Improving the operation of Pay As You Earn (PAYE): Collecting Real Time Information’

Summary of Responses
30 September 2011
1. Introduction

Background

1.1 On 27 July 2010, Her Majesty’s Revenue & Customs (HMRC) published a discussion document entitled ‘Improving the operation of Pay As You Earn (PAYE)’. The discussion paper outlined a concept to reduce PAYE-related costs for employers\(^1\) and HMRC and to improve its accuracy for individuals (Real Time Information - “RTI”). This would involve the collection and transmission to HMRC of information about tax and other deductions being made at the point that employers ran their payroll, rather than at the end of the tax year as happens currently. It envisaged that for employers using payroll software the collection and submission of RTI information would happen automatically.

1.2 The paper also outlined an idea for longer-term changes to PAYE which could see the calculation and deduction of tax, National Insurance contributions and student loan deductions move away from the employer to be integrated into the electronic payment system.

1.3 Responses to the discussion paper were supportive of RTI, and Ministers decided to proceed with a phased introduction of RTI beginning in April 2012. In line with views expressed, longer term changes to PAYE would only be considered once RTI has had a chance to bed in and be evaluated.

1.4 On 11 November 2010, the Department for Work & Pensions (DWP) published a White Paper\(^2\) announcing its intention to replace current in and out of work benefits (including Tax Credits) with a single Universal Credit which would reflect any changes in an individual’s circumstances. DWP propose to use the RTI system to identify earnings and to vary the Universal Credit payment in line with fluctuations in the earnings.

1.5 The second stage of HMRC consultation was launched on 30 December 2010 with the publication of the consultation document ‘Improving the operation of Pay As You Earn (PAYE): Collecting Real Time Information’ which explained how RTI would work and set out a possible timeline for implementation. The purpose of this paper was to seek the views of those involved in the operation of PAYE on how RTI might best be introduced.

1.6 In total, 187 formal responses to the consultation document were received. A full list of respondents can be found at Chapter 4. These include individual software developers, payroll bureaux and employers, together with various

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\(^1\) Employer’ includes pension providers and DWP throughout the document unless a specific reference is made to the contrary. ‘Employee’ includes annuitants, those in receipt of pensions and taxable state benefits.

\(^2\) “Universal Credit: welfare that works”.
representative bodies. A number of people also responded in an individual capacity, but for reasons of privacy, their names have not been included in the list.

1.7 During the course of this consultation, HMRC also held or attended almost fifty meetings with key stakeholders and professional bodies. Feedback from these events has also been taken into account as part of the consultation exercise. HMRC is grateful to all those who have provided views and taken part in discussions.

1.8 Following careful consideration of views expressed during consultation, HMRC announced changes to the initial proposals for piloting RTI and the customer migration plan set out in the consultation document. HMRC also announced that, to allow sufficient time to develop the longer term strategic solution using the Bacs channel, the existing HMRC filing channels (the internet - through the Government Gateway - and EDI (Electronic Data Interchange)) will initially be used to submit RTI data. These changes respond to the views of those who participated in the consultation. They will reduce risk and help to ensure that RTI is delivered on time.

1.9 This document summarises the responses to the second consultation document 'Improving the operation of Pay As You Earn (PAYE): Collecting Real Time Information' and sets out the changes made to the original proposals for the pilot and timetable made as a result of those responses. Responses to the July 2010 discussion paper informed, and were reflected in, the December 2010 consultation document.

1.10 The views and expertise offered by those involved in the operation of PAYE to date have been extremely valuable in informing the design of the RTI process and HMRC remains committed to working closely with software developers, payroll bureaux, employers, representative bodies and other interested parties to ensure a smooth transition to RTI.
2. Introducing Real Time Information: outline proposals

2.1 The consultation paper ‘Improving the operation of Pay As You Earn (PAYE): Collecting Real Time Information’ set out detailed proposals on how HMRC envisaged RTI would work, together with a list of the data items required to support the new process and a timetable for implementation. The proposals focused on three main areas – the choice of submission channel, the data required to support the submission and the timetable to implement RTI.

2.2 The underlying proposition was to require employers to provide information about the deductions they make (tax, NICs, Student Loan repayments, etc) at the time they pay their employees, rather than at the year end as happens now. The employer would send this information to HMRC as part of the payment process for HMRC to use to improve the accuracy of in-year taxation for individuals over time and the overall efficiency of the tax collection process.

2.3 The consultation paper also sought views on a number of more general questions relating to the operation of payroll and the collection of information, so that HMRC’s system designers could ensure that the design of the RTI system reflects, where possible, the way that payroll operates in the real world.

Submission Channel Choice

2.4 HMRC’s initial proposals required employers to provide the information at the time of their regular payroll run, the means of transmission depending on the method of payment.

2.5 Where employees are paid by Bacs, the information about the deductions would accompany the direct credit instruction into the Bacs system and be forwarded on to HMRC as part of the payment process.

2.6 Where the employer does not pay employees via Bacs, it was proposed that an alternative electronic channel would be provided to send information to HMRC.

2.7 An initial assumption was that the existing Electronic Data Exchange (EDI) channel would be discontinued in favour of the preferred strategic channel - Bacs. This would include the development of a facility for non-Bacs payers nevertheless to use it to report tax information attached to a “nil payment” message.
Information items

2.8 Annex B of the consultation paper contained a list of the proposed data items that employers and other payers of income taxable under PAYE would be required to provide where applicable to the individual being paid. Getting these data requirements right was crucial to RTI, not only for employers who had to be able to collect and process them through their payroll systems prior to transmission to HMRC, but also for payroll software developers who have to re-write their systems to capture this data. HMRC has worked to keep these to the minimum required and in the main has restricted the data items to information that employers already capture in the meeting of their PAYE obligations.

Timetable to implementation

2.9 As the consultation paper explained, RTI is a cornerstone of DWP’s plans for the introduction of the new Universal Credit in October 2013. RTI will allow DWP access to up to date information about PAYE income without having to rely on the individual claimant to provide this, thus simplifying the Universal Credit process for the benefit of both DWP and their customers. To support Universal Credit, RTI needs to be working by October 2013 and available for Universal Credit testing before then.

2.10 HMRC’s suggested timetable for the introduction of RTI aimed to take account of DWP’s Universal Credit timeline, the degree of change facing employers and the time required for software developers to build and test new products. The consultation paper asked for views on the following phased migration timetable:

- April 2012 - October 2012: test system with a small number of PAYE schemes (large, medium and small employers);
- October 2012 – January 2013: adjust system to reflect lessons from the testing to migrate a further group of volunteers;
- From January 2013: mandate large employers to start using RTI;
- From April 2013: mandate medium sized employers to start using RTI;
- From August 2013: mandate small employers to start using RTI;
- October 2013: migration complete.
3. Responses and Next Steps

3.1 187 formal responses to the consultation document were received from software developers, payroll bureaux and employers, pension providers, and various representative bodies and individuals. Most of those who expressed a view supported the concept of more regular returns, even where they had reservations about the principle of using the Bacs channel. 67% of those who expressed a view felt that the proposals in the document on changes in employment were better than those currently in use. Very few respondents answered every question contained in the consultation paper and much of the detailed feedback came out of the meetings between HMRC and software developers and employers which took place during the consultation period.

3.2 The great majority of responses came from employers and software providers - HMRC actively sought the views of both and worked closely with them on the design of the new system. Their feedback and our response to it reflect this approach but we prioritised those concerns and issues raised by software developers to ensure they had the development time required to meet the RTI deadline.

3.3 Responses from software developers mainly related to the technical requirements of the changes necessary to software to accommodate the proposed submission channels. Those from employers focused more on operational practicalities and the administrative burden of operating PAYE. Specifically, they mentioned: changes that might be required to current payroll operation; the collection of new data and information; changes to well established processes for dealing with errors and corrections and concerns about potential increases in costs and time that a move to RTI might involve. Both groups raised concerns about the challenging timetable for introducing RTI.

Channel Choice

3.4 Analysis shows over 90% of employees are paid through a Bacs channel. The original RTI proposition therefore suggested the use of Bacs as the primary channel of transmission of information from employers to HMRC, with an alternative internet channel (via the Government Gateway) to be provided for those employers who do not use electronic payment systems to pay their employees.

3.5 Submission of RTI information with the electronic payment instruction transmitted via Bacs remains HMRC’s strategic aim. However, responses to the consultation paper and discussions with software developers highlighted genuine concerns about the technical issues to be overcome in developing the Bacs channel in the relatively short time available i.e. by April 2012. The banks responsible for the
operation of the Bacs scheme also raised some concerns about whether HMRC’s objectives could be met without creating a risk to the operational efficiency of the system.

3.6 The software providers felt that a combination of more frequent filing, collecting information held by the employer outside payroll and Bacs was too much to achieve in the timescale. They suggested that moving to an approach that retained the EDI channel for an interim period would make it possible to meet the deadlines.

As a result, HMRC announced that, as a transitional measure, the existing Electronic Data Interchange (EDI) channel will be developed to deal with RTI data until at least April 2014. Therefore from April 2012 the two RTI channels will be EDI and the internet channel through the Government Gateway. Further details about the timetable for moving to the strategic channel will be published in due course.

3.7 Some respondents incorrectly assumed that HMRC intended to require all employers to stop making cash or cheque payments to employees and move to electronic payments. This has never been the case.

3.8 Over 25% of respondents said that there were specific reasons why they did not use Bacs to pay their employees; these included the cost of using Bacs, not being able to meet the criteria for use, business being too small or payment by cash or cheque because this suits their business.

Longer term, once the strategic channel has been implemented, HMRC will continue to provide an alternative internet channel for employers, who do not pay their employees using Bacs, to report RTI.

Information Items

3.9 The data items set out in Annex B of the consultation paper to be reported under RTI were intended to reflect that information currently collected and recorded by employers as part of the operation of PAYE or information which can be requested by HMRC in performance of their statutory functions such as the operation of National Minimum Wage and the administration of Tax Credits. Most respondents stated that the information was either already held on their payroll or HR systems or could be easily obtained. There were three notable exceptions to this:

- hours worked;
- passport number, and
3.10 The majority of employers told us that they are unable to record the number of hours worked during a pay period with any degree of accuracy. This is due to a number of factors including hours worked not being recorded for individuals on standard contracts, individuals engaged to work on a 'sessional' basis and others who save timesheets for submission at a much later date.

*Hours worked will be reported in bands of normal weekly hours worked broadly reflecting the current Tax Credit legislation. These bands will be: up to 15.99 hours, 16-29.99 hours, 30 hours or more, or 'Other', which will be used when these categories do not apply, e.g. for pension payments.*

3.11 HMRC envisaged that the passport number would be used as a temporary identifier where an employer had taken on a new employee who had not yet received or was otherwise unable to provide a National Insurance number. Respondents to the consultation told us that many employers do collect passport numbers, as part of their checks to ensure that the new employee was eligible to work in the UK, but may store it in their HR rather than their payroll systems.

*Employers will be asked to provide HMRC with a passport number where it is collected as part of a pre-employment check for a new employee who does not provide a National Insurance number when asked.*

3.12 Holiday pay - as with hours worked, the majority of employers do not necessarily record holiday pay as a separate item.

*Holiday pay is no longer a required data item, employers will provide information on the number of pay periods covered by the payment instead.*

**Timetable to implementation**

3.13 Of those respondents who expressed a view on the proposed timescale for the introduction of RTI as set out in the consultation document, 75% thought it unachievable. Views from those attending consultation meetings echoed this. The timetable for the introduction of Universal Credit means there is no flexibility in terms of the ultimate go-live date of RTI. HMRC’s priority is therefore to migrate the largest number of employments into RTI as quickly as possible - a necessity for the introduction of Universal Credit - whilst putting in place a migration approach which will protect the overall robustness of the system.

3.14 As part of the employer migration HMRC will carry out a process to align its employment records with those of the employers. In order to
meet the target of full migration by October 2013, we initially thought that the migration of large employers would have to commence in autumn 2012 as part of the pilot.

3.15 Software developers felt that the proposed timescale did not allow sufficient time to develop and test products in time for them to be in place by April 2012. A pilot requiring all products to be ready by April 2012 would put an unreasonable strain on development even if HMRC could publish a full technical specification by March 2011 as intended – and doubts were expressed about whether this could possibly be ‘full and final’ given the short period of time available.

HMRC agreed a revised approach to the pilot that means not all software products would be need to be RTI enabled for April 2012.

The pilot will consist of volunteer software developers and volunteer employers who use their RTI enabled products.

The pilot exercise will run for a period of 12 months with a continual review exercise seeking to influence the main migration process and customer experience from April 2013. It is hoped to expand the number of employers joining RTI during 2012/13 to volume test systems and employers invited to take part will do so on a voluntary self serve basis. This will provide a different view of the migration process that will also influence the approach adopted from April 2013. Subject to a successful pilot, HMRC will still start to mandate the use of RTI from April 2013 and all employers required to use RTI by October 2013.

3.16 This approach also allows HMRC to support the introduction of Universal Credit by thoroughly testing the system and gradually ramping up use during 2012/13 so that at least 25% of all employments should be within RTI by March 2013.

Other issues raised in consultation

Access to broadband

3.17 Although not within the scope of this consultation, a small number of respondents raised ongoing concerns regarding access to broadband especially in rural areas. All employers are already required to file electronically and HMRC’s systems are designed so that those without broadband access can use ‘dial up’ internet access to comply with their requirement to file online.

The Government is committed to rolling out high speed broadband to outlying rural area by 2015. In the meantime, HMRC systems will continue to support dial up access functionality for electronic filing.
Compulsory online filing.

3.18 Practically all employers are already required to file PAYE forms and returns online. However, several respondents highlighted fears that some groups, especially smaller businesses could struggle with a move to more frequent online filing. The aim of RTI is to integrate reporting with normal payroll activity, removing the burdensome end of year process. HMRC is working with software developers to ensure that the reporting process works as smoothly as possible. HMRC will also upgrade the free software, “Basic PAYE Tools” we offer to the smallest employers to include RTI reporting.

3.19 HMRC has also received representations about the potential impact of RTI on disabled and elderly people who receive Direct Payments from Local Authorities to enable them to employ carers. These people are sometimes referred to as “accidental employers” and concerns have been previously expressed about the general difficulties some of this group have operating PAYE. We are still considering how best to support this group to comply with their obligations, while ensuring that there is no negative impact on any carers they employ who may require income reported under RTI for Universal Credit purposes.

Next Steps

3.20 HMRC has already published changes to the proposed timetable for migration together with technical specifications, including revised data items, to enable software developers to begin work on new RTI compatible products in time for the start of the pilot in April 2012. These can be found at: http://www.hmrc.gov.uk/rti/index.htm

3.21 Legislation in the form of draft PAYE Regulations will be published for consultation in the autumn.

3.22 HMRC will continue to work closely with all those involved in the operation of PAYE to ensure a smooth transition to RTI.

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3 There are existing exemptions from online filing for employers who have a religious conscience objection to computers and the internet and certain “Care and Support” employers. It is envisaged these exemptions will continue under RTI
4. List of Respondents to December 2010 consultation

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Association of Accounting Technicians
Abbey Quilting Ltd
ACCA
Action File Ltd
ADP
AEGON
Ander Tax Ltd
AON Hewitt
Applewell Ltd
Aquilaheywood
Armstrong Watson
Association of Disabled Professionals
Avery Weigh-Tronix
AVIVA
B & Q PLC
BACS
Bakkavor Ltd
Barclays Capital
Barnett Waddingham
BASDA
BBC
BDO LLP
Bentley Motors Ltd
British Chambers of Commerce
British Computer Society
British Universities Finance Directors Group
C E Electric UK Ltd
Caffyns Plc
Cambrian Software
Canada Life Ltd
Capita
Cascade HR Ltd
Caterpillar European Tax Services
CBI
Ceridian
Chaigeley Educational Foundation
Chartered Accountants Ireland
Chartered Institute of Payroll Professionals
Chiene & Tait
Cintra HR & Payroll Services Ltd
CIOT
Civica UK Ltd
ClearSky Accounting
Community Accounting Plus
Competex Ltd
Compuware Ltd
Consilium Technologies Ltd
Coventry City Council
Crown Prosecution Service
DCS Payroll Agency
Deans CA
Deloitte LLP
Devon County Council
Dewhirst Group Ltd
Department for International Development
DWP
Ewart Roots
Fitzgerald & Law
Frontier Software Plc
Gabem Management Ltd
General Healthcare Group/BMI Healthcare
Guardbase Ltd
Halleys Garage Ltd
Harrison Renwick
Henderson Global Investors
Hewlett Packard
ICAS
Infor
Information Commissioner’s Office
Institute of Chartered Accountants in England and Wales
Institute of Directors
International Study Centre
Intuit Ltd
IReeN
Iris Software Services
Ivensys Pensions
K V Computer Services
K2 Accounting
K3 Business Technology Group
Kingston Smith LLP
KPMG
Leeds City Council
Legal & General
Lindapter International Small
Logica
Low Incomes Tax Reform Group
Low Pay Commission
Maccaferri
Mazars LLP
McClay, McAlister & McGibbon LLP
Midland HR
Morgan Stanley
Nanny Matters
National Farmers Union
Nationwide Building Society
NHS Scotland
NILGOSC
North East Chamber of Commerce
Oaktree Accountancy (Cockermouth) Ltd
Oracle
Oxford Software
Parasol Group
PAS Ltd
Payline Payroll & Bacs Bureau
Payroll Alliance
Payroll Business Solutions
Payroo Ltd
PCS
Pegaus Software
Perkin Elmer
Pinnula Ltd
Profund Solutions Ltd
Prudential
Purely Payroll
QTAC Solutions Ltd
Ranstad UK Holding Ltd
Recruitment & Employment Confederation
Red Sky IT
Reeves & Co LLP
Reliance Secure Task Management Ltd
Royal Agricultural College
Royal London Group
RPMI
RSM Tenon
S V Bye Chartered Accountants
Safe Computing Ltd
Santander UK
Sargent-Disc Ltd
SciSys UK Ltd
Service Personnel & Veterans Agency
Systems & Governance Specialists Unit
Sheridan Wiseman
Simon Man
South Wales Payroll Group
Standard Life
Steele Robertson Goddard
Steria
Stevenage Voluntary Centre
Stirling Solutions
Suckling Services
Tax In Industry
Taxing Nannies
Tecis Ltd
Tennantland
Tescos Stores Ltd
The Association of Taxation Technicians
The CME Personnel Consultancy Ltd
The Payroll Service Co Ltd
The Pension Trust
The Phoenix Group
The Representative Body of the Church in Wales
The Society of Pension Consultants
The Society of Professional Accountants
The Vale of Glamorgan Council
Thomas Tunnock Ltd
Trade Union Congress
Transact HR Ltd
Transport for London
United Kingdom Homecare Associations
University College London
University Hospitals Bristol
University of Birmingham
University of Glasgow
University of Sheffield Students’ Union
Walker Rubber & Plastics Ltd
Way 2 Paye
Xafinity and Equiniti
Zexia Ltd