



BUSINESS TAX CENTRE LIMITED
TAX GUIDANCE – INTRODUCTION ‘PAYE AS YOU GO’ (PAYE)

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PAYE for employers: the basics

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.

This guide gives a basic overview of what you need to do to operate PAYE including which forms you'll need and key dates.

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 2009-10 this is £95 a week, £412 a month or £4,940 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.

What payments does PAYE apply to?

PAYE is applied to all the payments that an employee receives as a result of working for you, including:

- salary and wages
- overtime, shift pay and tips - unless these are paid directly to your employee or they come out of an independent tronc
- bonuses and commission
- certain expenses allowances paid in cash
- Statutory Sick Pay
- Statutory Maternity, Paternity or Adoption Pay
- lump sum and compensation payments - like redundancy payments - unless they're exempt from tax

- non-cash items like vouchers, shares or premium bonds - you apply PAYE to the cash value of items like this

PAYE on expenses and benefits

Employees are also taxed through PAYE on benefits in kind, such as a company car, medical insurance and other benefits. As an employer you will have to pay Class 1A NICs on some benefits. However you don't pay these contributions under the PAYE system - you do so separately at the year end.

PAYE is also applied to any expenses allowances that you pay to your employees - unless they're covered by a dispensation. A dispensation allows you to make the payments free of tax and NICs and can cut out a lot of form filling and other paperwork.

Other deductions under PAYE

As well as deducting Income Tax and NICs from your employees' pay each pay period, you might also use the PAYE system to deduct other items, like:

- student loan repayments
- employees' pension contributions
- payments under an attachment of earnings order
- repayment of a loan you've made to an employee

Pay statements

You'll have to give each of your employees a pay statement - or payslip - at or before the time that you pay them. This can be in either paper or electronic format but it must show certain items, including each employee's gross pay (before any deductions are made), all deductions and the purposes for which they are made, and the net amount payable after the deductions have been made (also known as take home pay). If you don't give your employees an itemised payslip they could complain to an employment tribunal.

At the end of each tax year you must give them a summary of their pay and deductions on form P60. This must be in paper format.

Getting started with PAYE

When you pay your employee for the first time you must check whether you need to operate PAYE and register as an employer with HMRC. Once you have registered, HMRC will be given the option of receiving a New Employer pack which contains the Employer's CD-RomOM. This CD-ROM contains electronic calculators as well as all the forms and information you'll need to operate PAYE. If you do not have access to a computer you will be able to order paper copies of everything that you need.

If you employ domestic staff in your home you may be able to operate the Simplified PAYE Deduction Scheme. If you think this may apply to you read the HMRC guide before you register.

You can register as an employer by email or by calling the New Employer Helpline on Tel 0845 60 70 143.

Free help and training from our Customer Advice Teams

You can also contact your local HMRC Customer Advice Team for free confidential advice, or to find out about workshops and presentations to help you with PAYE and payroll.

PAYE forms and deadlines at a glance

When you operate PAYE you'll use certain key forms and procedures to keep a record of all the payments you make to your employees. Some forms give you the information you'll need to operate PAYE correctly and you'll use others to tell HMRC about your employees and their pay details.

Employee forms

- **Form P45.** New employees who've had a previous job, or have had a period on state benefits, will give you a P45 when they start. When they leave you give them a completed P45 for their new employer.
- **Form P46.** You/your employee will usually need to complete a form P46 if they don't have a P45. Part 1 gives your employee's personal details, including their NI number, current/recent work history and any student loan details. Part 2 gives details about your PAYE scheme and the tax code you're using for them.
- **Form P60.** You'll need to issue a form P60 to each employee who was working for you at 5 April whose earnings reached the National Insurance Lower Earnings Limit during the tax year. The P60 shows the employee's pay and tax for the whole year.

Start of tax year forms

- **Forms P9(T), P9X.** These tell you about the tax codes to use for your employees for the following tax year - from 6 April. For some employees you might get an individual form P9(T), showing their new tax code based on their individual circumstances. For your other employees, form P9X will tell you how to work out their new codes, based on any changes that the Pre-Budget Report or the previous Budget have made to tax rates or allowances.
- **Form P7X.** This form tells you about any more changes that you'll need to make to your employees' tax codes as a result of the recent Budget. These changes usually apply from May.

Payroll administration forms

- **Form P11 Deductions Working Sheet.** You use form P11 for each employee to record details of their pay and deductions throughout the year.
- **Form P14.** At the end of each tax year you must complete form P14 for each employee whose earnings reached the National Insurance Lower Earnings Limit. This is a summary of the information you've recorded throughout the year on each P11. You must send this to HMRC, ensuring it will be received no later than 19 May.
- **Form P35 Employer Annual Return.** You list details of all your employees on form P35 and the amount of Income Tax and NICs you've deducted from each of them. This form must also reach HMRC no later than 19 May.

Expenses and benefits forms

- **Form P9D, form P11D or form P11D(b).** You use these forms to tell HMRC about all the taxable benefits or expenses your employees have received. Use form P11D for company directors and employees who earn £8,500 a year or more and form P9D for employees who are paid less than £8,500. Use form P11D(b) to enter details of the NICs due on the benefits that have been recorded on the P11Ds. You must ensure all these forms reach HMRC by 6 July.
- **Form P11D(X).** You can use this form to apply for a dispensation to cover the benefits and expenses you pay to your employees. If HMRC gives you the dispensation, you won't have to put details of the expenses and benefits it covers on forms P11D or P9D.
- **Form P46 (Car).** You use this form to tell HMRC if you give an employee the use of a company car - or if they change the car that you provide for them.

PAYE online filing - options and deadlines

You can fill in and submit many of the PAYE forms over the Internet using HMRC's free PAYE Online for employers' service. Sending information like this is quick and easy and is more reliable and efficient than using paper format. The forms that you can send online include:

- P9(D) Return of Expenses Payments and Income
- P11D Expenses and Benefits
- P11D(b) Return of Class 1A National Insurance contributions due
- P14 End of Year Summary
- P35 Employer Annual Return
- P38A Employer Supplementary Return

- P45 Part 1 Details of Employee Leaving Work
- P45 Part 3 New employee details
- P46 Employee Without a Form P45
- P46 (Car) car provided for the private use of an employee or director

Employer deadlines and tax-free payments for sending PAYE forms online

If you have 50 or more employees you must file your Employer Annual Return (forms P14 and P35) online now. If you have fewer than 50 employers, you do not have to file online until at least 2010 but you can get tax-free payments for doing so before then.

There are also deadlines for sending forms P45/P46 online. Larger employers must send these online from 6 April 2009. If you have fewer than 50 employees you are expected to have to file the P45/P46 online from 6 April 2011.