



# Payroll – Basic Procedures

## New employer

In order to set up a Pay As You Earn (PAYE) scheme with HMRC it is necessary to contact the New Employer's Helpline on 0845 6070143 or to complete the appropriate section of the form CWF1 (Starting in Business).

When you have registered HMRC will send guidelines on operating PAYE and National Insurance (NI). 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)
- statutory paternity pay (SPP)

HMRC will also send you several booklets and tables to enable you to make the relevant deductions and payments to your employees. There is also lots of advice and tax and NI calculators available on HMRC's website [www.hmrc.gov.uk](http://www.hmrc.gov.uk) or on the Employers' CD Rom.

## Useful booklets

HMRC publish various booklets which are essential to an understanding of how PAYE works. These include:

- Tables A, B to D (or the alternative calculator method)
- The relevant NI tables
- Day to day payroll – Employer's Help Book (E13)
- Expenses and benefits – A tax guide (480)
- What to do if your employee is sick – Employer's Help Book (E14)
- Maternity Pay – Employer's Help Book (E15)
- Adoption Pay – Employer's Help Book (E16)
- Paternity Pay – Employer's Help Book (E19)
- Collection of student loans- Employer's Guide (IR59).

## What tax do I have to deduct?

By using the tables or calculators provided on HMRC's website or CD Rom you should be able to calculate the tax and NI due in respect of your employees.

The tax due for a particular employee is calculated by reference to their gross pay with a tax free pay deduction being given for their particular circumstances (using their coding notice). The amount of the tax free pay is determined using Table A. The remainder of the pay is subject to tax and this is calculated using the appropriate tax tables (B to D) or the calculator method.

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

## What about NI?

NI is payable by the employee and the employer on the employee's gross pay for a particular tax week or month and is calculated on a non cumulative basis. A separate set of tables is used to calculate the amounts payable. The tables used depend on the individual's personal circumstances.

## When does the tax and NI have to be paid to HMRC?

The tax and NI should be paid to HMRC by the 19<sup>th</sup> of the month following the payment. Tax months run from the 6<sup>th</sup> to the 5<sup>th</sup> of the month, so if an employee was paid on 25 July (tax month being 6 July to 5 August) the tax and NI would need to be paid over to HMRC by 19<sup>th</sup> August.

Large employers, with more than 250 employees, must pay tax and other deductions electronically. Any employer can pay electronically, if they wish, taking advantage of the payment date of 22<sup>nd</sup> as opposed to the usual 19<sup>th</sup>. Interest and a default surcharge penalty regime will apply to those large employers who pay late. These penalties do not apply to smaller businesses.

Employers whose average monthly payments are less than £1,500 are allowed to pay quarterly rather than monthly.

## Forms you will need to complete

You will need to complete the following forms:

- **P11 Deductions working sheet.** This form (or a computer generated equivalent) must be maintained for each employee. It details their pay and deductions for each week or month of the tax year.
- **P14/P60 End of year summary.** This form has to be completed for all employees employed in a tax year. Copies are sent to HMRC and also given to the employees themselves shortly after the end of the tax year.
- **P35 Employer's annual return.** This form details all deductions you have made for your employees during a tax year to 5<sup>th</sup> April (tax, NI and possibly student loan deductions). It also provides HMRC with details of statutory payments you have made to your employees (SSP, SMP and SPP). Employers with at least 50 employees have to submit their P35 and P14s electronically from 2005/06 onwards.

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- **P45 Details of employee leaving.** This form needs to be given to any employee who leaves and details the earnings and tax paid so far in the tax year. New employees should let you have the form from their previous employer.
- **P46 Notice of new employee.** This form needs to be completed for new employees who do not have a form P45.

## Penalties

HMRC impose penalties on employers who fail to:

- 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 you comply with all the regulations.

## How we can help

The operation of PAYE can be a difficult and time consuming procedure for those in business. We will be happy to show you how to operate PAYE properly, offer ongoing advice on particular issues, or to carry out your payroll for you.

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