



Accountancy Co-operative

Newsletter No.2 - December 2013 (Payroll RTI)

Running Payroll under R.T.I.

Are You Compliant?

Since April 6th 2013, HMRC's Real Time Information system has been a compulsory information system for all Employers, yet even now, many are still not running their payrolls properly and will face heavy fines from April 2014 if they don't get their act together [pun intended]!

Employers working their way to fines are those:

- *Still running payroll the old way, to cover record keeping after the fact, or even worse, waiting to do it all at once at the end of the tax year!*
- *Not realising or misunderstanding when to transmit a monthly EPS.*
- *Failing to send HMRC any type of electronic transmission in every tax month.*
- *Not paying over the deducted tax and NI to HMRC fast enough.*
- *Not declaring student, temporary or therapeutic workers as ordinary employees.*

Where the Accountancy Co-operative processes payrolls on your behalf, we will make these transmissions for you, but we can only do this if you keep us up to date with changes in your employees levels of pay, personal details, contract details, absences, starters and leavers etc., before you pay them!

You must also allow payroll personnel plenty of time to be able to complete all the tasks before the required deadlines.



The business owner is still responsible for ensuring all submissions reach HMRC at the right times (inc. Real Time) irrespective of who physically processes it!



Don't be caught out flat! – Organise now!



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How does R.T.I. affect you in reality?

Each entire payroll has to be transmitted to HMRC each time it is run for the exact date the Employee will be paid. This is the date the payment is scheduled to leave your business bank account or when you physically pay, if by cash. This transmission is called an FPS. The FPS can be made in advance or on the day of payment, but sending in a payroll with an old date when employees have already been paid will prompt a fine to be instantly issued by HMRC computers to the employer.

If you do (or will) pay by BACS (this is not the same as an online banking FPI transfer), then the bank are under instructions to send the details of these payments to HMRC also! Your payroll transmission and the bank's BACS summary transmissions will be checked to determine if you are running your payroll correctly or not. Businesses not complying will be fined by HMRC.

If you do not pay any employees in a tax month then a special EPS (transmission) must be made to HMRC to let them know that nobody was paid, so therefore there will be no FPS transmission to come for that tax month.

Once HMRC has your FPS's and/or EPS's, their collections office will know how much money you should be paying them by the 19th of the month following the end of the tax month. If you don't clear your PAYE account with the correct amount at the deadline, interest and/or penalties will be added also in real time.

If you will be reducing what will be paid to HMRC because, for example, you are claiming back some SSP (sick) or SMP (maternity), SPP (paternity) pay etc., or because you are offsetting CIS (construction industry scheme) tax you have suffered in the period, then HMRC must be told by transmitting an EPS to them.

Casual, Student and Therapeutic Workers all now need to be added to the payroll and declared to HMRC on the FPS even if no tax or NI was deducted.

The electronic information received by HMRC is now used to drive the tax and NI collections by the PAYE Payment Offices. It also builds your annual PAYE Records and there will no longer be any P35 to do at the end of a tax year.

HMRC have a complete view of people's pay for their Personal Tax records and feed this information into Department of Work and Pensions benefits systems for live integration with the new Universal Credit system, which will eventually replace Job Seekers, Housing Benefit, etc. You can read more about that at <http://www.dwp.gov.uk/policy/welfare-reform/universal-credit/>

Positives:

R.T.I. should help HMRC to distribute the correct tax codes to employers and pension providers, ensuring people end up paying the right amount of tax, receive the correct state benefits. There is no P35 anymore.

Summary of R.T.I. Transmission Types

1. EAS Submission – The Employer Alignment Submission

This is the first submission to be transmitted on or after your Payroll scheme goes live (but before the first payroll run), which sets up the skeleton file system ready to receive payroll information. As the Employer, you are responsible for ensuring all your details held on the payroll system (and therefore the HMRC system) are correct.

Note: it is common for people to move home and not let us (or you) know. If we run your payrolls, to help ensure we have the correct personal information for each of your employees we may issue you with prepopulated "Employee RTI Check" forms to complete and send back to us. It is easier for us if you return them as a complete batch rather than one at a time.



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2. The Full Payment Submission (FPS)

This is the details of payments you are about to make to employees.

It includes the Tax and NI deducted on each payroll run, the employee's home address, NI number, etc. This submission **must be made on or before the day you actually pay your employee – each time you pay them, AND the date of the payslip must be the date you actually pay your employee(s).**

If you make multiple payments to the same employee in the pay period then that may constitute multiple payrolls and require multiple submissions. It was not previously possible to do more than one FPS in a tax period, but even though our software will allow a second FPS called an FPS-Adjustment, we recommend monthly payrolls only have one run with one payment.

If there are more, then weekly payrolls may have to be run which will drive costs up! To help you to keep your costs down, it might be much better to **review your payment frequencies** now to keep the number of payroll runs to a minimum.

Expenses (that are not subject to PAYE rules) are not part of this process and can be ignored for RTI purposes, however, bear in mind that an Employee on Monthly Payroll cannot be paid more than once through the payroll mechanism in the same tax month without making an FPS Adjustment transmission.

If you have a mixture of monthly and weekly payrolls, an FPS has to be sent for each type separately!

Don't slip up - there is no margin for re-runs!

If an error has been made on any payroll run, then an adjustment must be made to the following period to re-align it. This is where initial accuracy and good communication between us will be absolutely crucial to help us both get it right first time, hopefully every time!

3. The Employer Payment Summary (EPS)

When the tax period has ended (either the 5th of the month following the payroll, (or quarterly, depending on when you normally are due to pay over to HMRC all the PAYE Tax and National Insurance deductions etc.), an EPS needs to be transmitted if there is any reason why you will be withhold part or all of the payment. For example, you may be authorised to claim the "Employers Regional National Insurance Holiday", or you may be reclaiming sick pay, etc., then an EPS must be transmitted. Otherwise, HMRC will expect a full payment to match the FPS's already transmitted.

An EPS must also be used to indicate if NIL PAYE Tax/NI is due, or indicate a long period of inactivity (which parallels the CIS system for inactivity in the building trade). The latter will mean transmissions can cease until PAYE starts to be operated again with the next FPS.

If you are a limited company enrolled in the Construction Industry Scheme as a Subcontractor, CIS Suffered must also be reported in the EPS monthly instead of at the Tax Year End as with the old P35. Strangely, CIS *deducted* by you and sent to HMRC with your PAYE payments are not reported here.

4. NVR Submission – National Insurance Number Verification Request

The National Insurance number is a vital piece of information, which uniquely identifies an employee. An NVR submission allows employers to validate an employee's National Insurance number or request one where a new or existing employee does not have one.

Auto-Enrolment

When you are legally obliged to provide **Automatic Enrolment** into a company pensions scheme for all your employees, there will be additional electronic submissions to make. We will detail those on a separate newsletter.



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Other Employee Circumstances.

Young Workers under 16 years of age (for example, those doing paper rounds etc) do not presently need to be declared under PAYE. However, if their income in the year rises over the Personal Allowance, or at their 16th birthday, may must be included in PAYE runs.

Student Workers (used to sign a P38(S)) for example, working for you only during a holiday period, now must be recorded just like any other employee on the RTI payroll. They will still need to sign a P46 if there is no incoming P45.

Casual Workers (for example, One off or Therapeutic Workers) who work low hours and are paid below the Lower Earnings Limit (LEL) used to be recorded on a P38A Supplementary Return at the end of the tax year. Now they must be added to the payroll like any other employee even if there is no tax or N.I. to pay.

If we process your payroll, we will require employment information for ALL your workers to be provided, and our payroll software will decide when an employee should be included in the FPS using built-in rules.

Adding New Employees to your Payroll

We have prepared a new form 'Coop NE1' (our 'New Employee' form) which will provide all the information we require to set up your new/existing workers on your payroll, ready for processing their next pay under R.T.I.

Changes to Our Payroll Process Flow

'Contracted Hours' will be part of the FPS. Our NE1 will have a section where you can add the number of hours per week etc., that your employee will be *expected to work*. This is also important for deciding how much SSP or SMP to pay as we need to work out the qualifying days based upon their weekly working pattern. We will also need their rate of pay (e.g. hourly/daily/weekly/monthly rate) to calculate their gross pay.

If no pay is due for an employee during a process run, you must inform us that the employee is to be retained on the payroll. These employees will be classified as being '**on hold**' for that specific run, and that information will be sent to HMRC so they understand they do not receive pay on every run, but are still employed by your business and your business should continue to retain the Tax Code (a portion of their annual tax-free personal allowance).

Holiday pay for Employees paid by the hour (not on a fixed salary) will be required in hours as and when it is to be paid. Our systems can calculate what holiday is due to employees if you provide their actual holiday dates to us. However, most employers seem to prefer to monitor Holidays themselves.

Where each payroll may have different hours worked / payment details, we will require an Approval to Transmit FPS. We will produce everything up to the moment before we 'Update' the payroll and make the record permanent. We will require you to check the payroll and return an email indicating 'Approval to Transmit FPS'. When we get that, we will mark the payroll as correct, update it and transmit the FPS to HMRC. After this we can continue and finish any other reports you may need and send those off to you.

Where your payroll is always the same and paid on the same date of the month, or day of the week, we will work on a Pre-Approved basis, where you will only be required to give approval to transmit the first time. We will self-approve after that point until you change the payroll details.

The transmission of the FPS must occur before you actually pay your employees.

A tax month runs from the 6th of a month to the 5th of the next. You will get a P32 summary showing the payment expected by HMRC at the end of each period. Your payment must reach HMRC by the 19th.

Any transmission of an EPS must occur after the 5th and before the 19th or you will be fined.



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If an error has been made the adjustment to the employee's pay must be incorporated into the following payroll run. The last run cannot be redone and no FPS for the same payment date can be sent.







Due to the extra steps and extra time involved this could well mean an increase in payroll fees for your Business, and this should be factored into your operating budget.

Transferring an existing payroll to us

If you have (or intend to) transfer a current payroll to us to take over the processing on your behalf, apart from the agreement to any Letter of Engagement, we will need you to complete a new Employer form 'Coop ER1' and then a 'Coop NE1' for every employee you have had on your books for the current Tax Year. You can obtain these forms from our website at www.accountancy.coop/payrollprocessing where you will also find links to other useful tools to help you.

We hope this newsletter information will clarify your responsibilities and obligations when dealing with RTI. <http://www.accountancy.coop/downloads/helpsheet-prprti13.html> for additional information.

Things you may want to Review:

-  Review your Payment Frequencies: Would your business benefit by reducing weekly payrolls to monthly runs? Should you change the physical payment date to a single date each pay period instead of making multiple payments? Should you move expenses or employee reimbursements outside the payroll if these are paid at another time?
-  Review your Employees Contracts: We need to update our systems with the Contracted Hours per week/month for each employee and their basic contract rate (per hour / week / month / annum) and NOT on a Pro-Rata basis but in-line with what they would physically be paid. Check your employees personal details, National Insurance Number, Date of Birth, Home Address etc., are all correct. To help you, we will supply an Employee RTI Check form for all customers where we run your payroll from our office.
-  Review your Details as an Employer: If you run your own payroll, check your Employer Reference and Payment Office References are correct along with the address HMRC write to in respect of payroll. If WE run your payroll that office may be our office address, and we will send you an Employer RTI Check form to help verify these details shortly.
-  Ensure you have an HMRC Government Gateway Login, and can access your PAYE for Employers pages. This will help you when reconciling what payments you have already made and how much is outstanding. You can also use this login to enable us as your Agent for payroll.

Then you can say "We're RTI Ready!"



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