Real Time Information

Real Time Information (RTI) is the system employed by HMRC for the reporting of payroll information, which requires employers and pension providers to provide detailed information to HMRC every time employees are paid.

Under RTI, the employer is required to submit information; including details of earnings and the tax and NIC deducted whenever a payment is made to an employee. The requirement is to report ‘on or before' a payment is made.

If no payments have been made in a month it is necessary to submit a nil return, otherwise HMRC may raise estimated liabilities.

Employers can not report any later than the end of the tax month (5th).

RTI links with Universal Credit

One of the reasons that the RTI system was introduced is as a result of the introduction of the Universal Credit benefit system, which seeks to simplify the system for making benefit payments to the unemployed or low earners. Under the new Universal Credit system and using the RTI information submitted to HMRC, it should be possible for the benefit payments to be calculated and adjusted for claimants based on their earnings each month, rather than the former system which often lead to errors and abuse. It is estimated that the Universal Credit system will reduce fraud and error by £2 billion over five years.

HMRC increases its monitoring

RTI also makes the monitoring of PAYE much easier for HMRC as the information is up-to-date and accurate. This allows HMRC to more promptly identify and pursue those businesses that have unpaid PAYE during the year, avoid recalculations at the end of the tax year and permit HMRC to issue penalties for late payment as soon as the employer becomes liable for one.

RTI summary

Undoubtedly RTI impacts the way information is collated and communicated with HMRC. The main changes and challenges are:

- Employers are required to file the full pay, tax and national insurance information of their employees to HMRC on or before the date that employees have been paid (this is known as a full payment summary or FPS).
- The submission of year end forms including a P14 for each employee and the P35 employer summary and declaration are abolished; employers merely confirm when they have run the last payroll run of the year.
- HMRC's back end processing systems are very inflexible, so employers have to take great care to ensure that they have followed HMRC's detailed guidance closely, particularly in relation to starters and leavers, otherwise duplicate employee records can be created, leading to demands from HMRC for additional PAYE and NIC, which are commonly in error. Particular care is needed with employee numbers as experience has shown that this is an area where duplicate employments are created.
- If an employer decides to choose a different software package for payroll preparation, this is best done at the start of the tax year if possible. This will avoid the issues that often arise when changing software package.

Forms P60 and P11D

Forms P60 and form P11D are still required to be completed, but may be submitted to employees electronically.

Being prepared

Employers with nine or fewer employees are able to use the free HMRC software package, which is compatible with the requirements of RTI but you may find has limited interaction with your software. Unfortunately the RTI system is enforced by further penalties, which are now an inevitable customary feature of the UK tax system.

Late filing penalties

Late returns under RTI attract a penalty each tax month, based on the number of employees on the payroll.

HMRC levy penalties on a "risk based" approach, and for those making later returns for the first few times, with a good track record, they are sent warning notices known as "Generic Notices" (GNs). These are automatically generated by the system to warn employers that they are not fully compliant and can help employers focus on what they need to do to meet the requirements of RTI.

The following monthly rate of penalty will be charged if any of the returns (including a nil return) is filed late in the month:

First return in a year filed late (apart from annual schemes making only 1 return a year)	No penalty
Thereafter : based on number of employees	
1-9	£100
10-49	£200
50-249	£300
250 or more	£400

Late payment of PAYE and NIC also attracts a penalty and interest is automatically charged on late payments. Automatic late payment penalties are sent out on a quarterly basis, charging a penalty at the following rates for late payments:

Number of defaults	Penalty % (of total amount paid late)
1	0
2,3,4	1%
5,6,7	2%
8,9,10	3%
11 or more	4%

The imposition of late payment penalties remains risk assessed rather than automatic for an unspecified period.

For guidance on the implementation of RTI, please do not hesitate to contact us.

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