



Essential guides
for business growth

Payroll

How to get payroll right!

Money, money, money!

Let's face it, people won't work for free; when employing staff, keeping them happy means paying them correctly.

We get it, running payroll may seem intimidating, especially with all the different and frequently-changing legislations, but it's a business requirement you won't be able to get around.

Fear not! To make this complicated matter a bit simpler, we have compiled all the basics to successfully running payroll yourself.



PART 1

Setting up payroll

It's not every day you're setting up a payroll from scratch.

There's a range of legal requirements and processes you must know to set it up correctly.

Here, we've broken the process down into digestible chunks:

1. Register with HMRC

Before you can start employing staff and running your first payday, you will have to register as an employer with HM Revenue and Customs (HMRC).

HMRC is responsible for all matters around tax, payments and regulations, such as the National Living Wage (NLW), National Minimum Wage (NMW) and National Insurance (NI). Following your employer registration with HMRC, you will receive your PAYE reference number.

2. Putting payroll software in place

The times of pen, paper and spreadsheets for payroll are over! The PAYE Online system requires 'Real-Time Information', meaning employers report to HMRC electronically before making any salary or wage payments to employees.

To report your employee data in real-time, you need payroll software which ticks off the essentials:

- Reporting payroll information to HMRC
- Working out how much you need to pay HMRC
- Calculating statutory pay, such as maternity or sick pay

There is a lot of software on the market, so when looking, give yourself enough time to research, explore your needs and ultimately find the one that suits you.

Top tip: check out the list of HMRC-recognised [payroll software here](#).

- Recording your employees' details
- Working out your employees' pay and deductions



What is PAYE?

PAYE stands for Pay As You Earn.

It's the system used by HMRC to deduct Income Tax and National Insurance from your employees' pay. Using the online system ([PAYE Online](#)), you will be able to check what you owe HMRC, pay your bills, see your payment history and access tax codes/notices about your employees.

Top tip: when you register with HMRC, please be aware that receiving your PAYE reference number can take up to five working days, so make sure you allow enough time before your first pay day.



PART 2

Running payroll

Now that you're all set up, it's time to rumble! Let's start running your payroll.

The payroll process can be split up into the following steps on or before your employees' payday:

- 1. Record employee pay**, including their salary and any other pay, such as statutory sick pay (SSP) or holiday pay, which we discuss further in the next section.
- 2. Calculate deductions**; your payroll software will calculate how much [income tax](#) and [National Insurance](#) will be deducted from your employees' pay using their tax code and National Insurance category letter. Make sure you have this information when entering the employee into your software.
- 3.** Once you've run all your payroll calculations, **provide your employee with a payslip** detailing gross wage (before deductions), deductions, and net wage (after deductions). While in the past, employers offered paper payslips, employees now expect to receive the documents digitally. Your software may have a feature for creating payslips, but if not, you can use a different tool specifically designed for payslip creation.
- 4.** Lastly, you need to **report all this information to HMRC with a Full Payment Submission (FPS)**. You can send an FPS using your payroll software - make sure you send your FPS on or before pay day. You will require the PAYE reference you received when you first registered as an employer. If you want any help with your FPS, here's a list of what you need to [fill into every field](#).

And that's it! Easy-peasy, right?

***Please note:** there can be rules, exemptions and specific cases. If you need assistance with special circumstances such as child support, paternity and maternity leave or similar, you can always seek help from a managed payroll provider, accountant or the Government's detailed instructions on [how to run payroll](#).*



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Bear in mind, a tax month runs from the 6th of the current to the 5th of the following month.

PART 3

Payroll obligations

As mentioned in the previous section, when running your payroll, you will have some legal obligations.

Scary? No, not if you're prepared.



National Minimum Wage (NMW) and National Living Wage (NLW)

What are the National Minimum Wage and National Living Wage? These are the minimum hourly pay you can legally provide your employees.

The amount is reviewed yearly (changing every April) and is also dependent on the age of your employees.

The current and upcoming rates are:

	23 and over	21 to 22	18 to 20	Under 18	Apprentice
2023	£10.42	£10.18	£7.49	£5.28	£5.28

You can find the current rates on the Government's website [here](#).

What's the difference between National Minimum Wage and National Living Wage?

Essentially, the National Living Wage is the minimum hourly pay you have to provide employees 23 and over, while National Minimum Wage is the minimum hourly pay you have to provide employees under 23.

Do you have to pay the National Minimum Wage/National Living Wage?

Yes, you are required by law to pay at least the National Minimum Wage/National Living Wage.

You can pay your staff above this threshold - which many roles require - but you are not allowed to go below.

Do note: the National Minimum Wage and Living Wage are the same across the UK, so you won't need to make any changes if you're in Wales or Scotland.

Sick Pay - Statutory and Contractual

People get sick - it's an unfortunate part of life but unavoidable. In fact, the average UK employee takes [6.9 sick days a year](#).

How do sick days impact payroll? Well, when they happen, there are some legalities you need to follow.

What is sick pay?

Sick pay is the wage you provide an employee who can't work due to sickness, which can be categorised into statutory and contractual.

Statutory Sick Pay

Statutory Sick Pay (SSP) is the minimum amount you are legally required to pay your staff when they're ill.

The current rate for SSP is £99.35 per week and can be paid for a continuous period of up to 28 weeks. You can offer more than Statutory Sick Pay, but you cannot pay less.

When is an employee eligible for Statutory Sick Pay?

An employee qualifies for Statutory Sick Pay if they:

- Have a valid employment contract under which they can demonstrate some work has been carried out
- Earn, on average, at least £123 a week before tax

- Are sick for at least four full consecutive days (including non-working days)
- Have given the correct notice, as set out by their employer (e.g. notified by phone before 9am on the first morning of absence)
- Provided physical proof of their illness if they have been absent from work for more than 7 days - this should be in the form of a fit-to-work note from their doctor

You won't have to pay Statutory Sick Pay on the first three days of an employee's sick period; however, some employers choose to do so.



When are you not required to pay sick pay?

There are some exceptions to paying Statutory Sick Pay; an employee is not eligible if they:

- Have already received Statutory Sick Pay for 28 weeks that year (and the 28 weeks ended within the last 8 weeks)
- Received Employment Support Allowance (ESA) within the last 12 weeks
- Are currently receiving Statutory Maternity Pay or Maternity Allowance
- Are pregnant, have a baby due in the next four weeks or have an illness that is pregnancy-related
- Have had a baby within the last 14 weeks (or the last 18 weeks if the baby was born over 4 weeks early)
- Are employed within the armed forces
- Are in legal custody (detained by the police or in prison)
- Are classified as agricultural workers

Please note, there are special rules for pregnant women, which you can find on the Government's website [here](#).

What is contractual sick pay?

You can opt out of paying Statutory Sick Pay by offering contractual sick pay, also known as occupational sick pay, which is a payment scheme you've put in place yourself.





Do note that the rate you choose to pay will need to be equal to or greater than the basic entitlement of Statutory Sick Pay.

Typically, employers opting for contractual sick pay provide employees with a few days paid in full, should they need time off for illness; doing so provides major benefits for employee health and wellbeing, giving them the confidence to take time off should they require it without financial fear.

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For those looking to bump up their employee benefits, you can offer your employees additional days off if you wish.

If you choose to put contractual sick pay in place, make sure you have a policy sorted that covers the basics of your scheme, including:

- Details of employee entitlement (e.g. those with three or more years of service might have contractual sick pay, whilst others yet to reach that milestone may just be entitled to Statutory Sick Pay)
- How many days or weeks of contractual sick pay employees are entitled to
- Any situations where an employee may not qualify for contractual sick pay (e.g. if someone is injured whilst playing a dangerous sport)
- The process for informing a line manager if an employee is sick
- You can find more information on HR policies in our HR basics guide - [click here](#).

Holiday pay

Nothing quite like chilling by the pool and getting paid for it.

In the UK, workers are legally entitled to 5.6 weeks of statutory leave, which equals 28 days per year, including bank holidays.

Workers are entitled to a week's pay for each week of statutory leave that they take.

A week's pay is calculated depending on the kind of hours your staff work.

- **Full/part-time workers with a fixed pay:** receive their fixed weekly pay
- **Shift work with fixed hours:** receive pay equal to the average hours they worked per week in the last 52 weeks
- **No fixed hours:** receive the average pay from the previous 52 weeks (only counting weeks in which they were paid)

If your workers are paid monthly, you can easily calculate the weekly pay in the following way:

- Calculate the worker's average hourly pay for the last month - do this by dividing the month's pay by the number of hours worked in the month.
- Calculate the weekly pay - do this by multiplying the average hourly pay by the number of hours worked in a week.

PART 4

Payslips

As mentioned earlier in this guide, once you have recorded an employee's pay and made all your relevant deductions, you will have to provide your employees with a payslip - the all-important documentation that lets them know they're being paid and how much.

Is it illegal to not provide a payslip?

Let's cut to the chase: yes, it's illegal to not provide staff with a payslip.

Every one of your employees is entitled to a payslip unless they are:

- A contractor or freelancer
- In the police service
- A merchant seaman
- A master or crew member working in share fishing

You can choose whether to provide a paper copy or an electronic payslip; however, the electronic version has now become the standard and is expected by most employees - plus, it saves you using a load of paper!

What information does a payslip have to include?

As payslips document an employee's pay and deductions (plus they're a legal obligation!), it's crucial you get them right, first time, every time.

The following information must be included in your worker's payslips:

- **Gross pay** - this is the pay your staff receives before any tax or National Insurance is deducted; gross pay will also include statutory sick pay, bonuses and statutory maternity pay
- **Net pay** - is the pay after any fixed and variable deductions, which is your employee's take-home salary
- **Variable deductions** - these deductions change from payday to payday and include income tax and National Insurance
- **Fixed deductions** - deductions that are fixed, such as repayments of a season ticket or union dues
- **Amount and method of any part payment**, for example, separate figures of a cash payment and the balance credited to a bank account.
- Number of **hours worked**

Some employers choose to also include further information, such as National Insurance numbers, hourly pay or tax codes.



What is a tax code?

Good news, the responsibility of issuing tax codes doesn't sit with the employer. HMRC is responsible for providing tax codes to ensure that employers and pension providers collect the right amount of tax.

Everyone in the UK on the PAYE scheme will have a tax code, but they differ based on:

- Income
- How much tax has already been paid
- Personal allowance

Typically, tax codes will be communicated via a P45 when a new employee joins a company; you can also request P45s from your staff when you hire them.

What if I don't know my employee's tax code?

If your employee is unable to provide their tax code, but payday is imminent, they can be put on an emergency tax code.

Emergency tax codes for 022-2023 are:

- 1257L W1
- 1257L M1
- 1257L X

These emergency codes mean staff will pay tax on all basic income above the minimum personal allowance (£12,750).

Depending on the employee's situation, this may mean they are paying too much tax, so you should inform them about the emergency tax codes in case they'd like to claim tax back.

[See the official Government guidance here.](#)



PART 5

IR35

Ah, IR35, the payroll legislation that just can't seem to decide what it's doing; IR35 has seen multiple delays, cancellations and reversals, but it now seems to be here to stay.



In essence, IR35, also known as off-payroll working, is a new set of legislative rules which aim to rectify the tax processes between employer and contractor.

Why was IR35 introduced?

The legislation aims to resolve significant issues regarding non-compliance with tax.

Previously, the responsibility to determine whether someone was acting as an employee fell on the contractor, but [HMRC estimates](#) that fewer than 10% of personal service companies (PSCs) complied.

How do I know if IR35 applies to me?

For IR35 to apply to your business, you must meet two or more of the following criteria:

- An annual turnover greater than £10.2 million
- A balance sheet total greater than £5.1 million
- You employ more than 50 people

What does IR35 mean for businesses?

Businesses that use workers from a personal service company, or other similar arrangements, are now required to determine whether that worker is operating as an employee or supplier.

If the verdict is that the worker is acting as an employee, then the business is required to deduct tax and National Insurance contributions from the payments made to the PSC.

[Use the Government tool here to determine if a worker is acting as a contractor or employee.](#)

If IR35 applies, what are the next steps?

If the contractor you hired is deemed to be acting as an 'employee', you, as the 'deemed employer', will have to deduct National Insurance and Income Tax from the fees paid to the contractor and pay them on to HMRC.

PART 6

Payroll year end

This might just be the most gargantuan task in payroll: payroll year end.

At the end of each tax year (5th April), you have to report on the previous tax year, providing your final submission (this contains information such as your Full Payment Submissions and Employer Payment Submissions) to HMRC.



Key responsibilities include:

- Reporting to HMRC on the previous tax year
- Providing employees with their P60s
- Preparing for the new tax year (6th April)

The payroll year end timeline

Let's take a closer look at the 2023 timeline:

- On or before your employees' payday, send your final FPS payroll report of the year
- From 6th April, update employee payroll records
- From 6th April, ensure your payroll software is updated
- By 31st May, give your current employees a P60
- By 6th July, report employee expenses and benefits if they aren't being processed through payroll

[For an in-depth look into each of these tasks, check out the Government guidance here.](#)



Conclusion

You can't get around payroll - if you want to take on employees, they need to be paid.

But with some planning and initial investment, you can make what feels like a mammoth task a streamlined part of your working world.

Hopefully, all your obligations are a lot clearer now, but should you require further information, visit the [Government's payroll site](#).



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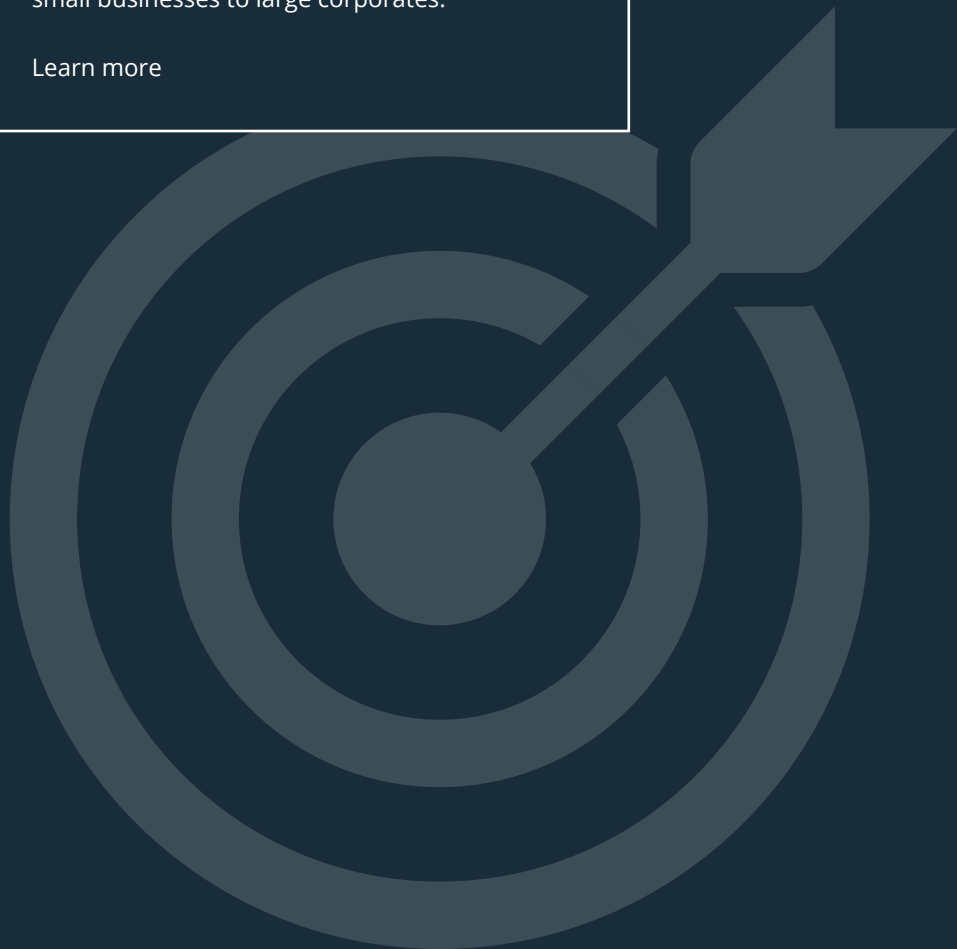
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