



**MD ACCOUNTANCY**

**TEAM LIMITED**

# **BACK TO BASICS**

**EMPLOYER  
PAYROLL**





# Do I need to operate PAYE and keep payroll records?

As an employer, you normally have to operate Pay As You Earn (PAYE) as part of your payroll. PAYE is HM Revenue and Customs' (HMRC) system to collect Income Tax and National Insurance from employment. The only exception is if none of your employees are paid £123 or more a week, get expenses and benefits, have another job or get a pension. However, even in that case, you must keep payroll records.

## What is meant by "operate PAYE"?

When paying employees, you need to make:

- PAYE (income tax) deductions
- National insurance deductions
- Student loan repayments
- Pension contributions
- In some cases, attachment of earnings deduction

You need to report the payments and deductions to HMRC on or before each payday, and pay over the deductions to HMRC and your pension provider.

## What about Pension?

Under the Pensions Act 2008, every employer in the UK must put certain staff into a workplace pension and pay into it. This is called 'automatic enrolment'. Each time you pay your staff (including new starters), you must monitor their age and earnings to see if they need to be put into a pension scheme and how much you need to pay in.



# What is on a payslip?

Payslips must include:

A Company																													
90 Neville Street Dartford DA1 1AA Ref: 111 / AA12345																													
<b>Sara Smith</b> 71 Cherry Court Maidstone Kent ME1 1AA	<table><tr><td>Pay Period</td><td>Jun-2022</td></tr><tr><td>Pay Date</td><td>30-Jun-2022</td></tr><tr><td>Pay Type</td><td>Monthly</td></tr><tr><td>Payment Method</td><td>BACS</td></tr><tr><td>Tax Code</td><td>1257L</td></tr><tr><td>NI Number</td><td>AA 12 34 56 D</td></tr><tr><td>NI Table Letter</td><td>A</td></tr></table> <table><tr><td colspan="2">Year to Date</td></tr><tr><td>Taxable Gross Pay</td><td>10,500.00</td></tr><tr><td>Income Tax</td><td>1,471.00</td></tr><tr><td>Employee NIC</td><td>1,064.10</td></tr><tr><td>Employer NIC</td><td>1,238.01</td></tr><tr><td>Employee Pension</td><td>525.00</td></tr><tr><td>Employer Pension</td><td>315.00</td></tr></table>	Pay Period	Jun-2022	Pay Date	30-Jun-2022	Pay Type	Monthly	Payment Method	BACS	Tax Code	1257L	NI Number	AA 12 34 56 D	NI Table Letter	A	Year to Date		Taxable Gross Pay	10,500.00	Income Tax	1,471.00	Employee NIC	1,064.10	Employer NIC	1,238.01	Employee Pension	525.00	Employer Pension	315.00
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1.25% uplift in NICs funds NHS, health & social care	<table><tr><td colspan="2">Payments</td></tr><tr><td>Basic Pay</td><td>3,500.00</td></tr><tr><td>Total Payments</td><td>3,500.00</td></tr><tr><td colspan="2">Deductions</td></tr><tr><td>Income Tax</td><td>490.40</td></tr><tr><td>National Insurance</td><td>354.70</td></tr><tr><td>Pension</td><td>175.00</td></tr><tr><td>Student Loan Repayment</td><td>110.00</td></tr><tr><td>Total Deductions</td><td>1,130.10</td></tr><tr><td>Employer Pension</td><td>105.00</td></tr></table>	Payments		Basic Pay	3,500.00	Total Payments	3,500.00	Deductions		Income Tax	490.40	National Insurance	354.70	Pension	175.00	Student Loan Repayment	110.00	Total Deductions	1,130.10	Employer Pension	105.00								
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- 1 Tax code:** This determines how much tax-free allowance the individual gets for this employment.
- 2 NI Table Letter:** This determines whether and how much national insurance the individual pays.
- 3 Income Tax Deduction:** This is the calculation of tax due by the individual and deducted from their pay, based on the tax code (tax free allowance) and their pay. The rate of tax is applied according to the weekly/monthly or annual thresholds published by HMRC every year.
- 4 National Insurance Deduction:** This is the calculation of employee national insurance due by the individual and deducted from their pay, based on NI letter and their pay. The rate is applied according to the weekly/monthly or annual thresholds published by HMRC every year.
- 5 Employer NIC:** The employer also pays national insurance for each employee. The rate is applied according to the weekly/monthly or annual thresholds published by HMRC every year.
- 6 Pension:** If the employee is automatically enrolled, they will have contributions to pay, and so will their employer. The amount depends of the scheme the employer decides on, but the minimum requirements are for contributions of 5% by the employee and 3% by the employer, this is applied to qualifying earnings (earnings between £6,240-£50,270 a year for 2022-23).
- 7 Student Loan Repayment:** If the employee has a student loan, repayments must be calculated and deducted from the pay. The employer must continue to make deductions until they are notified by HMRC to stop.



# Who pays what when?

## Gross Salary

Less **Income Tax**

Less **Employee National Insurance**

Less **Student Loans deduction**

Less **Employee Pension**

= **Employee Net Pay – Paid to employee on Pay Day**

**Employer National Insurance – Paid to HMRC on 22<sup>nd</sup> following end of tax month with amounts deducted from employee gross pay**

**Employer Pension Contribution + Employee Pension deducted – Paid to the Pension provider after Pay Day**

## Top Tips

- Tax codes (and student loans start/stop notices) are issued by HMRC to the employer who must apply them. The employee also receives a copy. Only the employee can discuss this with HMRC if they think it is incorrect. If there is an issue, your employees should contact HMRC directly (HMRC Income Tax Enquiries).
- Keep Accurate and up-to-date personal records for your employees. Make sure they know to inform you of any changes so you can continue to be compliant.
- Know you don't just need to track salary, any non-cash benefits may also need to be captured either in the regular payroll or as a benefit in kind, and may attract tax and national insurance.
- Make sure you stay on top of your workplace pension duties.
- Be aware of submission and payment deadlines to avoid penalties.
- Ask an expert – payroll is a complex area and there are many pitfalls.
- ACAS is a good source of free information for HR issues.

## Questions and Further Information

If you have any questions, or would like further information about anything contained within this Back to Basics factsheet, please speak to a member of our team who will be happy to assist you.

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