

## EDI with the Inland Revenue - A Case Study by CMG UK Limited

CMG HR and Payroll Services operates a wide range of payroll services from the 'traditional' bureau service to 'fully managed' services where CMG acts as the payroll department of the client. One of the largest payrolls managed in CMG's Prestatyn office is a large retailer with 59,000 employee records. This means processing about 47,000 forms P6 each year.

The scale of this payroll meant efficiencies in time and money could be gained by implementing EDI for this payroll. We decided to investigate this option and encourage our client to agree to this. CMG internal payroll was the first payroll within CMG to trade PAYE forms with the Inland Revenue, so we had tried and tested software as well as the associated administrative procedures already in place.

An initial meeting was arranged between

- the EDI representative from our technical support team
- representatives from the Inland Revenue's Electronic Business Unit
- Tax Year End Officer and the Movements Officer from the client's local tax office, Stockport Courtside
- CMG Prestatyn personnel representing both the payroll office and the employer.

### Works Number Update

Records transmitted through the EDI have to match, on both the employer's payroll system and the Inland Revenue's PAYE system. In our payroll system, the key to any record is the employee number, or as the Inland Revenue call it, the work's number. The key for the Revenue's system is National Insurance Number. Electronic Business Unit recommends consideration of a Works Number Update (WNU) as the first step in EDI. This helps to match both the payroll system and the Inland Revenue's databases and updates the Inland Revenue system to mirror the payroll numbers on the Payroll System. This report produces details of any mismatches between the two systems.

### WNU Results

With the intricacies, nature and high staff turnover of the large retail payroll, it was decided to assess the mismatch rate before deciding whether to continue with the process.

The results of this report showed an error rate of 21%. Looking at this positively, it means 79% or 42,390 records were correct. We considered this was acceptable and decided to go ahead with the P6 transmissions first. We could

then put procedures in place to adjust the incorrect records before running the forms P45 Part 1, Part 3, and P46s processes.

### Initial Teething Issues

An additional problem presented itself when running the P6 process: two payrolls are processed on different servers, but are operated under the same PAYE reference. Data received from the Inland Revenue did not differentiate between the two payrolls and could lead to mismatching of employees' records. Running the transmission against one of the payrolls and then running it again against the other payroll overcame this. As these are electronic processes, it was an insignificant overhead. The remaining small quantity of employees' records which did not match due to insufficient or missing data were adjusted manually.

It is also worth mentioning at this point that EDI is simply an alternative way of reporting PAYE data to the Inland Revenue and receiving it back from them. The same procedures apply and the same mismatching problems exist when processing information on paper.

### Starters and Leavers

Our next step was to introduce the P45s, P46s starters and leavers' forms. We went 'live' in February 2002, once the Christmas season impact had finished. Another WNU was run to send in the mismatch employees as P46 submissions. This ensured that the records were updated at the Inland Revenue and the number of employees rejected was reduced still further.

### Forms P9s and P6 (Budget Issues)

Receipt of the P9s and P6s (issued following a Budget) from the Inland Revenue was our next big process. Once received from the Inland Revenue, P9s were stored for processing in Week 1 of the new tax year. These payrolls were timetabled due to a number of complications: three of the payrolls had a 53<sup>rd</sup> week and some of the payrolls are processed with varying numbers of weeks in arrears. A total of 6,340 P9s were processed successfully. There were 315 mismatches, 120 of the mismatches were leavers so 195 would have to be adjusted manually, which meant the error rate had decreased to around 3%.

### Other Payrolls

Since this original venture into EDI at CMG Prestatyn, we have introduced another two payrolls for different employers to all of the EDI processes. These have highlighted other issues that were not apparent from the retailer's payroll. These arise from the peculiarities of each payroll and simple clerical procedures

can address the problems.

### Tax Credits and Student Loans

Our next major step is to start operating tax credits and student loan deductions through the EDI process. CMG's Prestatyn office has volunteered to be the next to go live with tax credits and student loan deductions. The option to allow employers to turn on new forms as required, is a great feature of the EDI process. It gives time for each step to be taken at the employer's own speed and that confidence with each form is ensured before progressing to the next.

### Benefits

One of the overwhelming benefits of EDI is the accuracy of the data, both sent and received. This may require some extra effort at implementation due to inaccurate data, although most of the initial teething problems are due to mismatched numbers to identify the employees in different systems. But once these issues have been sorted out, you can guarantee an improved quality of service and fewer queries. EDI enables you to free up resources, and because the payroll data is operated more efficiently, you will attain reduction in longer term costs. In addition, there is a reduction in paper handling and in postal and stationery costs.

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