HM Revenue & Customs

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

In April 2012 HM Revenue & Customs (HMRC) began phased introduction of Real Time Information (RTI). Under RTI, information about tax and other deductions under the PAYE system is transmitted to HMRC by the employer every time an employee is paid. Employers using RTI are no longer 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.

From April 2013, RTI will be extended to include almost all employers (for further detail, see proposed revisions below). The regulations are now being updated to reflect this, and experience gained during the pilot.

Policy objective

RTI brings 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: Consultations.

In readiness for the introduction of RTI, amendments to regulations governing the operation of the PAYE system were made in March 2012. As a consequence of the pilot, further amendments are required. These were made available in draft for comment for eight weeks from 16 November 2012. HMRC has considered all comments received, and where appropriate revisions have now been made. The main revisions are:

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

- Amendments to the detail of certain relaxations to the requirement for employers to report payments to HMRC on or before the date on which they are paid to employees. In response to comments received, these relaxations have been simplified to ensure that they apply in all of the circumstances in which HMRC intended; and
- Amendments to allow employers whom HMRC are satisfied are 'digitally excluded' to file their PAYE data through non-RTI channels until April 2014, and to file RTI on paper from that date. HMRC's intention is that this option will remain available to digitally excluded employers for three years from April 2014.

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

Detailed proposal

Operative date

RTI will be extended to include almost all employers from April 2013. The amended regulations come into force on 6 April 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)

Under these regulations, RTI employers are required to report to HMRC payments made to employees, along with information about deductions from these payments, each time a payment is made. The information is reported using a return, which is required to contain certain details about employees' pay and deductions. These returns are also used to report changes in employment.

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 to relax the requirement, in certain circumstances, that an employer should send a return to HMRC on or before the date on which they make a payment to an employee.

New provisions will also be made for employers whom HMRC are satisfied are digitally excluded, ie, unable to use an approved method of electronic communications. These provisions permit digitally excluded employers to file their PAYE data through non-RTI channels until 6 April 2014, and to file RTI on paper from that date. HMRC's intention is that this option will remain available to digitally excluded employers for three years from April 2014. During this period HMRC will support this group to move onto a digital channel.

Finally, the regulations above will be amended so that employers who use the paper RTI channel, and also employers operating certain specialist examination and election PAYE schemes, will report PAYE data through RTI channels from April 2014. All other employers will report through RTI by October 2013.

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 2012: £355 million in 2014-15, £330 million in 2015-16, and £325 million in 2016-17. Updated estimates will be published in Budget 2013.
Economic impact	RTI is not expected to have significant impacts on the macro economy.
Impact on individuals and households	Over time, RTI will enable PAYE to become more accurate for some employees during the year, by improving the processes when employees change jobs. During the transition to RTI, 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 the digitally excluded. Care and support employers are individuals who employ carers to provide services to a disabled or elderly person in their home. Employers in this group who are content to file their PAYE data online will join RTI from April 2013, and will be able to use HMRC's free updated Basic PAYE Tools (which are available for all employers who employ nine or fewer employees) to submit RTI via the internet. Care and support employers will also have the option to file RTI on paper, and those wishing to use this option will report RTI from April 2014. This date has been deferred from April 2013 in line with customer feedback, to allow more time for HMRC to thoroughly test the new paper forms and guidance with customers who will use them. Digitally excluded employers are those who are unable to use an approved method of electronic communications. This group may include employers with disabilities which may prevent the use of electronic communications, employers with very low levels of digital literacy, or those in rural locations without adequate internet services. In all cases, employers will be expected to demonstrate that they are also unable to file returns via a third party, for example by using an agent. HMRC's Basic

	PAYE Tools are designed to allow employers to submit RTI using 'Dial Up' connections as well as broadband, and (like most commercial 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. However, HMRC recognises that very small numbers of employers are at present digitally excluded. And where HMRC is satisfied that this is the case employers will be offered the option to file their PAYE data through non-RTI channels until April 2014, and to file RTI on paper from that date. HMRC's intention is that this option will remain available to digitally excluded employers for three years from April 2014. During this period HMRC will support this group to move onto a digital channel. 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 intended to be a responsive, dynamic system designed to adjust credit payments (benefits) according to income. Work to encourage and support digitally excluded employers onto a digital channel also provides opportunities to promote equality, since being able to access a digital channel can bring with it many wider benefits.
Impact on business including civil society organisations	Because the RTI pilot is still underway, impacts on business are not yet confirmed and so continue to be estimated. Some employers and agents have provided feedback suggesting that HMRC's estimates may not be accurate, and HMRC is grateful for the comments received. HMRC acknowledges that the estimates assume employers currently operate a standard approach to PAYE, and that the figures may not take into account bespoke arrangements that employers, or their agents, may have put in place to suit their particular organisations. Such bespoke arrangements are not currently visible to HMRC. HMRC will not be in a position to update analysis of the impacts on business until summer 2013, once the pilot is complete, and further evidence on the extent of bespoke arrangements can be gathered in the early stages of the main roll out of RTI. The estimated reduction in administrative burdens results 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 the end of year reconciliation process (P35, P14 and P38A, though employers will still need to provide a P60 to each employee). This saving is estimated as approximately £330 million per year from 2014-15, the first full year in which the vast majority of employers will be within the RTI system. This saving has been estimated using HMRC's Standard Cost Model (SCM) used to estimate administrative burdens. HMRC continues to work with employers during the pilot year to assess the level of transitional and ongoing costs of RTI, in order to validate the figures estimated using the SCM. Because a significant proportion of estimated savings result from changes to end of year processes, which pilot employers have not yet undertaken, this validation work is not yet complete. 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. To date, this estimate appears to be consistent with emerging evidence from the pilot. 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. There may also be additional costs for employers who currently operate bespoke arrangements which do not meet the strict requirements of the current PAYE regulations. The costs of changing bespoke processes to processes that operate PAYE at the time the employee is paid are not reflected in HMRC's estimates, as this is not a new requirement. It is how PAYE should always have been run. 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 following completion of 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. Indicative evidence from the pilot suggests that these estimates are reasonable, however all estimates continue to be kept under review throughout the pilot. HMRC recognises that the move to real time reporting will require some employers and their agents to do things differently, and so in the first few months they may not always manage to send HMRC information 'on or before' making payments. HMRC is encouraging all employers to try to submit their RTI returns on time from the outset. RTI has been designed so that employers can, if necessary, make any corrections in their next payroll run. However, HMRC recognises that 2013-14 is a transitional year, and so there will be no RTI penalties for late filing during this year.

	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.
Operational impact (£m) (HMRC or other)	HMRC was allocated £108 million of additional funding in the Spending Review 2010 period (ending in April 2015) to facilitate delivery of the RTI Programme. 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 online, 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. Approximately 36,000 small firms are taking part in the RTI pilot, and small firms will be represented in 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 continue to monitor and evaluate the introduction of RTI using information from the pilot. Independent research continues with employers taking part, to evaluate their experience of RTI and to quantify the impact on customers. This includes details of perceived complexity and confidence levels as well as estimates of the costs 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 Tel 0207 147 3062 (email: paye.policy@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.