

AN INTRODUCTION TO PAYE

Whether an individual is an employee or self-employed in a particular situation is a question of fact depending on the terms under which he or she works. When you engage someone to do work for you, you have to decide whether or not to apply the PAYE rules. It is up to you to get it right or suffer the consequences.

In certain areas, HMRC has placed emphasis on reclassifying individuals claiming to be self-employed. They issued a leaflet, IR56, *Employed or Self-employed?* setting out the guidelines of employment status in the form of questions. These cover the following principal factors:

- The degree of control and supervision exercised over the individual's work
- Whether services are performed mainly or wholly for one business
- Where the duties are performed
- Terms of pay, holiday time, pension arrangements, and other benefits
- Whether the work has to be performed personally, or whether a substitute may be supplied
- Provision of items of equipment
- The financial risk and responsibility for loss undertaken by the individual

HMRC's guidance on employment v self employment is sometime selective against decided legal cases, and if there is any doubt we recommend that you consult us for an accurate assessment based on circumstances.

Before establishing a PAYE system, it is necessary to notify HMRC office covering your geographical area by completing and returning form CWF3 (*Notification to HMRC for registration*).

Upon registration, HMRC will send you guidelines on operating PAYE, national insurance, statutory sick pay and statutory maternity pay (Cards CWG1), including a number of forms with which to operate the PAYE and NI systems. (See checklist below).

To help you calculate the amount of tax and NI due, HMRC will supply you with sets of tax tables. By referring to these, and an employee's tax code, you will be able to calculate the amount of salary that is not subject to tax. The difference between this figure and the gross amount paid is the employee's taxable pay. The tax can then be calculated by reference to another set of tables. The employer's and employee's NI is calculated by reference to the employee's gross pay in conjunction with a third set of tables. Note, however, several 'benefits' are also subject to NI even where the tax is dealt with on a different basis.

The tax and NI should be paid to HMRC by 19th of the month following payment. Employers whose average monthly payments of PAYE and NI are less than £1,500 in total are allowed to pay quarterly rather than monthly (i.e. by 19th of July, October, January, and April). This should be requested using form P31.

PAYE checklist

Have you completed form CWF3 notifying HMRC of your businesses' existence and the intention to operate the PAYE system?

Have you received the following?

Notice of your PAYE and NIC reference numbers

Tables A, SR + B to D, and NIC tables

Employer's Help Cards (CWG1)

Further Guide to PAYE and NICs (CWG2)

Expenses and Benefits – A Tax Guide (480)

P11D Guide

Class 1A NICs on Benefits In Kind – A Guide for employers (CWG5)

Class 1A NICs on Cars and Fuel – Employers Manual (CA33)

National Insurance for Company Directors (CA44)

Statutory Sick Pay - Employers Manual (CA30)

Statutory Maternity Pay – Employers Manual (CA29)

Employee Travel – A Tax and NICs Guide for employers (490)

Employer's Guide to Tax Credits WFTC and DPTC

Collection of Student Loans – Employer's Guide

Stakeholder Pensions – A Guide for Employers

Payroll Giving – A Guide for Employers

Be sure to read these carefully.

Have you familiarised yourself with the following forms?

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| P11 <i>Deductions Working Sheet</i> | <input type="checkbox"/> |
| P14/P60 <i>End of Year Summary</i> | <input type="checkbox"/> |
| P11D <i>Return of Expenses Payments and Benefits</i> | <input type="checkbox"/> |
| P35 <i>Employer's Annual Return</i> | <input type="checkbox"/> |
| P38A <i>Employer's Supplementary Statement</i> | <input type="checkbox"/> |
| P45 <i>Details of Employee Leaving</i> | <input type="checkbox"/> |
| P46 <i>Notice of new employee</i> | <input type="checkbox"/> |
| P46(Car) <i>Car provided for private use</i> | <input type="checkbox"/> |

PAYE can be a tortuous procedure for the new businessperson. We would be pleased to show you how to operate it properly or provide a service for the maintenance of your PAYE records.

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