

Payroll - The Basics

Who goes on a payroll?

- Employees
 - may be full time or part time
 - no need to be on a payroll if salary is less than NI/PAYE lower limits, but record required
 - includes company directors but not sole trader/partner
- Occasional workers
 - may work mainly for another employer or several employers
 - if self-employment is claimed, obtain an invoice with an address - often advisable to get signature that they are responsible for their tax and NI and their UTR (Unique Tax Reference).
- Cleaners - usually need to be on a payroll
- Au pairs/nannies paid above NI/PAYE lower limits
- Students working in their holidays and under the NI/PAYE annual limits need not be taxed, but payroll records need to be maintained

Setting Up a Payroll

- Apply to HMRC (0845 607 0143) to get a payroll reference.
- Preparing a payroll - choose from
 - use HMRC manual schedules
 - use HMRC payroll software
 - buy your own payroll software (e.g. Sage Payroll, QuickBooks Payroll)
 - use a bureau e.g. your accountant

The Payroll Process

- May be run weekly, fortnightly, or monthly - monthly is the most common.
- Collect information
 - starters
 - leavers
 - deductions e.g. pension, loan repayments
 - salary changes
 - overtime/bonus/commission
 - PAYE code changes
- Prepare payroll
 - payslip for each employee, showing gross

pay, tax, NI, deductions and net pay

- summary of all employees
- total tax/NI payable
- total deductions payable

- Pay net to employees - cash, cheque, or direct transfer to bank account.
- Pay deductions, e.g. pensions, medical benefit
- Pay PAYE/NI
 - due 19th following payroll(s) for month ended
 - due 5th - e.g April payroll PAYE/NI is payable by 19th May
- Payroll journal to enter summary information into accounting system.

The Payroll Year

- Starters must provide their P45 from their previous job. If an employee signs a P46, which states that it is his or her main job, a basic personal allowance code is used. A national insurance number is required - if it has not yet been obtained, basic rate tax is deducted.
- The Revenue may advise of PAYE code changes at any time.
- Leavers are given a P45, which show their gross pay and base deducted. They will need this for a new job.
- The payroll year ends on 5th April - usually April to March payrolls.
- By the 19th May after the 5th April of the payroll year, a P35 has to be submitted to the Revenue. This summarizes the PAYE/NI for the year of all employees. Each employee is given a P60, providing for the payroll year, gross pay, tax deducted and NI deducted. If the employee receives a personal tax return, he will need his P60.
- If an employee has any taxable benefits e.g. medical insurance, car benefit, P11Ds are prepared for the employees by 6th July. Employer NI at 12.8% is payable on most benefits - by 19th July.

Statutory Maternity Pay (SMP) see helpsheet.
Statutory Sick Pay (SSP) see helpsheet.