Real Time Information (RTI): Improving the operation of Pay As You Earn

Who is likely to be affected?

All employers operating Pay As You Earn (PAYE) will be directly affected. The term 'employers' includes pension providers and secondary contributors*.

Over time, employees will benefit from improvements in the accuracy of PAYE, for example, when changing jobs. 'Employees' includes annuitants, those in receipt of pensions and taxable state benefits.

General description of the measure

From April 2012 HM Revenue & Customs (HMRC) will begin phased introduction of RTI. Under RTI, information about tax and other deductions under the PAYE system will be transmitted to HMRC by the employer every time an employee is paid. Employers using RTI will no longer be required to provide information to HMRC using Forms P35 and P14 after the end of the tax year, or to send Forms P45 or P46 to HMRC when employees start or leave a job.

Policy objective

RTI will bring PAYE into the 21st century by making it easier for employers, pension providers and HMRC to administer and over time, more accurate for some individuals by improving the processes relating to joiners and leavers.

Background to the measure

The June 2010 Budget announced that the Government intended to consult employers and payroll providers on mechanisms that could support more frequent or real time collection of PAYE information.

A discussion paper 'Improving the operation of Pay As You Earn (PAYE)' was published on 27 July 2010. A second stage of consultation 'Improving the operation of Pay As You Earn (PAYE): Collecting Real Time Information' began on 3 December 2010, and a summary of responses to this consultation was published on 30 September 2011. These documents can be found on the HMRC website at Improving the operation of Pay As You Earn: Real Time Information.

Draft amendments to regulations governing the operation of the PAYE system were made available for comment on 14 November 2011. HMRC has considered all comments received, and where appropriate revisions have now been made. The main change made relates to the retention of Form P45 which employers will now continue to provide to departing employees, though this form will no longer need to be submitted to HMRC.

HMRC has engaged extensively with employers, software developers, agents and other interested parties about the design and introduction of RTI.

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* as defined in section 7 of the Social Security Contributions and Benefits Act 1992

Detailed proposal

Operative date

RTI will be introduced from April 2012, with a group of around 300 employers who have volunteered to take part in an initial pilot. HMRC will invite a maximum of 1,300 additional employers to join the pilot from July 2012, and a further 250,000 from November 2012 - depending on the findings from the initial pilot.

The amended regulations come into force on 6 April 2012 (the provisions consulted on in relation to payments made through the Bacs scheme will come into force in a separate instrument after Royal Assent of the 2012 Finance Bill - see Summary of Impacts below). They will apply to the pilot employers with effect from the date on which the employers have agreed to join the pilot. HMRC will have the option to require other employers to submit information using RTI, by issuing a direction, in order to phase introduction. The regulations will require all employers to submit information using RTI from 6 October 2013.

Current law

The current law on employers' obligations to report deductions from payments to employees is contained in regulations relating to PAYE, National Insurance contributions (NICs) and the Construction Industry Scheme (CIS). These are:

- the Income Tax (Pay As You Earn) Regulations 2003 (SI 2003/2682)
- the Social Security (Contributions) Regulations 2001 (SI 2001/1004)
- the Income Tax (Construction Industry Scheme) Regulations 2005 (SI 2005/2045)

The main current reporting obligations include submitting Forms P35 and P14 after the end of the tax year, and sending Forms P45 or P46 to HMRC when employees start or leave a job.

RTI changes will also extend to the collection of income contingent student loan repayments, where employers make deductions from the earnings of employed borrowers. HMRC collects repayments through the UK tax system on behalf of the Department for Business, Innovation and Skills (BIS), and amendments will be required to the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470).

Proposed revisions

Secondary legislation will amend the regulations above, so that payments to employees and deductions from those payments are, in general, reported to HMRC on or before the date of payment. Employers will no longer be required to submit to HMRC Forms P35, P14, P45 or P46.

Summary of impacts

Exchequer impact (£m)	RTI is not expected to affect annual levels of receipts from Income Tax or National Insurance contributions, or student loan repayments deducted by employers. However HMRC anticipate that regular collection and submission of information may lead to improvements in the timeliness and accuracy of payments from employers to HMRC during the tax year. The availability of RTI data is expected to lead to Exchequer savings from reduced fraud, error and overpayments in tax credits. The latest estimates of these savings were published in Budget 2011: £395 million in 2014-15, and £355 million in 2015-16. Updated estimates will be published in Budget 2012.
Economic impact	RTI is not expected to have significant impacts on the macro economy.
Impact on individuals and households	Over time, RTI will allow PAYE to become more accurate for some employees during the year, by improving the processes when employees change jobs. The previous Taxes Impact Assessment for RTI published on 14 November 2011 acknowledged that employees leaving an employment would need to become accustomed to receiving a leaver statement in place of Form P45. In response to consultation, this change will not take place yet. Employees may be asked by their employer to confirm basic personal details if current payroll records are incomplete. Because the Department of Work and Pensions (DWP) propose to use RTI data to support the operation of Universal Credit, there will also be indirect impacts on individuals in receipt of in and out of work benefits from October 2013.

Equalities impacts	Whilst RTI will reduce overall administrative burdens for employers (see below), two groups have been identified that may have difficulties: 'care and support' employers, and those in rural locations with poor broadband services. Care and support employers are individuals who employ carers to provide services to a disabled or elderly person in their home. This group of employers will join RTI from April 2013 and HMRC will offer them the option of monthly paper filing of information. They will also be able to use HMRC's free updated Basic PAYE Tools which are available for all employers who employ nine or fewer employees, allowing them to submit RTI via the internet. HMRC has also provided funding to the Low Incomes Tax Reform Group (LITRG), to help them develop online guidance for care and support employers. HMRC's Basic PAYE Tools are designed to allow employers to submit RTI using 'Dial Up' connections as well as broadband. Proprietary software compatible with Dial Up is also expected to be available. HMRC tools and most independent software products operate offline until the point at which information is submitted to HMRC, minimising the time periods for which connection to the internet is required. During the pilot HMRC will continue to assess the impact on different minority groups, and seek to mitigate where possible. Opportunities to promote equality: RTI is expected to make the 'leaver' and 'joiner' process smoother which, over time, should mean that those who change jobs frequently will be more likely to pay the right amount of tax at the right time. This group tends to be lower paid. RTI also supports the introduction of Universal Credit by DWP, which is designed to be a responsive, dynamic system designed to adjust credit payments (benefits) according to income. The introduction of RTI provides HMRC with an opportunity to support the Government initiative to expand digital inclusion (for example, by working with LITRG as described above) to include those who have not yet been part of the digital revolution. Digital inequalities tend to mirror other social inequalities such as age and race. HMRC are developing an 'Assisted into Digital' package to support RTI customers, building on what is already being done to help people online: - the provision of free Basic PAYE Tools software - ensuring that this software works with both broadband and Dial Up - ensuring that HMRC staff are fully trained to meet the needs of customers

Impact on business including civil society organisations	In advance of the pilot, HMRC has better evidence about the business impacts of removing the reporting obligations currently in place than about those that will be introduced under RTI. As a result, estimates are available for the reduction in administrative burdens resulting from abolition of some current reporting requirements, specifically forms for joiners and leavers (P45 and P46, though the P45 will still be provided to departing employees) and end of year reconciliation process (P35 and P14, P38A). This saving is estimated as approximately £330 million per year from 2014-15, the first full year in which all employers will be within the RTI system. This saving has been estimated using HMRC's Standard Cost Model (SCM) used to estimate administrative burdens. We will be working with employers during the pilot year to assess the level of transitional and ongoing costs of RTI to validate the figures estimated using the SCM. Savings will be partially offset by the new requirements for employers to collect and submit information to HMRC each time employees are paid, although for employers using payroll software this will be an automated process. HMRC's initial assessment of the new ongoing administrative burden is approximately £30 million per year in steady state. It is acknowledged that some employers who operate PAYE will face an additional cost because under RTI they will need to report payments made to all of their employees, including those paid below the National Insurance contributions Lower Earnings Limit. HMRC does not hold the data needed to estimate this cost. The resulting net ongoing impact on administrative burdens is estimated as a £300 million saving per year. HMRC accepts that this figure may change as business impacts are better understood through the pilot, but expects the final impact to be a significant net saving. HMRC recognises that there will be one-off transitional compliance costs for employers at the point when they begin to submit RTI. These costs will be spread across approximately 1.6 million PAYE schemes and will vary with the size of business. They result from: - the need to check and amend data held about existing employees, estimated as £35 million (on average around £20 per PAYE scheme); - training and familiarising staff with the new processes, estimated as £85 million (on average around £50 per PAYE scheme) - any updates to payroll software and processes Total software costs have not yet been estimated. Software developers will need to implement changes in their products, and these costs may be passed on to employers via increased software charges. HMRC is working closely with software developers on the implementation of RTI but, for commercial reasons, many developers are not prepared to disclose their development costs. Some employers are also expected to move to using software for the first time. Employers with nine or fewer employees will have the option to use HMRC's free Basic PAYE Tools, and indicative costs for those purchasing commercial software are currently in the region of £300. The compliance cost figures above are initial estimates, and the costs currently quantified are expected to be split across years as follows: £10 million in 2012-13 and £110 million in 2013-14. All estimates will be kept

	under review during the pilot. Banks and other businesses involved in processing payments through the Bacs scheme will also be affected by provisions for the 'hash', a cross-reference which will allow HMRC to match the information on RTI returns to payments made to employees. This change will mainly affect the largest employers who submit their Bacs payroll payments under their own Bacs Service User Numbers. The relevant draft regulations and direction were published on 14 November 2011. These are reliant on clauses to be included in the Finance Bill 2012 which were published for comment on 6 December 2011. The amendments will be given effect in separate secondary legislation which will be made after those clauses receive Royal Assent.
Operational impact (£m) (HMRC or other)	The RTI programme was allocated £108 million as part of HMRC's Spending Review 2010 funding settlement. The programme remains on track to stay within that budget in the current Spending Review period (ending in April 2015). These costs include the development of IT and business processes to implement RTI. HMRC recognises that additional transitional costs are also likely to be incurred, for example in handling increased customer contact from employers and employees as they familiarise themselves with the operation of RTI. Scenario modelling is underway for impacts on workloads, volumes (for example of RTI submissions), customer contact and compliance, and the resulting staffing implications for HMRC. These models will be kept under continual review. The availability of RTI data is expected to create opportunities for HMRC to improve its enforcement and compliance activities. However neither the resource impacts of any changes in this activity nor the resulting impacts on tax receipts and expenditure have yet been quantified.
Other impacts	Small firms: RTI aims to reduce administrative burdens for all employers, including small employers (upon whom the current burden of PAYE currently falls disproportionately). The aim is to achieve this by integrating employee payment and reporting to HMRC into a single payroll process. Small and micro employers cannot be excluded from the requirement to submit RTI, because up to date information about their employees will be required both for improvements to the operation of PAYE, and for the operation of Universal Credit. It is important that the employees of small firms should not be disadvantaged. Small employers are already required to submit returns to HMRC electronically, but those who do not currently use payroll software are expected to find the move to RTI more difficult. However HMRC's existing free Basic PAYE Tools software will be updated and available for all employers with nine or fewer employees to use. Some payroll software providers also produce free products for employers with fewer than ten employees. A number of small firms are taking part in the RTI pilot and HMRC's research in to employer impacts. The resulting findings will inform the support that HMRC offers to small employers to migrate on to RTI.

Monitoring and evaluation

HMRC will monitor and evaluate the introduction of RTI during the pilot commencing in April 2012. Independent research will be conducted with employers taking part to evaluate their experience of RTI and to quantify the impact on customers. This will include details of perceived complexity and confidence levels as well as estimates of the time and cost involved. This research will be used in conjunction with a wider evaluation of the pilot, which will include an assessment of the impacts on HMRC.

Further advice

If you have any questions about this change, please contact Alison Woodhouse on 0207 147 3062 (email: alison.woodhouse@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Exchequer Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.