

Guidance

Claiming Employment Allowance: further employer guidance

Updated 7 May 2020

You should read this guidance if after reading the main guidance, you have further questions about how to claim the Employment Allowance.

1. Employment Allowance

The Employment Allowance can only be used against your employer Class 1 NICs liability. It can not be used against Class 1A or Class 1B NICs liabilities.

2. Using payroll software to claim Employment Allowance

Software provider has not supplied the Employer Payment Summary (EPS) facility

If your payroll software does not have, or is unable to use the EPS, you can use HMRC [Basic PAYE Tools](#) to claim the Employment Allowance. Employers with any number of employees can use HMRC Basic PAYE Tools to claim the Employment Allowance.

Using the Basic PAYE Tools software is a simple process. If you only use the Basic PAYE Tools to claim the Employment Allowance and continue to use your own software to operate your payroll, you will need to keep a record of the Employment Allowance used throughout each tax year.

Change of software provider

If you change your payroll software, you will not need to claim the Employment Allowance again as we will automatically carry your claim forward each tax year. However, you may need to submit a new EPS, if your new software needs this, to enable your Employment Allowance claim to continue.

3. Multiple PAYE schemes

You can only claim one Employment Allowance for your business or charity even if you have multiple PAYE schemes for different parts of your business or charity.

When nominating the PAYE scheme that you want to use your allowance against, you should pick a scheme where you think you will most likely have at least £4,000 of employer Class 1 NICs liability in that tax year. This ensures that all, or as much of the Employment Allowance is used as possible.

You can not move your existing Employment Allowance claim to another PAYE scheme during the tax year. However, you can stop your claim at the end of the tax year, nominate another PAYE scheme in the new tax year (before you make any NICs or PAYE payments), and make a new claim against that scheme.

4. Claiming the Employment Allowance

The amount of allowance you can claim for each payment period must be the same as your employer secondary Class 1 NICs liability for the same period - subject to the £4,000 Employment Allowance annual maximum. This is because you can only use the allowance against your employer secondary Class 1 NICs when the liability arises.

If you use up your full £4,000 Employment Allowance before the end of the tax year, you must pay any remaining employer secondary Class 1 NICs liability to HMRC. For example, you make your claim for the Employment Allowance in April, you pay your employees monthly and your total employer secondary Class 1 NICs liability is £400 (per

month). Because your monthly liability is £400, you will have used your full allowance (£4,000) by month 10 in the tax year. You will need to pay your liability for employer secondary Class 1 NICs for month 11 and 12 to HMRC.

You should take off the Employment Allowance from employer secondary Class 1 NICs liabilities before deducting any other amounts, for example, recoverable Statutory Maternity Pay.

5. A PAYE scheme using different providers to run both weekly and monthly payrolls

You should claim the Employment Allowance against your PAYE reference. The Employment Allowance will be used against your total Class 1 NICs liability for your PAYE scheme on a month by month basis, until the £4,000 limit is reached, irrespective of how many payrolls are run. Although, on each payroll you may claim the Employment Allowance, you need to ensure that you do not claim beyond the £4,000 Employment Allowance maximum on those combined payrolls.

6. Businesses with more than one PAYE scheme who do not use the full Employment Allowance during the year

If you do not use your full £4,000 Employment Allowance entitlement against your nominated PAYE scheme, but you have employer Class 1 NICs liability on your other PAYE schemes, and have paid all your PAYE up to date, you can apply to HMRC (at the end of the tax year) for a refund of any unused balance.

Your unused balance will be the lesser of £4,000, or the total employer Class 1 NIC liability for all your PAYE schemes combined,

less the allowance already given against your nominated PAYE scheme.

For example, if your nominated PAYE scheme had £1,000 employer Class 1 NICs liability, and your total employer Class 1 NICs liability for all your schemes combined was £1,800, you would have an unused balance of £800 (ie £1,800 less £1,000).

If you do not apply for a refund, and have an unused balance you should apply to HMRC to use this against any forthcoming PAYE debt.

7. Claiming the Employment Allowance after the start of the tax year

You can make a claim at any time during the tax year as long as your business or charity has employer Class 1 NICs liabilities and is eligible to claim the Employment Allowance.

For example, you are claiming the Employment Allowance and have employer secondary Class 1 NICs liabilities of £500 per month and other PAYE liabilities, (including employee Class 1 NICs) of £800 per month.

You start claiming the allowance on 30 June (July will be the first month you can use the allowance against your employer secondary Class 1 NICs liability).

If your claim had started at the beginning of the tax year 6 April (rather than June) your claim to date would be £1,500 (the total allowance that you could claim for April, May and June).

Because you have not used any of your allowance in the previous 3 months, you are entitled to the full £4,000 Employment Allowance in July. This amount is enough to cover your July employer secondary Class 1 NICs liability, leaving a balance of £3,500 (£4,000 minus £500) that you can use against your August employer Class 1 NICs (and other PAYE liabilities) until the allowance has been used up in full.

If you make your claim for the Employment Allowance towards the end of the tax year, you might not incur sufficient employer secondary Class 1 NICs liabilities in the remainder of the tax year to use up the allowance in full. If so, HMRC will use the balance remaining against any PAYE debt or other tax or NIC liabilities arising in the following tax year. If you do not have any existing PAYE debts or liabilities to set the unused balance against, you can claim your allowance as a repayment.

8. Claiming Employment Allowance for earlier tax years

You can make a claim for the Employment Allowance up to 4 years after the end of the tax year in which the allowance applies. For example, if you want to make a claim for the allowance for the tax year 2015 to 2016 (that tax year ends on the 5 April 2016), you must make your claim by no later than the 5 April 2020.

You will need a separate EPS for each year's claim when claiming for any tax years that have now ended. You do not need to send previously reported EPS figures, such as statutory payments.

If you send your claim one year after the tax year has ended, your claim will continue into the current tax year, unless you already have a claim for the Employment Allowance in place that year. If you have paid your PAYE up to date, HMRC will set any Employment Allowance award against your future or existing PAYE liabilities, unless you ask them to refund the amount.

9. Effect on unused Employment Allowance against other PAYE liabilities (ie tax, student loan repayment etc)

The Employment Allowance is based on your employer Class 1 NICs liability shown on your Full Payment Summary (FPS), and normally it is set against your employer Class 1 NICs liability as it

arises during the year. The maximum award you can have in a tax year is the lesser of the total of your employer Class 1 NICs and the £4,000 annual amount.

You may not have used your Employment Allowance award in full, for example, because you claimed the Employment Allowance late in the year and did not accrue enough employer Class 1 NICs liability in the remainder of that tax year. If so, HMRC will offset the unused balance against other current or future PAYE liabilities so, wherever possible, the unused balance of the allowance is not lost.

Where you make a claim for the Employment Allowance after the end of the tax year, this will be offset against any outstanding current or future PAYE liabilities. You can also ask HMRC for a repayment of any unused balance of the allowance provided you have no outstanding PAYE liabilities.

10. Unused Employment Allowance and connected businesses or charities

Where companies or charities are connected, only one of those companies or charities may claim the Employment Allowance. It must be claimed against one nominated PAYE scheme only, which should be a scheme that has employer Class 1 liabilities arising. Any balance of unused allowance can not be transferred to be set against another PAYE scheme operated by that same (or another) company or charity.

11. Change of business ownership before full £4,000 Employment Allowance is used

If a business that is claiming the Employment Allowance changes ownership, then that existing claim for the allowance will end when the transfer of ownership occurs.

The new owner of the business will be able to make a claim for the full £4,000 allowance in their own right. But this can only be set against the secondary Class 1 NICs liabilities arising before the transfer of ownership.

You cannot transfer any balance of unused allowance between the current and former owners of the business.

12. When businesses are no longer eligible to claim the Employment Allowance

If your business or charity stops employing staff during the year, you will no longer have a liability to pay employer Class 1 NICs and you do not need to do anything further. Your existing claim for the Employment Allowance will remain in place but cannot be used again until you start incurring employer Class 1 NICs liabilities again.

From April 2016, if your business is a limited company, where the only employee paid above the secondary threshold is the Director, you will no longer be able to claim the Employment Allowance. [Read detailed guidance for single-director companies.](#)

In the rare circumstance that the nature of your business changes and your business is no longer eligible for the Employment Allowance, you can stop your claim by following the instructions contained in your own payroll software or [HMRC Basic PAYE Tools](#).

Stopping your claim means that no allowance is due that year, and you must repay any Class 1 NICs that have previously been covered by the Employment Allowance.

If you are exempt from filing online, use your (paper) Employer Payment Summary (EPS), to let HMRC know that your claim has stopped.

If you have not paid your PAYE (including Employer Class 1 NICs) in full and on time, then once your claim has stopped you may be charged a late payment penalty.

Read more information on [late payment penalties](#).

13. Penalties and interest

HMRC charges penalties and interest for late returns. These charges will remain due and payable even when the return has been submitted.

Penalties and interest may be payable if you revoke your Employment Allowance claim and repay the allowance. However, this would not solely depend upon the Employment Allowance, as other factors would be considered, such as whether remaining PAYE was paid on time or not and how many months the Allowance was claimed for.

14. Record keeping

You must keep any records that relate to your claim, for a minimum period of 3 years after the end of the tax year in which you claimed the Employment Allowance. Your records must show:

- why you were entitled to claim the allowance
- how much allowance was used or in some circumstances repaid
- what liabilities the allowance covered