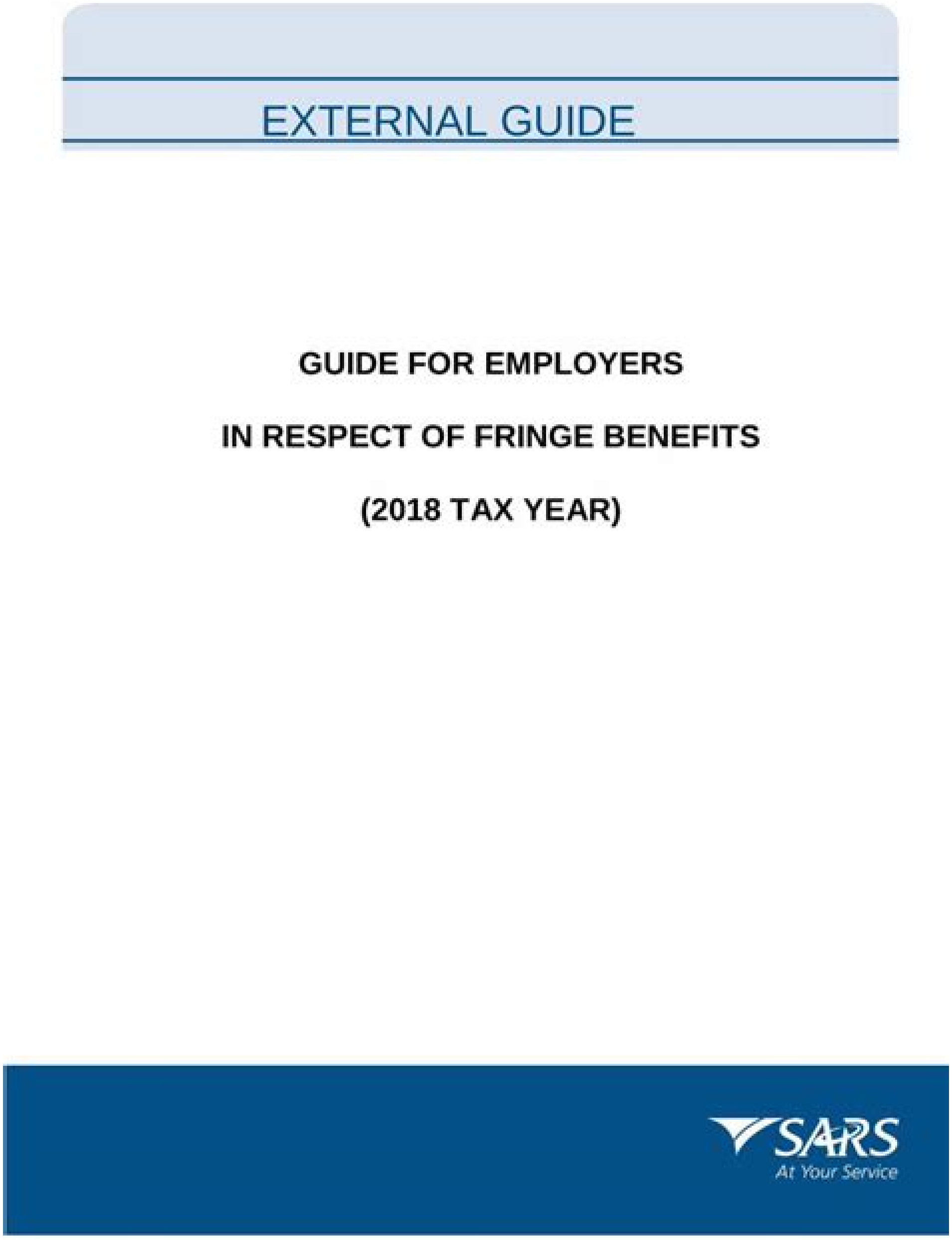
Employers Tax Guide Uk



EXTERNAL GUIDE

GUIDE FOR EMPLOYERS

IN RESPECT OF FRINGE BENEFITS

(2018 TAX YEAR)

SARS

At Your Service

employers tax guide uk

employers tax guide uk provides essential information for businesses navigating the complexities of employer taxes in the United Kingdom. This comprehensive guide will equip you with the knowledge to understand your responsibilities, from calculating and deducting PAYE to managing National Insurance contributions and other crucial employer-related taxes. We will delve into the intricacies of payroll, statutory payments, and reporting obligations to HM Revenue and Customs (HMRC). Understanding these elements is vital for legal compliance, efficient payroll management, and maintaining a positive employer-employee relationship. Whether you are a new business owner or looking to refine your existing payroll processes, this guide offers practical insights and actionable advice to ensure you are on the right track with your UK employer tax obligations.

Understanding Your UK Employer Tax Responsibilities

As an employer in the United Kingdom, you have a fundamental responsibility to manage and remit various taxes related to your employees' earnings and employment. These responsibilities are primarily overseen by HM Revenue and Customs (HMRC). Failing to comply can result in significant penalties, interest charges, and legal repercussions. Therefore, a thorough understanding of the UK employer tax landscape is paramount for any business operating within the country. This involves more than just deducting tax from wages; it encompasses a range of obligations designed to ensure fair taxation and support for employees through statutory payments.

Key Employer Tax Obligations in the UK

The core of your employer tax obligations revolves around correctly calculating, deducting, and remitting taxes and contributions on behalf of your employees. This includes:

- Operating Pay As You Earn (PAYE) for income tax.
- Calculating and deducting National Insurance Contributions (NICs).
- Managing the Apprenticeship Levy for eligible employers.

- Handling statutory payments like Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP), and others.
- Reporting all payroll information accurately to HMRC in real-time.
- Making timely payments of deducted taxes and contributions to HMRC.
- Keeping accurate and comprehensive payroll records.

The Importance of Compliance

Compliance with UK employer tax regulations is not just a legal requirement but also a cornerstone of good business practice. It fosters trust with your employees, ensures the smooth operation of your business, and prevents costly disputes with the tax authorities. Staying informed about changes in tax legislation is also crucial, as HMRC frequently updates its guidance and rules.

Payroll Essentials: PAYE and Income Tax

The Pay As You Earn (PAYE) system is the primary method by which the UK government collects income tax from employees' wages. As an employer, you are the agent responsible for operating PAYE correctly. This involves understanding tax codes, calculating deductions, and submitting this information to HMRC.

How PAYE Works

When an employee starts working for you, you will receive their tax code from HMRC. This code determines how much tax-free income they are entitled to. Your payroll software or process will use this tax code to calculate the amount of income tax to deduct from their gross pay. This deducted tax, along with National Insurance Contributions, is then paid to HMRC.

Tax Codes and Their Impact

Tax codes are typically a series of numbers followed by a letter. The numbers indicate the amount of income that is tax-free, and the letter provides information about the employee's tax situation, such as potential allowances or adjustments. For example, a common tax code is 1250L, meaning the employee can earn £12,500 before paying income tax. It's essential to use the correct tax code provided by HMRC to avoid under or over-deducting tax from your employees.

Real-Time Information (RTI)

Under the RTI system, employers are required to report PAYE information to HMRC on or before each payday. This includes details of salaries, wages, and deductions. Accurate and timely reporting through RTI is critical for ensuring employees are taxed correctly and for HMRC to manage tax collection effectively.

National Insurance Contributions for Employers

National Insurance Contributions (NICs) are another significant tax that employers must manage. These contributions fund various state benefits, including pensions and unemployment benefits. Both employees and employers pay NICs, but the rates and thresholds differ.

Understanding Employer Class 1 NICs

As an employer, you are responsible for paying Class 1 NICs on behalf of your employees. The rate you pay is based on the employee's earnings above a certain threshold. These rates can change annually, so it's vital to stay updated with the latest figures from HMRC. The calculation is generally applied to the portion of an employee's earnings that falls between the secondary threshold and the upper earnings limit.

Employee Class 1 NICs

Employees also pay Class 1 NICs, which are deducted from their gross pay through the PAYE system. The employee's NICs are calculated based on their earnings, with different rates applying to different income bands. You are responsible for deducting these amounts and remitting them to HMRC along with your own employer NICs.

Thresholds and Rates for NICs

HMRC sets specific thresholds for NICs, which are the earnings levels at which contributions become payable. These thresholds are reviewed regularly. For example, there is a primary threshold for employee NICs and a secondary threshold for employer NICs. Understanding these thresholds is crucial for accurate payroll calculations.

When Employer NICs Aren't Due

There are specific circumstances where you may not need to pay employer NICs, such as when your employee earns below the secondary threshold or if they are under 21 years old and earning below a certain upper limit. Familiarizing yourself with these exceptions can help optimize your payroll costs.

Apprenticeship Levy Explained

The Apprenticeship Levy is a charge introduced to help fund apprenticeships in the UK. It applies to employers with an annual pay bill of over £3 million.

Who Pays the Apprenticeship Levy?

If your total annual pay bill (the sum of all employee earnings subject to Class 1 NICs) exceeds £3 million, you are liable to pay the Apprenticeship Levy. The levy is calculated at 0.5% of your pay bill.

Managing Your Apprenticeship Levy Pot

Employers paying the Apprenticeship Levy can access their funds through an online apprenticeship service account. These funds can then be used to pay for apprenticeship training and assessment costs. This system aims to provide employers with greater control and flexibility in investing in their workforce's skills development.

Exemptions and Allowances

Each employer is entitled to an annual allowance of £15,000 to offset against their Apprenticeship Levy liability. This allowance is applied across all connected companies and charities. This means that smaller employers, even those with a pay bill slightly above £3 million, might not actually pay any levy.

Statutory Payments and How They Affect Employers

As an employer, you are legally obligated to make certain statutory payments to your employees when they qualify. These payments are designed to provide financial support during periods of absence from work due to specific life events or health issues.

Statutory Sick Pay (SSP)

SSP is paid to eligible employees who are unable to work due to illness. To qualify for SSP, employees must earn above a certain average weekly earnings threshold, have been sick for at least four consecutive days (including non-working days), and provide you with a fit note (or self-certificate for the first seven days). You can recover some of the SSP you pay from HMRC, depending on your business's National Insurance contributions.

Statutory Maternity Pay (SMP)

Eligible employees on maternity leave are entitled to SMP. To qualify, an employee must have worked for you for at least 26 weeks by the qualifying week (the 15th week before the expected week of childbirth), earn above the Lower Earnings Limit for NICs, and provide correct notification and evidence of pregnancy. SMP is paid for up to 39 weeks, with the first six weeks paid at 90% of the employee's average weekly earnings.

Other Statutory Payments

Beyond SSP and SMP, employers are also responsible for Statutory Paternity Pay (SPP), Shared Parental Pay (ShPP), Statutory Adoption Pay (SAP), and Parental Bereavement Pay. Each of these has specific eligibility criteria, payment rates, and duration. Understanding these nuances is crucial for accurate payroll processing and employee support.

Reclaiming Statutory Payments

In many cases, employers can reclaim all or part of the statutory payments they make from HMRC. The amount that can be reclaimed often depends on the employer's NICs liability in the relevant tax year. This helps to mitigate the financial impact on businesses when employees are absent.

Reporting and Payment Obligations to HMRC

Timely and accurate reporting and payment to HMRC are fundamental aspects of your employer tax responsibilities. The RTI system underpins much of this, ensuring that HMRC receives necessary payroll information regularly.

Making Your PAYE Payments

You must pay the PAYE deductions (income tax and employee NICs) and your employer NICs to HMRC by the 22nd of the month following the end of the tax month in which you paid your employees. If you pay electronically, the deadline is the 22nd. If you pay by post, it's the 19th.

Submitting Your Full Payment Submission (FPS)

As part of RTI, you must send a Full Payment Submission (FPS) for every employee you pay each time you run your payroll. This submission includes details of the gross pay, tax deducted, NICs deducted, and any statutory payments made. The FPS must be sent on or before the payday.

The Employer Payment Summary (EPS)

An Employer Payment Summary (EPS) is used to report information such as the amount of statutory payments you have reclaimed from HMRC and any employment allowance you have claimed. The EPS is usually sent if you have no employees to pay in a tax month or if you need to make corrections to a previous submission. It is typically submitted by the 19th of the month following the end of the tax month.

Penalties for Late Submission and Payment

HMRC imposes penalties for late filing of FPS and EPS submissions, as well as for late payments. These penalties can increase if submissions or payments are consistently late. It's therefore imperative to establish robust payroll processes that ensure all reporting and payment deadlines are met.

Employee Benefits and Tax Implications

Providing employee benefits can be a valuable way to attract and retain talent. However, many benefits have tax implications for both the employee and, in some cases, the employer.

Taxable vs. Non-Taxable Benefits

Some benefits are considered taxable, meaning they are added to an employee's income and subject to income tax and NICs. Examples include company cars, private medical insurance, and loans. Other benefits are non-taxable or have specific exemptions, such as pension contributions or certain childcare vouchers.

Reporting Benefits to HMRC

You are required to report most taxable benefits to HMRC annually. This is typically done through a P11D form, which is submitted after the end of the tax year. This form details the benefits provided to each employee and the cost to the employer. Failure to report benefits correctly can lead to penalties.

Employer-Provided Pension Contributions

Employer contributions to a registered pension scheme are generally tax-efficient. The employer can deduct these contributions as a business expense, and the employee does not pay income tax or NICs on these amounts. This makes pensions a very attractive employee benefit.

Other Common Benefits

Other common employee benefits include gym memberships, company mobile phones, and childcare support. Each of these has its own specific tax rules, and it's important to understand these before offering them to your staff.

Record Keeping for UK Employers

Maintaining accurate and up-to-date records is a legal requirement for all UK employers. These records are essential for demonstrating compliance with tax regulations and for managing your payroll effectively.

What Records to Keep

You must keep records relating to your employees' pay, including:

- Details of gross pay, deductions, and net pay.
- Copies of payslips.
- Details of tax codes.
- Records of National Insurance contributions.
- Details of statutory payments made.
- Records of benefits provided.
- Records of P45 and P60 forms issued.
- Details of Apprenticeship Levy payments.

How Long to Keep Records

HMRC requires employers to keep their PAYE records for at least three years after the end of the financial year to which they relate. However, it is often advisable to keep them for longer, especially if there is a possibility of future queries or audits.

The Importance of Accurate Records

Accurate record-keeping not only ensures compliance but also provides a clear audit trail, making it easier to resolve any queries from HMRC or employees. It also aids in efficient payroll processing and forecasting.

Penalties and Compliance

Understanding the potential penalties for non-compliance is a strong motivator for adhering to UK employer tax laws. HMRC has various enforcement mechanisms to ensure businesses meet their obligations.

Penalties for Late Filing

As mentioned, late submission of FPS and EPS can incur automatic penalties. The penalty regime is designed to be cumulative, meaning repeated late submissions will result in escalating penalties.

Penalties for Late Payment

Similarly, failure to pay PAYE and NICs by the statutory deadline will result in interest being charged on the outstanding amount. HMRC may also impose surcharges for persistent late payments.

Penalties for Incorrect Filing

Providing inaccurate information on your submissions can also lead to penalties. HMRC may charge penalties if the inaccuracies are due to carelessness or deliberate behaviour. This highlights the importance of using accurate data and having robust internal checks.

Dealing with HMRC

If you anticipate difficulties in meeting your tax obligations, it is always best to contact HMRC proactively. They may be able to offer support or arrange a payment plan. Open communication and a willingness to comply can often mitigate the severity of penalties.

Frequently Asked Questions

What are the key changes to UK employers' tax obligations for the current tax year?

Key changes often revolve around National Insurance Contributions (NICs) rates and thresholds, student loan repayment thresholds, and potential updates to apprenticeship levy rules. Employers should consult the latest guidance from HMRC and government publications for the most up-to-date information.

How can employers efficiently manage PAYE (Pay As You Earn) and National Insurance contributions?

Efficient management involves using HMRC-recognised payroll software, ensuring accurate record-keeping of employee data, timely submission of PAYE forms (like FPS and EPS), and understanding different NIC categories for employees and employers. Regular training for payroll staff is also crucial.

What are the common pitfalls employers face regarding employee benefits and their tax implications?

Common pitfalls include incorrectly classifying benefits as trivial expenses, failing to report taxable benefits on P11D forms, misunderstanding the tax treatment of salary sacrifice schemes, and not accounting for employer's Class 1A National Insurance on taxable benefits. Proper advice on benefit structuring and reporting is essential.

What are the employer's responsibilities when hiring apprentices and how does this affect their tax?

For most employers, hiring apprentices doesn't directly change their core PAYE and NIC obligations for the apprentice's salary. However, employers with a large pay bill (over £3 million) are subject to the Apprenticeship Levy. There are also specific incentives and schemes available, such as the 100% relief from employer NICs for apprentices under 25 earning below the Upper Secondary Threshold.

How should employers handle tax implications for employees working remotely or internationally?

Remote working within the UK generally follows standard PAYE rules. However, international remote work introduces complexities like determining tax residency, understanding double taxation agreements, and potentially registering for payroll in other countries. Employers must seek specialist advice to ensure compliance with all relevant tax jurisdictions.

What are the penalties for non-compliance with UK employers' tax regulations?

Penalties can be significant and may include late filing penalties for PAYE submissions, penalties for inaccuracies in submissions, interest on late payments of tax and NICs, and potential penalties for deliberately providing false information. The severity often depends on the nature and frequency of the non-compliance.

Additional Resources

Here are 9 book titles related to the employers tax guide in the UK, each beginning with "" *and followed by a short description:*

1. The Employer's Practical Guide to PAYE. This comprehensive guide breaks down the complexities of the Pay As You Earn (PAYE) system for UK employers. It covers everything from setting up payroll, calculating tax and National Insurance contributions, to reporting and managing employee tax codes. Essential for any business owner or payroll professional responsible for employee deductions and submissions to HMRC.

2. Navigating UK Employment Law and Tax Obligations. This book offers a dual focus, assisting employers in understanding both their legal responsibilities and their tax duties. It explores key employment legislation alongside the tax implications of employing staff, such as the Apprenticeship Levy and statutory payments. The aim is to provide a clear roadmap for compliant and efficient employment practices.

3. Simplifying Payroll for Small Businesses in the UK. Designed specifically for SMEs, this title aims to demystify payroll processes and tax reporting. It provides practical advice on choosing payroll software, managing starters and leavers, and ensuring accurate submissions to HMRC without overwhelming the reader. The focus is on making compliance manageable for those with limited resources.

4. Understanding the NICs Landscape for UK Employers. This focused resource delves deep into the intricacies of National Insurance Contributions (NICs) for employers in the United Kingdom. It explains the different classes of NICs, how to calculate them correctly, and the reporting requirements to HMRC. The book aims to prevent common errors and ensure accurate contributions are made.

5. The Employer's Handbook on Statutory Payments and Reliefs. This guide illuminates the various statutory payments, such as SMP, SPP, and SSP, that employers are obligated to make, along with the associated tax treatments. It also covers available tax reliefs and allowances that employers can claim, helping to reduce their overall tax burden. It's a vital read for understanding employee benefits from a tax perspective.

6. Mastering HMRC Reporting: A UK Employer's Toolkit. This practical book equips employers with the knowledge and skills to effectively report payroll information to HMRC. It covers digital reporting requirements, submission deadlines, and how to rectify errors. The aim is to build confidence in the reporting process, ensuring compliance and avoiding penalties.

7. The Director's Guide to Personal and Company Tax Implications. While not solely an employer's guide, this book is crucial for directors who are also employees. It explains how their director's *remuneration interacts with personal income tax and National Insurance, as well as the company's tax liabilities. It provides a holistic view of financial responsibilities for those running a business.*

8. From Hiring to P45: A Complete UK Employer's Tax Lifecycle. This title follows the entire journey of an employee within a UK business from a tax perspective. It covers the initial setup, ongoing payroll processing, and the eventual completion of the employee's tax record. It provides a chronological and comprehensive approach to employer tax responsibilities.

9. IR35 and Contractor Tax: An Employer's Guide to Compliance. This book specifically addresses the complexities of IR35 legislation for employers engaging with contractors. It clarifies the rules surrounding employment status and the tax implications for both the engaging business and the contractor. Essential for businesses that utilize contract workers, ensuring they remain compliant with HMRC regulations.

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