

9. Payments



Low Incomes
Tax Reform
Group
A voice for the unrepresented

No matter how you choose to operate your payroll, once the tax and National Insurance contributions (NIC) have been calculated on your employee's gross pay (and any other deductions made), you must pay your employee and HM Revenue & Customs (HMRC). Paying your employee will involve issuing them with a payslip. This factsheet explains more about paying your employee and HMRC.

Example

You pay an employee £250 on 31 October 2018 for the week. In accordance with the employee's tax code (1185L) and NIC category letter A (most employees have this category letter) the following amounts of tax and NIC are due:

	Gross pay	£250.00
Less	Employee NIC	£10.56
Less	Tax	<u>£4.40</u>
		£235.04

What you must now do is pay your employee the £235.04, and pay HMRC the £14.96 (i.e. £10.56 + £4.40)

We explain about tax codes and how you work out your employee's tax code on our website:

<https://disabilitytaxguide.org.uk/paying-wages/taking-on-a-new-employee/>

Please note that if you are an online filer, your payroll software will make these calculations for you. If you are a paper filer, HMRC have manual tax tables and calculators which will help you.



Paying your employee

You can pay your employee by cash, cheque or bank transfer – or a combination. It is important to understand that it is absolutely fine to pay your employee 'cash in hand' but you must make sure that you only give them the amount after the appropriate deductions have been made. These details of the payment must then be recorded as normal and the deductions paid over to HMRC.

On our website we guide you through making and keeping proper records about your employees and their pay:

<https://disabilitytaxguide.org.uk/paying-wages/keeping-records1/>

Paying HMRC

Normally you must pay all the amounts due to HMRC on a month by month basis. However, if you estimate your total payment will be on average less than £1,500 per month, you can choose to make quarterly payments instead in July, October, January, April.

If you pay by post (i.e. by cheque) your payment must reach HMRC no later than 19th of the relevant month. If you pay electronically (i.e. internet banking or debit card) the payment must reach HMRC no later than the 22nd of the relevant month.

There may be penalties for late payments – we talk you through these on our website: <https://disabilitytaxguide.org.uk/paying-wages/getting-things-wrong/#late>

Generally electronic payments are more efficient and secure than payments by post.

www.disabilitytaxguide.org.uk

Using the correct reference when paying HMRC electronically

Be sure to use the right reference so that HMRC can allocate your payment correctly. The easiest way to check you are using the correct reference is to use HMRC's online reference checker: <http://www.hmrc.gov.uk/tools/payinghmrc/currentyear.htm>

Find more information about paying HMRC electronically (and by post) here:

<https://disabilitytaxguide.org.uk/paying-wages/paying-hmrc>

Giving your employee a payslip

By law, you must give your employee a payslip when you pay them. Payslips can be produced electronically (if you are using payroll software this will usually produce one for you) or on paper (blank payslips can be purchased from most stationers for you to fill out by hand).

The payslip must show various things, including

- The gross pay (before the deduction of tax or NIC and any other deductions)
- The employee's NIC deducted
- The employee's tax deducted
- Any other deductions and the purposes for which they were made – see below
- The net pay (this is the amount of take home pay after all the deductions have been made)

Additional information might be shown on the payslip, for example the employee's National Insurance Number and tax code.

HMRC's Basic PAYE Tools and payslips

HMRC's free payroll software Basic PAYE Tools, does not produce payslips, however we have developed a tool that can be used in conjunction with it to produce payslips:

<https://disabilitytaxguide.org.uk/paying-wages/reporting-payee-in-real-time/rti-software/hmrc-basic-payee-tools/payslip-tool/>



Other deductions you might make – student loans

Students usually start repaying their student loans once they have left their course (from the April after they have left) and their income is more than a certain amount.

In 2018/19 the income limits above which someone must start to repay their 'Plan 1' student loan (the most common) are £1,527.50 per month or £352.50 per week.

The income limits for 'Plan 2' student loans are £2,083.33 per month or £480.76 per week.

You deduct 9% of their income that is above the threshold and pay it to HMRC who then pay it to the Student Loans Company. If your employee is due to pay back a student loan, they should tell you when they first start with you.

For more on this topic see: <https://disabilitytaxguide.org.uk/paying-wages/pay-and-deductions/#stu>

Other deductions you might make – pension contributions

Under auto enrolment, the Government require employers to enrol certain members of staff into a workplace pension scheme and make contributions to the scheme.

Any contributions you make will not be treated as taxable income on your employee. Any contributions your employee makes will be deducted from their wages.

See our factsheet 'Auto enrolment' to find further help on arranging a pension for your employee.

The Pensions Regulator has lots of useful tools for employers: <http://www.thepensionsregulator.gov.uk>

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