

Getting to grips with Payroll

Register as an Employer

When you start employing staff, or using sub-contractors, you normally need to register with HMRC.

You must register before the first payday. It can take up to 15 working days to get your employer Pay as You Earn reference number. You cannot register more than 2 months before you start paying people.

More info: [Register as an employer - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/register-as-an-employer)

PAYE

In the UK, employers must operate **PAYE (Pay As You Earn)** as part of their payroll. PAYE is HM Revenue and Customs' (HMRC) system to collect Income Tax and National Insurance from employment.

When paying your employees through payroll, you also need to make deductions for PAYE. Payments to your employees include their salary or wages, as well as things like any tips or bonuses, or statutory sick or maternity pay. From these payments, you'll need to deduct tax and National Insurance for most employees. Other deductions you may need to make include student loan repayments or pension contributions.

If you run payroll yourself, you'll need to report your employees' payments and deductions to HMRC on or before each payday. Your payroll software will work out how much tax and National Insurance you owe, including an employer's National Insurance contribution on each employee's earnings above £175 a week. You'll need to send another report to claim any reduction on what you owe HMRC, for example for statutory pay.

A typical payslip in the UK must include the following information:

- Gross Pay: The amount before deducting any tax or National Insurance fee.
- Net Pay: The amount the employee takes home after all the deductions.
- Variable Deductions: An outline of the deductions which vary every payday and their amount

More info: [PAYE and payroll for employers: Introduction to PAYE - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/payee-and-payroll-for-employers-introduction-to-payee)

More info: [PAYE and payroll for employers: Setting up payroll - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/payee-and-payroll-for-employers-setting-up-payroll)

Payroll Software

When choosing payroll software, it's important to consider your business needs and requirements. Here are some steps you can follow to choose the right payroll software for your business:

- Define your business payroll needs. Before you start researching the different payroll software available, establish a clear idea of what your business will need in terms of features, costs, size, ease of use, and durability.
- Determine your required level of analysis.
- Comply with payroll legislation.
- Research and examine payroll software features.

More info: [13 Best Payroll Softwares for UK Businesses – Complete Guide for 2023 \(techjury.net\)](#)

Collect and keep records

You must collect and keep records of:

- what you pay your employees and the deductions you make
- reports you make to HM Revenue and Customs (HMRC)
- payments you make to HMRC
- employee leave and sickness absences
- tax code notices
- taxable expenses or benefits
- Payroll Giving Scheme documents, including the agency contract and employee authorisation forms

Your records must show you've reported accurately, and you need to keep them for 3 years from the end of the tax year they relate to. HMRC may check your records to make sure you're paying the right amount of tax.

More info: [PAYE and payroll for employers: Keeping records - GOV.UK \(www.gov.uk\)](#)

Tell HMRC about your employees

- You must tell HM Revenue and Customs (HMRC) when you take on a new employee and be registered as an employer.
- Before you pay your new starter follow these steps.
 - Check you need to pay them through PAYE.
 - Get employee information to work out their tax code - if you do not have their P45, use HMRC's 'starter checklist' (which replaced the P46).
 - Find out if they need to repay a student loan.

- Use these details to set up your new employee in your payroll software.
- Register your employee with HMRC using a Full Payment Submission (FPS).

More info: [Running payroll: Reporting to HMRC: FPS - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/running-payroll-reporting-to-hmrc-fps)

More info: [Running payroll: Reporting to HMRC: EPS - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/running-payroll-reporting-to-hmrc-eps)

Record pay, make deductions and report to HMRC

Every time you pay your employees, use your payroll software to:

- Record their pay - include their salary or wages and any other pay.
- Calculate deductions from their pay, like tax and National Insurance.
- Calculate the employer's National Insurance contribution that you'll need to pay on their earnings above £242 a week.
- Produce payslips for each employee (you can use different software if yours does not have this feature).
- Report their pay and deductions to HMRC in a Full Payment Submission (FPS).

More info: [Running payroll: Employees' pay - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/running-payroll-employees-pay)

More info: [Running payroll: Deductions - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/running-payroll-deductions)

Paying HMRC the Tax and National Insurance you owe

Every month you have to pay HM Revenue and Customs (HMRC):

- the tax and National Insurance (and any other deductions) you owe as reported on your Full Payment Submission (FPS) in the previous tax month
- minus the reductions on any Employer Payment Summary (EPS) you sent before the 19th in the current tax month

Pay what you owe by the 22nd of the month (or the 19th if paying by post) - you may have to pay a penalty if you do not.

If you usually pay less than £1,500 per month, you may be able to pay quarterly instead of monthly. Contact the payment helpline to find out on **0300 200 3401**.

More info: [Running payroll: Paying HMRC - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/running-payroll-paying-hmrc)