

# Penelope Payroll

## HELP HELP HELP



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## REAL TIME INFORMATION: ARE YOU READY?



From April 2013, HM Revenue & Customs (HMRC) is introducing a new way of reporting PAYE, known as Real Time Information, or RTI. The new system will see fundamental changes to the way in which employers and pension providers must report the payments and deductions they have made under PAYE. This guide provides an overview of the RTI regime, and how the new requirements may affect you.

### THE BACKGROUND TO THE SCHEME

Under the Pay as You Earn (PAYE) system, employers deduct an appropriate amount of income tax and national insurance contributions (NICs) from employees' wages, in accordance with PAYE codes, tables and other instructions and procedures laid down by HMRC. Over the course of a year, the amounts deducted should be a close match to the actual tax and NIC liability due.

Employers deduct the tax and NICs, add their own employer's NICs, and pay the total to HMRC, net of certain adjustments, every month or quarter. However, it is not until the end of the tax year, when the annual return is completed, that the overall liability is reviewed and calculated.

Under this system, inaccuracies can go undetected for long periods of time, with the result that individuals can go for extended periods inadvertently paying the wrong amount of tax.

The aim of the new RTI system is to ensure that the correct deductions are made from pay, resulting in more individuals paying the right amount of income tax and NICs throughout the tax year.

### THE NEW RTI SYSTEM

While essential aspects of the system will remain the same (ie. the use of tax codes, deducting tax and NICs, and calculating pay), RTI will require employers and pension providers to submit information to HMRC regarding deductions they have made for PAYE, NICs and student loans *when or before each payment is made*, rather than at the end of the year.

HMRC believes that RTI will make the process simpler and less burdensome for employers, by:

- making it easier to ensure individuals pay the right amount of tax following a change of job

- removing the need to submit year end forms P14 and P35, and form P38A for casual employees – although you will still need to provide P45s and P60s to your employees, and to complete forms P11D and P11D(b) in respect of taxable benefits and allowances
- simplifying the PAYE end of year reconciliation process for employers and HMRC
- removing much of the uncertainty that leads to errors in the tax credits system.

The information on individuals' employment income will also be used to support the administration of the new Universal Credit welfare benefit, which is due to come into force in October 2013.

### TIMESCALE FOR THE CHANGES

The new system is being phased in from April 2013, with all micro, small and medium-sized businesses and most large employers and payroll bureaux set to begin sending payroll information to HMRC in real time from this date. Businesses employing more than 5,000 people will arrange a 'migration date' between April and October with HMRC. The scheme will be mandatory for all employers from October 2013.

HMRC has agreed that any new PAYE schemes set up from November 2012 will be allowed to send payroll information in real time, as will employers joining HMRC's RTI trial before March 2013. In addition, existing employers who in 2012/13 use or switch to software which is RTI compliant will also be allowed to report using the new system. Small employers, with nine or fewer employees, can use the free HMRC Basic PAYE Tools package instead of commercial payroll software.

HMRC will notify employers 4-6 weeks before they must begin using RTI. However, much of the impetus has been placed on employers, and it is important that you prepare for the move ahead of time. You may need to change some of your business systems and procedures to ensure that your information is correct and that your staff will be paid on time. Failure to submit PAYE data on time via RTI could also lead to penalties.