

Consultation response

# **Helping users of HMRC's Basic PAYE Tools undertake automatic enrolment calculations**

August 2015

The Pensions  
Regulator

## Introduction

In March 2015 we issued a consultation document on a proposal to mitigate the risk that small and micro employers who use HMRC's Basic PAYE Tools (BPT) would not have access to software functionality that can help them carry out their automatic enrolment duties.

While there is no legal requirement to have software, our experience to date indicates that software supports an employer's compliance. In particular, without adequate software, BPT users may not know how to assess their workers or calculate contributions. This presents an increased risk of both initial and ongoing non-compliance among BPT users.

We consulted on whether we should provide a tool to mitigate this risk and, if so, what it should do. The consultation asked the following questions:

- ▶ Is there a need for us to develop a tool?
- ▶ Is a tool a proportionate response to the risk identified?
- ▶ What kind of functionality strikes a balance between supporting BPT users and maintaining an incentive for them to seek a better solution from the marketplace?
- ▶ How might the proposal affect the marketplace?
- ▶ What more could be done to encourage BPT users to switch to a system that provides integrated support for automatic enrolment?

The consultation closed on 19 May 2015.

This document summarises the feedback we received and the action we are taking as a result.

## Responses to the consultation

We are grateful to everyone who responded to our consultation. We received 47 written responses from a wide range of stakeholders including:

- ▶ 24 employers who use the BPT
- ▶ 6 payroll software/administration firms
- ▶ 5 business adviser firms (eg financial advisers, accountants)
- ▶ 5 pension schemes
- ▶ 5 professional/advisory bodies
- ▶ 2 employer representative bodies



We received 47 written responses to our consultation.

## Comments received and our response

The majority of the responses we received were supportive of our proposal. Of the 47, 36 were positive, two were neutral and nine negative in tone. Employers and their representatives in particular welcomed the support.

This report is structured by the consultation questions and stakeholder response, followed by our conclusions.

### Is there a need to develop a tool? And is a tool a proportionate response to the risk identified?

The risk the consultation identified was that without adequate software BPT users may not know how to assess their workers or calculate contributions, presenting an increased risk of both initial and ongoing non-compliance among BPT users.

There was widespread recognition from respondents that users of the BPT will require some form of automated support for automatic enrolment. While the majority stated that BPT users should be supported with a tool, a minority felt that it would be more appropriate to direct BPT users to integrated pension/payroll systems.

There was a difference in view between employers and their representative bodies, who were all supportive; and industry respondents whose views were more mixed.

#### Employer and employer-representative body responses

Employers who responded to the consultation said that ideally the BPT itself would have been extended to include automatic enrolment functionality. However, this was not an option. In the absence of such functionality in the BPT, existing BPT users were all of the view that we should provide some support. 18 of the 24 BPT users agreed that a tool was needed, with the remaining six being less specific about the form that the support should take. The employer-representative bodies also considered that there was a need for a tool to support employers using the BPT.

A minority of employers commented that they actively chose not to use free commercial payroll software (as an alternative to the BPT) due to concerns about use of their data and being up-sold additional products and services. These respondents stated that they would have similar concerns about free commercial software with functionality to support automatic enrolment.



Without adequate software, BPT users may not know how to assess their workers or calculate contributions.

BPT users and employer-representative bodies all considered that it would be a proportionate response for us to develop a tool, due to the volume of BPT users who would potentially be affected. Current users stated they would be unlikely to stop using the BPT due to a mix of inertia, brand loyalty and the burden associated with switching to an alternative payroll product with built-in automatic enrolment support.

### Industry and professional/advisory body responses

Most professional/advisory bodies and some pension schemes recognised the need for a tool and were supportive of the proposal for us to develop a solution for BPT users. To many, a simple tool was considered to be enough to support BPT users in complying initially with their automatic enrolment duties.

By contrast, the payroll software/administration firms who responded (and some pension schemes) were less supportive of the need for us to develop a tool. They highlighted that:

- ▶ many payroll software/administration firms already offer either low cost or free payroll solutions BPT users could access
- ▶ some pension schemes also provide suitable functionality to support employers in complying with their automatic enrolment duties within their pension product

These respondents did not consider there to be a gap in the market and stated that their products could be used by BPT users either for free or minimal cost.

A few professional advisers were also not supportive of a tool. Their reasons varied from being against what they perceived as government intervention in the marketplace on principle, through to concern about the impact on their own business proposition.

### Our response

The consultation responses indicate that a high proportion of BPT users would not seek the use of commercially available software. Attempting to assess their workforce and calculate contributions manually could lead to errors, burden and non-compliance. For this reason, we believe there is a need for a tool to mitigate the compliance risk.

We recognise that the existing payroll provider market offers a range of either free or low cost solutions that include automatic enrolment functionality. BPT users, if they wish, can currently find and access a range of these products through lists and links hosted at [www.gov.uk/payroll-software/overview](http://www.gov.uk/payroll-software/overview) alongside information about the BPT. We will continue to offer information about the range of options that BPT users should consider using including payroll software.



Attempting to do the work manually could lead to errors and non-compliance.

However, while commercial payroll support is available, the consultation responses from the employers who used the BPT suggested that the existence of this would not be enough, on its own, to result in a high percentage of BPT users switching. Therefore, having considered the risks identified and the consultation responses, we have decided that there is a need to produce a tool to support BPT users with automatic enrolment.

We also recognise that a number of pension providers offer different levels of assessment, contribution calculation and communication functionality within their default products at no additional cost. These include services that would allow a BPT user to undertake automatic enrolment functions without the need for support elsewhere. However, there is no indication from the consultation that a BPT user would actively seek out a pension scheme with integrated functionality, so we consider that there is still a gap, and that providing a tool is a proportionate response to support BPT users who select a scheme that does not have integrated calculation functionality.

### **How might the proposal affect the marketplace? And what kind of functionality strikes a balance between supporting BPT users and maintaining an incentive for them to seek a better solution from the marketplace?**

The majority of employers who responded to the consultation did not express a view on how the proposal might affect the marketplace.

In general, employers felt the tool would have minimal impact regardless of functionality. This was because in some cases BPT users felt they were not a target market for commercial payroll providers.

Among industry responses, views were mixed regarding market impact. Even among those not supportive of a tool intervention, there was no clear consensus regarding the potential impact on the market. Industry responses were broadly split as follows:

- ▶ Impact will be limited, because BPT users are not considered to be in the market for services or products offered by the commercial payroll industry.
- ▶ There will be a market impact, as it is hard to distinguish how the tool differs from existing free payroll software that includes AE functionality, which in turn could lead to BPT users defaulting to our offering rather than exploring the market.
- ▶ The more advanced the functionality, the greater the impact on the market.

Approximately half of respondents expressed a view on the type of functionality the tool should include. However, there was no clear consensus about what the appropriate level of functionality should be.



Having considered all the risks and responses, we have decided there is a need for a tool to support BPT users.

Some felt that basic functionality was appropriate for a tool from a regulator, on the basis that it would be simple for BPT users to interact with alongside separate systems (eg the BPT and pension provider system). A simple tool would also retain an incentive for users to consider a better, more integrated, solution, for example a pension scheme or payroll system with the relevant functionality.

Among those advocating more advanced functionality, there were several lines of reasoning:

- ▶ Output files compatible with pension provider systems would reduce the risk of manual errors and improve the user journey as users would only have to input key data into the tool and the BPT. Without an output file, the user would have to input data into the tool, the BPT and the pension provider system.
- ▶ An overly simple solution could lead to user confusion and increase queries both to us and to their pension provider.
- ▶ Functionality should be designed around BPT user needs and they should not be offered less than this despite the concerns expressed by some providers about competition with the commercial market.
- ▶ Limited functionality may increase the risk of accidental non-compliance in specific worker scenarios not covered by a basic tool (eg part-period contributions).

We recognise there is a balance to be struck between the impact on the market and addressing the compliance risks.



### Our response

The specific compliance risks associated with BPT users attempting to complete the automatic enrolment process manually relate to initial and ongoing monitoring of workforce eligibility (workforce assessment) and correct calculation of contributions. This is particularly important as many pension providers' default offerings are based on banded earnings calculations which are not easy to calculate manually.

We also consulted on the option of more advanced functionality, such as payroll output files, re-enrolment alerts and tailored communication actions. Free payroll services and some pension providers already offer solutions that are the same as, or more comprehensive than, the advanced functions we considered. We recognise that there is a balance to be struck between the impact on the market and addressing the risks posed to compliance. We consider that developing an advanced tool with these functions would be a disproportionate use of regulatory resource for the risk identified, and could also be incompatible with the need to balance the impact on the market while maximising employer compliance.

We will therefore limit the scope of the tool to providing support on the specific risks identified above. We intend that the format of the tool will be a downloadable Excel spread sheet where all data is be stored by the user. We will not have access to this data. The scope of the functionality we propose to include in the tool to address the specific compliance risks can be found in the appendix.

By providing basic functionality, our tool will balance the need to mitigate the risk BPT users present while being basic enough to not discourage employers from using existing or buying new commercial payroll products. Given the existing inertia of the BPT user group that prevents them from moving away from a government-provided tool for payroll, we do not anticipate that our tool, with limited functionality supporting automatic enrolment, will impact the existing payroll market.

### **What more could be done to encourage BPT users to switch to an integrated automatic enrolment solution?**

A few respondents, while recognising the risk and the need for a tool, were concerned that a government-provided tool would be assumed by BPT users to be the most appropriate solution.

Suggestions to encourage the adoption of integrated automatic enrolment solutions included the following:

- ▶ Provide a list of payroll providers that employers could use; views varied from a list of approved providers, free/low cost only, or all providers available.
- ▶ Encourage BPT users to choose pension schemes with integrated payroll solutions.
- ▶ State explicitly what low cost solutions could be, eg £x per year, to help dispel BPT user fears that low cost is still too expensive.
- ▶ Emphasise time saving of using an integrated system in the medium to long term.
- ▶ Work with the payroll market to provide incentives to BPT users who switch to an integrated product.

### **Our response**

The decision to develop a tool is recognition that many BPT users will choose not to seek a more integrated solution and will attempt manual calculations. However, we also recognise that payroll and pension schemes with assessment and contribution calculators are an effective way for all employers (including BPT users) to comply with their automatic enrolment duties.



Our tool will mitigate the risk, while being basic enough to not discourage employers from using commercial payroll products.

As a result, when downloading the tool, the website content will outline the range of options available to an employer. The options will be to:

- ▶ use commercial payroll software/services to comply with their automatic enrolment duties
- ▶ use a third-party (non-payroll) provider (including a pension provider that offers assessments), which will mean ensuring pensions contributions are input into the BPT in each pay cycle
- ▶ use our tool

We will also include a link to lists provided by HMRC of free software, most of which includes AE functionality ([www.gov.uk/payroll-software/overview](http://www.gov.uk/payroll-software/overview)).

Finally, we will keep the tool under review, taking into account market developments and whether the compliance risks post-implementation continue to justify the need for it.

## Next steps

We are working towards launching the tool and associated content by November 2015.

The launch will be in advance of the staging dates of nearly all BPT users (the majority of whom do not stage until 2016 or beyond).

However, for the very small minority of BPT users who have already staged or are due to do so soon and do not yet have a solution in place, information is available on our website at [www.tpr.gov.uk/payroll-software](http://www.tpr.gov.uk/payroll-software).

The tool will be launched in advance of the BPT users' staging dates.





# Appendix

## Tool functionality

The tool will operate in the following manner:

- ▶ Criteria that user selects at setup of tool
  - Set pay period frequency: weekly, fortnightly, four-weekly, monthly, quarterly, bi-annually, annually.
  - Set pension scheme tax arrangement: relief at source, net pay arrangement.
  - Set employer and staff contribution levels: will allow contribution levels to be varied, for example if an employer decides to contribute more than the legal minimum. The system will have rules to ensure that values lower than minimum contribution levels cannot be used.
- ▶ Staff information required
  - Name, gender, date of birth, qualifying earnings for the pay reference period.
  - Whether they have opted in/out or are no longer a member of the scheme.
- ▶ Output
  - Indicates who should be automatically enrolled into a pension scheme.
  - Provides an employer/employee contribution value (where applicable).

The format of the tool will be a downloadable Excel spread sheet, not an online tool. All data will be stored by the user; we will not have access to their data.

### Restrictions of use

- ▶ Setup criteria: the tool will operate on the basis that the setup criteria are the same for all staff entered into the calculator. Therefore, the tool will not support multiple pay frequencies, tax arrangement or variable contribution levels. If a user has these they will have to create multiple instances of the tool.
- ▶ Pay reference period: the tool uses a tax-based pay reference period only.
- ▶ Pension scheme: the tool will assume that a legal minimum entitlement scheme is being used.

- ▶ Pensionable earnings: the tool will calculate contributions based on banded qualifying earnings only. If a user uses an alternative contribution arrangement the tool will not be suitable for them.
- ▶ Staff volume: to be consistent with the BPT the tool will support up to 15 workers. Employers with more than 15 workers wishing to use the tool would have to create multiple instances of the tool.
- ▶ Entitled workers: the tool will only support contribution calculations for entitled workers who request to join a pension scheme if the employer places them into the automatic enrolment scheme on the same basis as other employees.
- ▶ Postponement: the tool will not have specific postponement functionality. If a user applies postponement to an employee (for example if they trigger eligible status after previously being a non-eligible jobholder) they should stop using the tool for that employee until the postponement period ends. At the end of the postponement period the user can use the tool again to check if the employee is still eligible and should be automatically enrolled.
- ▶ Re-enrolment: the tool will not have the ability to support the re-enrolment process (for example it will not know who opted out within a specific time period and therefore requires re-enrolment).
- ▶ Re-download: the user will be required to download a new tool each financial year; this is to take account of any threshold changes that may have occurred and the phasing in of higher minimum contribution levels.

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