

## **Tax Processes for Businesses FA2021: Summary of corrections to course materials**

These changes affect version V002 of the materials.

### **Course Notes & Questions**

The AAT updated the specification for the payroll learning outcomes and released two new practice assessments. We have made changes to chapter 9 in response to this. The updated chapter is included at the end of this errata sheet for you to print and replace in your materials.



## 9

# Principles of Payroll

## Introduction

Most businesses employ staff, so it is necessary to understand the requirements for running payroll and making the necessary filing submissions and payments to HMRC.

Payroll information is often sensitive in nature, so it is also important to understand the requirements of the Data Protection Act 2018.

### Topics covered:

- ▶ Payroll Calculations
- ▶ Operating Payroll
- ▶ HMRC Powers
- ▶ Data Protection Principles

## Payroll Calculations



You need to have a basic understanding of payroll taxes in the UK. You may be required to do some calculations for gross pay, taxable pay, deductions from pay, net pay and amounts owed to HMRC.

### Gross pay

The amount that the employee has earned, before any deductions, is called their **gross pay**. It might be expressed as an hourly rate or a weekly, monthly or annual amount. One-off amounts, such as a bonus, may be expressed as a lump sum. You may be required to calculate an employee's gross pay amount.

#### KEY TERMS

**Gross pay** is the total pay earned by the employee in the period before any deductions.

It may include:

- ▶ Basic pay
- ▶ Overtime
- ▶ Commissions
- ▶ Bonus payments
- ▶ Holiday pay
- ▶ Sick pay
- ▶ Maternity/paternity pay

### Taxable pay

An employee will usually receive some of their earnings tax-free but this will depend on their personal circumstances. HMRC issues a **Tax Code** for each employee and this tells the employer the amount of **tax-free allowances** that staff member is entitled to, enabling them to correctly calculate their taxable pay and payroll taxes.

#### KEY TERMS

**Taxable pay** is gross pay minus any tax-free elements. The tax-free elements may include:

- ▶ The personal allowance - the amount that an individual is allowed to earn before tax is taken away.
- ▶ Employee pension contributions – tax relief is given on these contributions to encourage people to save for their retirement.
- ▶ Payroll giving – tax relief is given on charitable donations made through this scheme to encourage charitable giving.

### ILLUSTRATION – GROSS PAY AND TAXABLE PAY

A company pays its employees a basic hourly rate of £20 per hour. The company also offers an overtime rate of 1.5 times the basic hourly rate for hours worked beyond 40 hours in a week.

You are calculating the payroll figures for the week just ended.

The following information relates to Jarrod, one of the employees of the business:

- Jarrod worked 45 hours in the week
- He contributes 5% of his basic pay to the company pension scheme
- He makes charitable donations of £5 per week through the payroll giving scheme

**Calculate Jarrod's gross pay and taxable pay for the week.**

**Gross pay: £**

To calculate the gross pay, we need to determine the basic pay for 40 hours and the overtime pay for the remaining 5 hours.

Basic pay = £20/hour x 40 hours = £800

Overtime Pay:

Overtime rate = 1.5 times the basic hourly rate = 1.5 x £20/hour = £30/hour

Overtime pay = £30/hour x 5 hours = £150

Gross pay = £800 + £150 = £950

**Taxable pay: £**

From the gross pay figure, we need to deduct the contributions to the company pension scheme and charitable donations:

Pension contribution = 5% of £800 (basic pay only) = 0.05 x £800 = £40

Charitable donations = £5

There is no mention of any personal allowance, so we assume that Jarrod is not entitled to one.

Taxable pay = £950 - £40 - £5 = £905



### Deductions from pay

Gross pay isn't the amount that the employee will actually receive because various deductions will need to be made before the **Net Pay** is paid to them. These deductions may be **statutory** or **non-statutory**.

#### KEY TERMS

**Net Pay** is the amount that the employee will receive that period, after all deductions have been made.

**Statutory deductions** are deductions that are required by law and are mandated by UK legislation.

**Non-statutory deductions** are voluntary. These are usually agreed upon between the employer and the employee, typically through a written agreement.

## Statutory deductions

Businesses are required to make deductions from gross pay for the following:

▶ **Pay As You Earn (PAYE)**

PAYE is the system that is used to collect **Income Tax** from employees and pay it over to HMRC. The amount of income tax deducted depends on the employee's taxable income and tax code.

▶ **National insurance contributions (NIC)**

NICs are deducted from an employee's gross pay based on their earnings and NIC category. NICs are a form of social security contribution that goes towards funding the UK's National Health Service (NHS) and other social welfare programs. Employee's NIC is sometimes referred to as **Class 1 Primary NIC**.

▶ **Pension contributions**

All employers are required to provide a workplace pension scheme, sometimes referred to as an occupational pension scheme. Most employees will be automatically enrolled in the workplace pension scheme. A percentage of their pay will be deducted and paid into the pension scheme, as a way of saving for their retirement. The employer often contributes too.

▶ **Student loan repayments**

If an employee has a student loan and earns above a certain threshold, deductions may be made from their gross pay to repay the student loan.

## Non-statutory deductions

Businesses may make deductions from gross pay for the following:

▶ **Payroll giving**

Employees may choose to have regular charitable donations deducted from their gross pay, which are then sent to a registered charity of their choice.

▶ **Staff loan repayments**

An employer may offer a staff loan scheme where employees can borrow a sum of money from them and pay it back from their gross pay.

▶ **Trade union fees**

If an employee is a member of a trade union, they may choose to have their union subscription deducted from their gross pay to support their union's activities.



## The total wages expense to the business

The total expense suffered by the business will consist of:

- ▶ The Gross Wages earned by staff (remember that employee deductions are a cost to the employees)
- ▶ The employer National Insurance contribution (after any employment allowance has been deducted)
- ▶ Any employer pension contributions

## The total owed to HMRC

The total liability owed to HMRC will consist of:

- ▶ The employee Income Tax (PAYE) deducted from Gross Wages
- ▶ The employee National Insurance contributions deducted from Gross Wages
- ▶ The employer National Insurance contributions (after any employment allowance has been deducted)

## The actual Net wage that will be paid to staff

The Net Wage paid will be:

- ▶ The Gross Wages earned by staff, less:
- ▶ Employee Income Tax (PAYE)
- ▶ Employee National Insurance contributions
- ▶ Employee pension contributions
- ▶ Any other employee deductions (e.g. student loan repayments)

### ASSESS SMART

- ▶ You will be provided with figures from which to calculate these values.
- ▶ You will not be required to calculate income tax, National Insurance Contributions (NICs) or student loan deductions.

## LECTURE EXAMPLE 1 – PAYROLL CALCULATIONS

A summary of last month's payroll transactions is shown below:

Item	£
Gross Wages	5,614
Employer's NIC	586
Employees' NIC	535
Income Tax	1,104
Employment allowance	333
Employees' Pensions	790
Employer's Pensions	810

Calculate the following:

(a) Total wages expense to the business

£

(b) Total owed to HMRC

£

(c) Net wages paid to the employees

£

(d) Total owed to the pension scheme

£



## Payslips and other documentation

It is important that employees can understand and double check the calculations of their gross pay, deductions and net pay. To assist with this, the employer is required to provide the following pieces of documentation:

Document	How often	Information included	Deadline
Payslip	Each pay day (e.g. weekly or monthly)	Gross pay, deductions and net pay for the period. Number of hours worked if pay is based on hours worked.	Supply to each employee on or before payday.
P60	Annually	Summary of total gross pay, deductions and net pay for the tax year.	Supply to each employee by 31 May following end of tax year.
P11D	Annually	Details of any taxable employment benefits or expenses (see next section)	Send to HMRC and copy to employee by 6 July following end of tax year.
P45	When an employee leaves their job	Tax code, gross pay and deductions to date.	No longer required to be sent to HMRC but a copy is provided to the employee for their records.

## Payslip example

PAYSLIP			
Employee number	Employee name	Week/Month number	Payment date
Payments		Deductions	
<i>(All elements that make up the employee's gross pay e.g. basic pay, overtime, bonuses)</i>		<i>(All statutory and non-statutory deductions from the employee's gross pay)</i>	
<b>Total Gross £</b>		<b>Total Deductions £</b>	
This period		Year to Date (TD)	
<b>Total gross pay £</b>		<b>Total gross pay TD £</b>	
<b>Gross for tax £</b>		<b>Gross for tax TD £</b>	
<b>Earnings for NI £</b>		<b>Tax paid TD £</b>	
		<b>Earnings for NI TD £</b>	
		<b>National insurance TD £</b>	
		<b>Employee pension TD £</b>	
		<b>Employer pension TD £</b>	
<b>Payment method:</b>		<b>Net pay £</b>	

The **Gross for tax** figure is gross pay minus any employee pension contributions or payroll giving donations. It is the amount of gross pay that will be subject to Income Tax.

## P60 example

The top half of the P60 details Pay and Income Tax for the relevant tax year (6<sup>th</sup> April to 5<sup>th</sup> April).

### Pay and Income Tax details

	Pay	Tax deducted
	£                  p	£                  p
In previous employment(s)	<input type="text"/>	<input type="text"/> <i>if refund mark 'R'</i>
In this employment	<input type="text"/>	<input type="text"/>
Total for year	<input type="text"/>	<input type="text"/>

**Pay** means the **Gross for tax** amounts from the employee's payslips for the year.

**Tax deducted** means the total income tax for the year.

If an employee has paid too much income tax in a previous year, they may be entitled to a tax refund. This would be indicated by an 'R' in the tax deducted box.

The bottom half of the P60 details the National Insurance Contributions (NICs) for the tax year. It only relates to the employee's current employer.

### National insurance contributions in this employment

NIC table letter	Earnings at the Lower Earnings Limit (LEL) (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the Primary Threshold (PT)	Earnings above the PT, up to and including the Upper Earnings Limit (UEL)	Employee's contributions due on all earnings above the PT
	£	£	£	£                  p
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**Earnings for NI** means the amount of gross pay that is subject to National Insurance. The total of the three earnings figures should agree to the employee's total **gross pay** for the year.

**Note:** employee pension contributions and payroll giving donations only attract tax relief against income tax, not NI. Therefore these are not deducted when calculating earnings for NI.

LECTURE EXAMPLE 2 – P60



Ananya is employed by House Plants Ltd. She is concerned that the amount shown on her P60 does not agree with the amounts she received during the year (which total £25,184.59) or her gross salary which is £33,408. Ananya made employee pension contributions of £1,333.05 during the year and her employer contributed £815.83.

An extract of her P60 is shown below:

**Pay and Income Tax details**

	Pay		Tax deducted	
	£	p	£	p
In previous employment(s)		0.00		0.00
			<i>if refund mark 'R'</i>	
In this employment		32,074.95		4,019.00
Total for year		32,074.95		4,019.00

**National insurance contributions in this employment**

NIC table letter	Earnings at the Lower Earnings Limit (LEL) (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the Primary Threshold (PT)	Earnings above the PT, up to and including the Upper Earnings Limit (UEL)	Employee's contributions due on all earnings above the PT
	£	£	£	£ p
A	6,240	3,264	23,904	2,871.36

Complete the table below to reconcile the amounts Ananya received to the pay shown on her P60.

	£
Gross pay	
Gross pay for tax	
Net pay	

**Picklist:** Employee pension contributions, Employer pension contributions, Employee's NI, Employer's NI, Income tax



## Employee benefits and expenses

Some employees will receive benefits as part of their employment package. Common examples include:

- ▶ Company cars
- ▶ Private medical cover
- ▶ Non-business travel or entertainment

The employee needs to pay tax on these benefits, so the employer must report the relevant values to HMRC on a **P11D** form, as seen above. The employee will then be taxed on that value via PAYE. The **employer** also pays national insurance contributions on these benefits, and this is called **Class 1A NIC**.

In some limited circumstances, the employer can cover the cost of the employee's tax on employment benefits. This is called a **PAYE settlement agreement (PSA)**.

This can only be used if the benefits are minor, irregular or impracticable. For example:

- ▶ Small gifts and vouchers
- ▶ Long-service awards
- ▶ Staff entertainment

A PSA cannot be used for high-value benefits such as a company car.

The submission date for a PSA is **31<sup>st</sup> July following the end of the tax year**.

The **employer** will also need to pay national insurance contributions on the benefits covered by the PSA. This is called **Class 1B NIC**.

## Operating Payroll



HMRC is the relevant tax authority for payroll and they have the power to require businesses to comply with:

- ▶ Regulations about registration
- ▶ Record keeping
- ▶ Submissions of returns
- ▶ Payment of amounts due

### Regulations about registration

Any individual or business that employs staff is required to register as an employer with HMRC. This would include individuals who employ themselves as directors of owner-managed companies.

Employers need to register **before the first payday**, and it can take up to 5 working days for HMRC to issue an employer PAYE reference number. You cannot register more than 2 months before you start paying people.

## Record keeping

Records should be kept detailing:

- ▶ Gross pay and deductions
- ▶ Taxable benefits or expenses
- ▶ Reports and payments made to HMRC
- ▶ Employee leave and sickness absences
- ▶ Tax code notices
- ▶ Payroll giving scheme documents

Records must be kept for 3 years from the end of the tax year they relate to. The tax year ends on 5<sup>th</sup> April each year. Failure to do so can result in a £3,000 penalty.

### LECTURE EXAMPLE 3 – RECORD KEEPING

You are tidying up some paperwork in the payroll office and find payroll reports for the month of August 2017.

**What date does this paperwork need to be kept until?**

✓	
	5 April 2020
	31 August 2020
	5 April 2021
	31 August 2021



### How to keep payroll records

Employers can either pay a payroll provider to operate the payroll for them or do it themselves using software. On the HMRC website, you can find a list of software providers whose software has been tested and recognised by HMRC.

When choosing a piece of software, employers should check that it can:

- ▶ Record employee details
- ▶ Calculate employee pay and deductions
- ▶ Calculate employer's NIC
- ▶ Report payroll information to HMRC
- ▶ Calculate employer payments to HMRC
- ▶ Calculate statutory pay e.g. maternity or sick pay

It would also be useful if the software can:

- ▶ Produce payslips
- ▶ Calculate pension contributions
- ▶ Pay people over different periods e.g. weekly or monthly

## Submissions of returns

You should use your payroll software to electronically report details of staff pay, deductions and employer's NIC to HMRC every time staff are paid. This is known as **Real Time Information (RTI)**. The introduction of RTI has removed the need for many of the paper forms previously required.

Details of the payments to and deductions from all employees are reported to HMRC in a **Full Payment Submission (FPS)**. This should be sent to HMRC **on or before your employee's payday**. Additional information may also need to be included on the report if someone joins, leaves or retires.

In addition to the FPS, employers may be required to submit an **Employment Payment Summary (EPS)** report for non-regular claims and adjustments, such as:

- ▶ If no employees have been paid in the month
- ▶ If they wish to reclaim statutory amounts such as maternity or paternity pay
- ▶ If they wish to claim the Employment Allowance

The EPS needs to be sent by the **19<sup>th</sup> of the following tax month** for HMRC to apply any reduction (for example statutory pay) on what you owe from your FPS. The tax month starts on the 6<sup>th</sup> and ends on the 5<sup>th</sup> of the month.

## Payment of amounts due

For PAYE and NIC reported on the monthly payroll submission, the payment deadline is:

- ▶ 22<sup>nd</sup> of the following month if paid electronically.
- ▶ 19<sup>th</sup> of the following month if not paying electronically (e.g. sending a cheque in the post).

If monthly amounts are less than £1,500, quarterly payments can be made.

Class 1A NIC is payable on:

- ▶ 22<sup>nd</sup> July each year if paid electronically.
- ▶ 19<sup>th</sup> July if not paying electronically (e.g. sending a cheque in the post).

Class 1B NIC and any associated PAYE is payable on:

- ▶ 22<sup>nd</sup> October each year if paid electronically.
- ▶ 19<sup>th</sup> October if not paying electronically (e.g. sending a cheque in the post).

### LECTURE EXAMPLE 4 – PAYROLL DEADLINES

Galt Ltd owes Class 1A and Class 1B NIC to HMRC for the tax year 6 April 2021 to 5 April 2022. Galt Ltd will make the payments electronically.

The Class 1A NIC is due on .

The Class 1B NIC is due on .

## HMRC Powers



HMRC has one set of powers covering VAT, payroll and other taxes. These powers enable them to ask for information and documentation, and to visit the business premises to conduct a tax inspection.

HMRC can also issue penalties if a business is late filing submissions or making payments. The penalties are as follows:

### Late submission of payroll filings

Penalties may apply if:

- ▶ The full payment submission (FPS) was filed late.
- ▶ The expected amount of FPS's was not filed.
- ▶ An employer payment summary (EPS) was not filed when you did not pay any employees in a tax month.

The penalty depends on the number of employees:

Number of employees	Monthly penalty
1-9	£100
10-49	£200
50-249	£300
250+	£400

Penalties may not apply if:

- ▶ The FPS is late but all reported payments on the FPS are within three days of the employees' payday (unless there is regular lateness).
- ▶ A new employer is late but sends the first FPS within 30 days of paying an employee.
- ▶ It is their first failure in the tax year to send a report on time.

### Inaccuracies in payroll filings

As we saw earlier with VAT, a penalty can be charged as a percentage of the potential lost revenue (PLR). This means the amount of tax that HMRC potentially lost as a result of the inaccuracy.

Type of behaviour	Unprompted disclosure %	Prompted disclosure %
Careless	0 – 30	15 – 30
Deliberate	20 – 70	35 – 70
Deliberate and concealed	30 – 100	50 – 100

- ▶ An **unprompted** disclosure is one where there is no reason to think that HMRC have discovered or are about to discover the error. All other disclosures are prompted.
- ▶ **Deliberate and concealed:** Destroying books and records, changing invoices or other documents, creating false invoices.
- ▶ **Deliberate but not concealed:** Omitting significant amounts from a return, not keeping records, including private expenditure.
- ▶ **Careless:** Keeping inaccurate or incomplete records, omitting small amounts, arithmetical errors.

## Late payment of monthly/quarterly payments

These penalties apply to all employers regardless of the number of employees. They are based on the number of defaults in a tax year and the unpaid tax bill. They also apply to underpayments.

The first failure to pay tax in a tax year does not count as a default.

Number of defaults in a tax year	Penalty percentage applied to the amount that is late in the relevant tax month
1 to 3	1%
4 to 6	2%
7 to 9	3%
10 or more	4%

If the debt is still not paid after 6 months, an additional penalty of 5% of tax will be charged.

A further penalty of 5% will be charged if it is outstanding after 12 months.

These additional penalties apply even where only one payment in the tax year is late.

## Late payment of amounts due annually or occasionally

These penalties apply to taxes that are settled in a single payment, such as Class 1A and Class 1B NIC. They are based on how late the payment is.

Late	Penalty percentage applied to the amount that is late
30 days late	5%
6 months late	Additional 5%
12 months late	Additional 5%

Daily interest will continue to build up on all unpaid amounts from the due and payable date to the date of payment.

### LECTURE EXAMPLE 5 – LATE PAYMENT

Norma is an employer with a regular monthly PAYE liability of £10,000. On six occasions this year, she has made her payment to HMRC one week late.

**Calculate the late payment penalty.**

## Data Protection Principles



Businesses must follow rules on data protection if they store or use personal information. This includes information kept on staff. You must make sure the information is kept secure, accurate and up to date.

Employers can keep the following data about their employees without their permission:

- ▶ name
- ▶ address
- ▶ date of birth
- ▶ sex
- ▶ education and qualifications
- ▶ work experience
- ▶ National Insurance number
- ▶ tax code
- ▶ emergency contact details
- ▶ employment history with the organisation
- ▶ employment terms and conditions (e.g. pay, hours of work, holidays, benefits, absence)
- ▶ any accidents connected with work
- ▶ any training taken
- ▶ any disciplinary action

Employers need their employees' permission to keep certain types of '**sensitive**' data, including:

- ▶ race and ethnicity
- ▶ religion
- ▶ political membership or opinions
- ▶ trade union membership
- ▶ genetics
- ▶ biometrics, for example if your fingerprints are used for identification
- ▶ health and medical conditions
- ▶ sexual history or orientation

Employers must keep sensitive data **more securely** than other types of data.

An employee has a right to be told:

- ▶ what records are kept and how they are used
- ▶ the confidentiality of the records
- ▶ how these records can help with their training and development at work

If an employee asks to find out what data is kept on them, the employer will have **30 days** to provide a copy of the information.

## Data Protection Act

In the UK, personal information is protected by **The Data Protection Act (2018)**, and this is the UK's implementation of the **General Data Protection Regulation (GDPR)**.

The General Data Protection Regulation has implications for individuals and businesses, there are **seven broad principles of data protection**:

- ▶ Information must be processed lawfully, fairly and in a transparent manner
- ▶ Used for the declared purpose only
- ▶ Limited to the data needed for the declared purpose
- ▶ Accurate and up to date
- ▶ Not kept for longer than necessary
- ▶ Held securely
- ▶ Accountability - the Data Controller is accountable for compliance

## Recruiting staff

You should only ask for information that you need on application forms. Do not ask for information such as banking details at this stage. Only keep the list for recruitment. Do not use it for a marketing mailing list, for example.

## Existing staff

Make sure only appropriate staff, with the right training, can see staff records, and store sensitive information (such as health or criminal records) separately. If you are asked to provide a reference, check the worker or ex-staff member is happy for you to do so.

Staff can complain if they think their information is being misused, and you could be ordered to pay a fine or compensation.



## Here are some Practice Examples for you to try...

### PRACTICE EXAMPLE 1 - DEADLINES

Match the document to the relevant deadline:

Payslip

6 July following the end of the tax year

P60

31 May following the end of the tax year

P11D

On or before payday

### PRACTICE EXAMPLE 2 – PAYROLL PROVIDER

Which of the following is NOT an advantage of outsourcing your payroll function to a specialist payroll company?

✓	
<input type="checkbox"/>	It frees up your time to focus on running the business
<input type="checkbox"/>	You will not have to purchase payroll software
<input type="checkbox"/>	You may not have instant access to your payroll records
<input type="checkbox"/>	It should minimise the chance of errors, omissions and late filings

### PRACTICE EXAMPLE 3 – PAYING HMRC

State the date by which HMRC must be paid in the following examples:

Payday	Payment method	Deadline for payment to HMRC
31 Jan 20X9	Electronic	
20 Feb 20X9	Cheque in post	
7 March 20X9	Electronic	
31 March 20X9	Electronic	
31 May 20X9	Cheque in post	

## PRACTICE EXAMPLE 4 – PAYROLL CALCULATIONS

A summary of last month's payroll transactions is shown below:

Item	£
Employees' NI	7,665
Employers' NI	9,409
Income Tax	12,933
Gross wages	35,448
Employers' pension contributions	3,349
Employees' pension contributions	3,288
Employment allowance	333
Trade union subscriptions	588

Calculate the following:

(a) Total wages expense to the business

£

(b) Total owed to HMRC

£

(c) Net wages paid to the employees

£

(d) Total owed to the pension scheme

£

(e) Total owed to the trade union

£

## PRACTICE EXAMPLE 5 – PAYROLL CALCULATIONS

A summary of last month's payroll transactions is shown below:

Item	£
Gross wages	56,000
Employer's NI	5,000
Income Tax	6,000
Employees' pension contributions	2,500
Employees' NI	4,000
Employer's pension contributions	3,500
Employment allowance	300

Calculate the following:

(a) Total wages expense to the business

£

(b) Total owed to HMRC

£

(c) Net wages paid to the employees

£

(d) Total owed to the pension scheme

£

### PRACTICE EXAMPLE 6 – PAYROLL REPORTS

Identify whether the employer must report the following information on a full payment submission (FPS) or an employer payment summary (EPS).

Information	FPS ✓	EPS ✓
Details of joiners and leavers	<input type="checkbox"/>	<input type="checkbox"/>
PAYE and National Insurance deductions	<input type="checkbox"/>	<input type="checkbox"/>
To report that no employees have been paid this month	<input type="checkbox"/>	<input type="checkbox"/>
To reclaim statutory paternity pay	<input type="checkbox"/>	<input type="checkbox"/>
To claim the Employment Allowance	<input type="checkbox"/>	<input type="checkbox"/>

### PRACTICE EXAMPLE 7 – CALCULATING PAYROLL FIGURES

Steve is a car salesperson. His gross pay is made up of a number of elements:

Basic pay	£25,800 per year
Overtime	£16 per hour
Commission	2% of the value of cars sold
Bonus	£30 per optional extra sold

In the month of April, Steve worked 5.5 hours of overtime. He made £225,000 worth of car sales and he sold 7 products classed as optional extras.

Steve is entitled to a tax-free personal allowance of £12,000 per year.

(a) Calculate Steve's gross pay for the month of April.

£

(b) Calculate Steve's taxable pay for the month of April.

£

## PRACTICE EXAMPLE 8 – CALCULATING PAYROLL FIGURES

The following details have been extracted from the personnel file of an employee named Luis:

1 January: Starting salary £48,900 on a full-time contract

1 June: 5% pay rise

1 September: Luis dropped down to 4 days per week (an 80% contract)

Luis is entitled to a tax-free personal allowance of £11,040 per year, which is unaffected by any of these changes.

**(a) Calculate Luis's gross pay for the month of September.**

£

**(b) Calculate Luis's taxable pay for the month of September.**

£

## PRACTICE EXAMPLE 9 – CALCULATING PAYROLL FIGURES

The following figures have been extracted from Martha's payslip for the month of June:

Net pay	£2,870.46
PAYE income tax	£564.40
E'ee national insurance	£391.14
E'er national insurance	£354.24
E'ee pension	£174.00
E'er pension	£104.40

From 1 July, Martha will be increasing her working hours. She has been working 4 days per week but she will be going up to 5 days per week and her pay will be adjusted accordingly.

**(a) Calculate Martha's gross pay for the month of July.**

£

**(b) Is the following statement true or false?**

Martha's net pay will increase by the same percentage as her gross pay.

True

False

**PRACTICE EXAMPLE 10 – CALCULATING PAYROLL FIGURES**

The following figures have been extracted from Benji's payroll records for the month of May:

Gross pay	£3,520.00
PAYE income tax	£464.50
E'ee national insurance	£327.61
E'er national insurance	£296.64
E'ee pension	£150.00
E'er pension	£110.00
Payroll giving	£50.00
Repayment of loan from e'er	£60.00

(a) Calculate Benji's statutory deductions for the month of May.

£

(b) Calculate Benji's non-statutory deductions for the month of May.

£

(c) Calculate Benji's net pay for the month of May.

£

**PRACTICE EXAMPLE 11 – PAYSリップ**

Below is an extract of the payroll records for Clue Ltd for the month of January:

Name	Gross pay	PAYE	E'ee NIC	E'ee Pension	E'er Pension
Miss Scarlett	2,720.83	307.46	221.72	136.04	108.83
Mrs Peacock	3,907.50	540.74	378.95	156.30	234.45
Professor Plum	2,489.17	270.91	191.02	87.12	112.01

(a) Complete the following payslips.

**Clue Ltd**

**Payment period:** Monthly - January

**Payment method:** Cash

**Employee:** Miss Scarlett

Payslip Details			
Salary		PAYE	
		National insurance	
		E'ee pension	
		E'er pension	
		Net pay	

**Clue Ltd**

**Payment period:** Monthly - January

**Payment method:** BACS

**Employee:** Mrs Peacock

Payslip Details			
Salary		PAYE	
		National insurance	
		E'ee pension	
		E'er pension	
		Net pay	

**Clue Ltd**

**Payment period:** Monthly - January

**Payment method:** BACS

**Employee:** Professor Plum

Salary		PAYE	
		National insurance	
		E'ee pension	
		E'er pension	
		Net pay	

(b) Calculate the amount that Clue Ltd would pay to the pension scheme for the month of January.

£

**PRACTICE EXAMPLE 12 – P45**

Miss Martha Chang is leaving her job at XYZ plc and you need to complete her P45.

Her last day in the office was 18<sup>th</sup> November 20X1 because she is using up some holiday before she officially leaves on 30<sup>th</sup> November 20X1.

You have obtained the following figures from the payroll records:

Gross pay	£
Since joining XYZ plc 5 years ago	112,551.51
Since 1 <sup>st</sup> January 20X1	33,643.12
Since the start of the current tax year (6 <sup>th</sup> April 20X1)	24,467.72

Tax	£
Since joining XYZ plc 5 years ago	14,946.80
Since 1 <sup>st</sup> January 20X1	5,150.78
Since the start of the current tax year (6 <sup>th</sup> April 20X1)	3,746.02

**(a) Complete the P45 below by entering the relevant information in the shaded boxes.**

1	Employer PAYE reference <i>Office number      Reference number</i> 100 /                      A12345	5	Student Loan deductions
2	Employee's National Insurance number AB 12 34 56 C	6	Tax code at leaving date 1000L
3	Title – enter MR, MRS, MISS, MS or other title [Shaded box] Surname or family name [Shaded box] First name(s) [Shaded box]	7	Last entries on Payroll record Total pay to date £ [Shaded box] Total tax to date £ [Shaded box]
4	Leaving date DD MM YYYY [Shaded box]		

## PRACTICE EXAMPLE 13 – P60

Elia is an employee of Star Ltd. She has queried the amount shown on her P60 as it does not agree to the amounts she received during the tax year which total £29,196.

An extract of her P60 is shown below:

## Pay and Income Tax details

	Pay		Tax deducted	
	£	p	£	p
In this employment		37050		4896.00

## National insurance contributions in this employment

NIC table letter	Earnings at the Lower Earnings Limit (LEL) (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the Primary Threshold (PT)	Earnings above the PT, up to and including the Upper Earnings Limit (UEL)	Employee's contributions due on all earnings above the PT
	£	£	£	£ p
A	6396	6180	24654	2958.00

## Additional information:

- Elia worked for Star Ltd for the whole of the tax year. Her annual salary was £36,500 for the first 6 months of the tax year and then she got a 4% pay rise.
- Elia made charitable donations through the payroll giving scheme of £15 per month.
- Star Ltd paid £3,882.48 of Employer's NI in relation to Elia.

(a) Complete the table below to reconcile the amounts Elia received to her gross pay and the amount on her P60.

	£
Gross pay	
Gross pay for tax – per P60	
Net pay	

**Picklist:** Employee's NI, Employer's NI, Income tax, Payroll giving

Star Ltd distributed its P60s for the 2021/22 tax year to staff on 2<sup>nd</sup> June 2022.

(b) Were the P60s distributed to staff on time?



## Solutions to Lecture Examples

### Lecture Example 1 – Payroll calculations

Calculate the following:

(a) Total wages expense to the business	£	6,677
(b) Total owed to HMRC	£	1,892
(c) Net wages paid to the employees	£	3,185
(d) Total owed to the pension scheme	£	1,600

Workings:

(a) The total wages expense to the business consists of:

- ▶ The Gross Wages of £5,614, plus
- ▶ The employer's NIC of £586, plus
- ▶ The employer's pension contributions of £810, less
- ▶ The employment allowance of £333

(b) The total owed to HMRC consists of:

- ▶ The employee Income Tax (PAYE) deduction of £1,104, plus
- ▶ The employee's NIC £535, plus
- ▶ The employer's NIC of £586, less
- ▶ The employment allowance of £333.

(c) The Net wages paid to staff is calculated as:

- ▶ The Gross Wage of £5,614, less
- ▶ The employee Income Tax (PAYE) of £1,104, less
- ▶ The employees' NIC of £535, less
- ▶ The employees' pension contributions of £790.

(d) The total owed to the pension scheme consists of:

- ▶ The employees' pension contributions of £790, plus
- ▶ The employer's pension contributions of £810.

## Lecture Example 2 – P60

Complete the table below to reconcile the amounts Ananya received to the pay shown on her P60.

	£	
Gross pay	33,408.00	Figure given in opening paragraph
Employee pension contributions	(1,333.05)	Figure given in opening paragraph
Gross pay for tax	32,074.95	
Income tax	(4,019.00)	Figure taken from P60
Employee's NI	(2,871.36)	Figure taken from P60
Net pay	25,184.59	Figure given in opening paragraph

The employer pension contribution figure that was given in the opening paragraph was not required to answer this question.

## Lecture Example 3 – Record keeping

What date does this paperwork need to be kept until?

✓	5 April 2020
	31 August 2020
✓	5 April 2021 ( <b>August 2017 falls in the tax year ended 5 April 2018, plus 3 years</b> )
	31 August 2021

## Lecture Example 4 – Payroll deadlines

Galt Ltd owes Class 1A and Class 1B NIC to HMRC for the tax year 6 April 2021 to 5 April 2022. Galt Ltd will make the payments electronically.

The Class 1A NIC is due on .

The Class 1B NIC is due on .

## Lecture Example 5 – Late payment

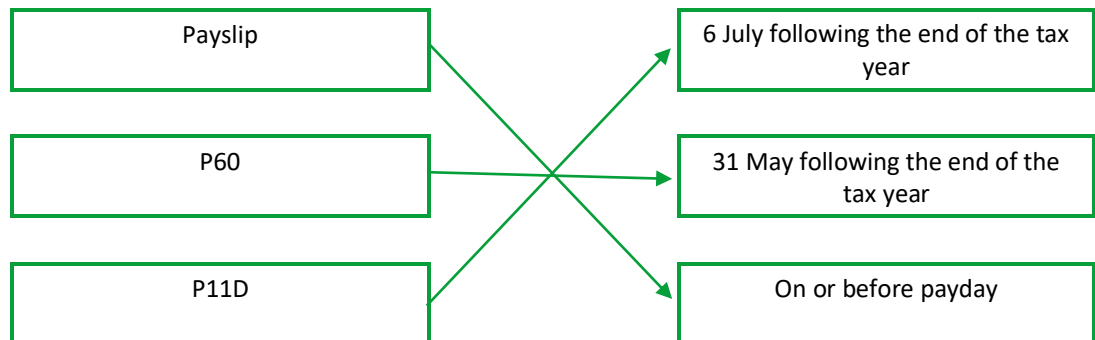
Calculate the late payment penalty.

Ignore the first default. The 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> will incur a 1% penalty. The 5<sup>th</sup> and 6<sup>th</sup> will incur a 2% penalty. Therefore the penalty is:

$$(3 \times 1\% \times \text{£}10,000) + (2 \times 2\% \times \text{£}10,000) = \text{£}700$$

## Solutions to Practice Examples

### Practice example 1



### Practice example 2

✓	
	It frees up your time to focus on running the business
	You will not have to purchase payroll software
✓	You may not have instant access to your payroll records
	It should minimise the chance of errors, omissions and late filings

### Practice example 3

Payday	Payment method	Deadline for payment to HMRC
31 <sup>st</sup> January 20X9	Electronic	22 <sup>nd</sup> February 20X9
20 <sup>th</sup> February 20X9	Cheque in post	19 <sup>th</sup> March 20X9
7 <sup>th</sup> March 20X9	Electronic	22 <sup>nd</sup> April 20X9
31 <sup>st</sup> March 20X9	Electronic	22 <sup>nd</sup> April 20X9
25 <sup>th</sup> May 20X9	Cheque in post	19 <sup>th</sup> June 20X9

### Practice example 4

Calculate the following:

(a) Total wages expense to the business

$$£35,448 + £9,409 - £333 + £3,349 =$$

£ 47,873

(b) Total owed to HMRC

$$£12,933 + £7,665 + £9,409 - £333 =$$

£ 29,674

(c) Net wages paid to the employees

$$£35,448 - £12,933 - £7,665 - £3,288 - £588 =$$

£ 10,974

(d) Total owed to the pension scheme

$$£3,288 + £3,349 =$$

£ 6,637

(e) Total owed to the trade union

£ 588

### Practice example 5

Calculate the following:

(a) Total wages expense to the business

$$£56,000 + £5,000 - £300 + £3,500 =$$

£ 64,200

(b) Total owed to HMRC

$$£6,000 + £4,000 + £5,000 - £300 =$$

£ 14,700

(c) Net wages paid to the employees

$$£56,000 - £6,000 - £4,000 - £2,500 =$$

£ 43,500

(d) Total owed to the pension scheme

$$£2,500 + £3,500 =$$

£ 6,000

### Practice example 6

Identify whether the employer must report the following information on a full payment submission (FPS) or an employer payment summary (EPS).

Information	FPS ✓	EPS ✓
Details of joiners and leavers	✓	
PAYE and National Insurance deductions	✓	
To report that no employees have been paid this month		✓
To reclaim statutory paternity pay		✓
To claim the Employment Allowance		✓

## Practice example 7

(a) Calculate Steve's gross pay for the month of April.

£ 6,948

Workings:

Basic pay	£25,800 per year	/ 12 =	2,150
Overtime	£16 per hour	x 5.5 hours =	88
Commission	2% of the value of cars sold	x £225,000 =	4,500
Bonus	£30 per optional extra sold	x 7 =	210
		<b>Total =</b>	<b>6,948</b>

(a) Calculate Steve's taxable pay for the month of April.

£ 5,948

Workings:

Tax-free personal allowance per month = £12,000 / 12 = £1,000.  
Gross pay from (a) = £6,948 - £1,000 = £5,948.

## Practice example 8

(a) Calculate Luis's gross pay for the month of September.

£ 3,423

Workings:

Adjust for the 5% payrise:  
£48,900 x 1.05 = £51,345 per year.

Then adjust for the change in contract:  
£51,345 x 80% = £41,076 per year.

Then divide by 12 to give the monthly figure:  
£41,076 / 12 = **£3,423**.

(b) Calculate Luis's taxable pay for the month of September.

£ 2,503

Workings:

Tax-free personal allowance per month = £11,040 / 12 = £920.  
Gross pay from (a) = £3,423 - £920 = **£2,503**.

## Practice example 9

(a) Calculate Martha's gross pay for the month of July.

£

First, we need to calculate Martha's gross pay for June using the figures from her payslip:

Net pay	£2,870.46
Add back:	
PAYE income tax	£564.40
E'ee national insurance	£391.14
E'ee pension	£174.00
<b>Gross pay</b>	<b>£4,000.00</b>

Ignore the E'er figures as these are not deducted from Martha's gross pay.

Then we can adjust this figure for the change in hours:

$$£4,000 \times 5/4 = \mathbf{£5,000}.$$

(b) Is the following statement true or false?

Martha's net pay will increase by the same percentage as her gross pay.

- True
- False

The tax and NIC figures are unlikely to increase in the same proportion because of the availability of tax-free allowances and different tax rates. Martha will not necessarily increase her E'ee pension contributions either.

## Practice example 10

### ASSESS SMART

**Statutory deductions** are deductions that are mandatory, such as:

- ▶ PAYE and national insurance taxes
- ▶ Pension contributions
- ▶ Student loan payments

**Non-statutory deductions** are deductions that are made at the employee's request, such as:

- ▶ Payroll giving
- ▶ Repayments of a loan from the employer
- ▶ Other deductions authorised by the employee

**(a) Calculate Benji's statutory deductions for the month of May.**

£

**Workings:**

PAYE income tax	£464.50
E'ee national insurance	£327.61
E'ee pension	£150.00
<b>Total</b>	<b>£942.11</b>

Ignore any e'er figures as these are not deducted from Benji's gross pay.

**(b) Calculate Benji's non-statutory deductions for the month of May.**

£

**Workings:**

Payroll giving	£50.00
Repayment of loan from e'er	£60.00
<b>Total</b>	<b>£110.00</b>

**(c) Calculate Benji's net pay for the month of May.**

£

**Workings:**

Gross pay	£3,520.00
Less:	
Statutory deductions from <b>(a)</b>	£942.11
Non-statutory deductions from <b>(b)</b>	£110.00
<b>Net pay</b>	<b>£2,467.89</b>

## Practice example 11

(a) Complete the following payslips.

### ASSESS SMART

To calculate net pay, you need to deduct the PAYE, NIC and E'ee pension contributions from the gross salary figure. The E'er pension contributions do not need to be deducted as they are paid by Clue Ltd.

Clue Ltd			
<b>Payment period:</b>	Monthly - January		
<b>Payment method:</b>	Cash		
<b>Employee:</b>	Miss Scarlett		
Payslip Details			
Salary	2,720.83	PAYE	307.46
		National insurance	221.72
		E'ee pension	136.04
		E'er pension	108.83
		Net pay	2,055.61

Clue Ltd			
<b>Payment period:</b>	Monthly - January		
<b>Payment method:</b>	BACS		
<b>Employee:</b>	Mrs Peacock		
Payslip Details			
Salary	3,907.50	PAYE	540.74
		National insurance	378.95
		E'ee pension	156.30
		E'er pension	234.45
		Net pay	2,831.51

Clue Ltd			
<b>Payment period:</b>	Monthly – January		
<b>Payment method:</b>	BACS		
<b>Employee:</b>	Professor Plum		
Payroll Statement			
Salary	2,489.17	PAYE	270.91
		National insurance	191.02
		E'ee pension	87.12
		E'er pension	112.01
		Net pay	1,940.12

(b) Calculate the amount that Clue Ltd would pay to the pension scheme for the month of January.

£

**Workings:**

This will be the total of the E'ee and E'er pension contributions.

£136.04 + £108.83 + £156.30 + £234.45 + £87.12 + £112.01 = **£834.75**.

## Practice example 12

(a) Complete the P45 below by entering the relevant information in the shaded boxes.

1	Employer PAYE reference <i>Office number      Reference number</i> <input type="text" value="100 /"/> <input type="text" value="A12345"/>	5	Student Loan deductions
2	Employee's National Insurance number <input type="text" value="AB 12 34 56 C"/>	6	Tax code at leaving date <input type="text" value="1000L"/>
3	Title – enter MR, MRS, MISS, MS or other title <input type="text" value="MISS"/> Surname or family name <input type="text" value="CHANG"/> First name(s) <input type="text" value="MARTHA"/>	7	Last entries on Payroll record Total pay to date £ <input type="text" value="24467.72"/> Total tax to date £ <input type="text" value="3746.02"/>
4	Leaving date <i>DD MM YYYY</i> <input type="text" value="30 11 20X1"/>		

The P45 relates to the current tax year, not the whole time the individual was in that employment or the calendar year.

## Practice example 13

(a) Complete the table below to reconcile the amounts Elia received to her gross pay and the amount on her P60.

	£
Gross pay	37,230
Payroll giving	(180)
Gross pay for tax – per P60	37,050
Income tax	(4,896)
Employee's NI	(2,958)
Net pay	29,196

### Workings:

#### Gross pay:

First 6 months of the year:  $£36,500 \times 6/12 = £18,250$ .

4% pay rise =  $£36,500 \times 1.04 = £37,960$  per year  $\times 6/12 = £18,980$

Total:  $£18,250 + £18,980 = £37,230$ .

#### Payroll giving:

$£15 \times 12 = £180$

This is deducted from gross pay to leave  $£37,050$  of gross pay for tax. This agrees to the "pay" figure in the Income tax section of the P60.

#### Income tax

This is taken from the P60. It is the "tax deducted" figure from the Income tax section.

#### Employee's NI

This is taken from the P60. It is the "Employee's contributions due on all earnings above the PT" figure from the National Insurance section.

#### Employer's NI

You can ignore this piece of information. It is not relevant to Elia's calculations as this is a cost to Star Ltd.

#### Net pay

This should agree to the amounts Elia received during the tax year, which was given at the start of the question.

(b) Were the P60s distributed to staff on time?

No

The deadline for distributing P60s to staff is 31st May following the end of the tax year. The 2021/22 tax year ends on 5<sup>th</sup> April 2022, so the deadline is 31<sup>st</sup> May 2022. Therefore the P60s were late if they were distributed on 2<sup>nd</sup> June 2022.