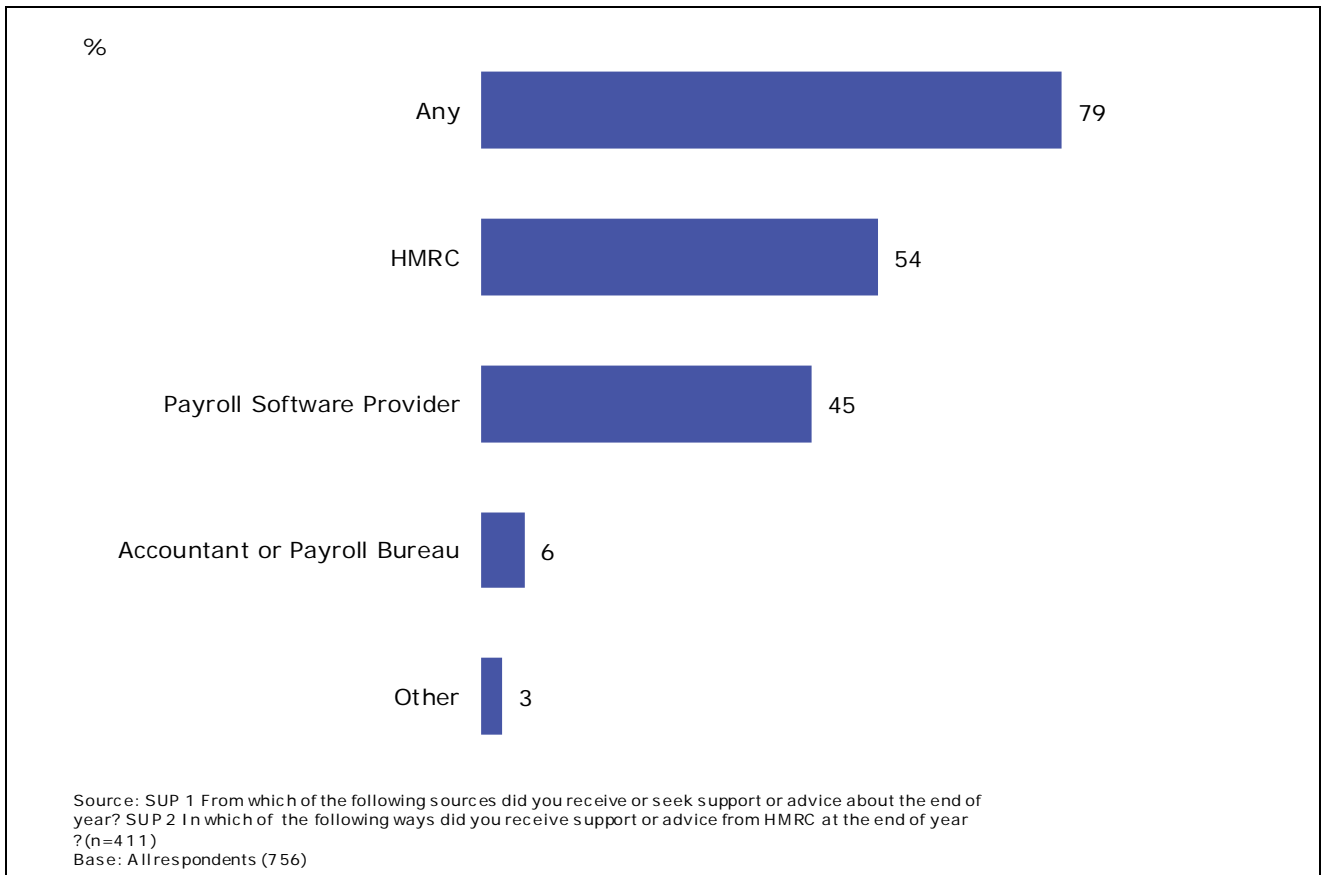
Some types of employer were more likely than average to seek support from HMRC. These were those BPT users (73%), micro businesses (65%), those not confident of RTI EOY beforehand (64%), those who found RTI EOY more difficult than they expected (86%), those who said that EOY took more time under RTI than under the previous system (72%), those who said their payroll costs had increased under RTI (70%) and those who rated the EOY experience under RTI as "difficult" (85%). Figure 19 highlights the reliance of micro businesses on HMRC as opposed to software providers. Small and medium sized businesses were more likely to seek support from their payroll software provider, whilst larger businesses were more likely to have used a combination of both HMRC and their payroll software supplier.

Figure 19. Sources of support at EOY under RTI

Source: SUP 1 From which of the following sources did you receive or seek support or advice about the end of year?
Base: All respondents (756)

Those who had had support from HMRC were asked the channel(s) through which they had received it. The most common channel – used by almost three-quarters – was the telephone (72%). Around half (57%) used the website and a third used email (34%). Fewer than one in ten used the post (9%) or had face to face contact (2%).

The sorts of employer most likely to seek support from HMRC by telephone were micro businesses (75%), BPT users (79%), those who were not confident about RTI EOY beforehand (82%), those who rated the RTI EOY experience as more difficult than they had expected (96%), those who said RTI EOY took up more time than the previous system (93%) and those who rated the overall EOY experience as "difficult" (95%).

The likelihood of an employer seeking support via the website or by email increased as the size of organisation increased (although the base sizes on which this finding is based are small). Likelihood of seeking support via the website (but not via email) also increased as confidence with RTI EOY beforehand increased (Table 11).

Table 11. Use of website and email to contact HMRC

	Website	Email	Sub-group base size
	(Base: all who got support from HMRC)		
CONFIDENCE PRE-EOY			
Very confident	62	38	127
Fairly confident	59	32	234
Not very/not at all confident	41	34	44
SIZE BY EMPLOYEES			
Micro (0-9)	56	31	263
Small (10-49)	59	37	75
Medium (50-249)	65	45	20
Large (250+)	72	50	36
TOTAL	**57**	**34**	**411**

Figure 20 shows that the most common reason for needing support at EOY amongst those who sought it was help with a technical issue (46%). The following verbatim quote from the qualitative research illustrates this:

> *'Software had a glitch – the end of year box was greyed out. [Software company] knew about it and talked me a work-around.'*

> (1-5 employees, Commercial software)

Those more likely than average to seek support for a technical problem were BPT users (62%), micro businesses (55%) and the largest businesses (53%).

The next most common reason for seeking support at EOY was to get an explanation of what they needed to do (36%), which generally turned out to be nothing. This suggests that a fair proportion of the support being sought was to improve users' basic understanding of the RTI EOY process. The following quote from the qualitative research illustrates this:

> *'I didn't know what I had to print off and send HMRC so I called them to find out.'*

> (1-5 employees, BPT)

Not surprisingly, those who were not confident about what was required at EOY under RTI were more likely than average to have sought support to get an explanation of what to do (47%). This suggests better and more targeted communications about the EOY process might help to reduce the amount of calls to the HMRC.

Just under a third of users sought support on a question about a specific EOY task (31%). Some examples from the qualitative research were:

'Yes, I called HMRC because I couldn't work out why I couldn't move to the new tax year.'

(1-5 employees, BPT)

'I couldn't set up the new tax year. The software company finally realised that I hadn't deleted the leavers. Once I had done that then it worked okay.'

(6-9 employees, Automated software)

Again, those who were not confident about EOY under RTI were more likely than average to have sought support on a specific EOY task (42%).
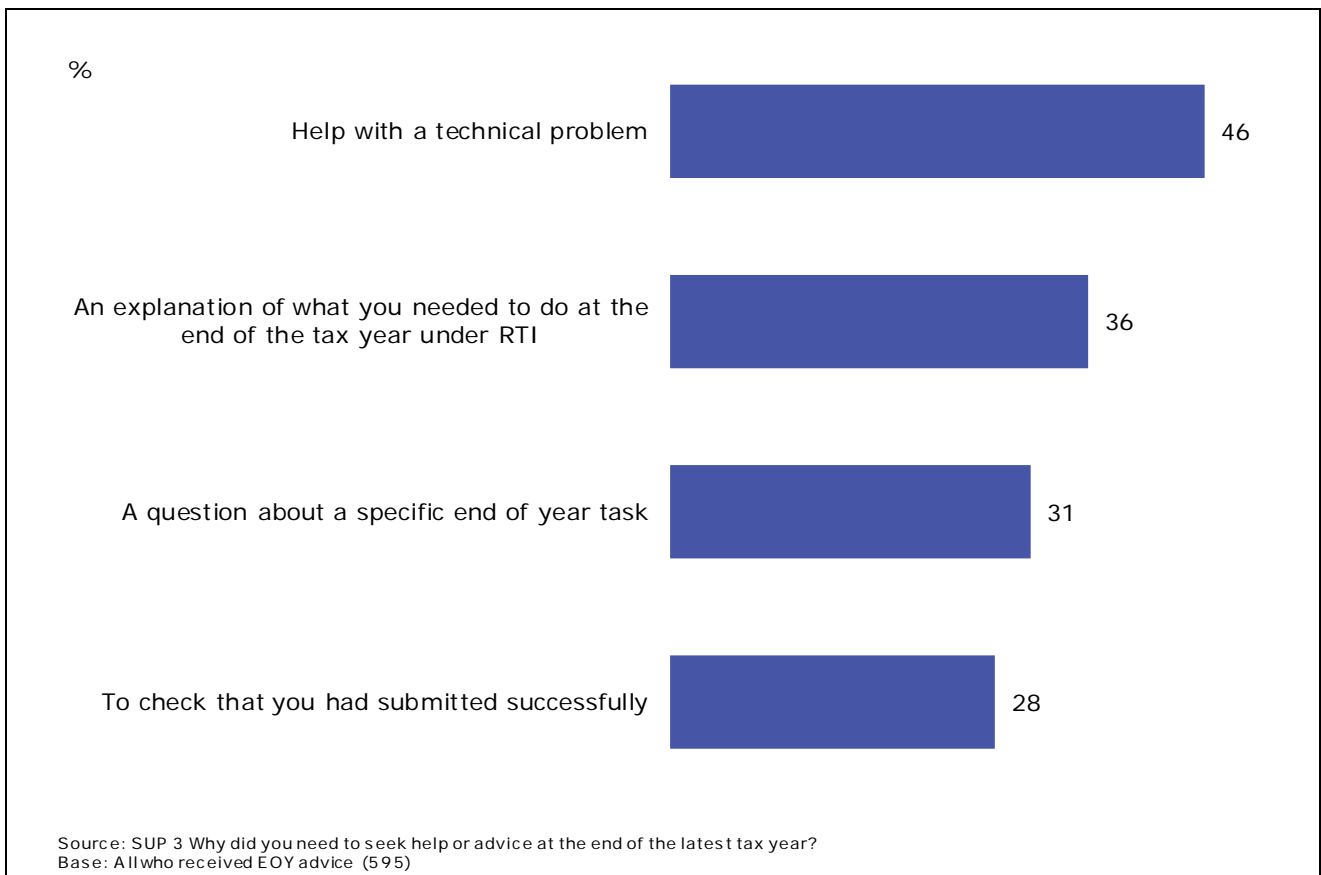
A quarter of support users said they had been in touch to check that their submission had been successful. The following example from the qualitative research suggests that more could be done to reassure submitters that they will hear back in due course if there is any problem with their submission, which might, in turn, reduce the number of calls of this nature to HMRC:

'I called to find out whether my submission had got there [HMRC]…Yes, I got an email from them but it didn't tell me whether it was accepted or not.'

(1-5 employees, Automated software)

Users of customised software were more likely than average to have sought reassurance that their submission had been successful (39%).

Figure 20.   Reason needed support at EOY

%

Help with a technical problem	46
An explanation of what you needed to do at the end of the tax year under RTI	36
A question about a specific end of year task	31
To check that you had submitted successfully	28

Source: SUP 3 Why did you need to seek help or advice at the end of the latest tax year?
Base: All who received EOY advice (595)

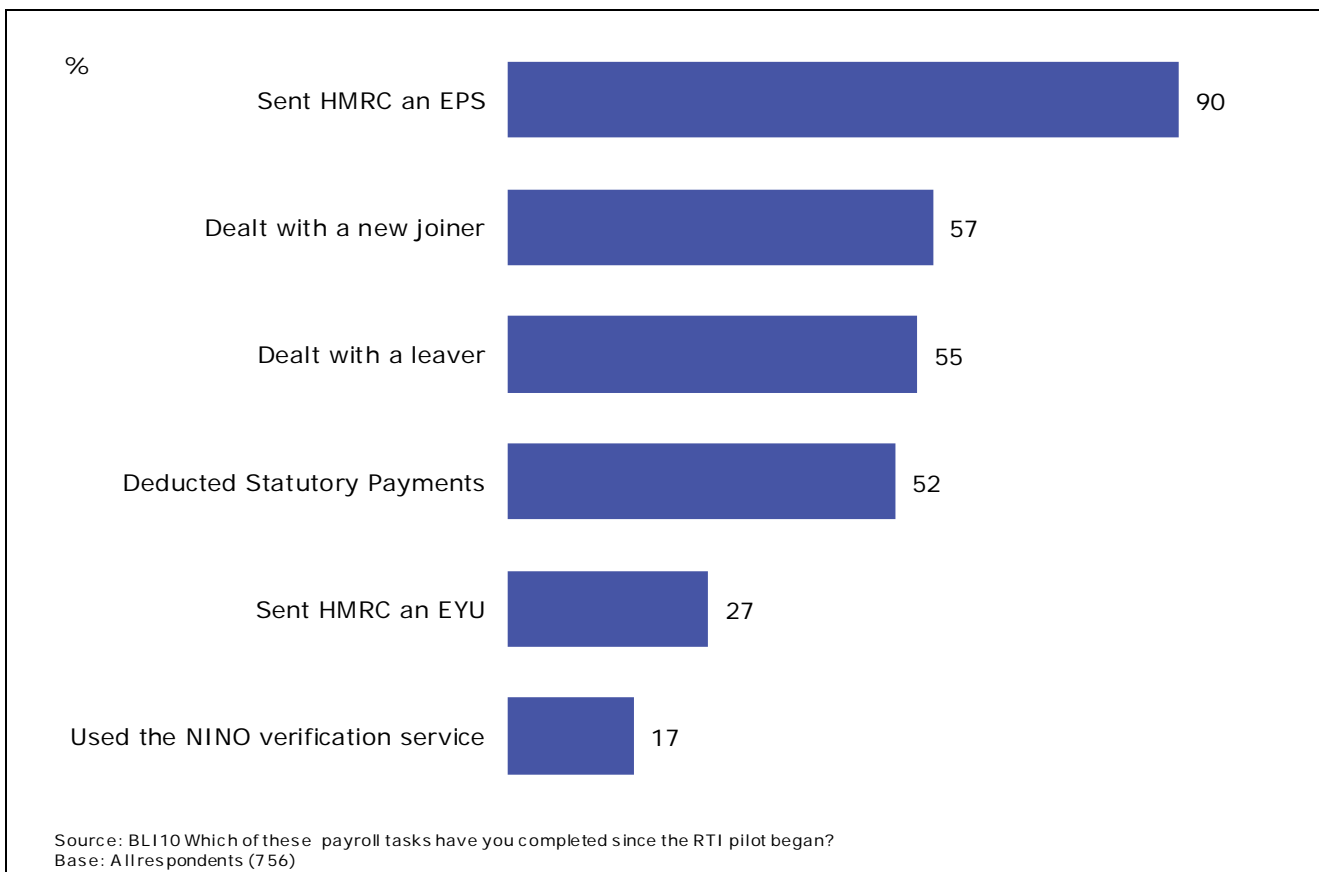### 4.6. Awareness, use and understanding of EPS and EYU

Anecdotal evidence suggested that there was a lack of understanding amongst employers about two key elements of the RTI process – the Employer Payment Summary (EPS) and the Earlier Year Update (EYU). The research explored whether this was the case or not.

EPS is the provision of data to enable HMRC to calculate employer liability and mainly covers situations when statutory payments or no payments have been made to employees. This submission is only needed where the employer needs to notify HMRC of adjustments to their overall liability.

EYU is a type of submission made under RTI to correct any of the year-to-date totals submitted in the final Full Payment Summary (FPS) for the previous tax year. For the pilot it was used to correct data from the previous year under the old system.

The research found that nine in ten employers had submitted an EPS. Only a quarter had submitted an EYU (Figure 21).

Figure 21.   RTI processes completed so far

%

Sent HMRC an EPS	90
Dealt with a new joiner	57
Dealt with a leaver	55
Deducted Statutory Payments	52
Sent HMRC an EYU	27
Used the NINO verification service	17

Source: BLI10 Which of these payroll tasks have you completed since the RTI pilot began?
Base: All respondents (756)

Not surprisingly given the almost universal usage, awareness of EPS was also almost universal (91%). Awareness of EYU, like its usage, was lower at only 39% (Figure 22). EAS is generally used only by the largest employers and /or those with multiple PAYE schemes, so it is not surprising that not all had head of it. All RTI users should have submitted an FPS, so 100% awareness would be expected. The fact that

this is not the case may be due to lack of exposure to the RTI process **names** used by HMRC and different software functionality and terminology rather than lack of familiarity with the processes.
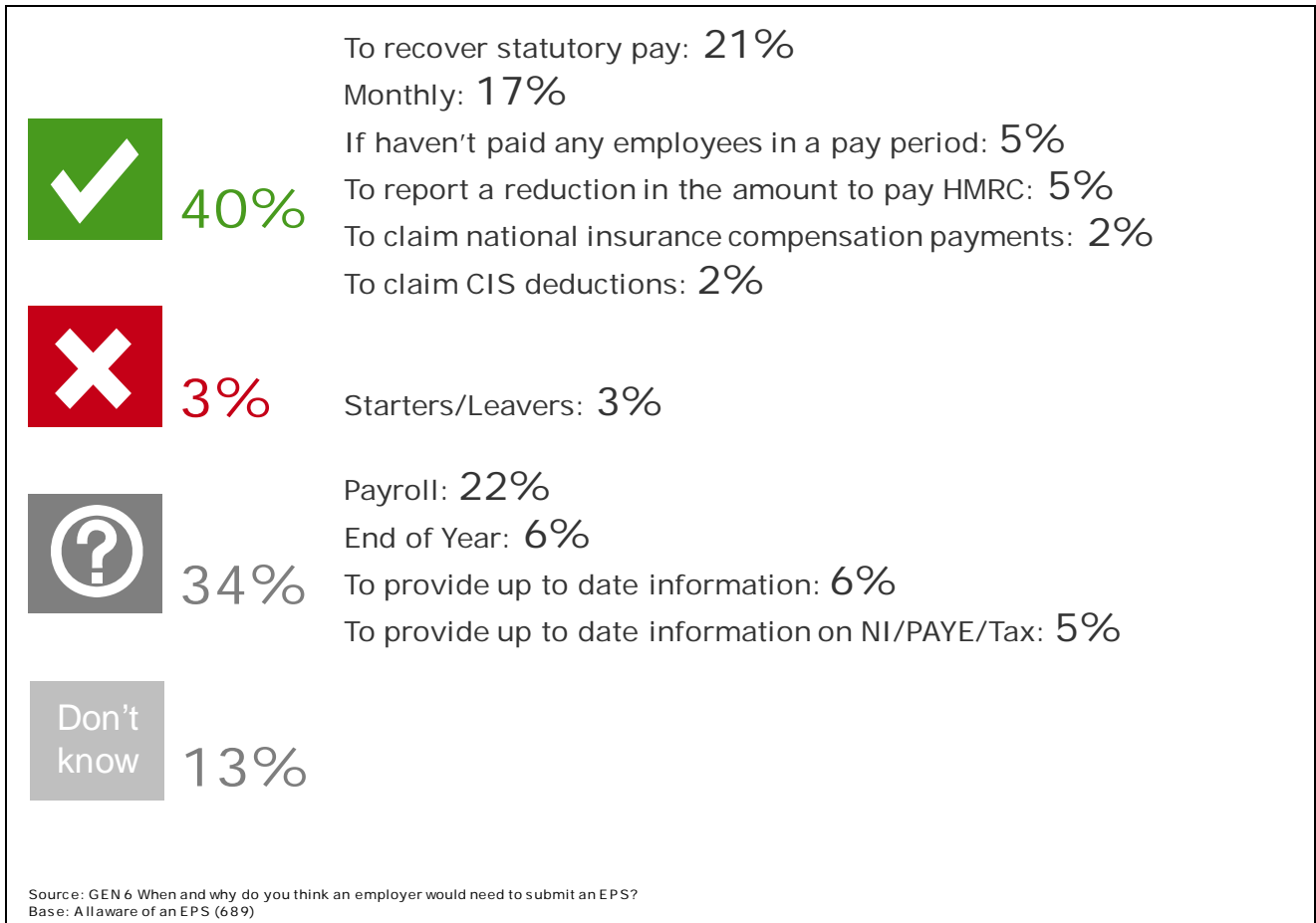
Figure 22.   Awareness of RTI processes

%

Employer payment summary	91
Full payment submission	90
National Insurance verification request	72
Employer alignment submission	63
Earlier year update	39

Source: GEN5 Which of these returns had you heard of before today?
Base: All respondents (756)
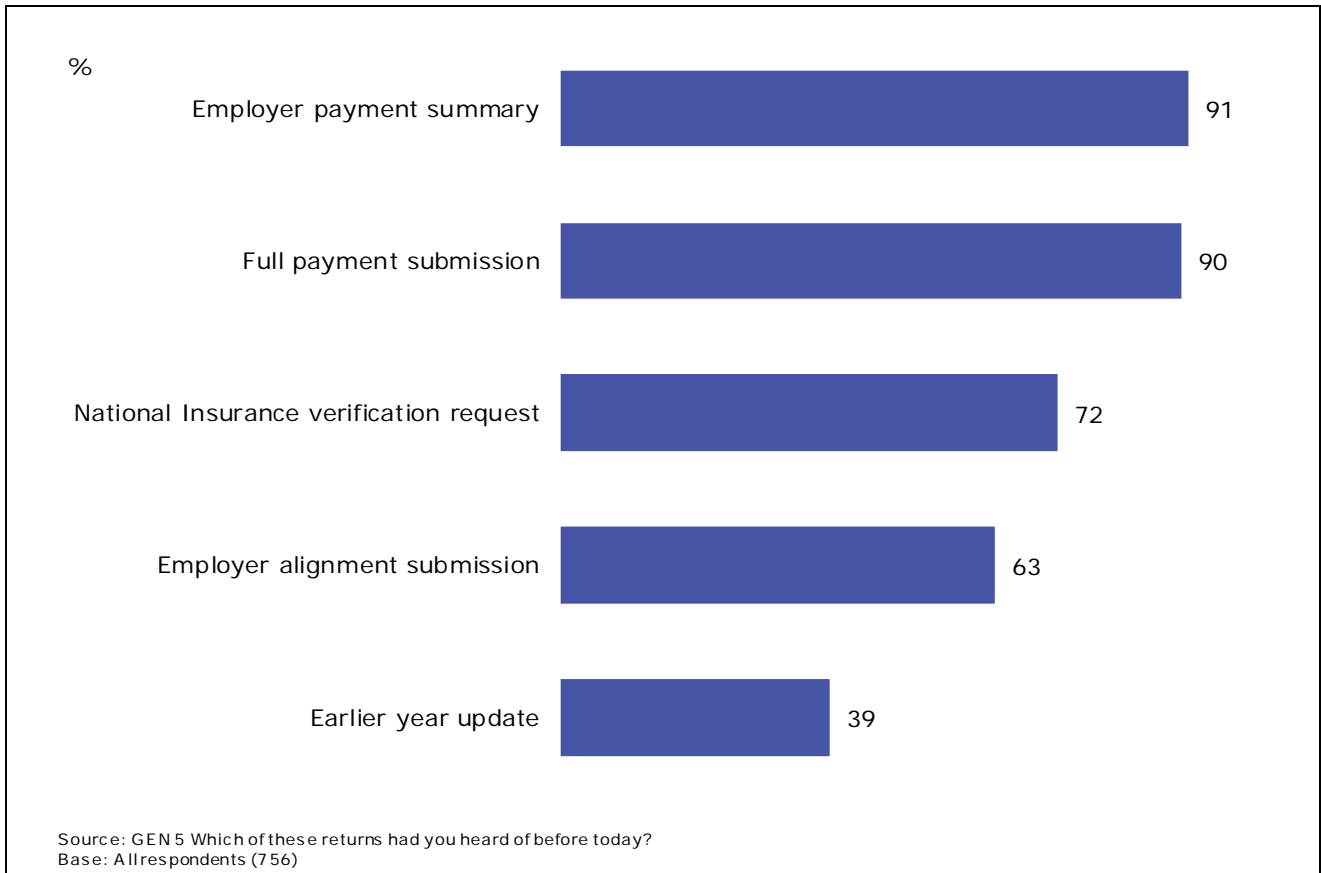
To check understanding of EPS and EYU, employers who had heard of them were asked to say in their own words when and why each would be used.

A third of those aware of EPS either said they did not know when and why EPS would be used (13%) or merely said it was to do with "payroll" (22%). Around four in ten (40%) were judged to be definitely correct in their explanation. The responses from the remainder were generally too ambiguous to be certain whether it was correct or incorrect, but the small proportion saying it was for informing HMRC about starters and leavers was definitely incorrect (Figure 23), which indicates at least some tenuous understanding among employers and a low level of confusion.

Figure 23.   Understanding of when and why an employer would submit an EPS

To recover statutory pay: 21%

Monthly: 17%

If haven't paid any employees in a pay period: 5%

To report a reduction in the amount to pay HMRC: 5%

To claim national insurance compensation payments: 2%

To claim CIS deductions: 2%

40%

3%   Starters/Leavers: 3%

Payroll: 22%

End of Year: 6%

To provide up to date information: 6%

34%   To provide up to date information on NI/PAYE/Tax: 5%

Don't know **13%**

Source: GEN6 When and why do you think an employer would need to submit an EPS?
Base: All aware of an EPS (689)

Those who were very confident about RTI EOY beforehand were less likely than those who were less confident to say that they did not know when and why an employer would need to submit an EPS (9% vs. 15% who were fairly confident and 19% who were not very/not at all confident).

Awareness and understanding about when and why to use an EPS was explored in the qualitative research. Awareness was mixed with some of the employers in the qualitative research being unaware of the EPS. Of those that had heard of it but not used it, most did not know when to use the EPS, although as one had employer had experiences of both Statutory Sick Pay and Statutory Maternity Pay during the year they probably should have used an EPS. Of those that had used the EPS, one had done so erroneously, believing they should submit an EPS every month even in the absence of statutory payments.

> *It's the Employment Payment 'Summary isn't it? I think you use it at the end of the month. It shows you the tax and NI totals for the month. I check that to make sure it is the same as my journals.'*

> (1-5 employees, BPT)

> *'They don't apply to us. Can't remember why. We have no statutory payments. But we pay quarterly so it doesn't apply. I've read about it several times and it doesn't apply to us.'*

> (1-5 employees, Automated software)

'It's [EPS] very easy to use. The only problem I had was that the software did not pick up the totals from the previous year, but that's not an RTI problem, it's a software issue.
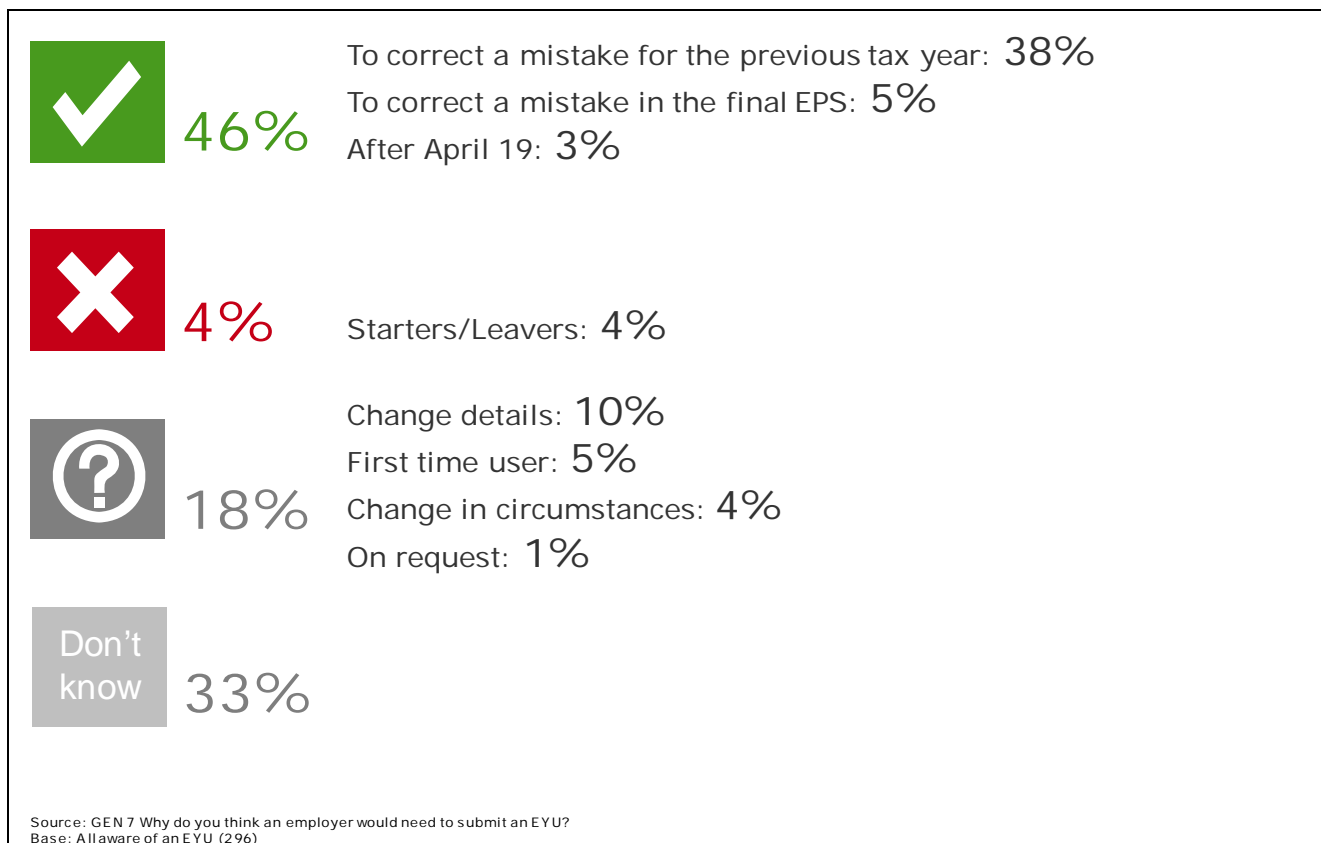
(6-9 employees, Automated software)

For me, the difficulty is that you can't submit the EPS before the 6th of the month, which means now the payroll is a twice a month process – FPS and then the EPS.'

(50-249 employees, Automated software)

A third of those aware of EYU said they did not know when and why they would use EYU. Four in ten were judged to be definitely correct in their explanation. Similar to the EPS, a small proportion saying it was for informing HMRC about starters and leavers was definitely incorrect. The response from the remainder was too ambiguous to be certain whether it was correct or incorrect (Figure 24). The relatively small base sizes of some sub-groups make it impossible to compare their greater or lesser prevalence of understanding of EYU.

It is possible that these results reflect a lack of familiarity with the RTI process **names** used by HMRC and that under the new digitised RTI system, these are not separate processes requiring separate 'returns', but simply extra elements of the submission process although employers with some versions of commercial software did indicate that there were separate screens for the EPS and EYU.

Figure 24. Understanding of when and why an employer would submit an EYU

To correct a mistake for the previous tax year: 38%
To correct a mistake in the final EPS: 5%
After April 19: 3%

46%

4%

Starters/Leavers: 4%

Change details: 10%
First time user: 5%
Change in circumstances: 4%
On request: 1%

18%

Don't know

33%

Source: GEN 7 Why do you think an employer would need to submit an EYU?
Base: All aware of an EYU (296)

4.7. Leavers and joiners under RTI

HMRC wished to explore whether employers had changed how they handle leavers and joiners under RTI compared to under the previous system. Figure 21 shows that around half of employers had dealt with a leaver and/or a joiner under RTI. The way in which they did this was covered in more detail in the qualitative research.

Overall, employers in the qualitative research had limited experience of leavers and joiners, probably reflecting the emphasis on smaller employers in this aspect of the research.

Employers thought that the joiner and leaving process was very similar to their pre-RTI processes, although there was some limited saving of time. For example, when a new employee joins the business, there is no longer a need for a P46 and for this to be sent to HMRC. This saves both postal costs, as well as any time spent following it up if the P46 gets lost in the post. The NINO search facility was also said to speed up the process of setting up a new employee. Whereas employers had to apply for a NINO in the past, which meant waiting for paperwork to be sent and returned by HMRC, the NINO search facility meant that employees could be set up on the payroll system much faster, with a small saving in time. Under RTI, employers are now required to enter the number of hours worked. For some employers this was a new requirement and added a trivial amount of time (less than a minute) to setting up an employee on the payroll system.

With one exception, none of the employers had changed their practices for new joiners. The exception was an employer in the entertainment industry that had large numbers of short-term employees, many of whom would be working outside the UK. Traditionally, the information they held about employees was varied and often incomplete. They had tightened up their data collection process for new employees to ensure that their data aligned with HMRC's.

For leavers, there was no longer the requirement to send a P45 to HMRC. While the time saving per employee is less than a minute it does save an additional administrative task and removes a small postage cost.

5. Views of overall RTI programme

As well as focusing in on employers' EOY experience under RTI, the research also explored employers' feedback on the overall RTI programme. In particular, the perceived benefits, drawbacks and impact on reporting behaviour were examined and whether these had changed as a result of experiences of the EOY.

5.1. Benefits and drawbacks of RTI system compared to previous system

Employers were asked unprompted questions about the benefits and drawbacks they could see of the RTI system compared to the previous system (Table 12 &13). The reported benefits of RTI continue to outweigh the negatives.

Three-quarters mentioned at least one benefit. This is similar to pilot stage 3 research, but lower than the nine in ten who mentioned any at stage 1 and stage 2.

Half cited **EOY time savings** as a benefit, similar to the proportion doing so at stages 2 and 3. The benefits of **speed** and **ease** were mentioned by around one in ten employers. These aspects had not featured in answers in previous waves of research.

Accuracy benefits were much more often mentioned at stage 1 than in subsequent stages.

Table 12. Benefits of RTI system

Base: All Respondents	Stage 1 Research (96)	Stage 2 Research (433)	Stage 3 Research (316)	EOY research (756)
Any benefit	90	92	75	77
Less time needed for EOY return	25	51	47	49
No need to correct payments at end of each year	9	3	3	3
More accurate payments to HMRC each month	4	2	9	5
Will make business more efficient/more organised	5	0	6	7
Information can be communicated faster/more frequently	3	0	2	12
Automatically feeds information into Universal Credit	3	0	1	5

More accurate tax codes	3	4	4	5
Information/records more up to date	3	3	6	7
Employee tax affairs will be more accurate so fewer queries to employer	26	8	3	1
Data held on employees will be more accurate	14	4	3	2

GEN 1: Thinking about RTI, what benefits, if any, do you think this new system has brought, compared with the previous system?

The benefits of RTI in terms of the improvements it has led employers to make to the way they deal with payroll, with employees or how they run the business were also explored in this research (but not at previous stages). A quarter of employers were able to think of an improvement they had made as a result. The most commonly cited was better record keeping (9%).

The qualitative research largely reiterates the benefits of RTI. However, there were two key features that employers emphasised. First, with the payroll submissions (FPS) being correct, employers were much more confident that the EOY would also be correct – and much less time-consuming. Second, employers indicated that it was now no longer possible to 'cheat' HMRC by paying less than is owed to HMRC, or by delaying payments of tax and National Insurance.

> 'I know some businesses that used to send [pay] HMRC only some of the tax they had collected. I understand why they did it but it's not good practice. You can't do that now.'

> (1-5 employees, BPT)

> 'It [RTI] hasn't made any difference personally, but I think it is a good idea. It should make a smooth transition of an employee moves company. Less likely to have an emergency code.'

> (1-5 employees; BPT)

> 'End of year is less of a big thing now. I still worried about it this year, although it was much easier and quicker. Next year I won't be so worried as I've been through it once now and know what to expect.'

> (6 – 9 employees; Other software)

> 'The HMRC information was quite detailed, which helped a lot. The real benefit is not having to do the end of year. I didn't have any issues previously [with end of year] but it a much simpler process now…yes, it does save some time too.'

> (6 – 9 employees; BPT)

'RTI. It just happens. It is so easy every week and every month. End of year was much simpler too. Less stressful as well as the end of year sometimes didn't balance.'

(10 – 49 employees; Automated software)

5.2. Downsides of RTI system compared to previous system

Employers were also asked an open-ended question about any downsides they could see of the RTI system compared the previous system (Table 13). Half cited at least one downside, which is an increase on previous stages of research. The most commonly cited downside was technical issues, mentioned by around one in ten. Lack of guidance/help was mentioned by 6%. Other downsides mentioned at lower levels were themed around the amount of time it takes, particularly the time it takes to learn and get used to.

Table 13. Downsides of RTI system

Base: All Respondents	Stage 1 Research (96)	Stage 2 Research (433)	Stage 3 Research (316)	EOY research (756)
Any negative	40	32	37	49
Take more time each payday	8	2	5	4
More time spent on corrections in year	5	1	3	1
Technical issues/Website issues	4	5	5	12
More errors made in the payday submissions	1	2	5	3
Difficult to make changes	n/a	3	6	3
Time pressure/rigid timings	n/a	3	1	3
Lack of guidelines/help	n/a	n/a	n/a	6
Getting help from the helpline	n/a	n/a	n/a	3
Not user friendly/intuitive	n/a	n/a	n/a	4
Getting used to/learning new system	n/a	n/a	n/a	5
Other	17	13	8	4

GEN 2: And what, if any, do you think the downsides of this new system have been compared with the previous system?

The qualitative research highlighted four issues with RTI:

- The potential for confusion with the number of acronyms (EPs, FPS, etc.) that are associated with RTI;

'There are so many initials – EPS, FPU [sic], and so on. It is easy to get confused. And we are only a little payroll and spend very little time on it that it takes ages to get used to it.'

(1-5 employees, BPT).

- Once an FPS has been submitted it is difficult to make changes if an error is discovered;

'There is no delete button'

- An employer that had a mixed workforce of full-time staff and staff that worked irregular hours and were paid after each session considered that RTI had made it more complicated to manage irregular pay. The employer either had to move everyone to a regular pay date – which was not convenient for his employees – or undertake more frequent FPS submissions;

- Reduced flexibility to delay payments to HMRC;

'We run a farm. I do the payroll for the four of us. If a cow goes into labour and the payroll is due, the cow comes first. We pay HMRC late. It's only ever by a day or two and not something we intend. But that is difficult to do now.'
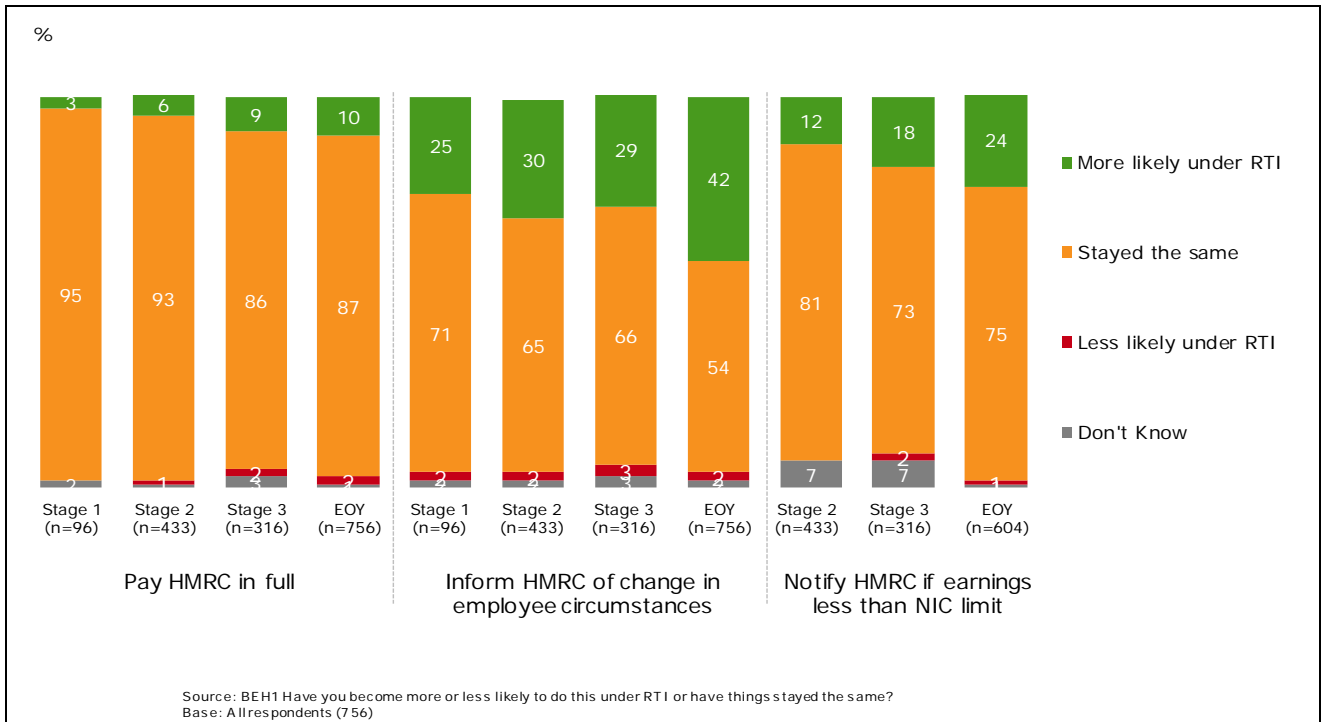
5.3. Impact of RTI on reporting behaviour

Most employers felt that there had been no change in their behaviour as a result of the introduction of RTI, but where there was a change, it was on balance positive and increased as they have gone through the first year of RTI.

The introduction of RTI has had most positive effect on employers notifying HMRC of a change in employee circumstances. Two-fifths of employers claimed to be more likely to report a change in employee circumstances. A quarter said that they would be more likely to notify HMRC if an employee's earnings fell under the National Insurance lower earnings limit.

The proportion of employers who say that they are more likely to pay HMRC in full as a result of RTI remained at around one in ten, similar to that seen at stage 3 (Figure 25).   Micro businesses were more likely than larger businesses to say that they were now more likely to pay HMRC in full (13% vs. only 6% for businesses with 250+ employees).

Figure 25. Impact of RTI on payment and reporting behaviour

Source: BEH1 Have you become more or less likely to do this under RTI or have things stayed the same?
Base: All respondents (756)

The ease with which employers were able to submit their return before or at the same time as they paid employees was also explored. Nearly nine in ten (88%) said that they found it either very (52%) or fairly (36%) easy to do this. Eleven per cent found it difficult, which is on par with previous stages of the research. Earlier research on pilot employers showed that this requirement is more difficult for those using casual workers with fluctuating or unpredictable earnings.

6. Conclusions

Employers in the RTI pilot were generally confident about what they needed to do and encountered no significant difficulties in completing their first EOY under RTI. As anticipated, the vast majority of employers said that they found EOY under RTI either less burdensome (61%) or no more burdensome (33%) than under the previous system. The overall burden of RTI is consquently lower for employers than under the previous system. The minority who were less confident and encountered more difficulties this year, generally felt that next year would be easier. Nevertheless, there is scope to help some employers to find EOY under RTI even less of a burden and also to reduce the support required from HMRC. The remainder of this section discusses where this scope lies for improvement , above and beyond the obvious need to iron out any remaining technical glitches.

The 9% of employers who were not confident beforehand about the requirements of EOY under RTI were more likely than average to be among the 5% of employers who found EOY under RTI more of a burden. The reseach reveals that lack of confidence is primarily the result of lower levels of understanding of the RTI EOY process. Accordingly, this under-confident group was more likely than average to contact HMRC for support, and when they did so they tended to make contact by telephone. This is a resource intensive support mechanism for HMRC to provide.

Findings from this and earlier stages of the research highlighted the fact that some users currently struggle to get an overall understanding of how RTI "works". The website's menu driven approach to the provision of information about key elements of the process, together with the number of acronyms used to describe processes, fails to provide these employers with an overview of what is required at each stage and how the elements all fit together. .

A quarter of those who had contacted HMRC for support had done so to check that their EOY submission had been successful (as opposed to merely being received). The need for this sort of enquiry could be reduced simply by expanding the acknowledgement message to say that HMRC will be in touch if there is any problem with the submission. Minimising unnecessary contact between employer and HMRC would also reduce the pressure on HMRC resource.

7. Appendix A

7.1. Quantitative Research
This section expands on the methodological detail in the main report.

7.1.1. Sample Design and Response Rate
The sample consisted of the individual at each employer who had most involvement with the RTI pilot and with implementing RTI. Financial agents including accountants and payroll bureaus were excluded, unless they were taking part in the RTI pilot in their capacity as an employer.

For employers previously interviewed during the pilot research, sample details included an RTI contact name as well as an employer name and telephone number. Wherever possible, the same individual who was previously interviewed during the pilot research was reinterviewed for the EOY research.

The sample size and response rate for each wave of each stage are shown in Table 14.

Table 14. Sample size and response rate

Source	Starting sample	Interviews completed	Response rate
Previous stage 1 respondents	153	81	53%*
Previous stage 2 respondents	619	378	61%*
Previous stage 3 respondents	297	208	70%*
Fresh stage 3 respondents	296	89	30%*
TOTAL	1365	756	59%

*Response Rate does not take out deadwood/ineligible sample

7.1.2. Questionnaire
The questionnaire was developed by HMRC and TNS BMRB to address the research objectives. A copy is given in Appendix B.

Employers with more than one PAYE scheme on the RTI pilot, the contact was asked to answer the questions with the answer that fitted best across all the schemes.

All employers were sent an advance letter shortly before fieldwork began. This was printed in black and white, on reasonable quality paper, with the HMRC logo included, and signed by a key HMRC stakeholder or researcher to give the letter authority. Along with this letter was included a 2 sided A4 pro-forma

asking employers to gather key information on cost and time burdens ahead of the interview, to be kept by them ready for use in the interview.

7.1.3. Data Collection

The quantitative interviews were carried out with the aid of Computer Assisted Telephone Interviewing (CATI). CATI means that the questionnaire was displayed and responses captured on-screen. The CATI system also automatically calls respondents and alerts an interviewer when the call is answered, which improves efficiency. Interviewing was carried out in the controlled environment of the research agency's dedicated telephone interviewing centres. Rigorous interview quality control procedures prescribed in ISO 20252 were followed, including a supervisor listening into interviews remotely on a systematic basis.

7.1.4. Data Weighting

No weighting was applied to the data.

7.2. Qualitative Research

This section expands on the methodological detail in the main report.

7.2.1. Research design

The qualitative research was carried out as a follow-on stage from the quantitative survey with the aim of providing a more detailed understanding of employers' EOY experience.

The study comprised 28 face to face interviews with a cross-section of companies selected according to the criteria shown in Table 15. The qualitative research was designed to be broad ranging in terms of employers size and industry but focussed on smaller employers that throughout the research programme have exhibited more problems with implementing RTI. For this reason the sample was apportioned between commercial software and BPT users. In addition, the research was used to provide insight into why some employers found EOY under RTI more or similarly burdensome to the previous year, with employers being selected for their reported level of burden in undertaking the EOY tasks.

Table 15 Qualitative research recruitment criteria

Recruitment criteria	Interviews
Undertake EOY in-house	28
Did not undertake EOY in-house	0
1-5 employees	15
6-9	3
10-49	7
50-249	3
Use off the shelf commercial software	15
Use tailor-made commercial software	1
Basic PAYE tools	12
Reported decreased EOY burden	12
Reported EOY burden stayed the same	12
Reported increased EOY burden	4
TOTAL	**28**

7.2.2. Recruitment and fieldwork

All participants in the EOY qualitative research had taken part in the EOY quantitative research. At the end of the quantitative survey, employers were asked if they would be willing to participate in a further piece of work. Only those agreeing were subsequently contacted for the qualitative research. A copy of the recruitment questionnaire is given in Appendix B.

Recruitment was carried out by telephone from TNS-BMRB's offices by its specialist qualitative recruitment team. Only those employers meeting the recruitment criteria were invited to participate in the research. Employers were given £50 for taking part.

All the interviews were structured using a topic guide (see Appendix B).

All interviews were digitally recorded with encryption occurring at the point of recording.

7.2.3. Qualitative analysis

A content / matrix analysis approach was used for analysing the data. Content analysis is the traditional method of qualitative analysis, involving discussion between researchers, review of transcripts and intuitive identification of themes and connections in the findings. It is an ideal method for producing insightful outputs, as it draws on the experience of researchers, and the thoughts and hypotheses that occur to them during fieldwork as well as those that emerge during the formal analysis stage. Findings and insights were then ordered using a framework approach, known as 'Matrix Mapping', which provides analytical rigour and transparency without losing the benefits of intuition and creative thinking.

8. Appendix B

QUESTIONNAIRES/TOPIC GUIDES