



**HM REVENUE & CUSTOMS**

**PAYE: COLLECTING REAL TIME INFORMATION**

**Response by**

**THE SOCIETY OF PROFESSIONAL ACCOUNTANTS**

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# PAYE: COLLECTING REAL TIME INFORMATION

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## **PAYE: COLLECTING REAL TIME INFORMATION**

### **1. Executive Summary**

The Society of Professional Accountants (SPA) welcomes the opportunity of commenting on HMRC's Consultation 'PAYE: Collecting Real Time Information (for 'Small Employers – 'SE's)'.

SPA support HMRC's concept of RTI and the benefit of accurate and timely coding notification that should follow. SPA's focus is on small business, hence our observations and responses tend to reflect our understanding and experience of this sector.

The vast majority of all known businesses are small and employ a low number of personnel, which on average is thought to be below five. As such HMRC's proposals for RTI should be sensitive and sympathetic to the needs and facilities of this sector of our economy as compared to Larger Employers – 'LE's'.

Much of the consultation anticipates a ready compliance by SE's with the electronic return of payroll data, and within a relatively short time frame - with mandatory acceptance by August 2013. We feel this timetable is much too short and should be a period of five years, allowing all employers to migrate as soon as they are ready, but propose a more realistic timetable to reach all SE's and engage them in the proposed programme.

It is imperative that HMRC engage with agents and other business organisations to ensure the proposed testing between April and October 2012 proves the adequacy of the surrounding computer systems and obtains acceptance from SE's in term of the detail required.

Our overriding concerns remain the ability of SE's to absorb the detail of what is required and adapt to the communication methods sought, secondly the necessary accuracy of information managed by HMRC where our current experiences of HMRC's service levels leave much to be desired; unless HMRC's service standards can be raised to the level of other major businesses, we feel that the desired economy of effort may not be achieved by either small SE's businesses or HMRC.

SPA has previously proposed the introduction of a single all embracing tax return, which for employed, self-employed, retired or unemployed individuals, should provide the essential basic information to enable the DWP to introduce accurately based Universal Credits. However the DWP's programme is currently restricted to those employed which will leave vast swathes of the population outside the DWP's project from 2013, and no information is provided in the consultation how or when these individuals will be accommodated.

As with other areas of HMRC development we are also concerned with two aspects of the programme:

- adequate testing through pilot trials with a range of sizes of employers.

- Adequate resources within HMRC to provide the 'Blue Chip' service expected of a high profile Government body.

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### **2. Background to SPA**

- 2.1 SPA is a wholly independent society of small practitioners holding a qualification issued by a recognised professional accountancy Institute. It was formed in early 1996 and currently there are some 1800 principals in 1400 member practices. Our members provide accountancy and taxation services to an estimated 175,000 private businesses and approaching 500,000 individuals.
- 2.2 The Society's stated policy is to promote and improve the relationship between members and their Institutes by providing constructive criticism together with practical proposals for improvements. Further to provide commentary and proposals to other authorities influencing our practising environment.
- 2.3 SPA has previously made submissions on small businesses limited company activities to the DTI on Audit Exemption levels, to the Accountancy Standards Board on Financial Reporting Standards for Small Entities (FRSSE), to the DTI on Modern Company Law 'Developing the Framework'. Also to the Chancellor of the Exchequer concerning individual tax payers on 'Advancing Self Assessment Tax Return Filing Dates', and to HM Revenue and Customs on various tax and NI consultations impacting on small practices and their clients.

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### 3. Detailed Response to Questions posed

#### Chapter 5

Could this new process allow the phasing out of the need for an end of year reporting process? (5.5)

A. We agree that the potential to discontinue year-end reporting should exist once the system runs satisfactorily, probably two fiscal years after migration is achieved.

Is monthly submission of information about employer-level adjustments (as suggested above) the most efficient approach for employers? (5.5)

A. Yes for SE's and Agents providing this service for SE's.

Alternatively, would it be possible to send details of these adjustments at the same time as the real time information about employee deductions? (5.5)

A. This would be impractical and inefficient for many SE's to whom payroll functions are a small part of the clerical workload, but might be reasonable for LE's who should have more structured payroll departments.

Is the data contained in Annex B already held in payroll systems? (5.6)

A. It is unlikely all data sought would be present in SE payroll records – which may not all be computerised at the current time.

If certain items were not currently held, would they be easily obtainable? (5.6)

A. Many of the items sought reflect complex payroll structures which may not be present in SE's, in which case it may be relevant to identify whether information is essential to HMRC's processing system, or permit SE's to enter 'Not Applicable'.

Do you envisage any difficulty in incorporating new data into your payroll system? (5.6)

A. This is surely a question for the software houses providing payroll systems, and in respect of SE's this may present difficulty in terms of added effort and attendant costs.

Do you have any other comments on the data items specified in Annex B? (5.6)

A. The overall impression is one of considerable complexity that it is hoped can be refined or confirmed in terms of need through the pilot testing processes.

Which of the three methods for collecting the payments would you prefer? (5.10)

A. Until such time as trust and reliability has built up in HMRC payroll data processing we would be unhappy to accept any other method of payment other than 'Employer Instigated'.

Is there a better way of collecting these payments and should the current choice of cheque or electronic payment be retained? (5.10)

A. For SE's it will be essential that the choice of cheque or electronic payment be retained.

Should HMRC continue to allow payments to HMRC on a quarterly or annual basis? (5.10)

A. We believe for SE's quarterly or annual payments should be retained to enable them to deal efficiently with low levels of deduction to be paid over and annual payment of fees often present in small limited companies.

Is changing the movements process in this way preferable to retaining the current process? (5.17)

A. Yes.

Is there a better way to structure the movements process? (5.17)

A. None that we can suggest.

Do you have views on the appropriate tax code to operate in the case where an individual's identity details failed a verification test? (5.18)

A. The application of Basic Rate remains appropriate together with NI as indicated by the level of payment made.

## **Chapter 6**

Are there any specific reasons or barriers why you do not use Bacs to pay your employees and could you detail these? (6.9)

A. Within SE's it would seem appropriate to encourage the use of BACS as long as it could be demonstrated this was a cheaper and more efficient means of paying employees even where very few were engaged. Again this is a suitable area to examine within pilot testing.

It would also be helpful if you would provide volumes (e.g. number of employees and frequency of payment) around the circumstances outlined above. (6.9)

A. See answer above – but generally 5 or less employees.

Do you envisage any difficulties with providing information on a payment by payment basis through the proposed internet channel? (6.9)

A. Obviously for SE's there would need to be access to the internet and encouragement provided to computerise where this was not already the case and, whilst many SE's are computerised, this would require investment and time for others.

Do you envisage any difficulties meeting the requirement to provide information on, or before, payment is made to the employee? (6.9)

A. We cannot see any purpose or benefit for SE's to provide information before payment is made to employees.

Do you agree with the relaxation provision set out in paragraph 6.6? (6.9)

A. In our experience the level for such relaxation should be for SE's employing less than 10 people which, as stated elsewhere would cover the levels of employment of the vast majority of such businesses.

If you do not agree with the relaxation set out in paragraph 6.6, please specify your reasons and provide some alternative ideas. (6.9)

A. See answer above.

Do you think the current exemptions from online filing would still be needed under an RTI system? (6.9)

A. Yes for those areas of employment already exempt for security or other reasons.

Would employers that are currently exempt from online filing be prepared to send paper returns on a payment by payment basis? (6.9)

A. This should be possible if no more frequently than monthly.

## **Chapter 7**

Would the change outlined at 7.4 above solve the overlapping pay period problem?(7.5)

A. In our view it would.

Would employers be content to submit RTI about one-off corrections to pay in between regular pay runs or would it be easier to process these at the next regular pay run for the individual? (7.8)

A. It would be unnecessarily inefficient for SE's to submit such corrections other than at the next regular run.

HMRC would be interested in hearing views on how changes of works numbers could best be notified under RTI (and how the reasons for change could be best captured). (7.12)

A. This aspect would seem to relate to LE's, hence we have no observation or suggestions to make.

Do you have any views on the impact assessment that was published alongside this document. (7.15)

A. None other than it appears unlikely that RTI will save SE's any significant cost or time in the longer term, and will incur much in time and cost in the set up period.

## **Chapter 8**

HMRC would be interested in views about whether this timetable is achievable and the issues you might foresee in meeting it. (8.3)

A. The timetable provides for full compliance by SE's by August 2013 appears too short a period, and we would prefer a longer transition over a five year period to 2018 allowing for voluntary registration as soon as employers of any size are ready to migrate.

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