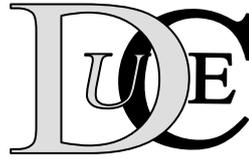


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Real Time Information

February 2013

Whilst all due care and attention has been taken in the preparation of these notes, no liability can be accepted for any omission or item contained therein.



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Additional Attachments

Real Time Information - Are You Prepared?

Note Paper

Feedback Sheet (please complete and hand in before you leave)

Complimentary Tax Card



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Daily telegraph 12th Feb

FSB survey of 1700 members showed that 25% (425) had no idea what RTI was about and 16% (272) had already had plans in place for it.

Real Time Information (RTI)

Real Time Information is the biggest change to the Pay As You Earn (PAYE) system since its inception in the 1940's. Whilst it is not being fronted by HMRC, it is suspected that they are hanging on the coat tails of the Department for Work & Pensions (DWP) ready to pounce.

Currently most employers submit a form P35 each year which summarises the Pay, Tax and NIC details of each employee. HMRC then cross-check this annual summary against PAYE payments made and in theory it should come back to nil. These forms are due by 19th May each year.

However, many employers have been using the PAYE amounts for cash flow, a type of 'we will worry about it in May' attitude, then try to agree a payment plan to pay it off. Obviously, you can see why it is thought that HMRC are lurking in the background. This obviously has affected HMRC collection of PAYE liabilities.

RTI is here to allow DWP to look at certain benefits which are currently under review, and a new Universal Credit comes into play from April 2013. However, RTI has a massive effect on employers from April 2013. (Please see later chapter for Universal Credits).

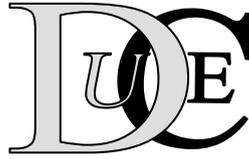
What Does It Mean for Employers?

From April 2013, many employers in this area need to file a return to HMRC. The timing of this return depends upon the payroll run concerned, usually weekly or monthly, but this can also be fortnightly.

The system is designed for online submission of these returns, BUT, the returns need to be submitted to HMRC **BEFORE** you, the employer, pays the staff. This means that whoever is responsible for the Payroll function must have authorisation to file the return before it is filed.

The person submitting the form is the person making a legal declaration that it is correct, so must be somebody of authority. It is also recommended that a copy of the return and submission receipt is printed and kept securely.

If you fail to comply, there are penalties which HMRC will charge and enforce. Penalties haven't currently been determined, but we suspect that they will be £100 for each late submission, although they are not likely to start until 2014.



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Universal Credits

Universal Credits (UC's) come into play from 6th April 2013 and replace the current system of:-

- Income Based Jobseekers Allowance
- Income Related Employment and Support Allowance
- Income Support
- Child Tax Credits
- Working Tax Credits
- Housing Benefit

These are to be trialled in the North West, in particular Wigan, St Helens, Widnes and Tameside from April 2013 but going nationwide later this year (October it has been suggested). Eventually all claims will fall under the UC system although this is to be phased in between now and 2017.

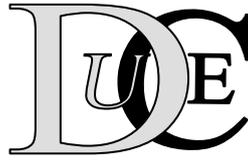
So What Is The Difference?

- 1 UC's are now available for those on low incomes but working as well as those out of work.
- 2 You must apply online and manage your claim online.
- 3 UC's are responsive as DWP know what you have earned already so adjust as your circumstances change.
- 4 You still get UC's even if your hours increase or you start a new job.
- 5 They are paid monthly as opposed to weekly or fortnightly.
- 6 Housing costs go to the claimant as part of their monthly payment.

In Summary

Not much of a change really, other than it is online, payment dates change and Housing Benefit goes to claimant.

Housing Benefit to claimant - Landlords struggle collecting rent for the tenant element already, is their problem going to get even worse...?



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Interaction of RTI and UC

So where do we stand now on HMRC and DWP information sharing? Clearly, this is a double edged sword where DWP are trying to tidy up the Tax Credit System, but HMRC are involved to collect PAYE on a more timely basis.

So far we have covered people employed and how it affects them, the unemployed or people on benefits.

What about the Self Employed?

Currently there are draft conditions for the self-employed. It is proposed that the self-employed will complete an online form on a monthly basis showing monies in and out concerning their business. Income and expenses are proposed to be on a cash basis so quite simply money in and money out.

What about if I am employed and have other income?

This situation is most bizarre. Obviously we have seen that the employment income will be declared by the employer (see previous section on RTI).

If the Taxpayer has other income, such as Dividend Income, Rent, Bank Interest Received, Trust Income etc, this needs to be reported on a monthly return to DWP online.

What if I don't comply?

UC's will be suspended if you have not submitted your monthly summary within 7 days of the period end. UC will be withdrawn if you fail to submit your form within 4 weeks of the month end.



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Taxation of Child Benefit

You are probably aware that from 7th January 2013 Child Benefit is now taxable.

The higher earner within each household may have to pay Income Tax on the amount of Child Benefit received.

Where the higher earner has income in excess of £50,000 then there is a tapered scale between £50,000 and £60,000 which will determine how much of the Child Benefit is taxable. If the higher earner has income in excess of £60,001 then all the Child Benefit is taxable.

Earnings are classified as any or a mixture of the following:-

- Cash Salary
- Benefits in Kind such as Car, Fuel, Private Medical Insurance, etc
- Dividends
- Income from Property
- Bank Interest
- Trust Income

The above is not the complete list, but basically if it needs reporting on a Self Assessment return it will count as income for Child Benefit purposes.

A problem which many have identified is that you could have 2 families where outcomes are completely different:-

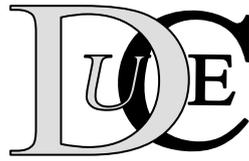
Family 1 - Dad earns 65k, Mum earns 15K = 80K per annum

Family 2 - Dad earns 40k, Mum earns 40K = 80k per annum

The first point to note here is that Family 1 are already being taxed more as Dad is into 40% tax already.

Both families receive £1800 in Child Benefit, so Family 1 are now worse off by a further £720 per annum or £60 per month, being 40% of the £1800 Child Benefit received. It should also be noted that the Tax falls on the higher earner not on the person who it is paid to, which is usually the Mother.

It is intended that this be collected via the Self Assessment system for those within the SA regime, but for those who are not then the Tax Codes are to be amended accordingly. However, it could well be that in the summer of 2014 many people get hit with a tax bill as tax codes have not been amended.



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Remuneration Planning

I think it has been demonstrated that all of the above is going to be a burden on both Employers and Taxpayers.

Owner managed businesses have an opportunity to plan their remuneration. Below are some examples of how to manage income:-

- Changing shareholdings - be aware of Income splitting legislation
- Consider more efficient company vehicles
- Salary reduction
- Pension planning
- Gift Aid etc

With every type of planning it is essential that professional advice is sought.