Guidance for employers with pooled PAYE schemes

Background to the apprenticeship levy

To fund the step change needed to achieve 3 million apprenticeship starts by 2020 and to increase their quality, the government is introducing an apprenticeship levy from April 2017.

It is a 0.5% charge on the pay bills of all employers who operate within the UK. The 'pay bill' is the earnings on which an employer has a liability to pay Class 1 secondary National Insurance contributions (NICs), including earnings below the Secondary Threshold.

Each employer will have an annual £15,000 levy allowance to offset against their levy liability which means that, subject to the rules on connection, only employers with annual pay bills greater than £3 million will have to pay the levy.

Pooled PAYE schemes

A pooled PAYE scheme is where multiple employers use a single PAYE scheme to report PAYE information to HMRC.

Pooled payroll schemes are a historic practice, now only used by a small number of employers. We are not currently accepting any new requests from employers to pool PAYE schemes.

Pooled PAYE schemes and the apprenticeship levy

Where a pooled payroll scheme is operated, there may be some employers within it who have a liability to pay the levy and some who do not. It is the individual secondary contributors for National Insurance purposes who will or will not have a liability, if their pay bill is greater than £3 million and some employers in the pooled scheme may be below this limit.

Employers should consider their individual levy liability based on their own pay bill and whether they are connected to other employers. If they are part of a pooled payroll scheme, they should then follow this guidance and pay any levy due.

Unconnected employers using a pooled payroll scheme where they do not have a liability to pay the levy

Where an employer is part of a pooled PAYE scheme but does not have a liability to pay the levy because they have an annual pay bill of less than £3 million (subject to the connection rules), that employer does not need to do anything and no change is required to the pooled payroll. However, each employer in the pooled payroll should monitor their pay bill in case their pay bill increases and that increase results in them becoming liable to pay the levy. If they do become liable to pay the levy (because their pay bill exceeds £3 million), they will need to set up a separate PAYE scheme (see the next section below for further details).

Unconnected employers using a pooled payroll scheme where some employers have a liability to pay the levy

Where multiple employers in a pooled payroll scheme have a liability to report and pay the levy because they each have an annual pay bill that is greater than £3 million (subject to the connection rules), each employer must set up a separate PAYE scheme from April 2017. This is so that HMRC can identify how much each employer has paid in levy and report it to the Department for Education (DfE), so employers can receive funds in their digital apprenticeship account that are based on what they have paid in levy.

Example 1

A pooled PAYE scheme contains 3 individual employers, who are not treated as connected to each other or to any other employer. Each employer can therefore benefit from the full £15,000 levy allowance.

Employer A has a pay bill of £1 million annually

Employer B has a pay bill of £4 million annually

Employer C also has a pay bill of £4 million annually

As Employer A has a pay bill that is smaller than £3 million annually, they do not need to do anything.

As Employers B and C have a pay bills that are greater than £3 million annually, they will be liable to report and pay the levy. To ensure that the levy they pay can be accurately allocated to their digital apprenticeship accounts, they should split from the pooled PAYE scheme and set up their own schemes before April 2017.

Example 2

A pooled PAYE scheme contains 3 individual employers, who are not treated as connected to each other or to any other employer. Each employer can therefore benefit from the full £15,000 levy allowance.

Employer A has a pay bill of £1 million annually

Employer B has a pay bill of £1.5 million annually

Employer C has a pay bill of £4 million annually

As Employers A and B have pay bills that are smaller than £3 million annually, they do not need to do anything.

As Employer C has a pay bill that is greater than £3 million annually, they will be liable to report and pay the levy. To simplify the process of paying and reporting the levy, they may find it helpful to split from the pooled PAYE scheme and set up their own scheme before April 2017. However, as they are the only levy payer in their pooled payroll, any funds paid in levy can be allocated to their digital account. This means that if they would prefer not to split, they do not have to. When calculating the levy the levy paying employer will need to exclude unconnected employers who are part of a pooled payroll who have a pay bill of less than £3m from the ½% levy calculation.

Setting up a new PAYE scheme

Employers who need to set up a new PAYE scheme will need to set it up between 6th February and the end of February as this will:
- facilitate a smooth transition;
- help to avoid common payroll errors, and;
- ensure all the information you send to us for tax year 2017-18 is reported on the new scheme reference (including apprenticeship levy due and allowance claimed).

The action guide below outline the steps you will need to take to set up a new PAYE scheme.

Connected employers using a pooled payroll scheme

Where all of the employers within the pooled PAYE scheme are connected to one another, they can report and pay the levy using the pooled PAYE scheme. Employers should consult the guidance here, under the heading 'Calculating the levy for connected companies and charities'.

If you have any questions about the above, you can send these to HMRC via an online form, with the link to do so accessible via https://www.gov.uk/government/organisations/hm-revenue-customs/contact/public-bodies-enquiries

Extracting a scheme from a pooled payroll: Action guide

How to set up your new scheme

It is important you do not start the registration process before **6 February 2017**. If you complete the registration before this date, where the first pay day is after 5 April 2017, you will receive an email asking you to confirm that the pay date is correct. If you reply to confirm the date is correct you will receive a further email asking you to reapply closer to the time.

So from 6 February 2017 you should:

- Go to www.gov.uk/new-business-register-for-tax.
- Follow the instructions to set up a new Government Gateway account (the new scheme is classed as a new business so it has to have its own account).
- Once your new Government Gateway account is set up, sign in to complete the registration process.
- Select PAYE for Employers and the type of business.
- You will be asked to enter the first pay day. If your first pay date is more than 28 days from the date you register, you will see a warning message, you should ignore this message and proceed to the next screen.
- Complete the questions on the Registration summary screen (questions marked with a red asterisk indicate required information).
- To avoid any break in payroll reporting from your old reference number we recommend the new scheme is set up by March 17 at the latest.

Reporting information on your new scheme

To start reporting employee information on your new scheme you should:

- Transfer the payroll records to the new Employer reference.
- Send in a Full Payment Submission (FPS) with leaving details under the old employer reference including the year to date pay and tax figure.
- Following submission of the last FPS on the old employer reference you must send in the next FPS under the new employer reference re-setting the year to date figures to zero. It is important that you **restart the Year-to-Date figures from zero** on your new reference to avoid incorrect deductions for you and your employees.
- On this FPS you should also include:
  - The start date for the new payroll
  - Starting details for each employee
  - Starter declaration C for BR codes or codes with a D suffix
  - Starter declaration B for any other codes

Important: You must submit the last FPS from the old reference before the first FPS from the new reference, this will ensure that the old employment ends before the new one begins. We recommend you leave 3 days between submissions.