



# **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 PAYE, NI, Payroll, and employee management for employers.

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

You need to register as an employer once you take someone on.

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. 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.

<https://www.gov.uk/register-employer>

### **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

### **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 perks and benefits 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 to your business that you pay your employees the right amount and on time - and that you make the correct deductions. 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. You pay these amounts to HMRC monthly or quarterly. If you don't send the correct amount, or if you send it in late, you may have to pay interest. After the end of the tax year you must send HMRC an Employer Annual Return (form P35 and forms P14). 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). For the tax year 2016-17 this is £112 a week, £485 a month or £5,824 a year.

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 19th of each month - or by the 22nd 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.

<https://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2016-17/tax-and-tax-credit-rates-and-thresholds-for-2016-17>

### **National Insurance for employers:**

You will be able to claim an employment allowance of £3,000 (£2,000 2015/16). 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 Income Tax. 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, some by employers only and others by the self-employed.

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

If any of the people you engage to carry out work for you are self-employed, then they're responsible for paying their own NICs (Class 2 and Class 4).

For more details please click the link below.

<https://www.gov.uk/pay-class-1a-national-insurance>

### **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.

<b>Form</b>	<b>When to use</b>
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 scheme

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 up one 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 and trade unions. 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 the business' remuneration system. 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.



## **Workplace pension**

Employers will have to provide a workplace pension for eligible staff by 2018. This is called 'automatic enrolment'.

Please click the link below to find out when you'll need to start enrolling people - it depends how many people are on your payroll. This is known as your 'staging date'.

<http://www.thepensionsregulator.gov.uk/employers/staging-date.aspx>

Your staging date is set in law as of 1 April 2012 and is the date your automatic enrolment duties come into effect for you. You must be prepared for this date. You'll need your PAYE reference to find out your staging date.

The PAYE Reference can be found on letters you have received from The Pensions Regulator about automatic enrolment. Alternatively, it can be found on the letter HMRC sent you when you first registered as an employer, or from your payroll software package.