



# **The Carbon Accountancy Guide to being an employer**

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## **New employer - getting started**

This guide explains when registration as an employer is necessary and it takes you through the basics of PAYE, NI, Payroll, and employee management for employers.

This guide sets out general guidance for employers. It is not intended to be a substitute for proper professional advice from your accountant or tax adviser.

### **When you need to register**

You need to register as an employer once you take start employing staff.

If you need to register you can do so up to four weeks in advance of your first pay day.

Bear in mind that you might need to register as an employer even if you're the only person working in your business and even if you do not owe any PAYE/NI. If you run a one-person limited company, you'll be both an employer and an employee.

For more details please click the link below.

<http://www.hmrc.gov.uk/payee/intro/register.htm>

### **Employment contract**

All employees should have a written statement of their terms and conditions of employment – typically this will take the form of an employment contract.

In addition many business will have a staff handbook which sets out non contractual terms which the employees will be expected to adhere to – matters such as internal policy, holiday policy, disciplinary procedures etc. The benefit of a staff handbook is that it can be outside the contract of employment and amended from time to time in line with the needs of the business.

We would recommend that references be taken on all new employees.

### **Choosing a Payroll system**

Managing payroll is a key task for any employer. It involves paying your employees correctly, making deductions for tax and National Insurance contributions (NICs) and keeping proper records of all this.

You can handle payroll in-house, or you can outsource it. If operating payroll in-house, there are significant advantages to using electronic payroll software rather than manual methods. Using software saves time, reduces errors and makes many of your payroll tasks much easier to complete such as filing online.

Using outsourced payroll can be very cost effective and provide significant peace of mind.



## **What is payroll?**

'Payroll' refers to the records - paper or electronic - and calculations that you make to work out your employees' pay and deductions under the Pay As You Earn (PAYE) system. It covers all the payments you make to your employees, including:

- wages and salaries
- overtime
- commission and bonuses
- holiday pay
- statutory payments - Statutory Sick Pay and Statutory Maternity, Paternity or Adoption pay

Payroll covers things like employers' NICs and the value of benefits and perks too. It also shows all the deductions you make before paying your employees, like Income Tax, employees' NICs and any student loan deductions.

It's essential for your business that you pay your employees the right amount and on time - and that you make the correct deductions. Employees are also entitled to a payslip which shows how their net pay has been calculated. So keeping accurate payroll records is really important.

## **PAYE for employers:**

PAYE (Pay As You Earn) is the system that HM Revenue & Customs (HMRC) uses to collect Income Tax and National Insurance contributions (NICs) from employees' pay as they earn it. The term 'employee' in this guide includes directors of limited companies.

As an employer, you'll have to deduct tax and NICs from your employees' pay each pay period and pay Employer's Class 1 NICs if they earn above a certain threshold. Generally you pay these amounts to HMRC monthly or quarterly. If you do not send the correct amount, or if you send it in late, you may have to pay penalties and interest. After the end of the tax year you must send HMRC an Employer Annual Return (form P35, form P14 and form P11d). Almost all employers are required to file this online.

## **Employers' responsibility for PAYE**

As an employer you have a legal obligation to operate PAYE on the payments you make to your employees if their earnings reach the National Insurance Lower Earnings Limit (LEL).

You use the employee's tax code and National Insurance category letter to work out how much Income Tax and NICs to deduct from their pay and how much Employer's Class 1 NICs you owe on their earnings. By the 19<sup>th</sup> of each month - or by the 22<sup>nd</sup> if you make electronic payments - HMRC must have received the amounts owed. You may be able to send the amounts due every quarter if your average monthly payments are likely to be less than £1,500.

For more details please click the link below.

<http://www.hmrc.gov.uk/payee/rates-thresholds.htm>



## **National Insurance for employers**

As an employer you pay National Insurance contributions (NICs) on the earnings you provide to your employees. Earnings include not only cash amounts but benefits, such as providing your employees with company cars. Most workers (both employed and self-employed) also pay NICs on their earnings, in addition to PAYE. Many of these contributions go towards building up workers' entitlements to social security benefits such as Jobseeker's Allowance and the State Pension.

The tax and NICs due on your employees' earnings are calculated and deducted at the same time through the PAYE (Pay As You Earn) system when you operate your regular payroll. You then pay them to HM Revenue & Customs (HMRC). However the NICs that apply to many employer-provided benefits are calculated separately after the end of the tax year.

### **Employers' responsibilities for National Insurance contributions**

National Insurance contributions (NICs) are payable on employee earnings, including non work related expenses and provided benefits. There are different classes of NICs that apply in different circumstances. Some are paid by both employers and employees and some by employers only

As an employer your main responsibilities are:

- to deduct and pay the employer and employee Class 1 NICs due on your employees' earnings through your payroll
- to pay employer Class 1A NICs after the end of the tax year on benefits you've provided to your employees
- to pay employer Class 1B NICs after the end of the tax year if you've agreed a PAYE Settlement Agreement (PSA) with HMRC

For more details please click the link below.

<http://www.hmrc.gov.uk/pay/intro/ni-basics.htm>

### **File your PAYE in-year forms**

Almost all employers must send a number of their in-year PAYE forms online to HM Revenue & Customs (HMRC). These are the employee starting and leaving forms, P45 and P46, P46(Pen) and P46(Expat).



### More about the in-year forms you must file online

The in-year forms you must file online are shown in the table below.

Form	When to use
P45 Part1	When an employee leaves your business
P45 Part3	When a new employee starts
P46	When a new employee starts, but has no P45 from their previous employer
P46(Pen)	For sending details of a new pension or annuity that you start to pay
P46(Expat)	For certain employees seconded to work in the UK

### Incentive schemes

Introducing an effective system of incentives and perks can help you to recruit and retain valuable staff, reward performance and productivity. It can also help you get the best out of your employees.

Incentives are rewards relating to certain goals. Perks are benefits on top of basic salary. Incentives and perks can be financial or non-financial. You can also have individual and group or team incentives.

#### *Setting up an incentive scheme for employees*

Remember that pay and financial benefits are not the only things that may improve staff performance. Other key motivators include job security, job satisfaction, good working conditions and appropriate training.

#### *Steps to setting up an incentive scheme*

An incentive scheme is perhaps the most straightforward way to motivate staff. If you are considering setting one up you should:



- Identify the scheme's objectives. For example, encouraging the recruitment or retention of staff, changing the organisational structure of the workplace or reducing any likely areas of conflict. Alternatively, you might want to encourage teamwork and motivation or to set specific targets for productivity, revenue or sales.
- Consult with staff. This will help you identify where to aim the incentives, for example at your entire workforce, managers or a specific group of employees. It will help you find out what incentives your staff value most and what training they need to achieve a target.
- Relate the scheme to business performance. Consider whether the incentive should be financial or non-financial. Think about how the proposed incentive will relate to other cash benefits and how much administration will be needed.
- Establish any tax implications for your staff. Consider related costs and funding.
- Ensure that the planned scheme is competitive. Look at similar schemes within other businesses.
- Decide on performance measures for your staff. You might set targets for performance or work quality.
- Run a pilot scheme and evaluate results.
- Regularly review your scheme and obtain feedback. Make sure that you document, communicate and obtain feedback from staff at all times.