Preparing for payroll change
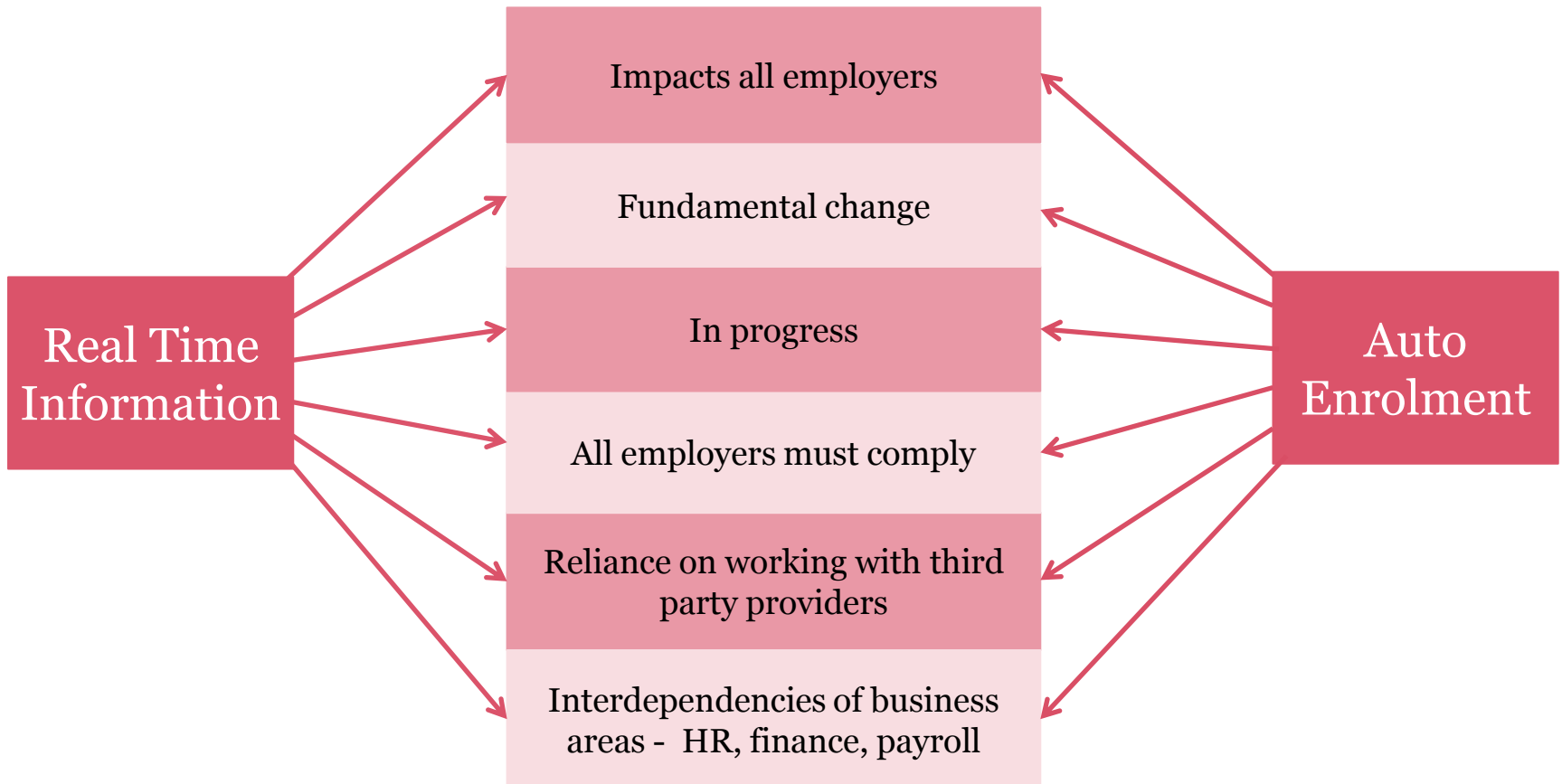
RTI and auto enrolment
11 October 2012

pwc

Agenda

1. Welcome – Brian Peters

2. Introduction to RTI and auto enrolment – Mike Nagle

3. HMRC RTI programme – Maggie Anderson

4. RTI – international aspects – David Livitt

5. Pensions auto enrolment - Steve Etherington

6. Auto enrolment and operational challenges - Janet Menekse

7. Questions

Introduction to RTI and auto enrolment
Mike Nagle

1

Interaction of RTI and auto enrolment

Real Time Information

Auto Enrolment

- Impacts all employers
- Fundamental change
- In progress
- All employers must comply
- Reliance on working with third party providers
- Interdependencies of business areas - HR, finance, payroll

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How we are helping clients

	Real Time Information	Auto Enrolment
Educational workshops	✓	✓
Project plan development	✓	✓
Strategy		✓
Data/system reviews	✓	✓
Compliance reviews	✓	
Process reviews	✓	✓
Complex issue support	✓	✓
Independent design and decision reviews	✓	✓
Project management	✓	✓
Resource	✓	✓

HMRC RTI programme
Maggie Anderson

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Pay As You Earn

Improving the operation of Pay As You Earn

Real Time Information

Thursday 11 October 2012

Agenda

- Key facts
- What are the main changes for payroll?
- What won't change?
- The Pilot
- Recent announcements
- What is HMRC doing now?
- Preparing for real time reporting – Key actions
- Help and Support

Key facts

- The RTI Programme is on track and within budget

- Unless in the Pilot, the vast majority of employers and pension providers will be legally required to submit PAYE information in real time from April 2013 - with virtually all employers routinely reporting PAYE in real time by October 2013

- The structure of PAYE remains unchanged…

- …but the way in which employers and pension providers send information about PAYE to HMRC is fundamentally changing

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Key facts

- RTI is a priority government programme. It will help to:

  - Improve the operation of Pay As You Earn (PAYE)
  - Improve the customer experience for both employers and employees
  - Achieve sustainable cost reductions for HMRC and employers
  - Enable HMRC to deal more effectively with non-compliance
  - Close the 'tax gap'
  - Reduce tax credits error and fraud
  - Support the introduction of Universal Credit by the Department for Work and Pensions (DWP)

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What are the main changes for payroll?

- The changes bring together payroll and payment processes

- Information will be sent to HMRC each time payments subject to PAYE are made to employees – by way of a 'Full Payment Submission' (FPS)

- Data Items which have caused discussion:

  - Hours worked
  - Passport number
  - Employees earning below the Lower Earnings Limit
  - Irregular employment indicator

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What are the main changes for payroll?

- Payroll Software will send PAYE information electronically:

  - over the Internet via the Government Gateway; or
  - via Electronic Data Interchange - until at least the 2016-2017 tax year

- You must use compatible software for this purpose – including an updated version of HMRC's Basic PAYE Tools

- If you make payments by Bacs using a unique 'Service User Number', you will need to include a cross reference in RTI submissions

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The Pilot

- The Pilot started as planned on 11 April 2012:

    - 10 employers joined in April

    - a further 310 employers joined in May/June 2012

    - by the end of September 2012, we aim to have up to 1,300 schemes reporting PAYE information in real time; and

    - by March 2013, PAYE information being reported in real time for around 6 million individuals from up to 250,000 schemes

- HMRC is working with the payroll software developers and volunteer employers to iron out wrinkles in a controlled environment

Quotes from employers in the Pilot

'The first submission was very easy'

'It took less than 2 minutes to submit an Employer Alignment Submission - with 12,500 records'

Processed with no problems – everything balanced

'The first new starter was really easy to process'

Great - easier than what it replaced!

The guidance was brilliant

'RTI will save staff time'

Roll on next month

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Recent announcements – have you missed anything?

- Large employers and payroll bureaux to be encouraged to start PAYE reporting in real time early to:

  - avoid End of Year reporting for 2012-2013; and
  - benefit from more dedicated support

- More payroll software providers and products to join the pilot from November 2012 - please contact your software provider if you wish to participate in the Pilot

  - To migrate in December 2012, volunteer by 28th September

  - To migrate in March 2013, volunteer by 31st December

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Recent announcements – have you missed anything?

- New PAYE schemes set up from November to submit returns in real time straightaway

- Employers who change to software providers with payroll products in the pilot will be able to start submitting returns in real time from the date they change

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What is HMRC doing now?

HMRC is:

- Contacting the 1,147 employers with 5,000+ employees

    - By 24th August – top 100

    - By 31st August – top 101 – 300

    - By 7th Sept – top 301 – 500

    - By mid-September – 80 of the 1,147

    - By 31st October - complete

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What is HMRC doing now?

HMRC is:

- Preparing to send 'Awareness Letters' to all employers not in the Pilot

    - Letters will be sent to the business address we hold

    - Agents will not be sent a copy

    - Informs employer that reporting in real time is coming; and

    - Is accompanied by a flowchart telling employers what to do to get ready

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Need help?
For online guidance from
HM Revenue & Customs
go to
hmrc.gov.uk/rti

EMPLOYER ADDRESS LINE ONE
ADDRESS LINE TWO
ADDRESS LINE THREE
ADDRESS LINE FOUR
ADDRESS LINE FIVE
ADDRESS LINE SIX
ADDRESS LINE SEVEN
ADDRESS LINE EIGHT
ADDRESS LINE NINE   RTI204

Date

Getting your business ready for PAYE Real Time Information

From April 2013 there will be a new way to report PAYE information in real time: Real Time Information – or RTI.

PAYE itself will not change – just the way, and how often, you send PAYE details to HMRC.

Instead of sending all PAYE details in one go, at the end of the year, from April 2013 you (or your accountant, bookkeeper or payroll bureau) will have to:

- send details **every time a payment is made, at the time it is made**
- use payroll software to **send the details electronically as part of your routine payroll process.**

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Getting your business ready for PAYE Real Time Information

Stage 1: Do you run your own payroll system?

YES

Do you use payroll software to calculate and submit your employees' PAYE information?

NO

Your PAYE information will need to be sent to HMRC online - every time a payment is made - using PAYE RTI-enabled software

You can do this using commercial

YES

You will need to update your payroll software to an RTI-enabled package

You must check your software provider's website or contact them

NO

If you use someone outside your business to run your payroll, such as a payroll bureau, accountant or book keeper, talk to them now about the service they will provide for you in future, and ask what you need to do to get ready for RTI

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What is HMRC doing now?

HMRC is:

- Continuing its Data Improvement Programme to support the successful implementation of reporting information in real time

- Working closely with colleagues in DWP

- Looking at the responses received to our consultation exercise on the regime for late-filing and late-payment penalties

- Continuing to prepare employers for the move to reporting in real time

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Preparing for real time reporting: Key actions

- Update/acquire RTI-enabled software or use a payroll service provider

- Ensure employee data is correct and complete

- Review:

    - employee data

    - recruitment and payroll processes

- Become familiar with the reporting requirements

- Identify who you need to involve

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Preparing for real time reporting: Key actions

- Update/acquire RTI-enabled software or use a payroll provider

  - Do this as soon as possible

  - Contact your payroll software developer/provider

  - Consider new RTI-enabled payroll software

  - Free RTI-enabled software products are available

  - HMRC's Basic PAYE Tools (BPT)

  - Talk now to a provider of payroll services

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Preparing for real time reporting: Key actions

- Ensure employee data is correct and complete

Full name

Date of birth

National Insurance number

Gender

Address

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Tips in recording key employee information

Name

- Full forenames, not initials

- Forenames and surname in the correct order

- Make sure they are spelt correctly

- Don't put titles in name boxes

Date of birth

- Always enter the correct date of birth

- Enter the day, month and full year, such as 05/05/1985

National Insurance number

- Always enter the correct NI number

- Correct format – 2 letters, 6 numbers and a final letter – A, B, C or D

- Verify from official documents

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Preparing for real time reporting: Key actions

- Review your:

  - employee data; and

  - your recruitment and payroll processes

    - check details for your current employees

    - correct any gaps and inaccuracies

    - capture the correct information as soon as an employee joins

    - make use of the help available from your software provider, agent and HMRC

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Preparing for real time reporting: Key actions

- Become familiar with what, when, and how you will have to report to HMRC:

  - Employer Alignment Submission

  - Full Payment Submission

    - Most data items will be familiar…

    - …but some are new…

    - …and more new ones will be published soon

  - Employer Payment Summary

  - National Insurance Number Verification Request

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Preparing for real time reporting: Key actions

- Who do you need to involve?

  - Payroll Software provider/IT department
  - Bacs Approved Solution Supplier/Bacs Approved Bureau
  - HR
  - Finance
  - Employees
  - Bureau/agent

- Does your planning need to take 'automatic enrolment' into account?

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Preparing for real time reporting: Key actions

- Taking these key actions now will prepare you for:

  - Payroll Alignment; and

  - the move to reporting in real time

The implications of getting it wrong

A failure to implement the changes to PAYE reporting could lead to:

- Employees not receiving the amount of Universal Credit to which they are entitled;

- Employers and pension providers receiving unnecessary and unwanted contact from HMRC:

    - Personal data issues
    - Tax deduction issues
    - Benefit entitlement issues
    - Tax Credit entitlement issues

- And - of course – employers and pension providers who do not meet their statutory obligations run the risk of incurring penalties

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Help and support

Real Time Information homepage www.hmrc.gov.uk/rti/index.htm
Preparing for operating PAYE in real time http://www.hmrc.gov.uk/payerti/getting-started/rti.htm
Guidance on operating PAYE in real time http://www.hmrc.gov.uk/payerti/index.htm
Information to be reported to HMRC http://www.hmrc.gov.uk/payerti/reporting/what-to-report.htm
Data Quality homepage http://www.hmrc.gov.uk/rti/dip/index.htm

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Help and support

FAQs for employers http://www.hmrc.gov.uk/rti/employerfaqs.htm
Basic PAYE Tools www.hmrc.gov.uk/payerti/getting-started/paye-tools.htm www.hmrc.gov.uk/bpt2013
Payroll Alignment http://www.hmrc.gov.uk/payerti/reporting/payroll-alignment.htm
See payroll software that has PAYE Recognition http://www.hmrc.gov.uk/softwaredevelopers/paye/rti-software-forms.htm
Register for e-mail alerts www.businesslink.gov.uk/hmrcemployeremailalerts

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RTI – International aspects
David Livitt

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RTI: International payrolls

Inbound Assignments

Modified PAYE Scheme

Modified NIC scheme

International Payrolls

Immigration

UK Payroll

Reward

Outbound Assignments

Modified NIC scheme

International Payrolls

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How we are helping our clients

Review and Assess

Data Collection and Systems

Process

International Payroll Interaction

Policy and Governance

Pensions auto enrolment
Steve Etherington

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Background

Falling private sector pension membership

State benefits being amended

Generational gaps widening

Nudge needed

Auto enrolment

Step change for UK pensions
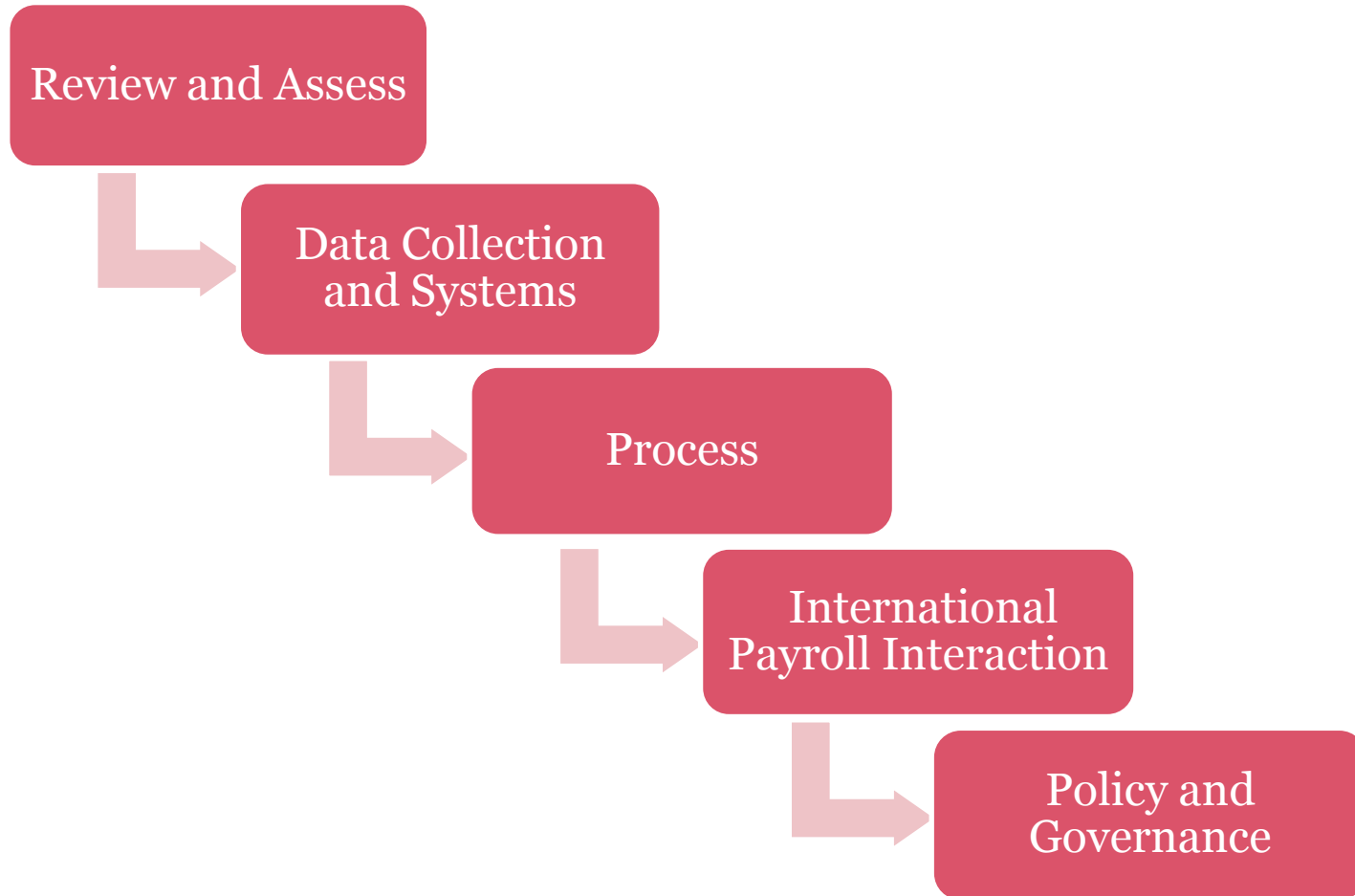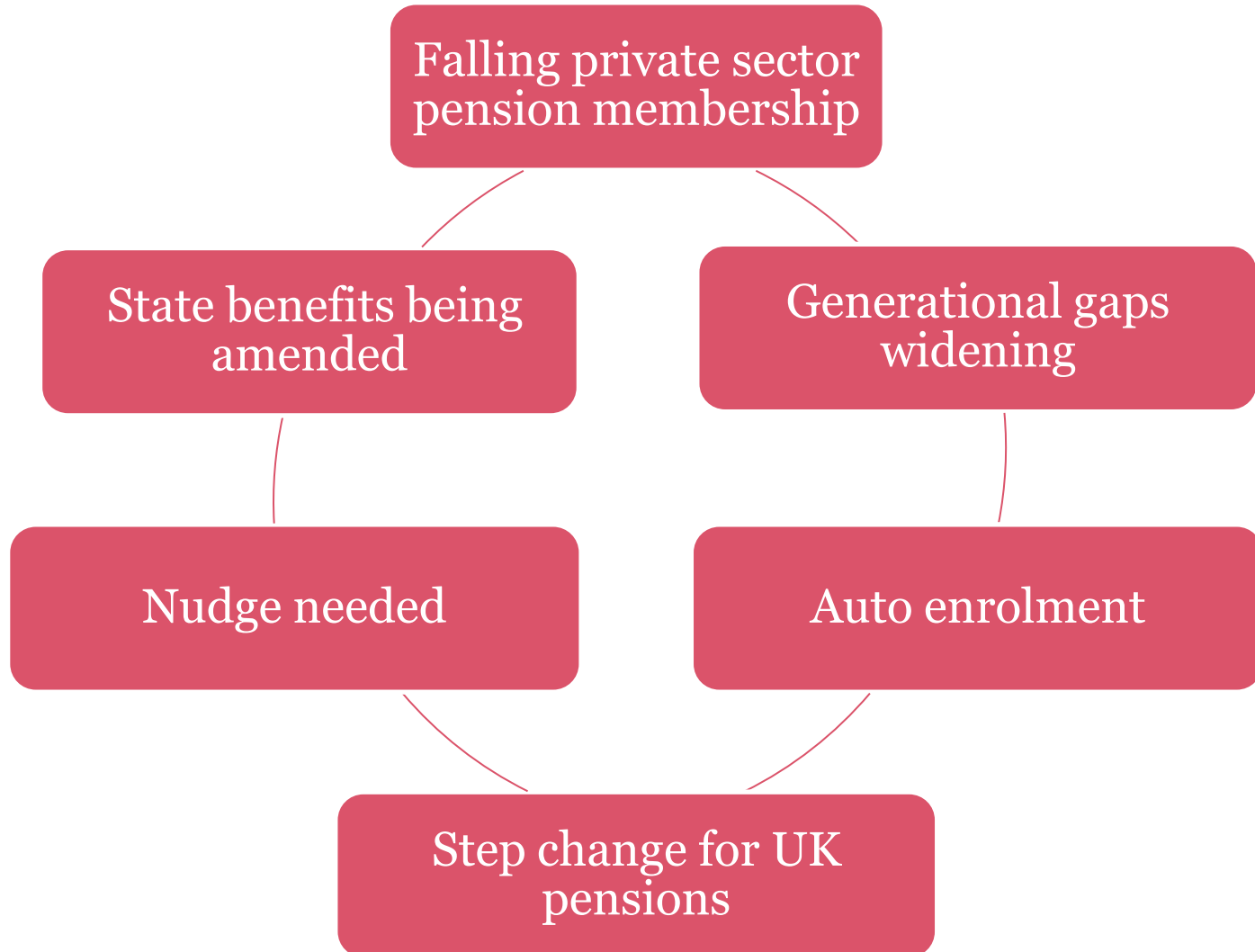
Background

- Legislation has been introduced that requires certain workers to be automatically enrolled into a qualifying pension scheme

- Contributions must be made to the scheme at the following minimum rates

Key dates	Minimum employer contribution	Balance to be met by Employee or employer	Total contributions
Staging Date- 30 September 2017	1%	1%	2%
1 October 2017 – 30 September 2018	2%	3%	5%
From 1 October 2018	3%	5%	8%

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Worker Categories

"Jobholders" are working or ordinarily work in UK, are aged 16 to 74, and earn above £5,035 pa, and are split into Eligible and Non-eligible:
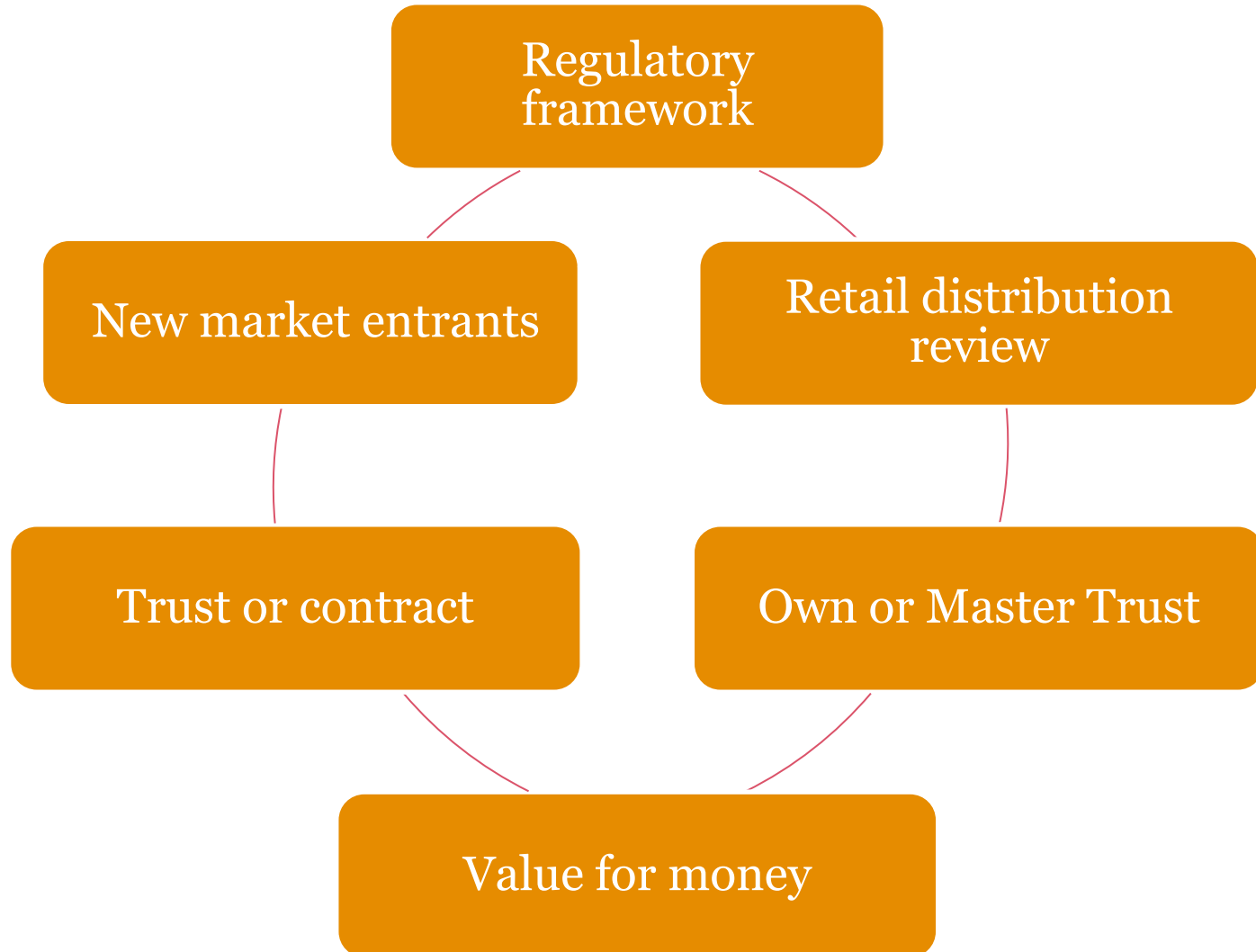
Eligible Jobholders: aged from 22 to SPA, earning over £8,105pa, who employers must AUTOMATICALLY enrol into a qualifying scheme

Non-eligible Jobholders aged 16-21 and SPA-74, earning over £8,105pa, who employers must enrol into a qualifying scheme if they OPT IN

Non-eligible Jobholders aged 16-74, earning between £5,564 and £8,105pa, who employers must enrol into a qualifying scheme if they OPT IN

Entitled Workers, employers must enrol UK workers aged 16-74 earning below £5,564pa into a registered scheme if they OPT IN

Pension landscape

Regulatory framework

New market entrants

Retail distribution review

Trust or contract

Own or Master Trust

Value for money

Who has done what, some example early findings...

Career Average → Tesco

Cash Balance → Morrisons

Occupational DC/Master Trust → Asda & Sainsburys

The scope over 2013

Confirmed auto-enrolment (AE) staging dates

Tranche No	No of workers in your largest PAYE scheme	Staging date from when you must comply with the workplace pension reforms
15	250 – 349	1 Feb 2014
14	350 – 499	1 Jan 2014
13	500 – 799	1 November 2013
12	800 – 1,249	1 October 2013
11	1,250 – 1,999	1 September 2013
10	2,000 – 2,999	1 August 2013
9	3,000 – 3,999	1 July 2013
8	4,000 – 4,099	1 June 2013
7	4,100 – 5,999	1 May 2013
6	6,000 – 9,999	1 April 2013
5	10,000 – 19,999	1 March 2013
4	20,000 – 29,999	1 February 2013
3	30,000 – 49,999	1 January 2013
2	50,000 – 119,999	1 November 2012 (with option to comply from as early as 1 July 2012)
1	120,000 or more	1 October 2012 (with option to comply from as early as 1 July 2012)

Column headers over timeline: 2012 — 2013 — Easter — 2014

c.3,800 employers

c.600 employers

Hot Topics
PwC

Scenario

Low take up of existing pension scheme

Pension provider not reviewed for a number of years

Numerous legacy arrangements through acquisition

3,500 employees
Average salary £20,000

Staging date of July 2013

Scenario ▶ *Some challenges…*

Low take up of existing pension scheme
Pension provider not reviewed for a number of years
Numerous legacy arrangements through acquisition
3,500 employees Average salary £20,000
Staging date of July 2013

Pension provider unwilling to offer terms for auto-enrolees

Simplify to one pension scheme for all staff?

Pension costs will rise significantly

High number of employees to enrol

Staging date July 2013 Time to act!!

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Scenario ▶ *...more challenges...*

Scenario
Low take up of existing pension scheme
Pension provider not reviewed for a number of years
Numerous legacy arrangements through acquisition
3,500 employees Average salary £20,000
Staging date of July 2013

Pension provider unwilling to offer terms for auto-enrolees

Simplify to one pension scheme for all staff?

Payroll

Comms

Pension costs will rise significantly

HR processes

High number of employees to enrol

Ops

Time to act

Cost Increase

Scheme design

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Scenario ▶ ....and wider opportunities

Scenario
Low take up of existing pension scheme
Pension provider not reviewed for a number of years
Numerous legacy arrangements through acquisition
3,500 employees Average salary £20,000
Staging date of July 2013

Wider opportunities:
- Pension provider unwilling to offer terms for auto-enrolees
- Simplify to one pension scheme for all staff?
- Payroll provider capability
- Comms
- Payroll
- Strategic objectives
- Pension costs will rise significantly
- HR processes
- High number of employees to enrol
- Ops
- Time to act
- Cost Increase
- Scheme design
- Total reward
- Salary sacrifice
- Alternative reward

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Our experience from working with clients

- Hand crafted and bespoke

- Strategic and/or tactical

- Market developments and relative speeds

- Market capacity

- Key are project discipline, automation and communication
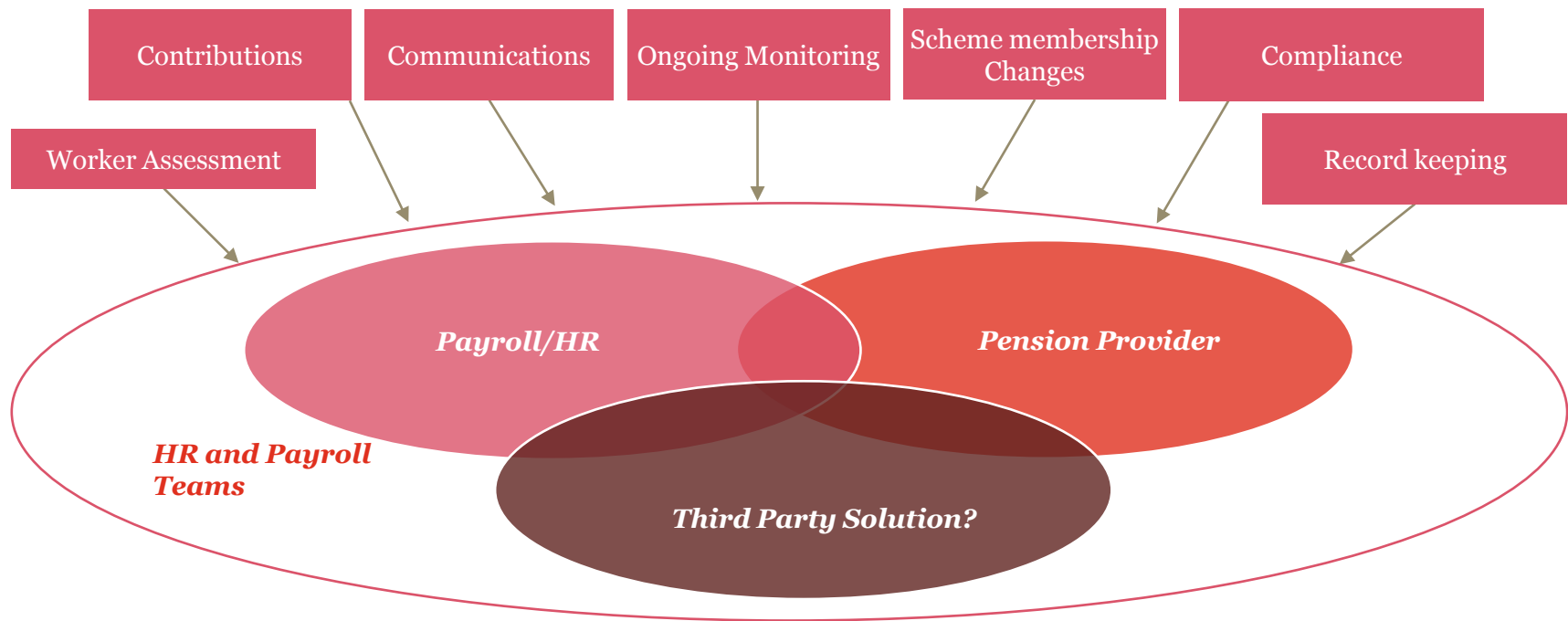
- Some themes starting to emerge

The challenges become fully visible when getting into the operational detail
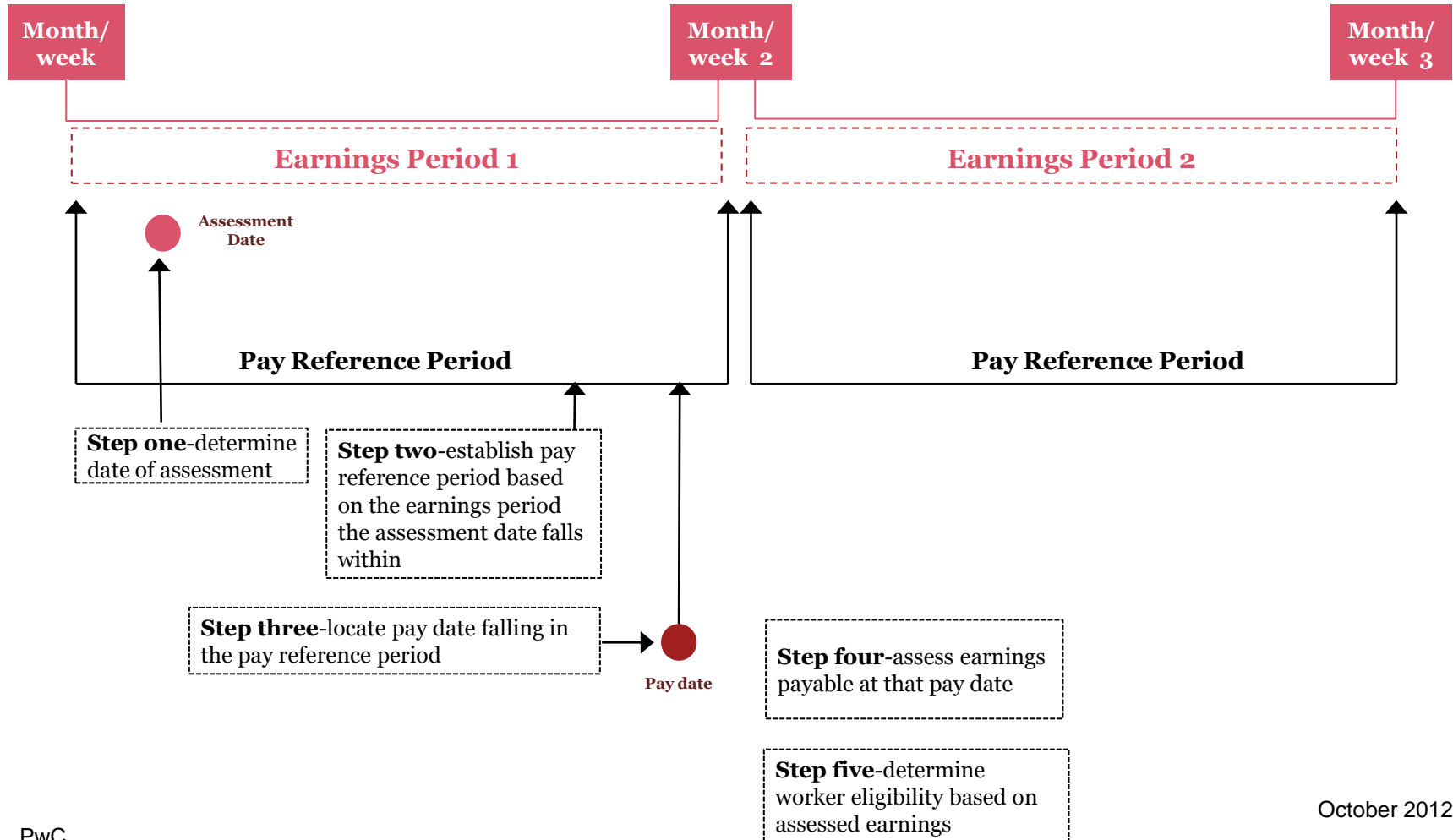
Operations
Janet Menekse

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Making Auto Enrolment work
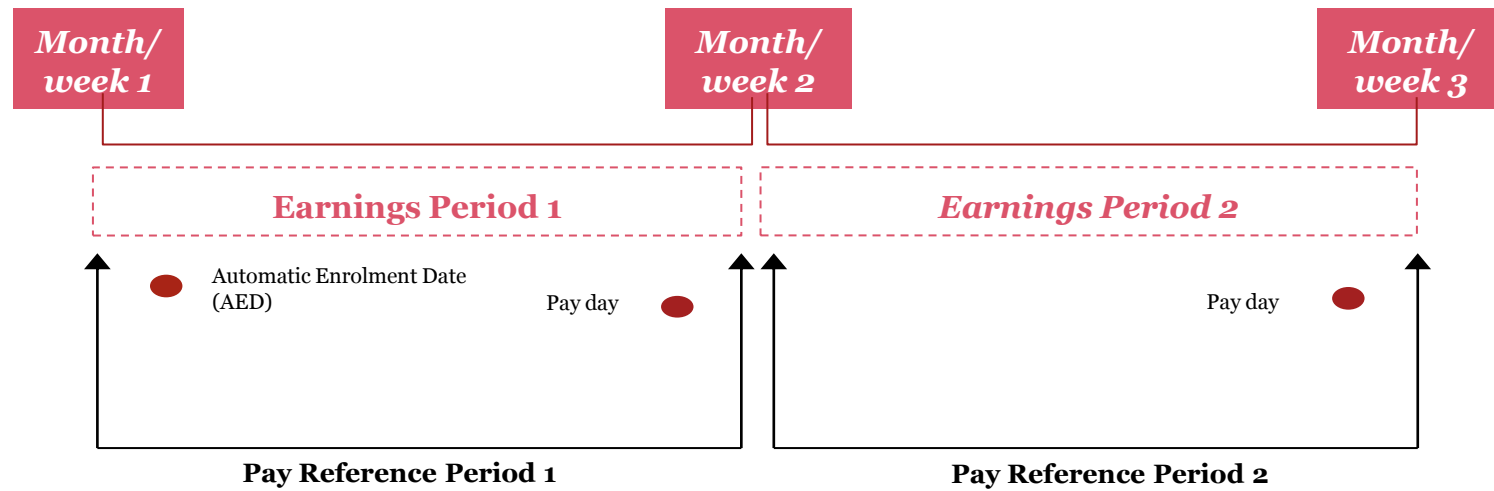## The seven key pillars to designing a successful solution

Contributions

Communications

Ongoing Monitoring

Scheme membership Changes

Compliance

Worker Assessment

Record keeping

Payroll/HR

Pension Provider

HR and Payroll Teams

Third Party Solution?

Assessments complexity
Payroll cycle

| Month/ week | | Month/ week 2 | | Month/ week 3 |

Earnings Period 1   **Earnings Period 2**

● **Assessment Date**

Pay Reference Period   **Pay Reference Period**

Step one-determine date of assessment

Step two-establish pay reference period based on the earnings period the assessment date falls within

Step three-locate pay date falling in the pay reference period

● **Pay date**

Step four-assess earnings payable at that pay date

Step five-determine worker eligibility based on assessed earnings

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Complexity of pension contributions
Payroll cycle

Month/ week 1		Month/ week 2		Month/ week 3

Earnings Period 1 | **Earnings Period 2**

Automatic Enrolment Date (AED)

Pay day

Pay day

Pay Reference Period 1 **Pay Reference Period 2**

Step six - Establish the next pay date after the Automatic Enrolment Date (AED)

Step seven - Determine the 'applicable' pay reference periods from the AED (PRP 1 & 2)

Step eight - determine the length of time in the first applicable PRP (from the AED to the end of PRP1)
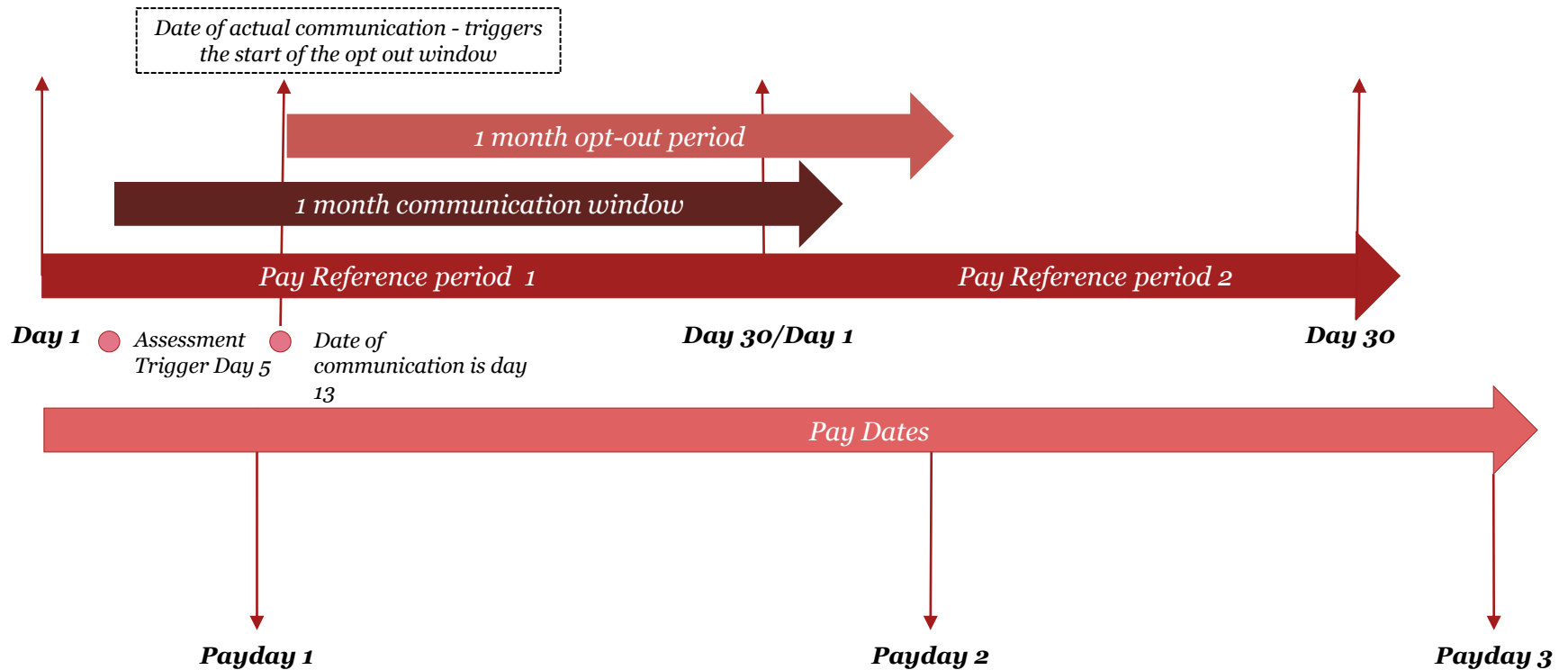
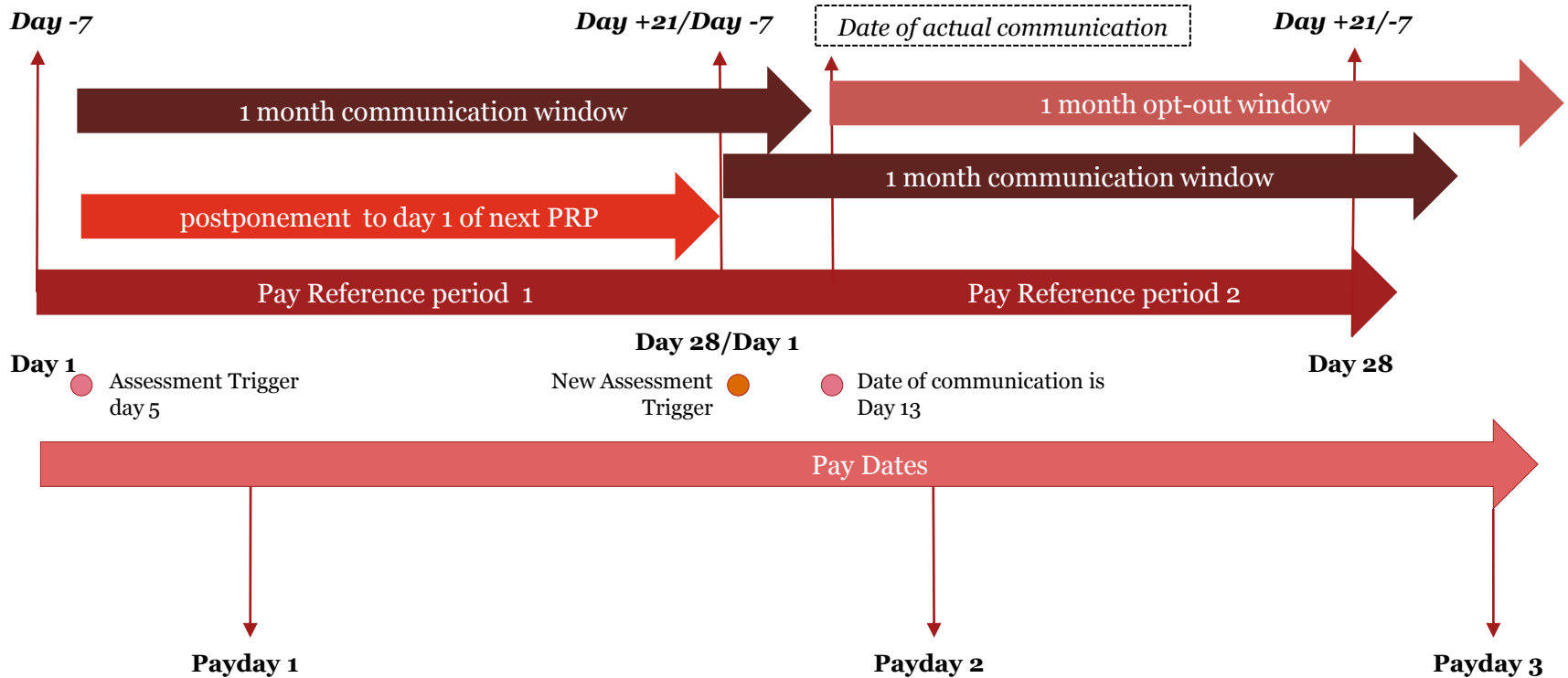| **Step nine** - Determine the pay due in each applicable PRP (PRP 1 & 2)	**Step ten** - Calculate contributions due for each applicable PRP including any pro-ration	**Step eleven** - Deduct contribution from the first available pay following the AED

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Communication process
Illustration 1 – basic principle

Date of actual communication - triggers the start of the opt out window

1 month opt-out period

1 month communication window

Pay Reference period 1

Pay Reference period 2

Day 1

Assessment Trigger Day 5

Date of communication is day 13

Day 30/Day 1

Day 30

Pay Dates

Payday 1

Payday 2

Payday 3

Communication process
Illustration 2 – postponement period

Day -7

Day +21/Day -7

Date of actual communication

Day +21/-7

1 month communication window

1 month opt-out window

postponement to day 1 of next PRP

1 month communication window

Pay Reference period 1

Pay Reference period 2

Day 28/Day 1

Day 1

Assessment Trigger day 5

New Assessment Trigger

Date of communication is Day 13

Day 28

Pay Dates

Payday 1

Payday 2

Payday 3

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Operational strategy

Step 1
Conduct review of your payroll processes and worker profiles

Step 2
Undertake due diligence on payroll and your chosen pension provider's capability

Step 3
Identify any gaps, duplications and areas of weakness based on above

Step 4
Lead workshop to allocate roles and responsibilities between payroll and pension provider

Step 5
Implement and test operational solution

Step 6
Launch solution and communicate to workers

Under pinned by robust project management

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Questions?

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Thank you