Response from
The Institute of Chartered Accountants of Scotland
to
HM Revenue & Customs

Improving the Operation of PAYE:
Collecting Real Time Information

28 February 2011
Executive Summary

A majority of our members are opposed to RTI.

As stated in paragraphs 3.1 and 3.2 of the consultation document, PAYE has collected tax successfully since 1944 and has stood the test of time. We believe that the failings of the PAYE regime in recent years have been due to maladministration by HM Revenue & Customs and by their inability to adapt the system in relatively modest ways to cope with changing circumstances.

The massive new IT solution now proposed is not the answer to this. Given that HMRC have failed to cope with the task of reconciling PAYE and NICs annually, there is no reason to believe that they would be any more successful in clearing the much greater number of reconciliations potentially arising on a monthly or weekly basis under RTI.

No other country has anything comparable with the Bacs system, nor has any attempted to introduce any tax reporting system equivalent to RTI. By doing so, HMRC would be entering uncharted territory where project failure could further undermine confidence in the PAYE system, with devastating effects on revenue flows to the Exchequer and consequential damage to the international credibility of the UK. We consider that these risks outweigh the potential rewards of RTI.

Should the Government be determined to press ahead with RTI, we would be fiercely opposed to the suggested speed and manner of its implementation. The proposed timetable is over-ambitious to the extent of recklessness. It disregards all generally accepted IT best practice, and fails to allow adequate time for testing and piloting of new systems by HMRC, commercial software vendors and employers. Proceeding on the basis suggested would risk the success of the project, creating a strong possibility that it would share the embarrassing and costly fate of many other failed high profile public sector IT schemes in recent years.

The timetable for the RTI project seems to be driven by the DWP's haste to introduce the Universal Credit, and it would deprive HMRC of an otherwise valuable opportunity to undertake a more fundamental reform of the PAYE system.

To help contain risk, we have recommended that each Cabinet Office Gateway Review of the RTI project should be published as soon as it has been undertaken, and that the project should be monitored by HMRC's Carter Agent Steering Group.

At a time when the Calman proposals threaten to place additional administrative PAYE burdens on all UK employers, it appears that the absence of any reference to this in the consultation document is an extraordinary omission.

While expressing widespread concerns about RTI, our members are even more strongly opposed to the concept of Centralised Deductions. The CD proposals demonstrate a fundamental lack of understanding by HMRC of what happens in the real world. The risks of failure of any system based on CD are too great and too far-reaching to contemplate – if payments were made late, employers, pension providers and others could find themselves liable for failing to meet their contractual obligations. No UK Administration has yet shown itself capable of delivering an IT project on such a scale with anything close to the level of reliability that would be imperative. The security risks implicit in a CD regime should be wholly unacceptable to a Government that has already identified protection against cyber attacks as a national priority.
On the assumption that HMRC would proceed with its RTI proposals regardless of our views, we have set out below a number of specific issues and concerns raised by our members.

Introduction

We see RTI as yet another step in the continuing process of offloading the burdens of tax compliance from an under-performing HMRC to an unwilling business community, regardless of the costs and administrative inconvenience this imposes on business. In this period of austerity, when the UK economy is under pressure and business growth is crucial to recovery, the Government should abandon or shelve elaborate schemes of this nature and concentrate instead on reducing burdens on business.

HMRC is demanding greater tax compliance effort, higher standards of reporting and more accountability from employers, agents and taxpayers, while its own standards of performance have plunged to an all time low. The existing PAYE regime is falling apart because of HMRC’s administrative incompetence – ICAS members have described the Employers’ Section at East Kilbride as being “in meltdown.” This general state of affairs is corroborated by the results (already shared with HMRC) of an ICAS member survey in autumn 2010 on HMRC errors and shortcomings, and by reports from employers and agents that they are generally unable to contact HMRC by phone, unable to email them and unable to access employer records online.

Our perception is that HMRC would be unable to cope with RTI, given the problems they have had with the existing PAYE regime. HMRC’s attempt to create the illusion that their performance would magically improve on introduction of a complex new regime is misguided, and on that basis alone the project seems doomed to failure.

The Bacs channel is being proposed for RTI, but even some large employers that use Bacs regularly are questioning whether Bacs would have the capacity to cope with the additional traffic arising. There is also disquiet that HMRC had been promoting EDI until very recently and have now made a sudden U-turn. There has been significant investment in EDI across the UK and this would become essentially useless under these proposals.

The cost implications of RTI for businesses – particularly small businesses – are daunting. They would be forced to incur substantial outlay on new IT facilities, or engage the services of an agent or payroll bureau, in order to comply with a new regime that would be so complicated they would probably never be able to understand it. This would cause serious disruption, diverting time, effort and funding away from the much more important tasks of generating growth and new employment or (in many cases) business survival.

We do not believe that RTI would prove to be the panacea suggested by HMRC. It would be good if the new regime were able to spot and correct out-of-date codes being used by employers. However, if current codes were wrong, perhaps because based only on estimates, RTI would not necessarily lead to greater accuracy by correcting these and there would still be just as many under- and over-payments of tax at each year end. There is no intrinsic reason why the current PAYE system should not produce accurate codes. In the experience of our members the majority of coding inaccuracies arise because of errors by HMRC rather than employers, or by HMRC’s inability to communicate effectively with employers and agents.
We think the proposals would be more attractive to employers and employees if functionality to provide real time changes to tax codes was one of the anticipated deliverables. Without this, the real benefits of RTI appear to flow only to HMRC and not to employers or employees.

Security

HMRC’s record on IT security has not been good. The greater the volume of data on employers and employees that are held centrally on one single system, the greater incentive there would be for criminal elements to gain malicious access to such data, and the greater the danger of serious misuse.

In administering the tax system, HMRC have already found to their cost that there is a balance to be struck between making taxpayer data readily available to their staff for the better performance of their duties and protecting the security of the data subjects. Similar problems have been encountered within the NHS, where a wide variety of personnel expect access to confidential patient information in their attempts to provide the best treatment. With RTI, there might be arguments suggesting that all HMRC personnel should be able to access all RTI data, because one of the greatest impediments within the current PAYE system is trying to speak to a member of HMRC staff with the necessary access. Conversely, it is arguable that security should be even tighter than it is now because so much data would be held at one central point.

It is regrettable that such security issues have not been addressed in the consultation document. Even the recently-abandoned ID card system was widely criticised on the grounds that it created new security risks by holding so much personal data in one single repository. Before RTI was to proceed, we would like to see an objective discussion of such risks and the ways in which HMRC would propose to resolve them.

Errors and penalties

We have become accustomed to attempts at online filing being rejected by HMRC as a result of validation checks. It is unclear to us what would happen if RTI data submitted to HMRC through Bacs was rejected because of a validation problem. Clearly in many such cases the net pay in question would already have been paid to the employees.

It ought to be recognised that PAYE already forces employers (many of them small employers) to act as unpaid tax collectors, operating an extremely complicated compliance process. The advent of RTI would make the system even more complicated and would increase the throughput of data – in many cases by 12 or 52 times. The level of automation now proposed and the frequency with which data would be submitted would make it impracticable for most employers to verify what is being sent, and for those who tried to do so the deployment of resources to this task would be very costly. Where RTI data submitted failed validation checks, or where other inadvertent irregularities arose because of the complexity of the PAYE regime, we recommend that no penalties should be charged.

Calman

The Calman proposals for a new Scottish rate of income tax, if they are adopted, can be expected to place new PAYE compliance obligations on all Scottish employers and many others throughout the rest of the UK. Although the full details of these potential new
requirements are not yet known, it is reasonable to assume that payroll systems might need to report additional RTI data items to HMRC, and these could require additional development time and also impose extra costs on employers. HMRC might also face heavier administrative burdens in terms of reconciliations required. We are surprised that this topic has not been mentioned in the consultation document.

The following paragraphs provide our responses to the specific questions contained in the consultation document:

Chapter 5

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

Yes – provided that all the information that is required is submitted under RTI by all employers. In reality we think that there could well be a need for the pre-existing end of year reports to be sent in for at least a few years because of the unreasonably short testing time being allowed for RTI.

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

We see no logic to the suggestion that this information should be submitted monthly to coincide with the date on which the employer pays the tax etc to HMRC. One of the basic principles of RTI seems to be that the submission of information should coincide with employers’ payment periods, e.g. weekly, fortnightly, monthly, quarterly or annually as required.

The correction of errors could be a complex process depending on the reasons for the adjustments, and it is difficult to see how any payroll software would be able to cover all the scenarios that might occur. We envisage that on occasions some interaction with the data being submitted would be needed to explain the reasons behind the adjustments.

It is unclear to us how the RTI system would deal with changes such as the spreading of NICs for directors who have NICs calculated on a normal basis and then take bonuses.

There is currently no requirement to include employees paid below the LEL in payroll records. Such a requirement would incur additional costs for many employers, especially small employers, who employ people in this category. This would be an unwelcome new burden on such businesses, and would act as a further deterrent to the creation of new jobs.

There are many small companies where the directors are paid remuneration at (say) monthly intervals at a rate between the LEL and the ET. Typically in such cases the payrolls are processed annually as there are no PAYE or NIC liabilities. If there was no longer to be an annual P35 submission, such businesses would incur additional costs as a result of having to process their payroll 12 times as frequently as before.

It is unclear how the RTI proposal would impact on very small non-business employers such as those employing domestic carers. It would be inappropriate for the Government to place additional compliance burdens on such employers, many of whom are vulnerable members of society.
5.5 Alternatively, would it be possible to send details of these adjustments at the same time as the real time information about employee deductions?

If the aim of RTI is to be able to reconcile the information being submitted with amount being paid, then it would need to be done each payday. We would suggest that information not readily available at that stage should be submitted at the next payday.

We assume that HMRC perform validation tests to ensure that payroll data submitted meets certain criteria. It is unclear to us how the system would cope if the details of a new employee were to fail such an HMRC validation test. Would this result in rejection of the entire payroll, or simply the rejection of the data for that one employee?

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

Students are not included on the payroll programme if they are only working during non-term times and do not exceed the limit for any given year.

Depending on how employers operate, it is probable that many employees who earn below the LEL are not included on the payroll.

Depending upon the software being used, some other items listed in Annex B may not be included on the payroll.

Some items listed are not currently a requirement (e.g. passport number) and therefore there may not be any facility for entering them into existing payroll software.

On most payrolls, the number of hours worked by salaried staff is not entered on the payroll as this is not relevant to the amount they are being paid, and typically their holiday pay is not recorded separately.

5.6 If certain items are not currently held, would they be easily obtainable?

We envisage a number of difficulties with this. In some cases extra data fields would need to be created by the software providers, e.g. passport number. In others there would be significant additional administrative work for employers, such as including individuals on the payroll no matter what the circumstances, e.g. students. Some items would be extremely difficult or impossible to provide and in most cases would serve no useful purpose, e.g. hours worked by salaried staff.

Where there was not already a statutory obligation on employers and employees (as appropriate) to provide such data, this would need to be introduced to ensure compliance – especially as we would expect a groundswell of public opinion against compliance with such a Draconian new regime.

A requirement to include the number of hours worked would raise particular difficulties. This information is rarely maintained for salaried employees, and where it is available it may not be used for payroll purposes and may not therefore be made available to payroll personnel. Complex and artificial definitions of what is a ‘working hour’, such as that used for tax credits, would be unhelpful. Special consideration would have to be given to measuring hours worked in particular circumstances, for example:

- Where management salaries reflect responsibility and profits earned rather than time worked, hours should normally be excluded, but there could be an opt-in box
allowing such employees to input hours worked if they wanted to claim Universal Credit.

- Other staff on full time salaries could perhaps be treated as though they had worked a ‘normal working week’, although in many cases this would be a myth.

- If overtime for a period was not paid in the same period as basic pay, separate information might be required if Universal Credit was to be based on average hours, since the dates on which hours were actually worked might impact on the Credit due.

- Some employers pay their staff at the end of the month but run salaries mid month on the assumption that the existing staff will work as expected. If an employee was off unexpectedly later in the month, the hours shown on the payslip would not correspond with actual hours worked.

- Those on Statutory Sick Leave or Maternity Leave etc would probably still have notional hours worked to support any claim to Universal Credit, so separate information might be needed for them.

- Further information might be needed regarding employees who work seasonally or (for example) during school terms, and in such cases, actual hours worked might not fit with Universal Credit. For example, teachers’ preparation work carried out between terms would not normally be collated until after the holidays.

Passport numbers should be relatively easy to obtain for employees from overseas, and might perhaps suffice as the default identifier for employees without NINOs, but gathering this information from non-UK individuals could be seen as discriminatory.

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

Yes – as explained in the immediately preceding question. There would be substantial administrative burdens imposed on employers in obtaining such data from employees, and in payroll bureau obtaining such data from their employer clients. There would be dependence on software providers or in-house developers to make the necessary changes to payroll software. In view of the tight timescale this might leave some employers or bureau non-compliant, as has happened with iXBRL for corporation tax online filing.

A simple facility to include these items in the payroll system would be inadequate. The data items include some that would require to be set up only once, on a new employee joining, others that would vary for each payment period, and some that would have to be the subject of regular review because they might change from time to time. Management of such data to keep it accurate would be a major imposition on employers, and verifying it on each reporting date would be impracticable. It would be invidious if HMRC were to seek to charge penalties for any inaccuracies.

Where other deductions were made after tax, such as loans arrestments etc, it is unclear what benefit would be achieved by reporting net pay.

Sub-contractor information is not usually part of payroll software and is submitted separately. These items would comprise additional reporting requirements, and the interaction between CIS and RTI is far from clear.
Many of the data items listed are currently required as part of the P35 annual return. Payroll bureaux currently submit these questions to each employer client when seeking approval for submission of the P35. Completing the questions and obtaining client approval on (say) a weekly or monthly basis would be impracticable, or at the very least it would place heavy additional burdens on payroll bureaux and thus heavy additional costs on their clients.

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

It is unclear why some of the data such as the home address would be sought only at the start of employment. If RTI is to be used also for Universal Credit purposes, we would expect HMRC to try to keep such data up to date on an ongoing real time basis.

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

We see it as essential that the option of integrated payment instigated by the employer is retained, because many employers have deep-rooted and justifiable opposition to allowing HMRC to collect payments by Direct Debit. We recommend that integrated payment instigated by the employer should be the default method of payment, with employers and bureau able to elect for either of the other methods described.

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

The current choice of cheque or electronic payment should be retained, especially for small and medium sized employers for whom electronic payment may impose additional inconvenience. Choice is important because what suits one employer may not necessarily suit another.

Many small employers find that HMRC’s BillPay facility is easy and convenient for paying all tax liabilities, and they generally find it economical if used with a debit card. We recommend that this facility should be retained for PAYE purposes.

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

Yes – the facility to make payments either quarterly or annually should be retained, otherwise employers using these methods would face unfair additional costs.

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

Under the RTI proposals, if a new employer would still have to ask P46 type questions in a situation where no P45 or last payslip had been presented, we see no advantage to be gained by dispensing with the official P46 form. Because the P46 is ‘official’, it currently serves a useful purpose by ensuring that these procedures are observed by many employers who might otherwise ignore them in its absence. It could aid compliance if employees were still required to sign something confirming the information they have given to a new employer at the commencement of employment.

The NINO verification service would be advantageous if it allowed the employer to ensure that they were then using the correct NINO for the individual in question. However, it would be of little value if, for example, it simply confirmed that a NINO
provided by a prospective employee was a valid NINO but not necessarily theirs. If the verification service was merely another step that an employer would need to go through, that would take time but not necessarily provide a benefit, there seems to be little point in having this. We are concerned that a useful NINO verification service, which offered the correct NINO for a particular individual, might present security risks for individuals and could be misused to aid identity theft.

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

Currently, 70% of P45s are ‘lost’ to the system for various reasons, and most new starts are under the P46 procedures, meaning emergency tax codes, BR, Month 1 etc. As a result, the tax deducted is wrong and needs to be fixed, currently after May in the following tax year. Part of the proposal at 5.13 is that a payslip (containing sufficient details) could be used instead of a P45 in the new regime. As an alternative to the new RTI regime rather than a feature of it, payslips could be changed to include any necessary information not already included (probably only the employer’s PAYE reference). Then a new employer could use the last payslip as a P45 for pay, tax and tax code purposes, and thus minimise the adverse impact of the loss of P45s.

There is of course a distinct possibility that, if 70% of P45s are currently lost to the system, an equivalent proportion of last payslips may already share the same fate. If this were so, then dispensing with P45 and agreeing to allow last payslips to be used in their place might not remove the need for the P46 procedures.

There would still be an ongoing need for some kind of reconciliation to ensure that employees under PAYE were paying the right amount of tax. We cannot see that the RTI regime, by multiplying the number of pay records for each employee by (typically) 12 or 52, would make the process of reconciliation any easier than it is now. Indeed, if reconciliations were not done ‘in period’, the backlog would build up to a massive extent and become much worse than it is now.

Some employees might feel uneasy about passing their last payslip to a new employer, on the grounds that it might show other information that they would not want the new employer to know. However, we think instances of this would be relatively infrequent.

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

We think that this very much depends on the salary being earned. Where the employee was (say) a shop worker on a modest rate of pay, a BR code would probably be appropriate to ensure that they paid at least what tax they were due to on the salary earned up to that point – perhaps a bit more but probably not by very much. Where the employee was an executive on a large salary that should attract higher rates of tax, then a BR code would not be suitable. We would suggest that there should be 2 or 3 codes to be used, the choice being determined by the earnings level at the new employment.

Chapter 6

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

For many small and medium sized employers it is much more convenient for them to be able to pay their employees by cheque or even cash.
Most payroll bureaux serve a range of different employers and are not responsible for the actual payment of salaries or wages.

There are employers and agents who, for a variety of commercial reasons, do not have access to Bacs and in some cases do not want to have access to Bacs or would not trust Bacs for the purpose of submitting large volumes of confidential data.

There are situations where an employer has access to Bacs and uses it to pay employees, but an agent processing the employer’s payroll has no access to Bacs. In other situations an employer without access to Bacs may process their own payroll and employ an agent to pay the employees via Bacs. There could be many different variations on such themes. It is unclear to us who would be responsible for submitting the RTI data in such circumstances, and how they would do so. Many businesses would find it unacceptable to be forced to use the Bacs system.

Under the proposals, large and medium sized employers would be required to use the Bacs system for RTI. However, some UK employers (including businesses owned from overseas) use foreign banks who do not offer access to the Bacs system. What provision would be made for such employers? It would be discriminatory to require them to bank with a UK bank.

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

We have members in practice who offer payroll bureau services to their clients. Typically a small practice might operate payrolls on weekly, fortnightly, monthly, quarterly, annual and ‘as required’ bases, and the numbers on such payrolls might vary from 1 to over 50. Larger practices fall into no standard pattern, and some have employees numbering 100,000 or more on payroll.

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

This would depend to a large extent on software suppliers or in-house developers providing the required data fields. For payroll bureaux, it would depend also on appropriate information flows between bureaux and their employer clients.

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

This could be very difficult in certain circumstances. For example, if an employee was to leave unexpectedly part-way through a normal payment period, the employer might need to pay them immediately, without any advance notice, at a time when a normal payment run was not due. Even where it was known in advance that an employee would be leaving, it would not always be the case that all payments due to them would be known in advance, e.g. commission, holiday pay etc.

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

We think this relaxation provision is essential, and that it should not be restricted to small employers. We believe it should be extended to cover all small and medium sized employers. There are so few small employers currently using any form of electronic
payment for PAYE that we would suggest the relaxation should remain available for at least 10 years following full implementation of RTI.

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

Not applicable.

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

If there are circumstances now in which exemption from online filing has been granted, it is more than likely that these circumstances would still apply under the new regime, so we think the same exemptions should remain available. For example, if exemption had been granted on religious grounds, it is likely that the religious objections to online filing would remain just as relevant under the new regime as under the old. Other exemptions, such as any granted to employers who operate in areas where Internet access is either unavailable or unduly weak, are likely to be needed even more under the regime because the higher data traffic might place greater demands on the communications links in question.

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

We assume that this might be feasible. However, it is a matter which HMRC should take up in consultation with parties already exempt from online filing, in order to ascertain their views.

Chapter 7

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

We think that the proposed solution would perhaps reduce the amount by which individuals underpay PAYE in these circumstances, but it would not remove the problem completely. It would still not address the frequent instances where salaried employees leave part way through a payment period and are not paid until the normal payroll run at the end of that period, with personal allowances calculated (incorrectly) up to the end of the period – while a new employer uses a P46 and also gives the employee allowances for the same month.

Since the procedure outlined at 7.4 would go against the principles of RTI by treating pay as made in a different period from that in which it was actually paid, it is questionable whether the advantage of making such an adjustment would outweigh the additional complications involved.

7.8 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?

We think that RTI could be submitted at any point if payroll software packages were up to the task, but it is unclear to us why this would be an advantage, since it seems to
conflict with the principle that payments made and RTI data simultaneously submitted should reconcile.

7.12 **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).**

Works numbers are used by some employers and not others, and may have different degrees of significance in different organisations. Accordingly, where an employer changes a works number of an employee, we would normally expect this to be of no relevance to the employee’s tax position and therefore of no interest to HMRC except to the extent that the works number is used as an employee identifier. We would recommend instead that the NINO should be used as the default identifier in all cases where a NINO exists.

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

We believe that the costs to HMRC of implementing RTI have almost certainly been understated in the impact assessment, as this is the prevailing practice in all public sector projects. The costs incurred by employers in complying with the existing PAYE regime are demonstrably under-stated, since they are based on historical estimates from 2006 – which were discredited as soon as they were published because they had failed to take account of the substantial time spent by employers in determining which compliance obligations applied to them and which did not.

It is ludicrous and irresponsible of HMRC to suggest that over half of the ongoing annual private sector costs of PAYE compliance would be removed by implementing RTI – a reduction from £700m to £340m (HMRC’s figures). We strongly recommend that a well founded cost/benefit justification should be published before the project is allowed to proceed. Large employers have suggested that most of the potential savings now identified were already realised when EDI was introduced, and they are expressing difficulty in identifying what other savings would be made under RTI – indeed, they see the proposals as imposing additional cost burdens.

Chapter 8

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

Our biggest concern about RTI is the recklessly unrealistic timescale being proposed – driven apparently by DWP. Against a background of failed public sector IT projects and Government departments trying to hide the reasons for such failures, these proposals appear to be breaching every aspect of established best practice in managing IT projects.

The existing PAYE system has been the subject of major change at HMRC, as data from legacy IT systems have been migrated across to the new NPS. However, the transition to NPS has not been without its difficulties and adverse publicity, and there still remains a substantial backlog of PAYE and NICs reconciliations for previous years. We recommend that further PAYE reform should be delayed until NPS has stabilised and this backlog has been cleared.
We have grave concerns that there would be insufficient time for adequate testing and piloting to have been carried out before implementation of RTI, not only by HMRC and by third party payroll software providers, but also by large employers and pension annuity providers who are faced with re-writing substantial in-house payroll installations. Large employers have expressed the view that the proposed timescale seems exceptionally tight.

Large employers and pension annuity providers currently developing new payroll systems in-house have expressed the fear that the additional development required could be crippling for them. HMRC personnel presenting recent RTI consultation seminars have acknowledged concerns about the time required for development and testing, but have failed to suggest any solutions.

Pension annuity providers face particular difficulties. Their systems for paying annuities have been developed in-house and will have to be re-developed in-house, and all this at a time when their resources are focused on the significant changes required to implement regulatory changes (Solvency 2) as well as giving consideration to the changes required by the Scotland Bill.

We are concerned that most employers would be heavily reliant on their software providers, and in the rush to comply they would find it hard to assess in advance the suitability of different software solutions. There would be little time for them to change suppliers, and such decisions should not be forced on them in unseemly haste because of the commercial risks that this would involve. We think that HMRC should have learnt from the current iXBRL debacle that it would be unwise to make yet another a mandatory UK-wide tax filing project a hostage to the fortunes of third party software vendors.

Small employers who have relied on HMRC’s free online payroll software would need to know in advance whether they would be provided with a similar facility to comply with RTI and, if so, on what terms and conditions. It would be unacceptable to withdraw the free facility and force small employers to pay high prices for proprietary software solutions.

HMRC have indicated that the Bacs system they intend to utilise for RTI has more than sufficient capacity to cope with the additional load generated by the implementation of this new system. Based on HMRC’s past record – for example with the online filing of income tax self assessment, the online filing of annual P35 forms and the current confusion with iXBRL-based corporation tax online filing – we find it hard to believe that the operation of PAYE would not be subject to serious risks of failure during implementation of RTI.

It beggars belief that large employers would be required to use RTI before year end routines have been carried out by the test group and proved to be workable, and that medium sized employers would be required to use RTI before either the test group or large employers have carried out year end routines. It is abundantly clear that the new regime should be piloted for an entire annual cycle in order to see if it works at the end and to identify all the inevitable teething troubles and other questions that would arise.

The proposed three-month trial followed by early implementation would mean that the project would be rushed, issues arising from the trial would not be properly addressed, and there would inevitably be a large number of unsatisfactory and expensive ‘fixes’ to try to correct problems later. The approach mirrors closely the tax credits fiasco, where
new systems were introduced without adequate preparation or testing, only simple situations were considered at the outset, and the sheer enormity of the system shortcomings and the levels of error and fraud did not become apparent until they were so engrained in the regime that they could not be removed.

Small employers would be expected to implement these changes in the middle of a tax year, thus requiring two different types of reporting within the same year, heaping extra costs on small businesses and making the already complex payroll processes even more difficult for them to understand.

We think that the proposed phasing of employers moving to RTI would need to be considered further. It would be logical to allow employers of any size to move voluntarily to RTI at an early stage if they were ready to do so, and to allow others to defer moving across until later if they were facing problems regarding system readiness. For payroll bureau and agents dealing with a range of different sizes of employer, they should be allowed to choose whether to migrate their clients in phases by size or all at once.

HMRC’s plan to bring a large number of payrolls into the scheme part way through the annual tax cycle seemed deeply flawed. It is unclear how HMRC (who were criticised by the Public Accounts Committee earlier this month because they failed to understand the risks of poor quality data, which undermined the effective operation of NPS) would manage to cleanse the data of so many payrolls at such a time, and it would be much more logical to try to do so in time for the start of a new tax year. Data cleansing would inevitably require a huge HMRC staff resource, given the number of queries that would have to be cleared within a short timescale. Indeed, in view of the pre-existing backlog of PAYE and NICs reconciliations, we would question whether HMRC have sufficient resource to implement the new RTI regime.

HMRC’s IT capabilities appear to be severely constrained by pressures on public expenditure. Given the scale of the RTI project and the risks of over-run, we are concerned that resources might be withdrawn from other important projects, leading to a further deterioration in HMRC performance. For example, the Government Gateway is in need of early improvement, and this would be crucial to support RTI for small businesses that have no access to Bacs. It would be a severe blow to the small business sector if the Government Gateway was not up to the task of accepting their RTI transmissions.

It seems that RTI is primarily intended as a data gathering project for the Universal Credit rather than reform of PAYE, and we think that HMRC would be losing a valuable opportunity to undertake a more fundamental reappraisal and reform of the PAYE system as a whole. The timetable for RTI is clearly driven by the DWP’s haste to introduce the Universal Credit. We understand that there may be political pressures to achieve this, but we think it would be wrong for such pressures to over-ride established best practice for IT projects.

We would also question whether the DWP’s aim of starting to introduce the Universal Credit by 2013 is realistic. It seems that this could only be achieved anyway by keeping claimants within tax credits for varying periods depending on their circumstances, which seems an unfair and unnecessary complication. Furthermore, the suggestion that employees might lose out on Universal Credit if their employer is not fully within RTI is outrageous.
To help contain the unacceptable level of risk otherwise involved in this project, we would ask that the Government should publish each and every Cabinet Office Gateway Review on this project as soon as it had been carried out, so that the progress of the project was transparent and open to public scrutiny. We would also ask that the project be brought within the remit of HMRC’s Carter Agent Steering Group, so that it could be monitored independently by representatives from ICAS and the other main UK professional tax and accountancy bodies who have been working with HMRC for several years on the development of HMRC’s online services.

About ICAS

ICAS is the world's first professional body of accountants, receiving its Royal Charter in 1854. ICAS has over 18,500 members worldwide and in the UK the CA designation is reserved exclusively for their use.

Under the Royal Charter, ICAS works in the public interest. The objective of ICAS is to uphold the integrity and standing of the profession of chartered accountancy in the interests of society and the membership, through excellence in education and the development of accountancy and through service to members and the enforcement of professional standards.

ICAS is the only UK professional accountancy body to both educate and examine all of its students. The CA qualification is known around the world for consistency and high standards and ICAS enjoys a widely recognised reputation for providing the 'gold standard' in accountancy education.

ICAS is a member of The Global Accounting Alliance (GAA) – an alliance of the world’s leading professional accountancy bodies, which was formed in 2005. The GAA is intended to promote quality services, share information and collaborate on important international issues. It works with national regulators, governments and stakeholders, through member-body collaboration, articulation of consensus views, and working in collaboration, where possible with other international bodies, especially IFAC.