

## Business Basics: Understanding Payroll

***Dealing with employee payroll can be the single most time consuming financial process within any size business.***

### ***Payroll***

- You act as collector of income tax (PAYE) and National Insurance Contribution for the government
- Pay Statutory Sick Pay (SSP and Statutory Maternity Pay (SMP) if due
- Ensure you give equal pay to employees carrying out equal value work
- Action any enforced payment

You need to make some basic decisions concerning how each employee should be paid by cash, cheque or bank transfer and how often they should be paid (i.e. weekly, fortnightly, every 28 days or every calendar month). Bonuses, commissions, overtime, holiday and sick pay need to be calculated and recorded separately and any salary or tax code changes need to be actioned in a timely fashion.

### ***Maternity Pay***

Pregnant employees have several statutory rights including the right to maternity pay. To qualify your employee must be a full time employee and have been employed by you for 26 weeks, continuing into the 15<sup>th</sup> week (known as the qualifying week) before the baby is due. The amount of SMP is 90% of earning for six weeks, followed by 12 weeks at the current government rate. Generally only 92% is reimbursed to employers, but possibly 100% if your business falls within small employers relief for Statutory Sick Pay. This applies if the NI contributions you pay annually come to no more than £20,000.

### ***Sick Pay***

If you have agreed to pay sick pay, there are many rules governing how much and when it should be paid and how much can be reclaimed under the small employer's relief scheme. In most cases SSP will have to be given at the current rate. All employers are eligible to reclaim SSP paid out in any month, but only if it is over 13% of NI paid. This new relief is called the Percentage Threshold Scheme (PTS) and is designed to protect employers from heavy costs if there is an epidemic.

### ***Equal Pay***

You cannot pay one employee more than another on purely arbitrary grounds like gender. If employees are doing broadly similar work or work of equal value, everyone should be paid the same and given the same terms of employment.

### ***Deductions***

Taxation and National Insurance

A significant responsibility for any employer is acting as a tax collector on behalf of the government collecting both Tax and NI contributions from employees' pay. Any deductions made must be detailed in a written pay statement.

### ***Annual process***

It is the employer's responsibility to provide each employee with a P60 detailing their annual salary and contributions annually and have completed a P11D for any employee receiving company benefits over and above their salary

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