



# Consultation Response: Improving the Operation of Pay As You Earn (PAYE): Collecting Real Time Information

## Xafinity and Equiniti

Xafinity is one of the UK's leading specialist providers of pension, employee benefit and payment services. As part of this group Xafinity Paymaster provides outsourced pension, payroll and annuity administration to over 130 organisations and nearly 3 million pension scheme members in more than 750 schemes.

Xafinity Claybrook provides market leading software and services for pension administration, pensioner payroll and actuarial valuations, and was recognised in 2010 as "Pensions Systems Provider of the Year" for the fifth time in six years. Xafinity Claybrook's international base of clients represents nearly ten million pension scheme members.

Equiniti delivers HR and payroll software, outsourced services and consultancy to a wealth of organisations in the public and private sector across the UK and Ireland.

This joint consultation response brings together the views of UK leaders in payroll processing and software across employee, pensioner and annuity payroll services. Our combined experience represents some of the largest public and private sector organisations in the UK. We support over 1000 payrolls, more than 2.5 million payees rely on us to receive their salary, pension or annuity and we make payments of more than £13 billion annually in over 180 countries worldwide.

Xafinity and Equiniti would welcome involvement in any early testing and development of the proposed platform.

## Introduction

We strongly support the RTI concept and believe it will ultimately lead to more efficient payroll administration and more accurate collection of tax.

From an employer payroll perspective, we welcome the proposed modernisation. It will allow balancing to occur month-to-month rather than waiting until year-end. From an employee perspective, the correct tax code will be calculated and applied sooner and this will reduce the amount of over- and underpayments. The revised movements process will allow a simpler document to be given when employees leave service or when a pension ceases.

Our detailed comments appear below, but we also raise the following issues for clarification:

- Will RTI users be charged by BACS for transmitting the additional data?
- How will penalties for incorrect payments be operated?
- What will replace the EDI channel for bulk and ad hoc distribution of tax codes?
- How will RTI handle adjustments resulting from payment returns that come back via a different route than that by which they were issued?
- Will other electronic payment channels, such as CHAPS, be participating in RTI?
- How will the issue of the large number of individuals are still paid by non-electronic means be resolved?

# Summary of Consultation Questions

The consultation document focuses mainly on employer payroll. However the following issues are specific to pension and insurance payroll services and will need to be recognised in the future operating model:

- Pensioner payroll naturally involves payments to the elderly who can be particularly reluctant to switch to electronic payments. How will this be encouraged?
- Some payments are made gross by administrators to pension scheme trustees, who then address any taxation requirements.
- RTI will need to handle overpayments that are recovered by one-off or periodic deduction.
- Recovery of some overpayments straddles tax years.
- Where a pension is earmarked as a result of a divorce court order, the scheme member is taxed on the income diverted to the ex-spouse.
- Pension schemes make tax-free payments such as pension commencement lump sums (which could also be subject to an earmarking order).
- Pension schemes make payments that are not subject to PAYE, such as lifetime allowance excess lump sums.
- Pension schemes make certain one-off payment that are taxed initially at the basic rate, including trivial commutation lump sums and compensation for redundancy greater than £30,000.
- Pension payments that are potentially subject to income tax which is not deducted at source, such as trivial commutation lump sums, could be brought within the scope of RTI.
- Payroll providers make certain non-PAYE payments (Schedule D) such as purchased life annuities.

Equiniti and Xafinity would welcome the opportunity to work with HMRC to identify ways to address these issues.

## Chapter 5

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

We believe that RTI will eliminate the need for end-of-year reporting, provided that there is a mechanism for resolving supplementary payments and reversals, and for resolving discrepancies between a pension scheme's total PAYE liability and the amount paid.

The current Bacs returns process does not always include enough information to identify the individual to whom a returned payment relates. To achieve the desired level of automation, this is an area that must be improved.

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

Within a pension or annuity payroll operation, a high number of adjustments are required due to a combination of failed Bacs payments and the recovery of overpayments. Many of these relate to previous tax years, particularly in the early months of a new tax year. Such adjustments would need to be accommodated somehow, but do not seem to fit well within a monthly reconciliation process.

Alternatively, would it be possible to send details of these adjustments at the same time as the real time information about employee deductions? (5.5)

The adjustments referred to in our preceding answer seem to fit better within the RTI process, provided that there is a mechanism for sending information without an associated payment and the data feed includes provision to identify past-year adjustments. The latter does not seem to be provided for in the proposed list of data items.

There are likely to be arguments for and against each of the two methods. A possible solution would be to offer a combination or a choice of the two.

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

Items such as 3, 9, 10, 25 and 40 will not be available across all payroll operations.

Some data, such as an individual's address, is unlikely to be held by an employer's payroll provider if payslips and P60s are distributed internally by a client company.

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

Required data items could be obtained from employers, pensioners and annuitants, but additional data entry and new or amended interfaces would be necessary.

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

Fields could be developed to hold additional data, but it would be necessary to know which data items are mandatory or optional in different circumstances such as reporting a new employee or reporting a pension/annuity being put into payment for the first time. We would need to work with HMRC to understand the minimum data requirements in different circumstances.

From a software developer's perspective, the proposed timescales will be challenging if database changes are required. Clients who run packaged software in their own environments expect delivery of changes three to four months ahead of going live in order to allow for their own testing and roll-out.

Another consideration is that additional data storage capacity and hardware upgrades may be needed to handle the additional data requirements. Sizing and procurement can take a significant amount of time.

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

As already mentioned, it would be useful to have some indication of which data items are mandatory for different types of payment provider categories and different types of payment.

From a software developer's perspective, it will be essential to know the format of the new Bacs files containing RTI data. The current files contain simple fixed-length and fixed-width fields as formatted records, which means that the data is positional. It would be useful to know whether positional files will continue or an alternative format, such as HTML, will be introduced.

Adding RTI data to Bacs files will increase the amount of data being transmitted and the time it takes to transmit it. The present multi-data files contain 106 characters per payment and contain 11 data fields at most. The combined RTI/Bacs files would require the existing 11 plus around 30 of the proposed new items. As fixed-position files, these would be four to five times larger than now; as HTML files, these could be eight to ten times larger.

A large payroll provider might submit an average of fifty Bacs files (150,000 payments) per day, which would increase to around sixty-five to seventy (250,000 payments) on peak days. Based on current capacity of five to eight minutes per file, the transmission of data would take between four and over six hours per day.

Both payroll providers and Bacs will have to increase capacity in order to handle the pressure that increased data volumes put on transmission times.

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

We have a strong preference for Option 1 – integrated payments instigated by payroll administrators. Although additional reconciliation against RTI data and adjustments would be necessary, Option 1 has a number of beneficial aspects:

- It most closely mirrors the current process and would require the least amount change.
- It allows the payer to retain control over the payment amounts.
- It is more manageable. Large payroll providers such as Xafinity Paymaster's make payments from a large number of different client bank accounts.

A possible fourth option would be separate payments in respect of employee deductions and amounts due, but instigated by the payroll administrator. This would also mirror existing processes.

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

The current choice of cheque and electronic payment should be retained until the Payments Council phases out cheque payments. As long as cheques are in use, there will be payment recipients who insist on payment in that format.

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

As a large payroll provider, Xafinity Paymaster would be happy to make monthly payments. However, quarterly or annual payment to HMRC would seem more appropriate for payments made at that frequency.

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

We agree that the proposed movements process will be simpler to administer and eliminate the need for many of the current submissions to HMRC.

The majority of "leavers" for a pension/annuity payroll provider result from the death of the payment recipient. Late notification often results in an overpayment after death and the overpayment must be recovered from the deceased person's estate. It will be necessary to identify cases that do not have a further payment to generate an RTI feed. These will need to be identified separately and processed as adjustments.

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

As already noted, information may have to be submitted without a payment being made.

Employers will be required to ask P-46-type questions of joiners (5.12). Details such as the current tax year, earnings and tax paid to date are currently contained in a P45 or in the employer's section of a P46. These will have to be taken on trust from an individual unless an employer is able to ask for a copy of the leaver's statement from the previous employer (5.13).

The list of data items for leaver's statements (5.13) does not include a tax code, without which an initial submission would have to be based on an emergency code. Also, the inclusion of an NI number in the statement would improve the validation process.

We would suggest that the proposed NI verification service be provided as a batch service as well as an online service. A number of clients supply joiner details through interface files which currently do not require manual intervention.

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

It would be appropriate to use an emergency tax code to minimise the risk of underpayment of tax. It would normally encourage an individual to provide accurate information as soon as possible.

## Chapter 6

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

While we broadly support the RTI concept, there are some potential barriers to overcome before moving to fully automated payments:

- Bankrupt individuals who are not permitted to use a bank account
- Pensioners/annuitants paid by cheque or other non-electronic means
- Individuals who refuse payment by Bacs
- Elderly or infirm pensioners/annuitants who have difficulty adapting to change
- Overseas residents who reside in a country to which electronic payments can not be made
- Overseas residents who cannot, or will not, open a suitable bank account
- Overseas residents who are unable to open a suitable bank account in their country of residence and are prevented by UK law or banking procedures from opening a UK account

Attempts over the years to persuade individuals to move from cheque to Bacs payment have had mixed results. While non-Bacs payments are likely to reduce organically over time, they are likely to persist for some time unless an element of compulsion is introduced.

One possible option would be to allow certain payments to be made manually while still passing RTI data to HMRC.

In any case, we would be grateful for the opportunity to work with HMRC, the banking industry and other stakeholders to overcome the issues outlined above.

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

Xafinity Paymaster's pension and annuity payroll operations average over 29,000 non-electronic payments per month. The majority of these are regular monthly payments.

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

Some employers, smaller ones in particular, may not have internet access.

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

At the current time it is not unusual for HR/personnel departments to only supply data to payroll departments until after a prospective employee has actually started. This is because individuals may accept a job but not eventually start as expected. If this approach needs to change, then it may be appropriate to include an RTI data item to identify non-starters.

At a bulk level when taking on new clients, the process of obtaining tax references, setting up bank accounts and obtaining Bacs user numbers, setting up overseas mandates and so on can take some time. RTI needs to recognise the need for some flexibility during this process.

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

Yes, we agree with the proposed relaxations. There is a strong case for including a relaxation for pensioners paid by cheque.

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

Not applicable.

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

Yes, the current exceptions would still be needed.

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

We do not have a view in this area.

## Chapter 7

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

The proposed change would reduce the number of cases adversely affected by overlapping pay periods.

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? (7.8)

Xafinity Paymaster has a number of regular payroll runs in a given day and a similar number of supplementary runs. On that basis, we would prefer to submit corrections in-between regular payroll runs. Treating periodic Bacs payments and supplementary ones differently would create complexity and require additional development work.

An additional benefit would be that the information passing between HMRC and payroll operators would be more up to date.

Smaller payroll administrators may not have the functionality to make interim payments, so it may be appropriate to allow for both methods.

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). (7.12)

Changes to works numbers in our pension/annuity payroll operations are usually the result of taking on a block of payments from a previous provider. A facility to notify bulk changes in work numbers would be useful alongside the facility for changing numbers individually.

Do you have any views on the impact assessment that was published alongside this document? (7.15)

The impact assessment did not include much specific detail or references to supporting evidence.

## Chapter 8

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

From a software developer's perspective, much resource was devoted to adopting EDI when it was introduced. It should not be assumed that software packages already provide for using HMRC's internet channel which came along later (and yet later with a reasonable volume capacity). EDI has continued to meet client's needs adequately. Adopting the internet solution now would require additional resource and HTML/internet expertise at short notice.

The possible withdrawal of the EDI channel, and the development of one (or more) new RTI channels within the proposed timescale would involve significant cost and risk.

The majority of development costs would fall within the current financial year, but development budgets were set before the biggest change to PAYE since it was introduced could be anticipated.

When the changes are eventually implemented, we would welcome a progressive implementation over two years. Starting initial pilots after the month of April would avoid clashing with end-of-year work peaks.

For organisations running multiple payrolls every day, it will be particularly challenging to provide year-to-date figures at the point of migration to the new process.

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