7. 'Pay' for tax and NIC

As an employer, you are responsible for calculating and deducting tax and National Insurance contributions (NIC) etc. from your employee's pay each pay period, for example, weekly or monthly. In order to do this you need to understand what constitutes 'pay'. You may also have to make payments to your employee if they are sick or about to become a parent, which also count as 'pay' for tax and NIC.

Pay

Tax and NIC are generally worked out on the same thing: 'gross pay.' Gross pay is the amount due to the employee before any deductions and includes:

- Salary or wages
- Overtime
- Bonuses
- Holiday Pay

Many personal assistants (PAs) will be paid hourly, therefore gross pay will be calculated by multiplying the number of hours by the hourly pay rate. For example, if your employee works 25 hours in a week at £7.83 per hour, their gross pay for the week will be £195.75. Your PA will also accrue holiday pay when they are working – which when paid out, suffers tax and NIC like normal wages.

Tax

Where a person is employed, the employer will deduct tax from their wages and pay it to HMRC under the PAYE system (Pay As You Earn). PAYE spreads an employee's tax bill over the tax year, rather than paying in one lump sum. A tax code is used by an employer to calculate the amount of tax to deduct from an employee's pay each pay day.

We explain how tax codes work here: https://disabilitytaxguide.org.uk/paying-wages/taking-on-a-new-employee/tax-codes/

In 2018/19, part of the income tax paid by Scottish taxpayers on employment income will be Scottish Income Tax (SIT). HMRC will tell employers whether or not to treat an individual employee as a Scottish taxpayer by issuing tax codes prefixed with an 'S' for Scottish taxpayers. Operating an S code should make sure the correct tax is deducted at the correct Scottish rates.

National Insurance

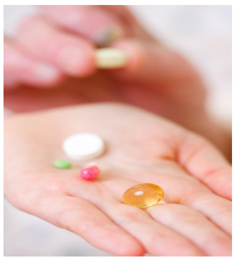
Whereas tax pays for general services like healthcare and education, NIC builds up an individual's entitlement to some benefits and the State Pension.

There are two types of Class 1 NIC:

- Employee contributions – which are deducted from your employee's pay.
- Employer contributions – which you may be liable for.

You work out Class 1 NIC on a payment-by-payment basis and it is payable on all pay over a certain level in an earnings period (e.g. weekly, monthly) at percentage rates. Provided you claim the 'Employment Allowance' you will not need to pay over any employer NIC until it exceeds £3,000.

For information on how to claim the Employment Allowance go to: https://disabilitytaxguide.org.uk/Setting-things-up/how-the-Pay-As-You-Earn-system-works/



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Non-cash benefits

As well as being taxed on pay, your employee may also be taxed on non-cash benefits you provide, known as 'benefits in kind'. Sometimes employers NIC (called Class 1A NIC) is also payable on benefits in kind.

If you employ a 'live-in' carer, you may provide the 'benefit' of some accommodation along with a cash salary, as part of the package.

- Board and lodging (i.e. a bed for the night and meals) is exempt from tax.
- An independent living space, perhaps a separate house in the vicinity or a self-contained granny annex in the garden – is "living accommodation" – and based on our understanding of HMRC's current approach, is taxable (more on this in the box below).

It is worth noting that there are some non-cash benefits that you can provide to any employee, whatever their level of earnings without any reporting, tax or NIC implications. For example, a mobile phone that you pay for or trivial gifts worth less than £50, such as a bottle of wine for a job well done or chocolates at Christmas.

For more on taxable and non-taxable benefits, go to our website: https://disabilitytaxguide.org.uk/End-of-year-processes/benefits-and-expenses1

Living accommodation—calculating the benefit charge

If the living accommodation you provide is not covered by a 'job-related' exemption and is a taxable benefit in kind, there will be an income tax charge on the value of the benefit on the employee, and a NIC charge on you, the employer.

The value of the accommodation benefit is either the rateable value – if you own the property; or the rental value – if you rent the property. If you own the accommodation and it cost more than £75,000, a further charge applies.

The tax charge on accommodation does not end with the property itself and things like associated heating and electricity and provision of furniture are also taxable.

There is a step by step calculation guide on GOV.UK: https://www.gov.uk/expenses-and-benefits-accommodation/overview

Statutory Sick Pay (SSP)

SSP provides a minimum level of pay to employees who meet certain conditions and who are off work due to sickness. If you choose to pay them as normal, then there will be no need for extra SSP. SSP is treated like the wages it replaces. You must pay any SSP due at the same time and in the same way as normal pay and make deductions from SSP in respect of PAYE, NIC, student loan repayments, etc. as normal. You are not able to recover any SSP you pay to your employee from HMRC. In 2018/19 the standard weekly rate of SSP is £92.05. **Find out more here:** https://disabilitytaxguide.org.uk/paying-wages/pay-and-deductions/SSP

Other Statutory Pay

Employees who become parents – either through birth or adoption – are entitled to pay and time off work, provided they meet certain qualifying conditions.

You should pay Statutory Maternity Pay, Statutory Paternity Pay, Shared Parental Pay or Statutory Adoption Pay at the same time and in the same way as you normally pay wages.

You usually pay these in the first instance and then recover the payments from HMRC in full, however you may be able to apply for advance funding from HMRC if you cannot afford to make these payments up front.

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Low Incomes Tax Reform Group
A voice for the unrepresented

Some important numbers….

Type of payment or recovery	Figures to use 2018/19
Statutory Maternity Pay (SMP) – weekly rate for first six weeks	90% of the employee's average weekly earnings
Statutory Maternity Pay (SMP) – weekly rate for remaining weeks	£145.18 or 90% of the employee's average weekly earnings, whichever is lower
Ordinary Statutory Paternity Pay (OSPP) and Shared Parental Pay – weekly rate	£145.18 or 90% of the employee's average weekly earnings, whichever is lower
Statutory Adoption Pay (SAP) – weekly rate	£145.18 or 90% of the employee's average weekly earnings, whichever is lower

Expenses

You may make a payment to an employee to cover their 'business' expenses. Typically these will be related to business travel. Business travel means journeys forming part of an employee's employment duties (e.g. taking the bus into town to collect a prescription for you), not ordinary home to work travel.

In 2018/19, any such 'qualifying business expenses' that you pay or reimburse are not liable to tax or NIC and you do not have any reporting requirements. This replaces the system whereby unless a 'dispensation' is obtained, expenses need to be reported even if tax relief is available.

We explain more about expenses here: https://disabilitytaxguide.org.uk/End-of-year-processes/benefits-and-expenses1#reim

Non-business expense payments or reimbursements need to be reported on a form called a P11D. There may be some NIC for you to pay on what you have reported (called Class 1A NIC) however the employee will deal with any tax liability on the benefits or expenses with HMRC separately.

- See HMRC booklet 490 – Employee travel: A tax and NICs guide for employers,for more information on the tax and NIC treatment of business and non business travel: www.gov.uk/government/publications/490-employee-travel-a-tax-and-nics-guide
- See HMRC booklet 480 – Expenses and benefits: A tax guide, for more information on the treatment of expenses and benefits generally: www.gov.uk/government/publications/480-expenses-and-benefits-a-tax-guide

Employee using own car

If you make a payment of 45p or less per mile to your employee (up to 10,000 miles) to cover the costs of business travel in their own vehicle, there are no reporting requirements or tax and NIC consequences.
There are some complexities if you pay more than 45p per mile – you must complete a form P11D but also add the excess to their other earnings for that earnings period when calculating Class 1 National Insurance (but not Pay As You Earn (PAYE) tax) through payroll.

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