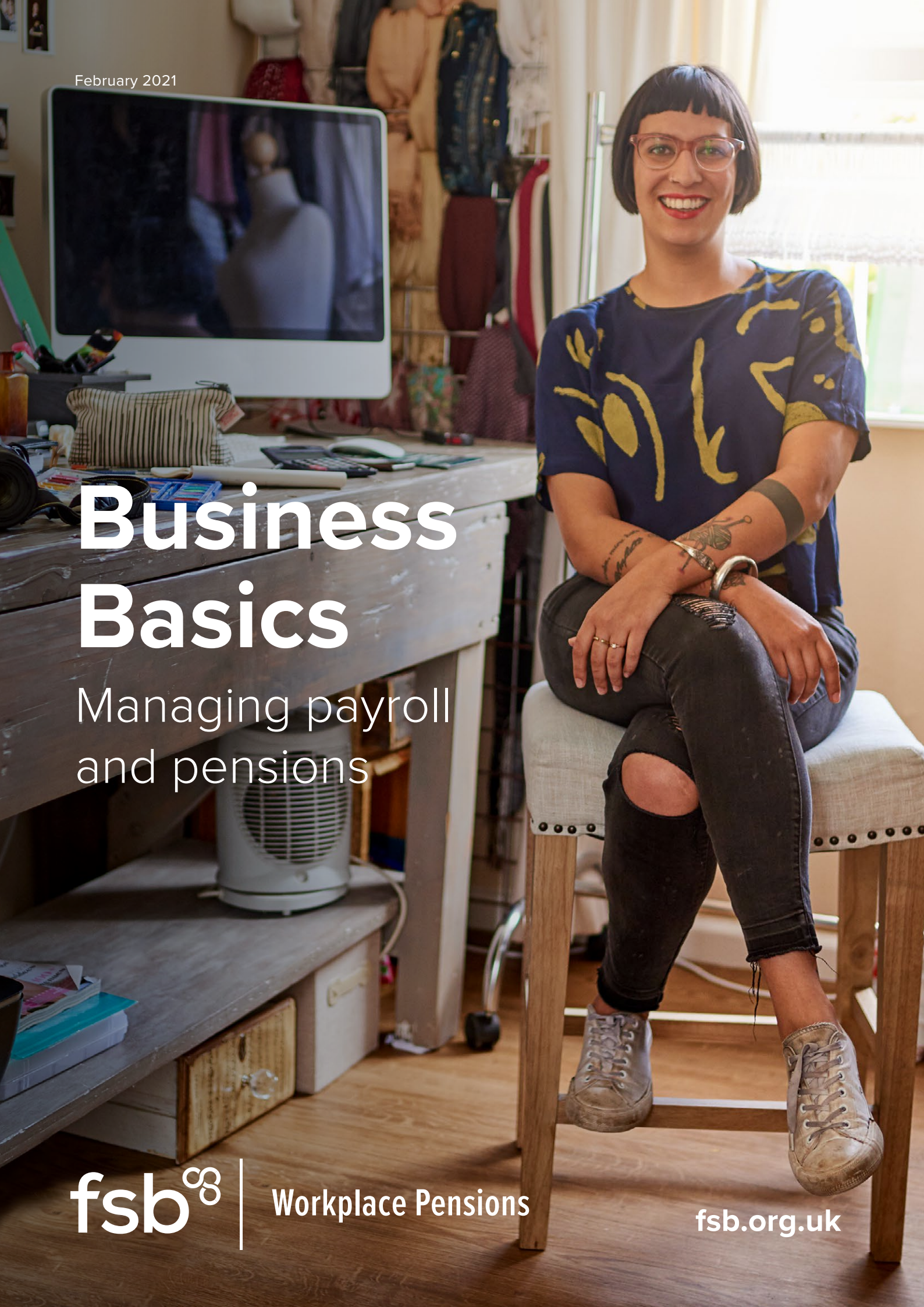
February 2021

Business Basics

Managing payroll and pensions



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Learn the basics of setting up and managing a compliant payroll and workplace pension scheme for your employees, whether you have one employee or 100. Our experts from FSB Workplace Pensions are here to walk you through the process, from adding your first employee to payroll to completing your triennial review.

Payroll

Managing your payroll isn't as simple as paying your employees, making the right deductions and paying your contributions. From statutory pay and pensions, to benefits and student loan thresholds, there's a lot to consider every time you run payroll.

Paying new staff or hiring your first employee?

Make sure that you have:

- [ ] Registered as an employer with HMRC
- [ ] Got a PAYE online login
- [ ] Set up a Pay As You Earn (PAYE) payroll scheme
- [ ] Set up payroll software
- [ ] Asked your employee for information to work out their tax code (A P45 or HMRC's starter checklist)
- [ ] Requested their National Insurance number
- [ ] Registered your employee with HMRC using a Full Payment Submission
- [ ] Registered with the Construction Industry Scheme if you're paying subcontractors

Don't forget, there are other responsibilities you'll need to remember as an employer, such as employer's liability insurance and creating the correct documents to manage your employees.

Running payroll

Payroll can be run on a weekly or monthly basis depending on your business needs.
On or before payday

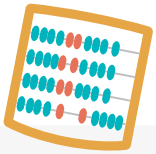
Record your employee(s) pay

Produce and distribute payslips

Calculate any deductions like income tax and National Insurance

Report pay and deductions in a Full Payment Submission to HMRC

Work out how much employer's National Insurance you'll need to pay



All employers must report their PAYE information to HMRC in real time. This is known as Real Time Information (RTI). RTI means that you must report to HMRC every time you pay an employee, at the time you pay them.

The next tax month (from the 6th)

- **12th:** View what you owe from your FPS
- **19th:** Claim any reduction on what you'll owe HMRC, for example statutory pay, with an Employer Payment Summary
- Check what you owe to HMRC in your online account
- **22nd:** Pay HMRC online (or by 19th if paying by post)

At the end of the tax year (5 April)

- Make your final report to HMRC
- Provide your employees with a P60 (a summary of their pay and deductions for the year)

Record keeping

There is important information you need to keep organised in case HMRC inform you of a PAYE compliance enquiry.

- Employee pay and deductions (tax, National Insurance, student loan repayments, pension contributions etc.)
- Reports and payments made to HMRC
- Employee leave and sickness absences
- Tax code notices
- Taxable expenses or benefits

Employer contributions

Employers' Class 1 National Insurance contributions are 13.8 per cent on all earnings above the secondary threshold, which is currently £169 per week, £732 per month or £8,722 per year.

The Employment Allowance

The Employment Allowance lets eligible employers reduce their National Insurance liability by up to £4,000. It's designed to support smaller employers with their employment costs. It increased from £3,000 to £4,000 in 2020 after successful campaigning by FSB.

It means that you'll pay less employers' Class 1 National Insurance each time you run your payroll until the £4,000 has gone, or the tax year ends, whichever is first. You can still claim the allowance if your liability was less than £4,000 a year.

Can I pay myself using PAYE?

Sole Traders

Keep all profits after filing their annual self-assessment and paying the required tax and National Insurance.

Limited Company

If you run a limited company, paying yourself isn't the same as if you were a sole trader because you and your business are seen as separate entities legally.

As well as the option of dividends or director's loans, you can choose to pay yourself a director's salary through PAYE and place yourself on payroll. To do this, you'll need to:

- Register your company as an employer with HMRC
- Deduct any income tax and Class 1 National Insurance Contributions from your salary, in addition to employer's contributions
- Report payments and deductions to HMRC

Payroll software: What should I be looking for?

Typical payroll services should include:

- Calculation of pay with necessary deductions (such as student loans, statutory sick pay, statutory maternity pay, statutory paternity pay and National Insurance contributions).
- Production of electronic or sealed payslips.
- Approved payment via BACS.
- Ensuring compliance with HMRC regulations (Payroll companies liaise with HMRC on your behalf, submitting all necessary documentation. This includes monthly submissions and the filing of end-of-year reports).
- Comprehensive management of reports.
- Pensions/auto enrolment.

FSB Workplace Pensions

offer a bespoke, discounted and fully-supported payroll service, exclusively for FSB members.

Do I have to set up a workplace pensions scheme?

As an employer, you're required by law to provide access to a workplace pensions scheme, stay compliant and make contributions.

Even if you only employ one person, you're still responsible for making sure that they have a pension scheme set up and that you carry out your duties. Failure to do so can result in fines, so it pays to stay up to date.

Who do I need to enrol into a pension scheme?

Auto-enrolment applies to any employees who are:

- aged between 22 up to state pension age
- and earn over £10,000 per year, or £833 per month or, £192 per week

Check the current earnings thresholds for automatic enrolment – this is updated at the start of every tax year on 6 April.

Are there exemptions?

Multiple directors with no other employees

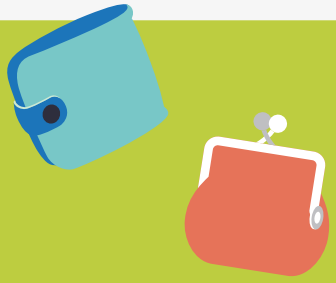
You won't be seen as employees. If you're the director of your business and you then hire an employee, then you'll need a workplace pension. There is nothing to stop yourself and other directors choosing to take part in a workplace pension scheme if you'd like to get a head start on saving for the future.

Part-time staff *may* be exempt

This depends on how many hours they work and what their eventual pre-tax annual salary is.

If your employees earn either below £5,876 or between £5,876 and £10,000 annually, automatic enrolment into a workplace pension will not apply.

But, these staff members still have the right to ask for access to a workplace pension.



Employers are not required to contribute to the pension fund for staff earning under £5,876, but you will have to contribute as normal for those earning between £5,876 and £10,000.

Your duties as an employer

- Every time you pay your employees you need to check their age and their earnings to see if they are eligible.
- Every three years you must carry our re-enrolment and re-declaration of compliance, and put back in any staff who left the scheme.
- You must pay employer contributions.
- Manage requests to opt-in or opt-out. You have a month to put them into the scheme if you receive a request.
- Keep all records: who is in the scheme, records of contributions, requests to leave or join, and your pension scheme reference or registry number.

What do I have to contribute?

It's not just employees who pay into their pension pots – you must make contributions too, and it's important to stay on top of this. You should have systems in place to ensure contributions are paid accurately and on time.

The minimum employer contribution is 3 per cent, with your employee paying 5 per cent to meet the 8 per cent total. You can find more information about what to pay and when on The Pension's Regulator website.

Triennial reviews and re-enrolment

All employers must complete a triennial review. Re-enrolment duties must be completed approximately three years after your automatic enrolment staging date.

- Choose a re-enrolment date.
- Assess and re-enrol certain staff.
- Write to them to confirm your actions.
- Complete a re-declaration of compliance to tell The Pensions Regulator how you have completed your duties.
- Review if you've fallen behind in any areas or made any mistakes since the original staging date.
- Review the ongoing suitability of the existing scheme.

What do I need to do?

1 Choose a re-enrolment date

You should do this as soon as possible. You have a six month 'window' from which you can choose a re-enrolment date. This window starts three months before and ends three months after the third anniversary of your automatic enrolment staging date (the relevant dates will be in the correspondence you will receive from The Pensions Regulator).

2 Assess and re-enrol staff

You need to assess staff who:

- opted out of your pension scheme.
- left your pension scheme after the end of the opt-out period.
- stayed in your pension scheme but have chosen to reduce the level of pension contributions to below the minimum level.
- meet the age and earnings criteria to be re-enrolled.

Records of all this activity must be kept on file.

You can leave out any staff member who, on your chosen re-enrolment date:

- is already in the pension scheme you use for automatic enrolment.
- is aged 21 or under.
- has reached state pension age (SPA) or over.
- has not yet met the age and earnings criteria for automatic enrolment.
- has been postponed.

Postponement is where you can delay payments for up to 3 months.

It can't be used with automatic re-enrolment. If the eligible job-holder criteria are met by an employee on the automatic re-enrolment date, automatic re-enrolment must take place with effect from that date.

3 Write to staff you have re-enrolled

You must write to employees **within six weeks of your re-enrolment date.** Having worked out who you are going to re-enrol, you must now put them into your pension scheme that is suitable for automatic enrolment and start paying into it.

An eligible jobholder has a one-month period after automatic re-enrolment during which they may choose to opt out.

Paperwork made easy

A range of downloadable and customisable employment law templates are available on FSB Legal Hub.

4 Complete your re-declaration of compliance

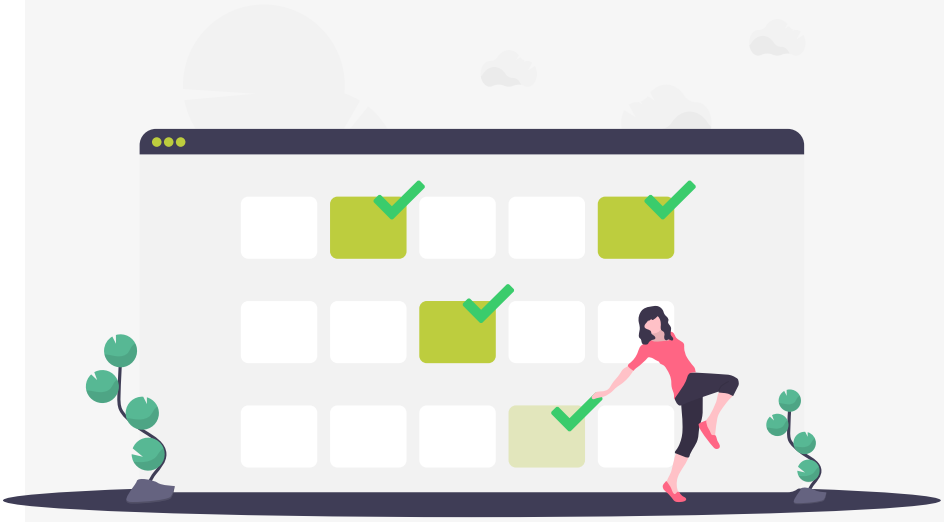
You must do this **within five months of the third anniversary of your staging date.**

What else should I review?

Running a small business is testing enough and it's easy to miss out on changes to details or to make errors with your workplace pension along the way. It's very important to check this is not the case at the three-year review point.

An employee has reached the age of 22 in the last three years and was not included in the scheme at outset, but should have been auto-enrolled as of their 22nd birthday.

An employee has had a pay rise or increased their hours in the last three years making them eligible for auto-enrolment when previously they were not.



FSB Workplace Pensions offers a rescue service which can get you back into a legally compliant position - and potentially avoid or minimise fines - at a fixed fee of £99 + VAT.

Puzzled by payroll and pensions?

Business life is busy enough without the stress of managing payroll and pensions. FSB Workplace Pensions provides small businesses with a fully compliant pension scheme as well as a bespoke, full supported payroll service and ongoing support team.

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