



ICAEW REPRESENTATION 163/16

TAX REPRESENTATION

PAYE REAL TIME INFORMATION POST IMPLEMENTATION REVIEW

Submission to HMRC

ICAEW thanks HMRC for the opportunity to attend the workshop on 18 April 2016 to contribute to the PAYE real time information (RTI) post implementation review. We hope that HMRC found the workshop as constructive and helpful as we did. Now that RTI has become business as usual, and that HMRC is rapidly implementing digital tax accounts as a replacement for self-assessment tax returns, we believe that it is essential that HMRC not only learns from the experience of implementing RTI but also makes operational improvements to smooth the introduction of digital accounts, remove the additional burdens imposed by RTI and deliver the benefits promised in the consultation documents by utilising RTI data efficiently. To achieve this HMRC needs to acknowledge the problems with the current system.

This submission of 22 April 2016 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

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ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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KEY POINT SUMMARY

1. Our key points under the four headings are:

... operational improvements you would like us to consider ...

- (a) Accurate processing by HMRC of employer-submitted data
- (b) HMRC staff all able to see the same figures on HMRC employer PAYE accounts
- (c) HMRC not making unexplained reallocations between years and PAYE schemes
- (d) Full explanation of all entries on HMRC's employer PAYE accounts with dates
- (e) HMRC able to discuss apparent errors with employers, agents and software developers without separate authorisation
- (f) HMRC to consider NIC as well as tax when correcting corrupted records
- (g) Other necessary operational improvements
 - i. Full payment submission (FPS) should be able to be completed without needing any financial values, e.g. to inform HMRC of an employee's leaving date or changes to employee details such as marital status
 - ii. It should be possible to submit earlier year updates (EYU) showing correct figures, not 'delta' values, i.e. the amount by which HMRC's records need changing
 - iii. Code number protocols need to be changed
 - iv. HMRC should review code numbers after an individual has started a new job
 - v. Disputed charge process needs to be more transparent
 - vi. Employer refunds should be automatic, like for personal tax self-assessment
 - vii. Employer Helpline and Payments Helpline should be combined, and there should be an employment agent dedicated line (ADL)
 - viii. HMRC needs to revamp its agent authorisation process

... the most important concerns for our customers ...

- (a) Unsystematic processing by HMRC leads to unwarranted HMRC contact, incorrect P800s, wrong tax codes, corrupted NIC records and inaccurate earnings data for UC and TC. Members' comments received during the past two months – see Appendix 2.
- (b) Disputed charge process opaque
- (c) Refunds take far too long to agree and be repaid
- (d) Duplicate employments and knock-on effects
- (e) FPS has to include financial data so cannot just notify e.g. employee leaving date
- (f) Earlier year updates require unknown delta values rather than correct figures
- (g) Wrong code numbers are issued
- (h) Multiple helplines have confusing service distinctions – and no PAYE agent-dedicated line
- (i) Discontinuance of Basic PAYE Tools would be retrograde
- (j) Lack of agent access to HMRC's employer PAYE accounts
- (k) Absence of publicity about changes in law and HMRC guidance
- (l) On or before – withdrawing relaxations likely to create difficulties

... a measure of the impact it is having and ...

- (a) Additional contact between HMRC, employers and payroll agents – undermines client/agent relationships
- (b) Additional costs for employers
- (c) Additional costs for HMRC
- (d) A small percentage of corrupted employee payroll records is a large absolute number

... what benefits you anticipate if we work with our customers to deliver a solution ...

- (a) Substantial reduction in costs for employers, agents and HMRC
- (b) Elimination of errors with beneficial knock on effects for tax, NIC and state pension records
- (c) Increased likelihood of successful rollout of UC
- (d) Increased likelihood of successful rollout of making tax digital

GENERAL COMMENTS

2. In our view the key points are as follows:
 - The UK tax system is extremely complex. It was inevitable that problems would arise. When they did they would have been resolved more efficiently had they been openly acknowledged. Statistics given to HMRC's Employment & Payroll Group (EPG) show that this was not always the case. News management has hindered issue resolution.
 - A longer period of transition whereby the system was fully tested (as recommended by Lord Carter of Coles in his [Review of HMRC Online Services](#) published on 22 March 2006) would have enabled a robust system to have been implemented and many problems avoided.
 - The main problems were – and continue to be – inaccurate processing by HMRC of employer-submitted RTI data, leading to incorrect figures for liabilities and payments in HMRC's employer PAYE accounts.
 - Many man hours were – and continue to be – spent unproductively by HMRC, agents, PAYE bureaux, software developers and employers resolving disputed charges. This is exacerbated by poor communication from HMRC regarding the progress of 'disputes' and the cause and the solution of issues.
 - Dispute resolution takes far too long.
 - Employees changing jobs and employers changing software providers leads to duplication of figures in HMRC's records.
 - HMRC have an inclination to issue 'guidance' rather than address the underlying design issues.
 - Lack of analysis by HMRC of the RTI data to pro-actively fix issues.
3. Transitioning so many PAYE schemes in such a short timescale was a great achievement. A longer period piloting before the complete rollout would have been more efficient. This timescale was driven by universal credit and with hindsight need not have been so tight. This led unfortunately to issues and a large number of disputes which although reducing continue today.
4. We consider it a matter of regret that, four years into RTI, the Government's objectives for RTI outlined in HMRC's consultation document published on 27 July 2010 (reproduced in Appendix 3), which we responded to in [TAXREP 36/10](#), have not been fully achieved.
5. Acknowledgement of the issues with RTI is vital if the government's and HMRC's ambitious plans for making tax digital are to be delivered given that these all rely on the supporting systems.
6. RTI suffered from a lack of full specifications in part due to an apparent lack of appreciation by HMRC of how PAYE operated in practice.
7. Policy makers, politicians and HMRC need to allow software developers the time to incorporate changes in their development cycles. The apprenticeship levy is the latest example of full specifications not being available in time.
8. There has been a tendency to blame employers for getting things wrong and to rewrite guidance rather than address design faults, e.g. date of leaving which is discussed further below.
9. There was also a tendency to 'code' into IT current processes rather than think 'what is the best way to capture this data digitally in real time'; e.g. the earlier year update (EYU) which replicates the manual process for correcting figures used in the former local PAYE offices, which is also discussed below.
10. As well as apparent underpayments that lead to unwarranted HMRC field force activity, as concerning to HMRC and HM Treasury ought to be the massive overpayments shown on

individual PAYE schemes which regularly run into the £millions for employers with a few thousand employees. It is not at all clear how these 'overpayments' occur and what is being done to investigate them as they will never be matched by remittances so must be adding to the tax gap estimates. ETMP appears to be unstable, with remittances regularly posted to the wrong tax month, wrong tax year or wrong PAYE scheme and yet we are told ETMP will be the bedrock of the new digital roadmap, alongside HMRC's NIC and PAYE Service (NPS) which also contains inaccurate data because it receives duplicate records from the core RTI database.

RESPONSES TO THE SPECIFIC POINTS ON WHICH COMMENTS INVITED

Extract from HMRC's invitation dated 22.3.16 to contribute to the post implementation review: 'Now that RTI has become business as usual, we want to capture your views on operational improvements you would like us to consider. We want you to tell us the most important concerns for our customers with a measure of the impact it is having and what benefits you anticipate if we work with our customers to deliver a solution.'

... operational improvements you would like us to consider ...

Accurate processing of employer data by HMRC

11. Whilst HMRC needs to make operational improvements to all the areas listed below under 'the most important concerns for our customers', the main operational improvement we would like to see would be the accurate processing by HMRC of data submitted by employers and payroll agents. This would reduce time spent by HMRC, employers, agents and employees on:
- unwarranted contact with employers by HMRC pursuing apparent underpayments – it appears that HMRC Debt Management & Banking (DMB) staff no longer have faith in the data they are presented with in HMRC's own records;
 - resolving differences between employers' and HMRC's records; and
 - correcting wrong code numbers.

HMRC staff all able to see the same figures on HMRC employer PAYE accounts

12. It is also essential that HMRC staff can all see the same figures on HMRC's employer PAYE accounts, and that employers and agents can both see the same figures as HMRC. Confidence in the system is lost when taxpayers talk to HMRC and it becomes apparent that HMRC's records are not consistent between different parts of HMRC. Large employers in general appear to have no confidence that HMRC's PAYE payment records are accurate.

HMRC not making unexplained reallocations between years and PAYE schemes

13. Clarity of HMRC's employer PAYE accounts would be improved if HMRC did not make unexplained reallocations and in particular did not move payments from year to year. We were given assurances in February 2014 by DMB that incorrect liabilities at the end of each tax year would not be rolled forward into a subsequent tax year. This assurance has proved to be incorrect with many employers reporting that under or overpayments have happened every single month since April 2013.

Full explanation of all entries on HMRC's employer PAYE accounts

14. It is inevitable given the size of the PAYE system and the number of liabilities created and payments made that errors will occur. Resolving those errors would be greatly helped if employers and payroll agents could see payments made accurately dated and fully described, for example, rather than 'credit' the account should say 'remittance' with the date received; similarly reallocations made by HMRC should have a full description including the date made

and details of where reallocated to or from (what scheme, month/year, etc) and why. We acknowledge that one can see the payment date and type on page 2 of the dashboard, but it is often inaccurate, e.g. it can show a duplicate entry of both a cheque payment and an electronic payment even when the employer never pays by cheque, resulting in a credit.

HMRC needs to be able to discuss apparent errors with employers, agents, software developers without separate authorisation

15. Presently inaccurately processed PAYE RTI information leads to wrong liabilities and payments data on HMRC's employer PAYE accounts in turn leading to HMRC pursuing non-existent underpayments from employers, and incorrect employee tax liabilities, incorrect tax codes and incorrect eligibility to state pension and contributory benefits including universal credit. We understand that a protocol has been developed that DWP will pass queries relating to universal credit where earnings data is incorrect to HMRC to follow up with employers. No publicity has been given as to how this will work and we do not believe that HMRC has the resources, and payroll agents do not have necessary permission, to discuss matters relating to an individual's state benefit entitlement where the agent acts for PAYE matters only.
16. The Government should consider a limited amendment to the data protection rules to allow HMRC to discuss apparent payroll/submission errors with employers, agents and software developers without requiring authorisation from the employee/employer.

HMRC needs to consider NIC as well as tax when correcting corrupted records

17. Evidence over the last three years indicates HMRC staff focus on correcting only tax records and give no priority to the need to correct NIC records at the same time. If an employee's record is corrupted, then both tax and NIC must be considered.

Other necessary operational improvements

18. In addition to making HMRC's employer PAYE accounts show correct liabilities and enabling HMRC, employers and payroll agents to be able to view the same correct and fully explained data, we recommend that the following specific improvements are made which would assist in achieving this end:
 - (a) The full payment submission should be able to be completed showing an employee's leaving date without needing any financial values. This would enable employers to report to HMRC the date that an employee will be leaving once the employee has given or been given notice. Crucially this would enable the date of leaving to be reported to HMRC before a new employer submits an FPS containing a new employment starting date. The old employer providing a leaving date to HMRC in advance of the final payment to that employee would mean that HMRC would not receive an FPS suggesting that the employee has two concurrent jobs, and HMRC would be able to issue a correct code number for the new job. This is essential if correct code numbers are to be issued and will be vital if HMRC's plans to abolish the P45 (on hold it appears) are to be delivered.
 - (b) Changes of employee details on an FPS such as name, address or marital status should not need a payment or payment date and year to date figures.
 - (c) It should be possible to have the option to submit earlier year updates (EYU) showing corrected figures and not just not 'delta' values, i.e. the amount by which HMRC's figures need to be changed. This would obviate the need for employers/payroll agents first to contact HMRC to find out the tax and NIC figures that HMRC's systems hold.
 - (d) Code number protocols need to be changed so that, for example, an emergency code for a concurrent second job or pension has a 0T code rather than BR, and Month 1 codes are issued only in specified cases rather than randomly as seemingly happens presently.
 - (e) Once a code is issued it should be reviewed by HMRC to see if it is still appropriate, e.g. when a second employment ends and/or level of income changes.

- (f) The procedure for registering a disputed charge needs to be more transparent. There should be a clear process whereby the taxpayer is given a reference number and regularly updated on progress.
- (g) The refunding by HMRC of overpayments to employers needs to be speeded up – employer PAYE refunds should be automatic, like for personal tax self-assessment.
- (h) Employer Helpline and Payments Helpline should be combined, with a separate agent dedicated line (ADL), so employers and agents each need call only one number.
- (i) HMRC needs to revamp its agent authorisation process so agents and HMRC are able to liaise on those areas in which the agent is acting (need to be able to separate agent authorisations for eg payroll, benefits-in-kind, employer taxes advisory, NIC, share schemes, pension schemes, etc). This is essential if the rollout of digital accounts is to be a success.

... the most important concerns for our customers ...

Unsystematic processing by HMRC leading to unwarranted HMRC contact ...

- 19.** The concerns of our members were summed up by one who told us recently that she ‘finds HMRC’s processing of RTI data chaotic, leading to clients receiving unwarranted contact from HMRC’.

... and incorrect P800s, tax codes, NIC records and earnings data for UC and TC

- 20.** This of course includes:

- P800s which were delayed again last year and yet still appear to be issued in the hundreds of thousands which was not the expectation three years into RTI,
 - incorrect tax codes,
 - incorrect NIC records that are vital for single tier pension entitlement but rarely questioned by taxpayers who will not be aware of the impact of incorrect figures until they seek a state pension statement, and
 - incorrect earnings data used for universal credit and tax credits,
- which does not seem to meet the Government’s objectives for RTI, reproduced in Appendix 3.

Member concerns notified to us in the last two months

- 21.** The main concerns are noted below. See also Appendix 2 for comments received in the last two months direct from members, and see also our [newsonline](#) site (under tags RTI and PAYE & employers) and our online [forum](#).

Disputed charge process opaque

- 22.** The process to raise what is called a ‘disputed charge’ is opaque and undocumented. It means that the current 25,000 disputed charges quoted by HMRC to the Employer & Payroll Group (EPG) only equates to those PAYE schemes that have managed to navigate the system to lodge a formal dispute that should lead to a cessation of compliance activity and active investigation. It is unclear how many thousands of other contacts about discrepancies never make it as far as being logged as a formal disputed charge. We should mention here that agents cannot see their employer clients’ accounts in HMRC’s records and many employers are unaware that they are themselves able to view their figures in HRMC’s records until compliance activity starts. For both these reasons the cited figure of 25,000 disputed charges is likely to be significantly understated.

- 23.** The term could perhaps be revised as some smaller employers would rather pay than have a ‘dispute’ with HMRC. The term is seen as aggressive. We suggest that the term ‘discrepancy’ would be seen as more neutral and reflect the fact that both sides tend to agree there is a data issue and it is usually, at least initially, a question of whether there is any underpayment.

Refunds take far too long to agree and be repaid

- 24.** Refunds now routinely take months or even years to resolve and be repaid. This suggests that in the design of RTI insufficient thought was given to the business as usual need for employer refunds where human error has occurred such as a transposed figure in a remittance or a duplicate payment (including cases where the employer pays the wrong amount initially then makes another payment of the correct amount without taking into account the first payment).

Duplicate employments and knock-on effects

- 25.** There are still duplicate employments occurring on HMRC's records when employers change software (either because they change payroll agents/bureaux or because they change their payroll software). The business as usual activity of being able to move employees efficiently between PAYE schemes as a result of business restructures etc is now in practical terms impossible, because any moving of employees results in duplicate records which can take more than a year to resolve.

Requirement for financial data on FPS

- 26.** The process when employees change employment also fails to achieve the objective of eliminating dual records. This is because for the vast majority of monthly-paid employees, HMRC receives the FPS relating to the new employment before the FPS notifying that the employee has ceased his old job – both submissions having been made by respective employers/payroll agents on time, i.e on or before respective paydays. Part of the issue is the restrictions on when an employer can notify HMRC of the date of payment and the other part is the inability to submit a full payment submission containing no financial data.
- 27.** Typically the result is two employments with two codes. After say two months when HMRC has all the data, HMRC should review the RTI data which will normally show clearly that there is only the one employment and that the codes are wrong. HMRC should automate this review.

Earlier year updates require unknown delta values

- 28.** Earlier year updates (EYU) still need to be completed using delta values (i.e employers/ payroll agents need to input by how much HMRC's figures need to be changed to make their figures correct, which involves employers/bureaux having first to find out what tax, NIC, etc. figures HMRC holds) rather than by inputting what the correct figures should be. This is because the EYU is based on the manual process formerly used by local PAYE office staff who had all the figures to hand, rather than being designed to enable employers to correct HMRC's records remotely using IT.
- 29.** The biggest problem occurs when the employer believes that his figures are correct but HMRC's are wrong; the employer is still expected by HMRC to generate the EYU to correct HMRC's figures which can result in the employer's figures being changed to the wrong figures. The employer has to record the correct figures and leave an audit trail of why they have to amend correct figures. An alternative approach is to use the BPT which is discussed below.
- 30.** We were told in late 2014 that changes to EYU were being worked on. It was early 2016 before HMRC even began to consult informally on changes to the EYU, and we are now told it may not be possible to introduce a change even in April 2017, and that HMRC might instead just 'write new guidance'.
- 31.** We suggest that, contrary to what appears to be HMRC's response to issues with RTI, it is not a solution to simply write new guidance. Employers and agents are now well aware how to operate the system as they have been doing so for three years. It is now imperative that the

system issues themselves are resolved. Given that it is HMRC staff that request that an EYU is submitted to correct errors in HMRC's records much more frequently than an EYU is generated by employers and agents themselves of their own volition, and HMRC staff have to provide figures to employers and payroll agents to enable the EYU to be completed, it is surprising that there has been no pressure internally within HMRC to move forward on redesigning the EYU.

Wrong code numbers

32. Wrong code numbers are also issued – partly owing to wrong processing but also possibly because of inappropriate protocols.
33. Recent evidence of poor code number processing is Scottish tax codes, whereby many Scottish employees did not receive S code numbers or, earlier, letters from HMRC informing them that HMRC considers them to be Scottish taxpayers. Also the guidance that says that employers should add an 'S' to emergency code numbers if they think that the employee is resident in Scotland (now being fixed).
34. NT Code numbers also seem to be replaced with other code numbers. A view being expressed is that in part this is due to the issue of the Scottish codes.
35. See Appendix 2 for specific member comments on code numbers, including more on S codes.

Multiple helplines with 'service distinctions that are difficult to comprehend' – and no agent dedicated line

36. The distinction between the types of business that can be conducted on each of HMRC's helplines for employers is confusing, for example, disputed charges (i.e incorrect liabilities on HMRC's employer PAYE accounts) have to be registered with HMRC for sorting out by HMRC by calling the Employer Helpline, not the Payments Helpline.
37. We hope that HMRC's transferring its Debt Management & Banking (DMB) team from Enforcement & Compliance to Personal Tax will help the parts of HMRC that look after employee records and employer records respectively to work together better so mistakes can be rectified more quickly and refunds made less slowly – preferably automatically. We suggest that following this, HMRC combine their Employer Helpline and their Payments Helpline so that employers and agents need call only one number, preferably with a separate line for agents, accessible to payroll agents/bureaux as well as self-assessment agents.

Discontinuance of Basic PAYE Tools would be retrograde

38. We have heard that HMRC is considering discontinuing its PAYE Basic Tools (BPT) and leaving it to private sector software houses to provide free software. Government needs to make it easy for all taxpayers to comply so it should continue to provide basic free IT tools for employers. BPT is also needed:
 - to enable employers/agents to submit EYU separately from their payroll software so as not to corrupt employers' own payroll figures, and
 - because not all payroll software that is recognised by HMRC incorporates an EYU or an employer payment summary (EPS).

Lack of agent access to HMRC's employer PAYE accounts

39. Another major HMRC service concern is that agent access is lagging behind, i.e HMRC has provided products such as the Personal Tax Account and Your Tax Account (for businesses) but agents are not able to access online the information in these accounts which are available to their clients. The current trial is currently a very limited one with a small number of agents (fewer than 200 clients) and covering Employer PAYE only.

40. Having this agent access is essential to facilitate the resolution of issues with the reconciliation.
41. We remain concerned that whether agent access is via application programming interface (API) or by Agent Online Self Serve (AOSS - which we understand is being renamed Agent Services), HMRC has not made any progress on recording the granularity of detail required to support restricting access in line with the taxpayer's agent authority.

Publicity about changes and HMRC guidance

42. Changes to the law which affect the majority of employers need to be better publicised, and some of HMRC's guidance needs to be clarified to make it practical for employers to comply, for example whether non-deductible expenses not covered by the new exemption (which replaces dispensations) should be payrolled or returned on form P11D as a result of the repeal of Reg 87(1) of the PAYE Regulations in SI 2015 no.1927 (HMRC has long accepted for NIC that it can be impossible to payroll expenses in the correct pay period, see the longstanding 'Late notification of marginal items of pay' NIC easement on page 8 of [CWG2](#)).

On or before

43. Many employers will be unable to meet their 'on or before' obligations, and will therefore potentially be liable to penalties for late filing, as a result of the expiry on 5 April 2016 of the two reporting relaxations. One relaxation allowed employers in existence at 5 April 2014 with fewer than 10 employees at 6 April 2015 to report on or before the last contractual payday in the tax month all payments made to employees in a tax month. The other temporary relaxation allowed employers to report within three days of the contractual payday without incurring a late filing penalty.
44. Many other employers struggle to meet this obligation and only do so by incurring extra costs. Continuing the relaxations, or allowing one submission by the end of the tax month, would make the RTI process more efficient and facilitate the accuracy of digital tax accounts as many corrections would be made by the end of the month rather than being processed with the next FPS which could even be in the following tax year.
45. Such a system would also reduce the administrative burden in respect of seasonal weekly paid workers.

... a measure of the impact it is having and ...

Additional contact between HMRC, employers and payroll agents – and client/agent mistrust

46. The results of errors by HMRC in processing employer data and unwarranted enforcement action means that employers/payroll agents have to spend time contacting HMRC to put things right. This may then result in the employer (or payroll agent) having to submit an EYU (which is best done on BPT to prevent corruption of the employer's own payroll data which is accurate). Where a payroll agent is acting, many employers think that their agent is not doing their job properly. This leads to mistrust between client and agent, a belief often fostered by HMRC helpline operators who tell the employer client that their agent has made a mistake, and can lead to the loss of contracts to administer payrolls that can run into hundreds of thousands of pounds in the case of large outsourced payrolls.
47. Employees are also told by HMRC helplines that issues are due to employer error. Again this leads to mistrust.

48. Unfortunately, this is leading to a great deal of scepticism about HMRC's ability to deliver digital accounts given the problems with code numbers, reconciliations and the unsuccessful roll out of share scheme reporting, especially form 42.

Additional costs for employers and agents – much unrecoverable

49. We are not in a position to quantify the monetary cost to employers of HMRC's errors save to say that fees for payroll work have increased as a result of RTI necessitating the submission of returns to HMRC more frequently than annually and clients are, not surprisingly, resistant to paying additional fees to their payroll agent to sort out errors. Much of this time cannot be billed to clients and is directly affecting the ability of some payroll agents to trade. If there are insufficient numbers of payroll agents, this will impact adversely on RTI.
50. Although it is hard to quantify, employer costs have increased due in particular to the extra errors caused by duplicate employments and the length of time it takes to resolve individual queries.

Additional costs for HMRC

51. HMRC should as part of this review estimate the cost of running the disputed charges team and the increased number of aborted visits by DMB field force staff owing to data corruption. We believe the efficiency of PAYE tax collection has decreased under RTI.

ICAEW services survey

52. We refer you to our latest annual survey '*HMRC Customer Service Standards 2015*' published as [TAXREP 01/16 \(ICAEW REP 02/16\)](#). As noted in the introduction, '...the results for Debt Management and Employer Payroll lines were particularly disappointing and HMRC should prioritise improvements in these areas.' and '...members again highlighted the need for improvements in staff knowledge so that complex queries could be dealt with "right first time".'. There continues to be a lack of knowledge of RTI by HMRC staff.

A small percentage is a large absolute number

53. It should be borne in mind that the sheer number of individual employee/pensioner records (c.60m) means that even a success rate of 99% still leaves c.600,000 records wrong which is far too many.

... what benefits you anticipate if we work with our customers to deliver a solution ...

Substantial reduction in costs for employers, agents and HMRC

54. We always expressed concern as to whether the anticipated cost savings in the [TIIN dated 15 March 2012](#) could be met and four years on the additional costs to employers, and payroll agents (owing to time-costs written off), and we suspect HMRC's internal costs of administering payroll since RTI was introduced have been substantial. We believe that HMRC working with customers to deliver solutions would result in a substantial reduction in ongoing operational costs for HMRC, employers and payroll agents. Since HMRC disengaged from working with the RTI joint taskforce there appears to have been extremely limited progress in solving the root causes of issues; instead just a reliance on HMRC re-writing guidance.

Elimination of errors with beneficial knock on effects for tax, NIC and state pension records including decreased contact and manual interventions

55. One of the main benefits of HMRC working with customers to deliver solutions would be that the elimination of errors would lead to fewer corrupt and ambiguous records in HMRCs

employer PAYE accounts which in turn would obviate the need for contact requiring manual intervention:

- by HMRC with employers and agents because of a perceived non/late filing or non/late payment (eg telephone calls, letters, field force visits),
- by employers and their payroll agents with HMRC (eg calls to employer helpline/agent account manager to query wrong GNNs, penalty notices, incorrect entries on HMRC's employer PAYE accounts, unwarranted visits by field force officers, referrals to disputed charges team, claim PAYE overpayment refunds, etc),
- by employees/agents calling HMRC helplines (to query wrong code numbers and end-of-year reconciliations, claim individual taxpayer refunds, etc), and
- by DWP when assessing entitlement to state pension and contributory social security benefits and confirming PAYE income received by universal credit claimants.

Increase likelihood of successful rollout of UC

56. We strongly believe that there is significant risk to the successful rollout of universal credit, and the anticipated £12bn of savings that rely on the migration to UC, if immediate steps are not taken to resolve the underlying system issues that lead to data corruption within HMRC systems which are then passed on to universal credit claimants. If universal credit awards are incorrect employers and agents will become embroiled in employee relationship issues but equally may find that employees need salary advances or other financial support in order for them to continue to be able to attend the workplace whilst the universal credit dispute is resolved, so putting even more financial pressure on the employer.

Increase likelihood of successful rollout of making tax digital

57. Acknowledgement of the issues with RTI is also vital if the government's and HMRC's ambitious plans for digitisation of the tax system are to be delivered given that these all rely on the current supporting systems. The difficulties highlighted above will be more apparent to employees as the incorrect data flows through to the employee's digital account. As the government's intention is that these accounts are up to date throughout the year, urgent action is required to fix the system, as stated above, with the continual issuing of fresh guidance not the solution.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see via <http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/tax>).

APPENDIX 2

COMMENTS DIRECT FROM MEMBERS SINCE 18 FEBRUARY 2016

1. HMRC employer PAYE accounts show:
 - liability figures that bear no relation to the figures on the FPS and EPS;
 - payments received posted to the wrong month, year or even PAYE scheme; and
 - both liabilities and payments changing for no apparent reason where no filing or payment has taken place.
2. HMRC employer PAYE accounts – reallocation of payments by HMRC: We still have a problem with HMRC allocating tax payments and moving them between tax years without prior consultation. This results in our spending so much time in trying to sort out what the client has actually paid and what has happened to the payments made. The debt management office, our contact at Longbenton and the Employer Helpline all see different amounts on their systems.
3. I have spent the morning with 16 employers and agents where most had RTI discrepancies ranging from a few pounds to, in the case of xx council, several millions.
4. As an example of additional burdens a 500+ client payroll has had an issue with a corrupted FPS for 2014/15. Last August they sent an EYU as instructed – it doubled up – they have now been asked to submit 575 BPT records to fix things. This of course won't be an option for HMRC once BPT is scrapped by 2020.
5. Finally one of the agents from this morning, now she is on the AOSS trial, can see that most of her small clients have a problem with month 10 figures and has been told it is 'because of the floods at Shipley'.
6. Our clients seem to have been inundated recently with both under and over payment notifications that all appear incorrect.
7. Last week a client was told HMRC were going to issue a winding up notice as an alleged underpayment of £250k showing on the system but the following days a letter is received saying they have overpaid. Payment records and FPS/EPS seem to intimate they have paid the correct amounts but unable to get any consistency or clarity from HMRC.
8. Another such instance is HMRC informing a client they have overpaid and will simply just 'issue the cheque' (not sure how that is possible as getting any sort of genuine repayment is tough enough these days). When we challenged HMRC in the knowledge that the payments made are indeed correct HMRC said if the repayment was incorrect they would just demand the client pays it back. Sounds like a proactive solution.
9. We receive under and overpayment notices that often the different HMRC offices cannot reconcile or come up with different figures, and often oscillate between being underpayments and overpayments.
10. Generic notification notices (GNNs): the notices are not clear whether they have been generated because the client has paid a day late or not at all. It would be nice if there could be two types of notice.
11. With GNNs and penalties seemingly rarely issued now, the arrival of field force collectors can sometimes be the first indication that HMRC's systems perceive PAYE non-compliance. The reputational damage of a field force visit to both the employer (and their agent if they have one) should not be underestimated.

12. Employment allowance: We have one instance where we took over from another payroll agency. We started processing the payroll from April 2014 and have never requested the employment allowance as it is not due to our client. However, HMRC seem to have a mark on their system which they seem unable to remove so we keep getting overpayment notices. We are not submitting EPS so I am not sure how they have managed to arrive at the figure of the repayment but it keeps on growing and we can't get rid of it. We have been told to try and use the HMRC basic tools to send an EYU for 2014/15 but this will not sort out the current year's problem.

13. On 4th April 2016 HMRC sent an underpayment notice for period ended 5/3/16 with the description PAYE Underpayment Month 1. After 2 conversations with the DMB I have now ascertained and realised that the liability relates to Mth 10 and Mth 11 for 2015/16 which will be paid as required with Mth 12 by 19th April 2016. [The scheme pays PAYE quarterly so] there is actually no underpayment at all. However, meanwhile our client has been worried as to what has been going on and how we have been dealing with matters, and as usual, this makes us look completely incompetent.

14. Issues with PAYE data is not just a problem at scheme level, it also potentially affects the taxpayer. For example, coding issues:
 - (a) Removal of income limit restriction [income >£100k] incorrectly. YTD last year and this year indicates it should be in place.
 - (b) Incorrect application of income limit coding restriction based on one month's earnings (bonus paid) assumed to continue throughout the year when in fact the income limit will not be exceeded and wasn't last year.
 - (c) Personal allowances split when no one has asked for this to occur.
 - (d) HMRC staff failing to understand that a 'feature' of RTI is the fact we can't report date of leaving (DOL) until the FPS is submitted when in fact the employee could have left almost a month earlier and been working elsewhere for that month but the old employer has no way of informing HMRC any sooner that they have left. Equally the new employer may have a mid-month pay date so will report the employee has started before the old employer is required to tell HMRC of the DOL. HMRC staff tell the caller that their employer or agent has not reported the DOL which isn't true but is reputationally damaging.
 - (e) Previous pay and tax being shown on P6s that is in fact the YTD of the current job. There has been a delay in the P45 arriving from the last employer it seems and HMRC then treat the current YTD as their previous YTD so double it up.
 - (f) Lots of BR codes being issued to employees who were, and should continue, to be on D0 or D1.
 - (g) Code numbers inconsistent as to whether Month 1 (M1) code should be operated in similar situations including M1 codes taking effect at the start the tax year and. Many codes seem to be issued as cumulative which one would have thought should be M1 and vice versa.
 - (h) Marriage allowance not included in codes. Where marriage allowance has correctly been applied an M suffix tax code will have been issued.
 - (i) Benefits-in-kind still included in tax codes where an application to payroll benefits has already been made by the employer.
 - (j) Ticking statement C but HMRC issue 1060L and swap main employment to BR.
 - (k) The payroll manager of a city investment bank has herself been given K1801 for a job that ceased in December 2013 and BR for her current role.
 - (l) Just had a client in Scotland tell me that one of their employees (lived in Aberdeen for 30 years) has not had a Scottish code and on enquiring of HMRC today was told it was because there was an error in the country part of their address as it said GB. HMRC said they have only searched on UK or Scotland as the appropriate countries. As far as I'm aware Scotland is still in Great Britain.

APPENDIX 3

OBJECTIVES OF RTI

**Extract from executive summary of consultation document:
Improving the operation of pay as you earn (PAYE)
published on 27 July 2010 by HMRC**

'2.2 In considering changes to PAYE, the Government's objectives are, to reduce costs both for employers and for HMRC by making the system easier to administer; to improve service levels for individual customers; and to ensure accurate tax deductions.'

'2.7 HMRC believe that Real Time Information would significantly improve the tax and welfare systems by:

- making it easier to ensure individuals pay the right tax after a change of job and possibly removing the need for the P45/P46 procedure
- offering the prospect of simplifying the PAYE end of year reconciliation process for employers, HMRC and individuals
- allowing more accurate payment of benefits and reducing the costs of administration and
- reducing the uncertainty for individuals and HMRC around the levels of employment income on which tax credits awards are based that can lead to errors in claims.'