

Payroll Central

The essential role of payroll in supporting Government reform

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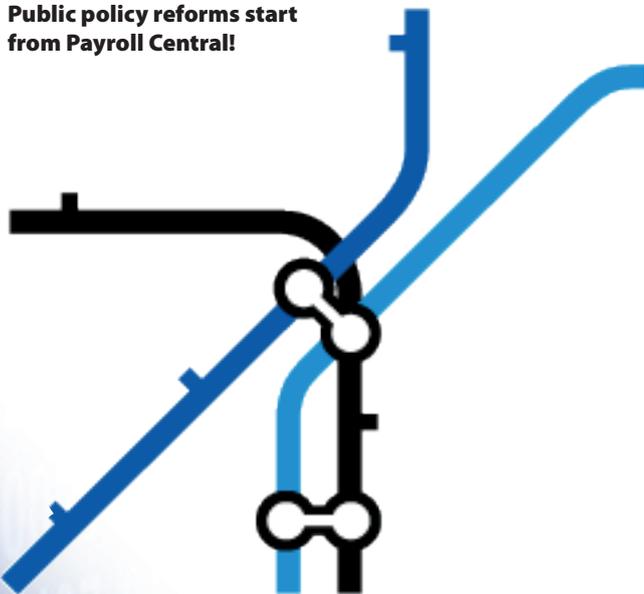
The position of the payroll function in businesses is changing: in order to support the key changes in Government welfare policy businesses' payrolls must be more accurate, more timely and more transparent than ever.

The Status Quo

The provision of payroll services was, until recently, something of a sleepy backwater. Perhaps the equivalent of a country branch line: doing important work of course, but largely overlooked by everyone else. Now that the payroll function has acquired such a significance in the delivery of fundamental public policy reforms however, it's more like a vital metropolitan railway junction: Government can't get anywhere without it.

This is not for a moment to denigrate the very important work of the agent and practice payroll market, simply a statement of fact. The arrival of RTI, Universal Credit and Auto Enrolment represents a profound change to the relative visibility of payroll. Suddenly it has been thrust centre stage.

Public policy reforms start from Payroll Central!



The scale of the legislative impacts on the business payroll function is due to its central role in the delivery of these public policy reforms. Although the operation of income tax by employers via PAYE is longstanding the introduction of PAYE in real time, none the less represents a marked increase in the obligations of payroll providers, as we have [commented before](#).

Universal Credit

There is widespread public support for welfare reform in general, and the introduction of Universal Credit now appears to enjoy something approaching a cross party consensus, but it depends on reporting earnings in real time. The central feature of Universal Credit is that it tops up claimants net pay from employment to ensure that work pays. It fluctuates according to earnings reported by the claimant's employers. The employer's RTI returns and net payments therefore directly supply the information which determines the actual value of their employees top up payments in Universal Credit.

According to the IFS Universal Credit will include not less than 3.5m workers but it may be as high as 5m, almost 1 in 5 UK workers once fully deployed. Tax Credits officially come to an end this month, October 2014, and all new claimants will automatically be enrolled in Universal Credit which rolls out nationally from February 2015. The migration to UC has already begun.

Pension Reform

It's the same story with Auto Enrolment and workplace pensions. The staging dates for employers are beginning to bite with ever increasing numbers of employers coming into AE. Payroll is every bit as critical to employer compliance with AE as it is to Universal Credit. Very simply, employers are completely dependent on their payroll function and providers to comply with their new statutory obligations.

The full extent of the changes to PAYE with their inevitably unforeseen costs has not yet been fully absorbed by practice payroll and PAYE agents.

It is an unprecedented scale of change for business and for payroll professionals in particular. What is noteworthy is that the compelling need to improve the country's fiscal position means that, despite the administrative burden, support for these measures appears to be generally shared by voters and business.

The Economics of Payroll

The Government's use of employers' long standing obligation to operate PAYE to carry welfare and pension reform is logical and pragmatic. Here too there seems to be a general consensus that these developments were reasonable and proportionate. But these changes have created a challenge for payroll providers who continue to face a regulatory burden that is climbing all the time as the volume of interactions with Government increases each month. The full extent of the changes, with their inevitably unforeseen costs, has not yet been fully absorbed by practice payroll and PAYE agents.

The economics of payroll services are fragile and it seems likely that over time there will be some upward revision of payroll service charges across all

UK employers. But the full extent of the costs of compliance cannot be assessed. The further delay of RTI penalties to 5 March 2015 for employers with fewer than 50 employees and the long tail of small employer AE staging dates mean that the full costs of compliance will not be apparent for some time. Like buses, public policy changes for payroll appear to come in threes, but the more appropriate comparison is Clapham Junction, one of the world's busiest railway stations. For Government, all policy trains for welfare, pensions and tax leave from Payroll Central.

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