Payroll – The Basics Factsheet

Payroll is the process of paying a company's employee(s) which sounds straightforward, but it isn't! Once you have registered for payroll, you then need to choose how to run the payroll: doing it yourself or outsourcing to a payroll provider, choosing the payroll software if the payroll will be done inhouse and checking your workplace pensions responsibilities. Within each of these categories are rules and regulations that must be followed, failure to do so will result in a fine, not to mention ensuring your employees pay is correct!

New employer

New employers must set up a Pay As You Earn (PAYE) scheme with HMRC, it is important to plan in advance as it can take up to 5 working days to get your employer PAYE reference number and you can't register more than 2 months before you start paying people. It should also be noted that you must register even if you only employ yourself.

Most Limited Companies can register online:
www.tax.service.gov.uk/eligibility-for-paye/one-director-national-insurance
or you can contact the New Employer's Helpline on 0300 200 3211.

As an employer you will be responsible for operating PAYE and calculating National Insurance Contributions (NICs). There are also certain statutory payments you may have to make from time to time which you need to be aware of. These include:

- Statutory sick pay (SSP)
- Statutory maternity pay (SMP) and
- Ordinary statutory paternity pay (OSPP)
- Shared parental pay (ShPP).

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A vast amount of information is available on the GOV.UK website detailing the operation of PAYE together with online calculators, these can be accessed as part of the HMRC Basic PAYE tools at www.gov.uk/business-tax/paye.

HMRC can send you several booklets and tables to enable you to make the relevant deductions and payments to your employees if you request them. However, the majority of employers use the HMRC Basic PAYE tools or equivalent software.

Real Time Information (RTI) reporting

Employers, or their agents, are generally required to make regular online payroll submissions for each pay period during the year detailing payments and deductions made from employees on or before the date they are paid to the employees. This is called a Full Payment Submission (FPS) which your payroll software will send HMRC. Everyone you pay should be included on this, no matter how low the pay is. This should not be sent to HMRC until you are happy that it is correct as you will need to send a corrected FPS to HMRC. There are exceptional cases where HMRC will accept a late submission such as an ad hoc over time missed payment, there is a table available online to show the exception and the deadline to report by: www.gov.uk/running-payroll/fps-after-payday.

More detailed guidance and information on operating your payroll under Real Time Information can be found at www.gov.uk/paye-for-employers.

What tax do I have to deduct?

By using the calculators provided on HMRC's website or equivalent software, you should be able to calculate the tax and NICs due in respect of your employees.

The tax due for a particular employee is calculated by reference to their gross pay with a deduction for their tax free pay which reflects their particular circumstances (using their Coding notice (tax code) so it is imperative the tax code is correct. Our blog looks at what a tax code is: www.cashtrak.co.uk/blog/post/11852/what-is-your-tax-code.

Tax is generally calculated on a cumulative basis, looking at the individual's circumstances for the tax year to date.

New Starters

When a new employee starts, you will need to advise HMRC so that you can pay them under RTI. You will need the following information from the employee so that you can set them up with the correct tax code and starter declaration. This information should be available from the employee's P45.

- Full name

- Leaving date from their last job

- Total pay and tax paid to date for the current tax year

- Student loan deduction status

- National insurance number

- Existing tax code

- Date of birth

- Gender

- Full address

- Start date

You must keep this information in your payroll records for the current year and the following 3 tax years.

If they don't have a P45 or it is out of date then you can use HMRCs starter checklist for PAYE, there is an online or printable form available here: www.gov.uk/government/publications/paye-starter-checklist.

Penalties

HMRC impose penalties on employers who fail to:

• Make the online submissions on time
• Pay the liabilities on time

What about National Insurance Contributions (NICs)?

NICs are payable by the employee and the employer on the employee's gross pay for a particular tax week or month and are calculated on a non-cumulative basis. The NICs can be calculated using the HMRC Basic PAYE tools or equivalent software.

When do the tax and NICs have to be paid to HMRC?

The tax and NICs should be paid to HMRC by the 19th of the month following the payment if paying by post or 22nd if paying electronically. Tax months run from the 6th to the 5th of the month, so if an employee was paid on 25th July (tax month being 6th July to 5th August) the tax and NI would need to be paid over to HMRC by 19th August if posting or 22nd August if paying electronically. It should be noted that where these are not a working day, payment should be received the last working day BEFORE the relevant deadline.

Employers whose average monthly payments are less than £1,500 are allowed to pay quarterly rather than monthly however, they still need to send the monthly RTI submission.

Large employers, with more than 250 employees, must pay tax and other deductions electronically.

Forms you will need to complete

You will need to complete the following forms or maintain the equivalent digital records:

- P11D deductions working sheet – this form must be maintained for each employee. It details their pay, expenses, benefits and deductions for each week or month of the tax year.
- P60 end of year summary – this form has to be given to all employees employed in a tax year. More on the P60 in our blog: www.cashtrak.co.uk/blog/post/13634/what-is-your-p60.
- P45 details of employee leaving – this form needs to be given to any employee who leaves and details the earnings and tax paid for the tax year so far. New employees should let you have the form from their previous employer.

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• Make the online submissions on time
• Pay the liabilities on time

- Keep the necessary records
- Operate PAYE or NI correctly
- Make the correct statutory payments
- Provide HMRC or the employees with the relevant forms on time.

It is important that employers comply with all the regulations.

Automatic enrolment pensions

Automatic enrolment places duties on employers to automatically enroll 'workers' into a work-based pension scheme from a specified 'staging date'. The main duties are:

- Assess the types of workers in the business
- Provide a qualifying automatic enrolment pension scheme for the relevant workers
- Write to your workers explaining what an automatic enrolment into a workplace pension means for them or why they are not being enrolled
- Automatically enroll all 'eligible jobholders' into the scheme and pay employer contributions
- Complete the declaration of compliance and keep records.

It is important that these steps are followed as The Pension Regulator issue fines for non-compliance. Another factsheet covers the enrolment responsibilities for employers.

How we can help

We are an experienced software provider, members of the CIPP (Chartered Institute of Payroll Professionals) and use a fantastic payroll software that is also an HR management system.

We offer a no hidden cost service, during the COVID pandemic's furlough scheme, we carried out the calculations free of charge, the HMRC guidance was vague on some of the businesses we run software for which meant we had to contact HMRC for further advice and some of the calculations were very complex and confusing!

We deal with the processing, statutory payment calculations and keep up to date with legislation whilst you concentrate on your business knowing you are compliant.

Our payroll system includes a document hub where employees pay slips and documents such as their P60 for any year they have been with the organisation can be accessed by them, any time. Visit our payroll page for more information on our payroll service www.cashtrak.co.uk/payroll-service.