



Paying Your Employees

What is Pay?

This includes all wages, salary, overtime payments, holiday pay, Statutory Sick Pay (SSP), Statutory Maternity/Adoption Pay and bonuses.

What is an Employee?

This is anyone who is employed under a contract of service (written or oral) and includes full-time, part-time and casual workers.

How to pay your employees

All settings must first register as an employer with Her Majesty's Revenue and Customs (HMRC) either online at www.hmrc.gov.uk/payee/intro-register.htm or by phone to the 'New Employer Helpline' on 0845 60 70143

Then, for all employees you must

- Tell HMRC when an employee starts or leaves
- Have a P45 or P46 form for each employee unless they are a student or employed for less than a week.
- Calculate and deduct tax and national insurance from your employee's pay
- Record details of the deductions made
- Pay the money you have deducted to the HMRC each month or quarter
- Provide your employees with pay slips showing gross earnings and any deductions
- Report details to HMRC at the end of the tax year
- Give each employee a P60 (a record of their pay and deductions) at the end of each tax year

For some employees you may also have to

- Deduct student loan payments and stakeholder pension contributions
- Make statutory payments such as statutory sick pay and maternity pay

Before you start paying your staff you must work out their rate of pay for the job that they do and ensure that it complies with the National Minimum Wage (NMW). This rate can be found online at www.hmrc.gov.uk/nmw or by phone to the National Minimum helpline on 0845 60 00 678. You may also need to carry out appropriate identity checks, for more details go to www.direct.gov.uk

Holiday Pay

All employees are entitled to paid holiday regardless of their hours of work or length of service. The statutory annual paid leave entitlement is currently 4.8 weeks but it is due to increase to 5.6 weeks in April 2009.

If an employee works school term time only, or irregular hours, you will need to work out the hours they would work in a week if they worked all year.

Calculate their annual hours worked and divide by 46.4 (Total hours worked in a year divided by the number of working weeks available, 46.4 weeks ie. 52 weeks less 5.6 weeks holiday).

For more information go to www.businesslinksw.co.uk

Payroll

There are several options available for running your payroll.

- Operate the payroll yourself
- Use a payroll software package
- Use HMRC employer CD-ROM
- Use a payroll service

Remember that you are responsible for the payroll even if you do not operate it yourself and penalties can be imposed on an employer if it is not operated properly.

Setting up a payroll

You will need the following information about all your employees

- Full name
- Gender
- Date of birth
- Address
- National insurance number
- Tax code

When a new employee starts they will often bring a P45 from their previous employer, this give you their national insurance number and their tax code. If they do not have a P45 the new employee must complete a P46 form, the only exceptions to this are, a student working solely for their holidays or when the employment is for less than one week. Students will need to fill in a P38 form.

P46 forms are available from the HMRC Employer Orderline 08457 646 646 or from the 'Forms and Helpbooks' section of the HMRC Employer CD-ROM or can be ordered online from www.hmrc.gov.uk/orderline.htm

The P46 form enables you to determine the appropriate tax code for your employee, the completed form should be sent to your local tax office before their first pay date.

Never alter an employee's tax code unless you are told to do so by HMRC.

Running the Payroll

Tax

Once an employee's earning have exceeded their personal allowance tax becomes payable on any additional earnings. You must apply the correct current tax rates to your employee's earnings. You can ensure you have the correct rates by either

- Using updated payroll software

- Using the calculator on the HMRC CD-ROM
- Using the current printed version of the tax tables
- Using a payroll service

National Insurance Contributions (NICs)

NICs must also be calculated, deducted and paid at the correct time. They are made up of two elements

- Employee contributions that you deduct from your employee's pay
- Employer's contribution that the setting is required to pay

The correct rates can be worked out using the same methods as for tax.

Every month you must pay the tax and NICs (including the employer's NI contribution) you have deducted to your HMRC Accounts Office. Work out the total amount due from all your employees and deduct any refunds given or funding claimed, e.g. SSP. When you have calculated the total due, record the amount due and make the payment to the Accounts Office. Payment is due by the 19th of the following month.

Recording and pay statements

All pay and deductions for tax and NICs must be recorded each time you make a payment on a 'P11 Deduction Working Sheet' for each employee, available from the HMRC. If you use a payroll service this will be done for you. By law you must give your employees a record of their pay and deductions each pay day- a pay slip. This should include

- The employees name
- Date of pay
- Gross pay before deductions
- Tax code applied
- Deductions for PAYE and National insurance, student loans, pension
- Net pay
- Details of repaid expenses

You can include the employee's national insurance number and you employer PAYE reference

Payroll year end

At the end of the tax year (5th April) you must send an Employer Annual Return to the HMRC. This is a summary of the years pay and deductions for all your employees and reconciles the total due with the amount you have paid to HMRC during the year. This must be completed by the 19th May. You also have to prepare a personal year end form, P60, for each of your employees this is a summary of their earnings and deductions for the year. This must be completed by the 30th May.

By 2010 the government wants all employers to file their year end returns online.

Remember you can go to the HMRC website (www.hmrc.gov.uk) or phone their helpline (0845 60 70143) if you have any queries.