

for Practice Payroll

PAYE RTI – The definitive guide

This briefing covers everything UK accountants and practice payroll providers need to know to safeguard their practice, and clients, from the introduction of RTI and compulsory changes to PAYE, which concern the overwhelming majority of employers.

It explains how, and why, practice payroll can use BACS to eliminate the costs and risks that may arise from their exposure to HMRC's technology and internet reporting solution via the Government Gateway, and future-proof their payroll offering.

Background

PAYE RTI or Real Time Information represents a fundamental reform of PAYE. RTI requires all employers to notify HMRC of their liability to PAYE at the same time as they make payment to their employees, where previously employers would pay PAYE due to HMRC on account but only make a declaration annually in arrears (P35).

Why are HMRC mandating this so quickly?

The Government has committed to the introduction of Universal Credit in October 2013 and RTI is needed to support this reform of welfare. RTI is required to provide employee earnings data to allow HMRC, DWP to assess Universal Credit claims with timely and accurate earnings data for employees.

BACS - HMRC's strategic channel choice

HMRC have committed to BACS as the strategic channel for employers to submit their RTI returns at the same time as they make payment to their employees, because BACS terminates 92% of the working population's salary credits. HMRC have concluded that BACS offers the lowest cost and most reliable platform for managing the volume of data RTI will generate.

HMRC will use the proven national banking payment system rather than government IT

infrastructure. (To realise the savings promised by a single strategic - BACS - channel, HMRC has committed to close the larger employer EDI interface with HMRC.)

The significance of the future BACS strategic RTI reporting channel is that employers can submit their payment instructions and RTI return to HMRC simultaneously in a single (BACS) file submission. The return is validated by the payment to employees and the payment reconciles to the return.

HMRC's 'Interim Solution'

HMRC decided in July 2011, after representations from payroll software providers, to introduce a temporary arrangement, the Interim Solution, where employers can submit their RTI return for each pay cycle directly from their accredited payroll software over the internet via the Government Gateway.

For employers using the BACS payment channel the Interim Solution provides for accredited payroll software to generate the employer's BACS payment file, which is linked to their internet RTI return submitted from the same software via a unique identifier. This identifier, known as the 'hash field', is present in both outputs: the internet RTI return and

RTI Summary:

- All UK employers are affected
- BACS is HMRC's strategic RTI channel
- SME employers mandated into RTI, April 2013
- Importance of reconciling RTI Employer returns with employee payments
- Interim Solution offers the protection of a dual submission option via BACS
- Risk of HMRC technology failure
- Onerous penalty regime likely
- Automated penalties strain client relationships
- Potential un-funded compliance costs for practice payroll
- RTI "a one way street" - no parallel operation

BACS payment file, allowing HMRC to reconcile these two separate outputs received respectively from the Government Gateway and the BACS network.

The Interim Solution has 2 reporting options for practice payroll therefore: An employer and their practice payroll provider can comply with the Interim Solution either with the internet RTI return only, or also with a BACS submission.

This dual approach offers significant advantages to practice payroll.

Software

All PAYE RTI payroll software is accredited by HMRC. Payroll providers with a software maintenance contract can expect their software to be upgraded and should liaise with their software supplier.

“ Getting rid of the end-of-year return process will save employers £300m a year ”

HMRC's RTI Business Case

Accredited PAYE RTI software allows practice payroll to submit RTI returns directly over the Government Gateway via an internet connection. Nominal compliance with the Interim Solution for RTI can be achieved by practice payroll with the PAYE RTI version of its payroll software.

Data Quality

RTI requires complete accuracy of employee data and HMRC have mostly focussed on this issue in their employer communications. Practice payroll should take steps to ensure the accuracy of clients' payroll data well in advance of their being mandated into RTI.

Interim Solution & HMRC Technology

HMRC is using Government IT and its existing technology partners to implement the Interim Solution using the Government Gateway.

Will it work?

HMRC is confident it will deliver the internet reporting infrastructure of the RTI Interim Solution in time – The very short timescales have however meant that the standard protocols for major government computing projects have been set aside.

Certainly the scale of submissions and volume of data over the Government Gateway the Interim

Solution relies on will dwarf anything it has previously managed.

The biggest exposure for practice payroll and employers is the internet submission of each employer's RTI return because any issues with the Government Gateway will result in the technical breach of an employer's obligations under the Interim Solution and the automatic issue of a penalty notice direct to the employer.

Timings

The timescales for RTI's introduction are dictated by the arrival of Universal Credit in October 2013. HMRC have less than 18 months to migrate all UK employers into RTI.

310 volunteer employers begin the move into RTI in April 2012, a further 1,300 from July 2012 with 250,000 employers in November 2012.

HMRC aims for a 12 month migration for the bulk of UK employers and will prioritise the migration of smaller employers so that the overwhelming majority of UK employers will be mandated into RTI in April 2013 at the start of the tax year. The remainder of UK employers not already in RTI by April 2013 will be mandated into RTI in advance of the start of Universal Credit in October 2013.

Although April 2012 is styled by HMRC as a 'pilot' the deadline for Universal Credit does not allow any delay before all UK employers are mandated into RTI. There will be no parallel operation of old and new PAYE regimes, once in RTI an employer will continue in RTI.

“ It's going to be a massive car crash ”

David Heaton, Baker Tilly Tax Partner

Penalty Regime

HMRC is still consulting on the penalty regime it will use to enforce employer compliance. The scale of the change required over such a short timescale makes it probable that the penalty sanctions will be robust.

Penalty notices will be issued directly to and levied against employers not practice payroll, which has effective responsibility for ensuring the employer's compliance with its statutory reporting obligations.

Understanding the Reporting Channels

To inform the decision whether to rely on payroll software's RTI internet return generation and reporting via the Government Gateway only, **OR** to take advantage of the additional protection offered by the submission of a BACS payment file, the issues are set out here:

'Interim Solution' provides for *both* Internet AND BACS Payment File RTI submissions:

Mandatory Minimum Return

Government Gateway: Internet RTI Report only

"AS IS"

- Limited action required: software upgrade and client data cleansing
- Client communication and education
- Payroll software upgrade cost

RISKS

- Exposure to Government Gateway; data submissions not receipted or acknowledged by HMRC
- Resulting in unwarranted penalty notices to clients direct, straining client relationships
- Un-funded compliance cost of ensuring RTI returns notified to HMRC by practice, reconcile with client's employee payments
- Employee DWP benefit issues relating to potential mismatch between practice returns and employer payments

Mandatory Payment Submission for BACS users only

BACS Channel: BACS payment file

BENEFITS

- Future-proof practice payroll now, delivering the strategic BACS channel for clients in advance
- Complete defence against HMRC penalty notices to clients arising from HMRC technology failures
- Avoid un-funded costs reconciling practice's returns versus clients' actual payments
- Minimise impacts of employee payroll queries due to DWP benefit changes

ACTIONS BROUGHT FORWARD

- Additional, one-off client communication and liaison to facilitate move into BACS channel
- Handhold client's set-up of BACS Service User Number with their bank
- Limited additional cost from CreDec for BACS file processing - funded by compliance savings

Risks for Practice Payroll

The employer client's obligation to submit an RTI return before or at the same time they pay their employees, effectively requires the practice to verify what the employer has paid in each pay period to ensure the RTI returns match actual payments. If for any reason a mismatch between payments and returns arises, employees benefit claims will be impacted resulting in significant queries from employees.

Also, where the practice submits an RTI internet return only for employer clients, the likely time taken to obtain confirmation of that submission in the event the Government Gateway fails, and resulting cost, will be considerable.

HMRC's automated issue of penalty notices directly to the client risks putting client relationships under strain, especially where the practice's internet submission was acknowledged by HMRC, but not reconciled by HMRC with the RTI penalties system.

What to do?

Essentially the issues present themselves as an immediate decision for practice payroll: **Either** to do nothing beyond upgrading the practice's payroll software licence, **or** to move clients now into BACS, in good time to eliminate the possible impacts arising from HMRC's fast deployment of RTI via the Government Gateway and in advance of HMRC mandating the strategic BACS payment channel.

Conclusion

UK employers face an unavoidable compliance cost as a result of PAYE RTI. Like the costs of PAYE itself, this cost will fall disproportionately on smaller employers.

As payroll service providers, with additional responsibility for client's statutory tax compliance, practice payroll also faces additional costs, which - if exposed to the failure of the Interim Solution internet channel or undeclared employer payments to employees - could prove considerable.

However, these risks can be eliminated by using the BACS option of the Interim Solution to submit BACS payment files as an effective insurance against these two unknown risks and the associated un-funded costs.

For the majority of UK accountant practice payroll providers, the absolute cost of RTI compliance can be minimised by moving early into BACS.

The issue therefore is how to access the BACS payment channel at the lowest possible cost with no operational impacts for the Firm or its staff.

This is where CreDec comes in.

About CreDec

CreDec is ICAEW's BACS partner for RTI and the leading provider of BACS services to UK practice payroll.

To find out more about us, please visit:

www.credec.com

A further general briefing on BACS hashing for employers and clients of practice payroll can be seen on CreDec's [RTI BACS](#) pages.

Additional information

For further information or to discuss any aspect of RTI for your practice payroll or clients, please contact us:

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