

# PETER BALDWIN & CO

CHARTERED CERTIFIED ACCOUNTANTS

## 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)
- Ordinary and additional statutory paternity pay (OSPP and ASPP)

If requested 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 via HMRC's website [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and as part of HMRC Basic PAYE tools.

### 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 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.

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## **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 19th of the month following the payment. Tax months run from the 6th to the 5th 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 19th 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 22nd as opposed to the usual 19th.

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

## **PAYE Penalties for Late Payment**

Provisions have been introduced to charge a penalty where tax is paid late. The liability to a penalty will be based on a totting up procedure depending on the number of defaults during a tax year. A penalty will not be levied for the first default and will then rise as follows:

- Up to three defaults - 1% of total amount of those defaults
- Four, five or six defaults - 2% of the total
- Seven to nine defaults - 3% of the total
- Ten or more defaults - 4% of the total

If any tax is unpaid six months after the penalty date, then a penalty of 5% will be levied and a further 5% can be levied after 12 months. HMRC are to implement the PAYE late payment penalties with effect from 6 April 2010. However no penalty notices will be issued until 2011 and the penalties will be applied on a risk basis. It is important that employers make payments on time. If you are having difficulties paying these liabilities please do get in touch as soon as possible.

## **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.

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## P35 Employer's Annual Return

This form details all deductions you have made for your employees during a tax year to 5th 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 had to submit their P35 and P14s electronically for some time. Broadly all employers must submit their end of year forms electronically.

## 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.

## **Online Filing of In-Year Forms**

From April 2011 broadly all employers have to file in-year forms (P45, P46 and the lesser used forms P46 (Pen) and P46 (Expat)) online. Form P46 (Car) can be filed online from 2011/12.

## **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
- Fail to make online submission of forms where required
- Fail to pay on time

It is important that employers 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 so please do contact us on 01243 838383

*May 2012*

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