



Dear Client

PAYROLL CHANGES

Over the next few years significant changes are to take place in respect of payroll procedures and the purpose of this letter is to provide an outline thereof.

Real Time Information (RTI)

As you may be aware HMRC are introducing major changes in the way PAYE information is reported to them. The Real Time Information procedures mark the biggest change in the Payroll and PAYE system since the commencement of PAYE some 67 years ago.

Using RTI, employers and pension providers are required to provide detailed information to HMRC for each employee about any deductions such as tax or National Insurance contributions on or before **each** payment date, instead of delaying until the end of tax year. This system of Real Time reporting is designed to ensure that HMRC has both up to date and accurate details of employment income and tax deductions for all PAYE taxpayers, thereby reducing the number of end of tax year reconciliations with resultant underpayments and repayments.

RTI will become an integral part of an employer's normal payroll activity and will also provide the Department of Work & Pensions with up to date information regarding claimants' employment income, enabling calculations of Universal Tax Credits payments to be made on a monthly basis without the need for further information submissions by individual claimants.

Although the new scheme will dramatically change the PAYE system there are still some aspects that will remain the same, in particular employers will still use codes to determine the amount of tax to be deducted from employees, P60s, P45s and P11Ds will continue to be used and PAYE/NI deductions will still be due to HMRC by the 19th/22nd (depending upon the payment method used) of the following month. However with RTI HMRC will be in a much better position to pursue unpaid deductions and impose penalties in respect of late payments.

Preparing for RTI

RTI will be compulsory for all entities operating a PAYE system and employers should start preparing for its implementation now in order to ensure they are ready for RTI operation when appropriate and help to avoid any penalties imposed as a result of failing to comply with the new legislation.

Separate pieces of information reported to HMRC are known as 'data items'. Using RTI there will be major changes to the data items required to be reported. In total there are 137 individual data items that could be required ranging from basic items such as name, date of birth, gross pay, etc through to more unusual items, notably passport numbers for foreign workers, banding of contracted hours for all employees, tax free payments and payments made to casual workers for whom a P46 is held. Full details of operating PAYE in real time is available via www.hmrc.gov.uk/payerti/index.htm. For details on data items select "What to Report" from the options.

Employee Data

As part of the process for an employer joining RTI, HMRC will align the records of employees held on their National Insurance and PAYE system and the records held by each employer through an Employer Alignment Process.

Employer alignment is an important process that **all** employers will need to undergo as part of the joining process for RTI. Alignment will ensure that the employer and HMRC both hold consistent information in respect of employees in every PAYE scheme before reporting using RTI begins. It is therefore important that correct and complete details are held in respect of full employee names, dates of birth, addresses, NI numbers, etc, etc. Where, for instance, NI numbers are not known or not issued,

e.g. to those under 16, the data must be left blank and temporary, dummy, default information must not be used. It is recommended that employers gather together all the relevant information and then ask each employee to check their own respective data.

For large PAYE scheme an 'Employee Alignment Submission' is required. For small schemes the alignment process will be conducted based on their First Payment Submission. An alignment submission can only be made once and amendments cannot be made once submitted. This process is designed to make it easier for employers to submit information to HMRC once RTI is fully implemented. More information on the employer alignment process will be released by HMRC in due course.

Please find attached your employee list. Can you kindly verify the details with your employees? Also indicate in the right column the amount of hours each employee works per week.

Commencement Date

Employers and Pension providers will begin to use the RTI service in the period April 2013 to October 2013. All employers will be using the RTI service by October 2013 and HMRC will advise each employer as to their commencement date. Once the new system commences a return of all employee payments must be made on or before each payment occasion where any employee is paid more than the Lower Earnings Limit (and this return must include payments made to employees both above and below the Lower Earnings Limit).

National Employment Savings Trust (NEST)

NEST is effectively a compulsory pension scheme into which all employees are to be enrolled with a view to providing a retirement pension in due course in addition to the State pension.

Employers must automatically enrol their employees (between the ages of 22 and the state retirement age who earn more than £8,105 p.a.) into NEST unless they already run a pension scheme with comparable benefits. For employers with 250 or more employees the commencement date is October 2012. Where the number of employees is between 50 and 249 the commencement date will be some time in the year ended 31 March 2015. For those employers with less than 50 employees the commencement date will be between 1 June 2015 and 1 April 2017.

All qualifying employees must be automatically enrolled into NEST unless they specifically opt out or there is a comparable pension scheme arrangement already in place. Initially employers will have to contribute at least 1% (of salary) to the scheme but this will increase to 2% in October 2017 and 3% in October 2018. Employee contributions will be required at similar rates (employees will receive 20% tax relief at source on their contributions).

In the light of the above changes, you would appreciate that we are aiming to keep the costs at the same level. To enable us to do that, we will need your full support. Salary and new employees' details should be provided promptly with all required information. Wrong and delayed data will result in delayed RTI submissions, penalties and potentially higher fees.

If you need any further information in respect of any of the above then please do not hesitate to contact me accordingly.

Yours faithfully

Dirk de Beer

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