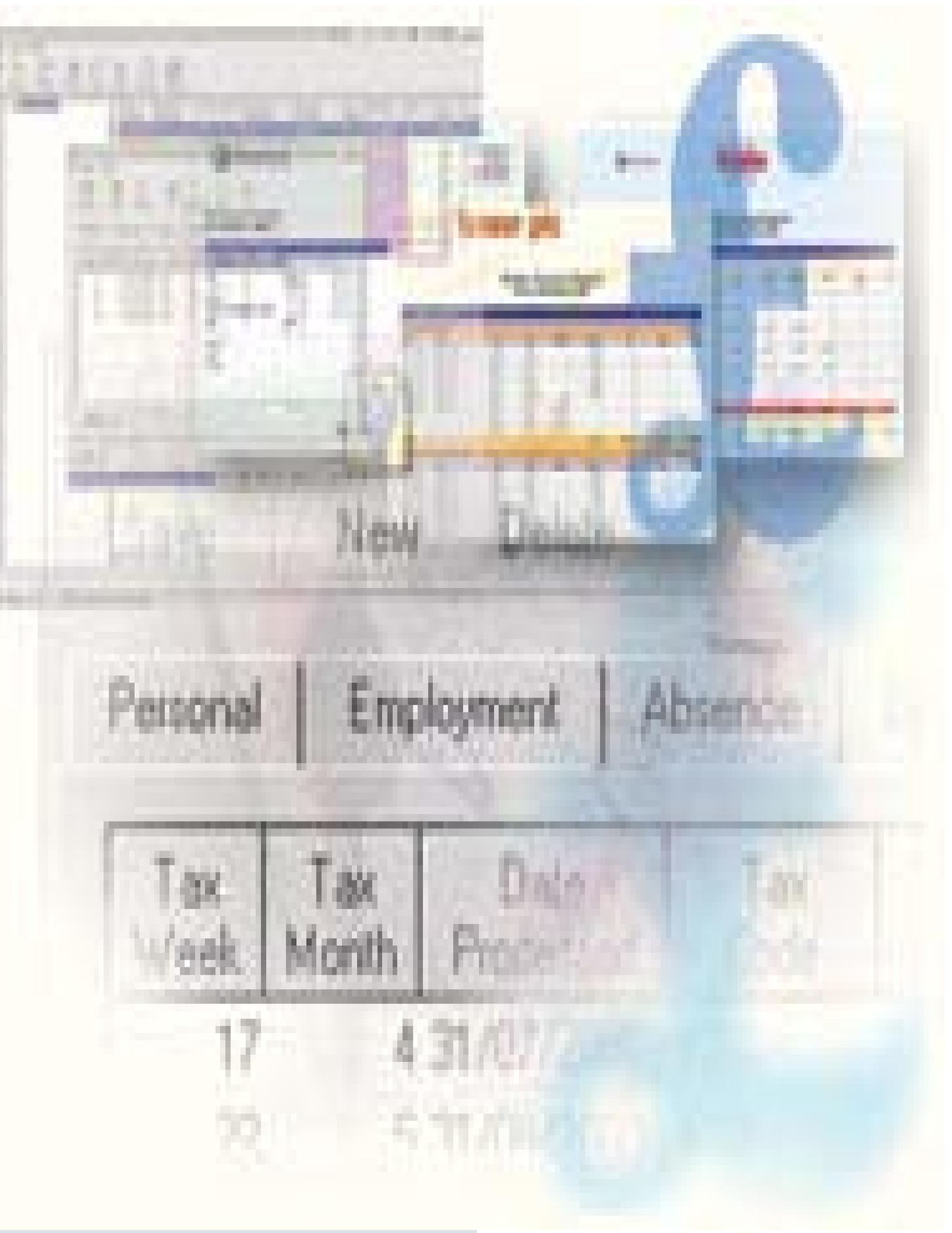


PARROTT & PARROTT

OUR GUIDE TO PAYROLL AND PAYE



What is PAYE and why do I need a payroll

If your business employs anyone to work under your direction or control then that person is deemed to be an EMPLOYEE. As such you are under certain legal obligations both as far as the Inland Revenue, for tax and National Insurance, is concerned and the rules and regulations relating to employee protection and rights.

PAYE stands for "Pay As You Earn" and is the method of collecting tax and national insurance on a regular basis from the employees wages.

Dealing firstly with the Inland Revenue obligations, as soon as you employ staff you must register with the Inland Revenue who will set up a PAYE scheme for you. This obliges you to keep wage/salary records and where applicable deduct tax and national insurance from the employees pay.

If you are a Sole Trader or a Partnership you are NOT an employee but the owner and your tax and national insurance is calculated on your business profits alone and not based upon any drawings you may make. A Sole Trader or Partner does NOT receive a wage or salary but merely draws money from the business out of profits.

In the case of Limited Companies, when the company is formed it is usual for the Inland Revenue to automatically start a PAYE scheme. Even though you may think you have no employees! The Directors are by definition employees of the company and hence any monies taken from the company need to be accounted for as either wages and salaries or dividend payments.

The record keeping for wages and calculation of tax and national insurance is called the Payroll.

Do all my employees have to be accounted for on the payroll ?

In most cases the answer to this is YES, however, in some cases casual workers may be used and provided the gross pay is below £94 per week (2005/2006 tax year) then PAYE need not be deducted but a record of the employees name, address and NI number must be kept.

A similar situation arises with the employment of students in full time education, however care must be taken with these, particularly in seasonal holiday type employment where earnings over the £94 per week threshold, may in some weeks mean that National Insurance will be due for deduction even though tax may not be. Employment of students does NOT absolve either the employee or the employer of any liability to tax or national insurance contrary to common belief. Advice should always be sought to clarify individual circumstances.

If you are involved in the Construction Industry either as a main contractor or as a sub-contractor you will need to be registered with the Inland Revenue. No payment may be made to any construction industry sub-contractor without sight of their CIS registration card and the appropriate tax being deducted when making the payment.

Failure by an employer to maintain proper payroll records can lead to penalties and fines being imposed by the Inland Revenue. It is therefore essential you keep proper records and make the appropriate deductions where necessary.

What payroll records do I need to keep ?

The following minimum information must be kept for every employee:-

- a) Full name
- b) Address
- c) National Insurance number
- d) Date of birth
- e) Date of commencement of employment
- f) Date of leaving employment
- g) Details of ALL payments made to the employee and deductions

At the end of each tax year this information, together with totals of gross pay and deductions need to be submitted to the Inland Revenue.

The government is currently trying to move employers to submit this information electronically to cut down on their manual processing of paperwork. They are offering incentives by way of tax credits against the employers PAYE liability to encourage employers to move over to this method of filing. The rates of incentive are shown below:-

- file online for 2004-05 (return due by 19 May 2005) and get **£250**
- file online for 2005-06 (return due by 19 May 2006) and get **£250**
- file online for 2006-07 (return due by 19 May 2007) and get **£150**
- file online for 2007-08 (return due by 19 May 2008) and get **£100**
- file online for 2008-09 (return due by 19 May 2009) and get **£ 75**

After 2009, it will be mandatory to file year end returns on line, so it is best to start using this method as soon as possible and at least get the benefit of the incentives!

By far and away the easiest and most accurate way of keeping your payroll and associated information is to take advantage of an Inland Revenue approved computer payroll package or use an external payroll bureau. Currently we operate over 40 client payrolls on a bureau basis and we would be happy to discuss any requirements you may have.

As far as computer payroll packages are concerned, there are quite a few available but as with all things some are better than others, particularly with the ease or otherwise of processing employees pay. We use and recommend TAS Payroll and have done so for over 10 years now. TAS payroll costs in the region of £90 to £200 depending on the number of employees and in addition an annual fee of £90 to £150 is payable to maintain the payroll with current tax rates and calculations. You can see that the cost is relatively small (between £7.50 - £12.50 per month) and in the years up to April 2009 there is no cost to the business as this is more than covered by the incentive scheme.

The use of a payroll bureau is also attractive as the employer does not need to spend the time either processing the payroll or ensuring the correct deductions for PAYE are made. Currently we operate over 40 client payrolls on a bureau basis and we would be happy to discuss any requirements you may have.

How does PAYE work ?

PAYE is calculated on an employees gross pay and takes into account the employees personal tax allowances. PAYE is normally calculated on a weekly or monthly basis depending on your pay timetable. In simple terms the calculation of PAYE is as follows:-

Tax Calculation

Gross Pay for week or month – Personal Allowance/52 (weekly) = Taxable Pay

Taxable Pay x tax at various rates (currently 10%, 22% and 40%)

Employees National Insurance Calculation

Gross Pay less National Insurance Earnings Threshold (£94 per week in 2005/06) x National Insurance Rate (11% 2005/06)

Employers National Insurance Calculation

Gross Pay less National Insurance Earnings Threshold (£94 per week in 2005/06) x National Insurance Rate (12.8% 2005/06)

The employee is then paid :-

Gross Pay – Tax – Employees National Insurance

The Employer then pays to the Inland Revenue the deducted Tax, Employees National Insurance and the Employers National Insurance, either on a monthly or quarterly basis, depending on the size of the payroll.

All of these calculations must be recorded on a weekly or monthly basis per employee and be available for inspection by the Inland Revenue at any time.

Inland Revenue		Details of employee leaving work Copy for Inland Revenue office		P45 Part 1
1 PAYE Reference	Office number	Reference number		
2 Employee's National Insurance number				(Mr Mrs Miss Ms Other)
3 Surname (in CAPITALS)				
First name(s) (in CAPITALS)				
4 Leaving date (in figures)	Day	Month	Year	5 Continue Student Loan Deductions(Y)
6 Tax Code at leaving date. If Week 1 or Month 1 basis applies, write 'X' in the box marked Week 1 or Month 1.	Code		Week 1 or Month 1	
7 Last entries on Deductions Working Sheet (P11)	Week	Month		
Complete only if Tax Code is cumulative. Make no entry here if Week 1 or Month 1 basis		Total pay to date	£	p

What happens at the end of the Tax Year ?

At the end of the tax year you must file with the Inland Revenue a summary for each employee of gross pay, tax and national insurance deducted, together with full details of the employee. The employee must also be given these details using an Inland Revenue form P60.

Also at the end of the tax year you must reconcile the amounts of tax, national insurance due to the Inland Revenue with actual payments made. Any discrepancy needs to be paid over within 2 months of the end of the tax year.

In addition if you are involved in the construction industry, you will also be required to submit returns of payments made to sub-contractors, either with tax deducted at source or gross payments. Any payments you have received under this scheme and any tax deducted also needs to be returned to the Inland Revenue at the same time. It is essential that you retain all CIS Tax vouchers both issued and received to backup the figures entered on the return.



*P35 – Employer's Annual Return
for*

*
*

Please return to

For information only

Employer's PAYE reference /

Your reference

Inland Revenue office telephone no.

Accounts Office reference

PAYE Income Tax, National Insurance contributions (NICs) and related payments

You are required by law to

Other key dates following the end of the tax year

Other dates

Submit to the mandatory rules and you post pay cash), please pay and NICs to avoid interest.

Approved electronic please pay all NICs so your no later than being charged interest in the case of employers the mandatory rules).

Employer Certificate for employee.

complete and sign this return

- include the 'National Insurance copy' and 'Tax copy' of form **P14 End of Year Summary**, for each employee for whom you were required to complete a form **P11 Deductions Working Sheet** (or equivalent record) during the year
- include, where applicable, **P35(CS) Continuation Sheets** and form **P38A Employer's Supplementary Return**. Forms **P38(S) Student employees** should not be sent with this return, but must be retained for at least three years
- send it in time to reach the above Inland Revenue office by **19 May** following the end of the tax year.

You may be charged a penalty if your return is received late.

You also have legal obligations or

By 19 April – if you are not subject to electronic payment your payment (or part) of all outstanding tax being charged interest

By 22 April – if you pay by an approved payment method, your outstanding tax and payment reaches us by 22 April to avoid being charged interest (and surcharge in the case of those who are subject to electronic payment)

By 31 May – give a **P60, End of Year Summary** to each relevant employee.

Other end of year returns

In addition to the actual pay records being submitted to the Inland Revenue. The employer is also obliged to return details of any benefits or expense payments made to employees. This may include items such as:- Company Cars and Vans, Medical Insurance, payments for home telephone costs, entertaining, travel expenses, mileage allowances paid, etc.

These returns are called forms P11D and must be submitted to the Inland Revenue by mid July. It is essential that your book-keeping system allows you to retrieve this information easily otherwise a considerable amount of work is necessary to collate the figures for the returns.

We offer a P11D form completion service and would be more than happy to discuss your requirements if you wish.

HM Revenue and Customs P11D EXPENSES AND BENEFITS 2003-04

Note to employer
Complete this return for a director, or an employee who earned at a rate of £8,500 a year or more during the year 6 April 2003 to 5 April 2004. Do not include expenses and benefits covered by a dispensation or PAYE settlement agreement. Read the P11D Guide and Booklet 480, Chapter 24, before you complete the form. You must give a copy of this information to the director or employee by 6 July 2004. The term employee is used to cover both directors and employees throughout the rest of this form. Send the completed P11D and form P11D(b) to the Inland Revenue office by 6 July 2004.

Note to employee
Your employer has filled in this form. Keep it in a safe place as you may not be able to get a duplicate. You will need it for your tax records and to complete your 2003-04 Tax Return if you get one. Your tax code may need to be adjusted to take account of the information given on this P11D. The box numbers on this P11D have the same numbering as the Employment Pages of the Tax Return, for example, 1.12. Include the total figures in the corresponding box on the Tax Return, unless you think some other figure is more appropriate.

Employer's details
Employer's name: _____
PAYE tax reference: _____

Employee's details
Employee's name: _____ If a director tick here
Works number /department: _____ National Insurance number: _____

Employers pay Class 1A National Insurance contributions on most benefits. These are shown in boxes which are brown and have a 1A indicator

A Assets transferred (cars, property, goods or other assets)
Description of asset: _____ Cost/Market value: £ _____ Amount made good or from which tax deducted: £ _____ Cash equivalent: 1.12 £ 1A

B Payments made on behalf of employee
Description of payment: _____ 1.12 £
Tax on notional payments not borne by employee within 30 days of receipt of each notional payment: 1.12 £

C Vouchers or credit cards
Value of vouchers and payments made using credit cards or tokens: Gross amount: £ _____ Amount made good or from which tax deducted: £ _____ Cash equivalent: 1.13 £

D Living accommodation
Cash equivalent of accommodation provided for employee, or his/ her family or household: 1.14 £ 1A

E Mileage allowance and passenger payments
Amount of car and mileage allowances paid for employee's own vehicle, and passenger payments, in excess of maximum exempt amounts: 1.15 £

F Cars and car fuel If more than two cars were made available, either at the same time or in succession, please give details on a separate sheet

	Car 1	Car 2
Make and Model	_____	_____
Date first registered	/ /	/ /
Approved CO2 emissions figure for cars registered on or after 1 January 1998. Tick box if the car does not have an approved CO2 figure	<input type="checkbox"/> g/km	<input type="checkbox"/> g/km
Engine size	cc	cc
Type of fuel or power used. Please use the key letter shown in the P11D Guide (2004)	_____	_____
Dates car was available. Only enter a 'from' or 'to' date if the car was first made available and/or ceased to be available in 2003-04	From / / to / /	From / / to / /
List price of car including car and standard accessories only. If there is no list price, or if it is a classic car, employers see booklet 480; employees see leaflet IR172	£ _____	£ _____
Accessories. All non-standard accessories, see P11D Guide	£ _____	£ _____
Capital contributions (maximum £5,000) the employee made towards the cost of car or accessories	£ _____	£ _____
Amount paid by employee for private use of the car	£ _____	£ _____
Cash equivalent of each car	£ _____	£ _____
Total cash equivalent of all cars available in 2003-04	1.16 £ 1A	
Cash equivalent of fuel for each car	£ _____	£ _____
Date free fuel was withdrawn (applies to all cars). Tick if reinstated in year (see P11D Guide)	/ /	/ /
Total cash equivalent of fuel for all cars available in 2003-04	1.17 £ 1A	

G Vans
Cash equivalent of all vans made available for private use: 1.18 £ 1A

H Interest-free and low interest loans
If the total amount outstanding on all loans does not exceed £5,000 at any time in the year, there is no need for details in this section.

	Loan 1	Loan 2
Number of joint borrowers (if applicable)	_____	_____
Amount outstanding at 5 April 2003 or at date loan was made if later	£ _____	£ _____
Amount outstanding at 5 April 2004 or at date loan was discharged if earlier	£ _____	£ _____
Maximum amount outstanding at any time in the year	£ _____	£ _____
Total amount of interest paid by the borrower in 2003-04—enter "NIL" if none was paid	£ _____	£ _____
Date loan was made in 2003-04 if applicable	/ /	/ /
Date loan was discharged in 2003-04 if applicable	/ /	/ /
Cash equivalent of loans after deducting any interest paid by the borrower	1.19 £ 1A	1.19 £ 1A

I Private medical treatment or insurance
Private medical treatment or insurance: Cost to you: £ _____ Amount made good or from which tax deducted: £ _____ Cash equivalent: 1.21 £ 1A

J Qualifying relocation expenses payments and benefits
Non-qualifying benefits and expenses go in I and O below
Excess over £8,000 of all qualifying relocation expenses payments and benefits for each move: 1.22 £ 1A

K Services supplied
Services supplied to the employee: Cost to you: £ _____ Amount made good or from which tax deducted: £ _____ Cash equivalent: 1.22 £ 1A

L Assets placed at the employee's disposal
Description of asset: _____ Annual value plus expenses incurred: £ _____ Amount made good or from which tax deducted: £ _____ Cash equivalent: 1.22 £ 1A

M Shares
Tick the box if during the year there have been share-related benefits for the employee:

N Other items (including subscriptions and professional fees)

	Cost to you	Amount made good or from which tax deducted	Cash equivalent
Description of other items: _____	£ _____	£ _____	1.22 £ 1A
Description of other items: _____	£ _____	£ _____	1.22 £
Income tax paid but not deducted from director's remuneration			1.22 £

O Expenses payments made to, or on behalf of, the employee

	Cost to you	Amount made good or from which tax deducted	Taxable payment
Travelling and subsistence payments (except mileage allowance payments for employee's own car - see box E)	£ _____	£ _____	1.23 £
Entertainment (trading organisations read P11D Guide and then enter a tick or a cross as appropriate here)	<input type="checkbox"/> £ _____	£ _____	1.23 £
General expenses allowance for business travel	£ _____	£ _____	1.23 £
Payments for use of home telephone	£ _____	£ _____	1.23 £
Non-qualifying relocation expenses (these not shown in sections J or N)	£ _____	£ _____	1.23 £
Description of other expenses: _____	£ _____	£ _____	1.23 £

P11D(2004) BS 11/03

PARROTT & PARROTT
CERTIFIED PUBLIC ACCOUNTANTS
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ASSOCIATION
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