Real Time Information and benefits: an update

Employment Tax Personal tax

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Last month, Meredith McCammond of LITRG explored how Real Time Information data is used in the benefits system. In this article, we explore potential problems that may occur and provide some important updates on the use of RTI data in the universal credit system.

Since April 2013, most employers have been required to report payroll data to HM Revenue & Customs (HMRC) in real time. The basic premise of the Real Time Information (RTI) system is that employers must, with some limited exemptions and concessions, submit PAYE data to HMRC on or before their employees' pay day (be that weekly, monthly or otherwise).

There are potential penalties for failures in relation to sending payroll data to HMRC in real time. Despite this, there remain a number of late, missing and incorrect employer submissions and, of course, it is possible for problems to occur with the data once it is processed by HMRC. In particular, micro employers seem to struggle with the 'on or before' concept (per HMRC research) and there have been well publicised issues with duplicate employments being created within HMRC's systems.

RTI is not only relevant to HMRC for tax purposes. Universal credit, a new benefit gradually being rolled out across the UK to replace tax credits, housing benefit, income-based jobseeker's allowance and income-related employment and support allowance, has been built on the basis that the Department for Work and Pensions (DWP) will receive RTI data from HMRC which will allow them to automatically calculate and adjust universal credit awards.

Before the RTI data is used within universal credit, an individual's details are validated against both DWP and HMRC systems to ensure they match between both departments. DWP then receive a copy of data submitted by employers –before

HMRC do anything with the data themselves. Where employers submit data late or submit incorrect figures (even if they are subsequently corrected), there can be potentially serious consequences for the universal credit award. In some cases it could alter the level of universal credit payments or it could lead to a universal credit award stopping.

The process for universal credit claimants to challenge earning figures obtained from RTI is not entirely clear but according to a recent FOI request to DWP if a claimant queries the RTI data, in the first instance DWP will attempt to resolve the query. If DWP cannot resolve the issue then a process is in place where DWP, not the claimant, will refer the matter to the 'HMRC and DWP Jointly Managed Engagement Team' (JMET) in order that they (again, not the claimant) can contact the employer if appropriate to clarify any outstanding issues. Approximately 70 cases a week are currently referred to the team.

The use of RTI data to set universal credit awards has a number of potential benefits for both DWP and claimants, however LITRG also have a number of concerns about it and how, in practice, queries about the underlying earnings figures will be resolved. It is also not clear what information is currently given to claimants about the earnings figure used to calculate their universal credit award in order for them to check the figures used are accurate. And, as discussed in last month's Technical Newsdesk article it is worrying that the data received through RTI does not, in some cases, meet the legislative definition of income for universal credit purposes. For example, it is possible for universal credit claimants to deduct unreimbursed work expenses from their income figure for universal credit, something which is not picked up through the RTI system and is not made clear to claimants (although DWP now say they are planning some external communications to raise awareness of this).

Universal credit is based on a person's net income after deductions of tax and National Insurance (NIC). Rather oddly, and something which LITRG has pointed out since the Regulations were introduced, is that only tax and NIC paid in that period 'in respect of the employment' should be allowed as a deduction. Yet there is no way for DWP to ascertain this amount from the RTI information or indeed at all unless they use a notional calculation (they may need to do this in cases where a tax code contains multiple non-employment related elements, for example).

Currently, universal credit is rolling out gradually and therefore the number of claimants with earnings is relatively small. There is the potential for these RTI related problems to be a significant hurdle for the success of universal credit if these issues are not addressed quickly. In order to tackle some of them, HMRC have (with funding from DWP) established a ‘Late, Missing and Incorrect payments RTI Project’ which formally starts from 1 November. The aim of the work is to reduce Late, Missing and Incorrect data through IT changes and ongoing education and support for employers.

In the meantime, advisers should be aware of the wider use of the data submitted by employers and to be alert for potential issues. LITRG are keen to hear any feedback on problems that arise.