HM Revenue
& Customs

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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, Primary Threshold and Lower Earnings Limit.

"Pay bill" includes any earnings employees make from employment such as wages, bonuses and commissions. Pay bill does not include other payments such as: benefits in kind on which employers are liable to pay Class 1A NICs or the earnings of employees under the age of 16.

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.

HMRC's December 2016 Employer Bulletin set out who has to pay, what they will have to pay and provided an overview of funding arrangements. This can be found at https://www.gov.uk/government/publications/employer-bulletin-december-2016

Guidance on when employers need to pay, how much they need to pay and the process of reporting and paying the levy can be found at https://www.gov.uk/guidance/pay-apprenticeship-levy

Pooled PAYE schemes

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

Pooled PAYE 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 use a pooled PAYE scheme.

Pooled PAYE schemes and the apprenticeship levy

Where a pooled PAYE 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 PAYE scheme, they should then follow this guidance and pay any levy due.

Unconnected employers using a pooled PAYE scheme where none of them 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 PAYE scheme. However, each employer in the pooled PAYE scheme 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 may need to set up a separate PAYE scheme (see the next section below for further details).

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

Where multiple employers in a pooled PAYE scheme have an annual pay bill greater than £3 million (subject to the connection rules), each employer will have a liability to report and pay the levy and 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, report it to the Department for Education (DfE) and make the funds available to employers via their digital apprenticeship account.

Example 1: multiple schemes in the pool have pay bills over £3m

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: only one scheme in the pool has a pay bill over £3m

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 PAYE scheme, any funds paid in levy can be allocated to their digital account. This means that if they would prefer not to split from the pooled PAYE scheme, they do not have to. When calculating the levy the levy paying employer will need to exclude unconnected employers who are part of the pooled PAYE scheme from the 0.5% levy calculation.

Connected employers using a pooled PAYE 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.

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

Setting up a new PAYE scheme

Employers who need to set up a new PAYE scheme will need to set it up before the end of March 2017 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 outlines the steps you will need to take to set up a new PAYE scheme.

Extracting a scheme from a pooled PAYE scheme: Action guide

How to set up your new scheme

- Go to https://www.gov.uk/register-employer
- Follow the instructions to register your new scheme by choosing the type of business you are (the new scheme is classed as a new business so will need to have its own account).

- Your business type will dictate which online form you use so you may be asked to set up a Government Gateway account, either before or after registering (online instructions will clearly direct what to do next).

- 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 may see a warning message. You should ignore this message and proceed to the next screen.

- Complete all 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 the end of March 2017 at the latest. As your new scheme will start on 06/04/2017 you will not receive any information regarding the new scheme until a few days after the 06/04/2017.

- If you do not wish to wait until after 06/04/2017 (new business start date), to receive your new PAYE scheme information, you can register your business with an earlier start date, this is indicated on the online forms as "first pay date".
Note - if you choose to start your business earlier than 06/04/2017 but do not make any payments to employees you will need to file an EPS submission to indicate this. If you don't, HMRC systems will expect an FPS submission. If you choose to set up early and do not make an EPS submission it could lead to non-reporting penalties.

- If you choose to set up a scheme earlier and pay employees under the new PAYE reference before 06/04/2017, you will need to ensure you have entered an end date on the old scheme FPS submission for the employees that have been de-pooled. This is to stop them being paid on two PAYE references.

- More information regarding what happens if you do not report payroll information on time is available at - https://www.gov.uk/guidance/what-happens-if-you-dont-report-payroll-information-on-time. **Note -** New employers do not incur a penalty if the first FPS is sent within 30 days of paying an employee.

Reporting information on your new scheme

To start reporting employee information from 06/04/2017 (or you have chosen to start your PAYE earlier and pay employees 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. You do not need to prepare forms P45 for employees affected by this change, although you will need to ensure they are provided details of their total pay and deductions up to the date they moved payrolls.
- 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.