RTI and use of data in the benefits system

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HMRC has recently published its post implementation review of the Real Time Information (RTI) system.

The full report can be accessed on GOV.UK.

The broad conclusion from the report is that, so far, RTI has achieved what it set out to do. However, the report highlights that many employers see the new system as a burden – a concern which has also been expressed to us through our work in supporting disabled people who take on a carer and become an employer.

Another major area of interest to LITRG, and one covered by the report, is how RTI data has helped reduce error and fraud in the benefits system. The report gives examples of situations where the use of RTI in universal credit (UC) has already had an impact, which includes claimants:

- failing to declare a redundancy payment of over £20,000
- declaring they were undertaking unpaid voluntary work at a care home when in paid employment there
- understating their earnings and number of employments when required to self-report
- disputing they had any earnings until presented with the PAYE data.

In terms of tax credits, HMRC highlights that the RTI data feed is now used in the renewals process (which finalises the claim for the tax year just ended and acts as a claim for the new tax year), and claim to have made savings from reduced tax credits overpayments due to fraud and error and income discrepancy of £10m in 2013-14, £238m in 2014-15, 222m in 2015-16 and £202m for 2016-17.

On the surface, these results show that using RTI data in this way can help reduce levels of error and fraud, but there is no mention of the potential inaccuracies of using RTI data for tax credits and other benefits and how claimants can be disadvantaged if they do not realise, that while the income figure might match their P60, it might not be the right figure for calculating their benefits.

For example, the RTI earnings information received by HMRC from employers does not include unreimbursed expenses amounts which are allowable for both tax credits and UC.

The Tax Credits (Definition and Calculation of Income) Regulations 2002 state: 'From the amount of employment income, calculated in accordance with the preceding provisions of this regulation, there shall be deducted the amount of any deduction permitted in calculating [calculating earnings by virtue of any provision of sections [231 to 232] 336 to 344, or section 346, 347, 351, 352, 362, 363, 367, 368, 370, 371, 373, 374, 376, 377 or 713 of ITEPA].'

This means that a worker, where £50 of their £275 weekly earnings are attributable to ITEPA s337 or s338 travelling expenses say, will have an annual income for tax credit purposes of £11,700 (£225 x 52), rather than £14,300 (£275 x 52), potentially meaning a higher tax credit award.

However, claimants often do not realise they can deduct the costs from their RTI income figure for tax credits. We have also come across some claimants who have found it difficult to override the RTI data, even after speaking with the Tax Credits Helpline and have been forced into the appeals process, which is undesirable for both claimants and HMRC.

Until recently there has been some confusion as to whether the Universal Credit Regulations allow unreimbursed employment expenses to be deducted from income for UC purposes (although it is clear that if expenses are reimbursed by the employer then the amount is disregarded as earnings).

The following recent Parliamentary Question response to the Rt Hon Stephen Timms MP, prompted by LITRG, appears to give some answers:

> *'The Universal Credit calculation uses earnings information received through Her Majesty's Revenue and Customs' automatic 'Real Time Information' (RTI) PAYE data transfer which does not include unreimbursed expenses.*

Claimants can then challenge this RTI figure by providing necessary evidence, such as unreimbursed work expenses, which a Decision Maker will consider under Regulation 41 of the Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Decisions and Appeals) Regulations 2013'

While this is welcome news, we are unaware whether this position has been more widely publicised, either internally to decision makers at the Department for Work and Pensions or to the public at large.

It is essential that advisers who deal with those on lower incomes are alert to the limitations of RTI for both tax credits and other benefits including UC. More information on RTI and tax credits can be found on our specialist website, Revenuebenefits.

The exact route that claimants need to take to get expenses deducted for UC is unclear – it may involve reporting amounts through their UC account or calling the UC helpline (for more information see GOV.UK). We are seeking clarification and will post any updates to our Revenue Benefits site.