

PAYE & Real Time Information: A Guide

This summarises some of the information available on the HMRC site, and from other places about the introduction of RTI.

① Do we have any employees?

Employment status: Employed or Self-Employed?

It is your responsibility as an Employer to correctly determine the employment status of your workers - that is, whether they're employed by you or self-employed. This depends on the terms and conditions of your working relationship with each worker.

It is important to get your workers' employment status right because it affects the way Tax and National Insurance contributions (NICs) are calculated for them. And it determines whether or not you have to operate PAYE (Pay as You Earn) on their earnings.

If you are unsure of the Employment Status please take a look at the Employment Status Indicator:

<http://www.hmrc.gov.uk/calcs/esi.htm>

If the outcome is Self Employed you should keep a record of the following for each self-employed individual:

- Print out of Employment Details
- Print out of Employment Reference
- Name & Address the ESI refers to

If the Outcome is Employee you need to check if should register as an Employer. You should also hold the following for ALL your employees:

- Contract of Employment
- Payroll Information Form
- Starter Checklist or P45 from previous Employer

Employment Guidance can be found at: www.cuf.org.uk/act/resources-projects/just-employment

② Do I need to register as an employer?

As soon as you first employ someone, you will need to register with HMRC if one or more of the following apply:

- Paying at or above the PAYE threshold (13/14 £182 week or £787 month)
- Paying at or above the National Insurance Lower Earnings Limit (LEL) (13/14 £109 week or £473 month)
- The Employee already has another Job (Check starting declaration)
- The Employee is in receipt of a Pension (Check starting declaration)
- You're providing them with any employee benefits

As an Employer you have the responsibility to deduct PAYE Tax and National Insurance contributions from your employees pay. You are required to report this information to HMRC each time you pay your employee(s).

If none of the above points apply, ALL employees are paid below the LEL AND it is their only job it is the employee's responsibility to declare their own earnings to DWP. However if one employee is then paid above the LEL or you employ someone who has another job ALL employees must then be processed through a payroll and you will need to register as an Employer.

How to register as an Employer:

The easiest and simplest way to register as a PCC Employer is "Register by Email - Charity Run Organisations":

https://online.hmrc.gov.uk/shortforms/form/EMPREG_CharComm?dept-name=EHL&sub-dept-name=Registration&location=1&origin=http://www.hmrc.gov.uk

Alternatively, you can contact the Employer Helpline and they will help assist you.

You should expect to receive your PAYE reference numbers via post within FIVE working days.

You will still need to register for PAYE online. Once you receive your *New Employer registration and reference numbers* by post, you can then enrol for PAYE online. You must do this straight away, as it can take SEVEN working days to receive your activation code through the post.

You must activate your code within 28 days or you will have to request a new code.

<http://www.hmrc.gov.uk/online/new.htm>

3 What is RTI?

The PAYE system was introduced in 1944. PAYE is a system used to deduct employees Income Tax and National Insurance Contributions. RTI is a change to the PAYE system that requires employers to make electronic submissions of employee payments and deduction information, at the same time as, or before, payments are made to the employees. The calculation of the current PAYE system is NOT changing, but the process of sending this information to HMRC is. Employers will be required to send data about PAYE, NIC and student loans every time they pay their employees, rather than once a year with your end of year return.

The move to reporting information in real time is the biggest change to the operation of PAYE in over 60 years.

Why is HMRC introducing RTI?

HMRC are introducing RTI to improve the operation of PAYE and support the introduction of Universal Credits. It will make the PAYE system easier for employers and HMRC to operate, and employees will receive information more quickly. RTI will increase the frequency at which employers submit information to HMRC allowing HMRC to react more quickly and efficiently to changes in employees circumstances. This will reduce the likelihood of repayments of bills being issued to employees after the end of the tax year.

- To enable a more efficient response to PAYE errors such as under or over payments
- To support the introduction of Universal Credits, which will streamline benefits into one payment
- To reduce fraud and ensure people receive the benefits they're entitled to.
- To provide Department for Work and Pensions (DWP) with up-to-date information about each claimants employment income more efficiently.

When will RTI affect you?

RTI becomes mandatory for employers during the period April 13 to October 13. This migration period will be phased. Unless HMRC has specified an alternative date for you, this change will take effect from

your first pay day on or after 6th April 2013. ALL employers will be using RTI service by October 2013. RTI is not optional it is a legal requirement, and you cannot choose when you wish to start under the RTI scheme. All submissions are year to date submissions; therefore everyone must be on the payroll from the new tax year even if your RTI start date is not until later in the tax year.

How will RTI affect us?

From 6th April 2013, the operation of PAYE will remain the same but the reporting will change. The Employer must submit the payroll information to HMRC on or before you pay your employees. You will use a Full Payment Submission (FPS) to do this.

You will be required to generate the new reports that are needed to submit the payroll information online. These will include details of:

- The amount you paid to your employee(s)
- Deductions, such as Income Tax and National Insurance (NICs)
- Starter and leaver dates (if applicable)

You need to include the details of all employees you pay, including those who earn below the NICs Lower Earnings Limit (LEL), for example students, casual and temporary workers. You no longer submit end-of – year forms P35 and P14 and the starter and leaver process are simplified. You continue to provide your employee with a form P45 (employee parts) when they leave but you no longer submit forms P45 (part 1) or P46 to the HMRC separately. Instead you must report all starter / leaver information via your payroll software each time you pay someone.

PAYE Submissions to HMRC:

- Employment Alignment Submission (EAS): One off Submission to align employee records with HMRC records.
- Full payment Submission (FPS): Send each and every time you pay your employees (due on or before payment is made) This is a regular submission.
- Employer Payment Summary (EPS): As and when required – to report a reduction in the amount you need to pay to HMRC (recover statutory payments, advance funding from HMRC) OR to let HMRC know no payment has been made in this pay period (replaces submitting Nil Returns)
- Earlier Year Update (EYU): As and when required – to correct any errors.
- National Insurance Number Verification Request (NVR) - As and when required – to verify or obtain a NI number for new employees.

Software Packages / Payroll Options:

Payroll reports can no longer be sent manually. You must therefore ensure you have the appropriate software in place for submitting electronic returns to HMRC.

There are two main options for operating your payroll:

- In-house electronic: See HMRC website for a full list of HMRC recognised and tested PAYE software
HMRC Basic PAYE Tools for nine or fewer employees (Free of charge)
- Outsource Payroll: Use payroll provider such as an accountant or payroll bureau

<http://www.hmrc.gov.uk/payerti/getting-started/payroll-system.htm>

It is your responsibility as an Employer for ensuring that your payroll information is reported to HMRC electronically **on or before** each payday. If you have weekly paid employees you will need to make a submission every week. If you have monthly paid employees you will need to make the relevant submissions every month.

Preparing your data for RTI – Data Cleanse

Before using the RTI service it is vital that your Employee data is accurate. As an Employer it is your responsibility to check that the information you currently hold is correct. Prior to making your first RTI submission (EAS) you must take some time to ensure the data you hold is to the highest possible quality. You also need to ensure you have the relevant Company data ready. The following data is your responsibility and needs checking:

Company Data

Under RTI the submission of your accounts office reference becomes mandatory along with your PCC name, address and tax dist./ref. It is important you check this information against your HMRC letters.

Employee Personal Data

Employee records need to be completed for each of your employees including casual, temporary and student workers.

The information is matched against HMRC records stored on the National Insurance and PAYE service.

If there is a mismatch between your information and HMRC records, duplicate or inaccurate records may be created, resulting in incorrect tax calculations or HMRC compliance checks.

The key data that HMRC need to align their records consists of each employee:

- Name (Full forenames and surname)
- Full Address including post code
- Date of birth (DD/MM/YYYY)
- Gender
- National Insurance Number

Name

Ensure each employee's record is complete with their full surname and forenames, including second forenames and initials where appropriate. It is important that the forename entered for each employee matches what HMRC know the employee by. In most cases this will be their full given name. Do not:

- Use shortened versions, nick names or 'Known as' names
- Use their middle name or an alternative name, even if this is what they prefer to be known by
- Enter their forename as initial

For example an Employee may be on a payroll system as Jenny Green, but her full given name is Jennifer Green. Dave should be given as David and Maggie should be Margaret. This will need to be amended before you make your first submission (EAS) to the HMRC.

Address

You need to make sure you hold each employee's full address and post code.

Date of Birth

You need to check you hold the correct date of birth in the format dd/mm/yyyy

NI Number

An employee is required by law to give you their National Insurance number, so you should ask for it as soon as they start working for you. A National Insurance number consists of two letters, followed by six numbers, followed by one letter, A, B, C or D.

Do not enter a made up number, use a default number or use one belonging to someone else.

You can use the National Insurance Number Verification (NVR) to check.

Employee payment data

To support the introduction of Universal Credits, HMRC will now require you to declare the number of hours each employee works (this is contracted hours and does not include overtime hours). Those on zero hours contract would be left as 0. There will be four bandings:

1. up to 15 hrs week
2. 16 – 29.99 hrs week
3. 30 hrs >
4. Other (zero hrs. etc.)

Starters / Leavers

RTI introduces some changes to how you deal with new starters and leavers, and how the information is to be sent to the HMRC.

Starters with a P45 – Any new employees will generally provide you with a P45, under RTI you are now also required to submit a starting declaration. The statement relates to other jobs and benefits they have received in the current tax year, this information is not supplied on the P45, so you will need to ask your employee for this information.

When your employee starts you should get them to sign a declaration to tell you whether:

- A. this is their first job since the start of the tax year (6th April)
- B. this is currently their only job
- C. they have another job or pension

Processing under RTI also means there is no longer a requirement to submit the P45 (Starter) form to the HMRC. Information regarding new starters is automatically included in the payment submission (FPS).

Starters without P45

If your new starter does not provide a P45 you should get them to complete a P46 / Starter Checklist. Again they must confirm their starting declaration. This form will not be submitted to the HMRC. Information regarding the new starter is automatically included in the payment submission (FPS). P46 / Starter Checklist are for information only, and should be kept in the personnel file.

Casual / Temporary Workers (Irregular)

If any employees are not paid for 3 continuous months HMRC will close the record they have for that person. It is therefore important you mark any casual staff or employees that you pay infrequently 'on Hold / Irregular' during the periods for which they are not getting paid. This includes employees on Maternity leave or long term sick leave.

When the employee is due to be paid again, change their status back to "Ok/Regular"

Student Employees

Prior to RTI, if you previously employed students during their holidays you will have used form P38(s). Under RTI this form is no longer used. Students should be set up and processed in exactly the same way as any other employee.

Change in Personal employee Information

If your employee's personal details change, for example surname or address, then advise your employee to contact HMRC to report the change. HMRC prefer this to be done via HMRC address change email template (online) you will also need to update their details on your payroll software. If the employee does not notify HMRC direct of change of information the new details you hold will not be updated on the employee's record held by the HMRC and this may result in a query from the HMRC. If there is a mismatch between your information and the HMRC's records, duplicate or inaccurate records may be created, resulting in incorrect tax calculations or HMRC compliance checks.

Changes to Payroll Year End

RTI will change the way Payroll Year End works. Although you will still be required to provide your employees with P60s there will be some tasks you no longer need to complete such as:

- P14 and P35 submissions
- P38a returns for casual employees

In the past if you have employed casual workers below the Tax / NI threshold, you will have submitted their information on a P38a at the year end. From 6th April you need to include the details of all employees you pay on the payroll. All your employee information is submitted throughout the year on FPS.

Each tax year begins 6th April and ends 5th April the following year. On the final payment submission (Month 12 / Week 52) you will indicate this is your last submission for the tax year. At this point you will be required to answer declaration questions, similar to those that appear on the current P35. The answers you give will be submitted to HMRC.

Under RTI the year end process is simplified. There are now fewer steps to complete. As your payroll information will be reconciled and submitted on a regular basis (weekly / monthly), there will now be less reconciliation required at the year end.

You must still provide your employees with their P60 by 31st May.

Useful Links:

- Operating PAYE in Real Time: <http://www.hmrc.gov.uk/payerti/getting-started-more/index.htm>
- Employment Status Indicator: <http://www.hmrc.gov.uk/calcs/esi.htm>
- Employment Rights: <https://www.gov.uk/browse/employing-people>
- Employment Guidance: <http://www.cuf.org.uk/act/resources-projects/just-employment>
- Software Packages: <http://www.hmrc.gov.uk/payerti/getting-started/payroll-system.htm>

Appendix: Helpful information

Main HMRC Employer Helpline: 08457 143 143

NEW Employer helpline: 08456 070 143

Text phone, for hard of hearing or deaf: 08456 021 380

Other Information:

PAYE / NIC Thresholds:

	2012/13	2013/14
PAYE Tax Threshold	£156 per week	£182 per week
	£675 per month	£787 per month
	£8,105 per year	£9,440 per year
Class 1 NIC Threshold		
Lower Earnings Limit	£107 per week	£109 per week
	£464 per month	£473 per month
	£5,564 per year	£5,668 per year

National Minimum Wage Rates:

Year	21 (+)	18-20	<18	Apprentice*
2012 (current rate)	£6.19	£4.98	£3.68	£2.65
2011	£6.08	£4.98	£3.68	£2.60
2010	£5.93	£4.92	£3.64	£2.50

*This rate is for apprentices under 19 or those in their first year. If you're 19 or over and past your first year you get the rate that applies to your age.

Please be aware as the scheme evolves the content of this RTI briefing is subject to change. The HMRC RTI website provides up to date news and information about RTI services.