An eBook by

naturalhr
TRANSFORMING BUSINESS

The stress-free guide to payroll compliance

An overview of key tasks for payroll professionals and how software can help to complete them more efficiently

About Natural HR

Designed by HR professionals for HR professionals, Natural HR is core Human Resource Management and payroll software for growing businesses.

Headquartered in Birmingham, Natural HR delivers an all-in-one solution for HR teams managing a workforce of over 100 staff.

Entirely developed in Birmingham, and proudly so, Natural HR was founded in 2010 by husband and wife duo, Jason and Sarah Dowzell. The software delivers everything an HR department needs to support and manage their people, freeing up valuable time to focus on their organisation's strategic HR objectives.

Available on any web-enabled computer or smartphone, Natural HR delivers an industry-leading suite of tools that simplify and automate HR and payroll processes for management and employees alike.

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Introduction

The overarching objective of payroll has always been simple – to pay your employees accurately and on time. Typically, many businesses outsource or automate their payroll and thus, neglect to pay due care and attention to the implication of non-compliance with the regulations associated with processing payroll.

To put it into context, payroll errors cost the average FTSE 100 company between £10m and £30m per year. Given that employment taxes are now the largest source of government income globally, compliance with payroll legislation is coming under more scrutiny than ever before.

From National Minimum Wage requirements to income tax, National Insurance and the Apprenticeship Levy; payroll legislation is a far-reaching beast that, if not adhered to, could have a devastating impact on a business.

UK tax legislation requires a board member or office to take personal responsibility for their company's tax reporting. At worst, the penalties for non-compliance include an unlimited fine and a public record of conviction. It's a serious business.

Notwithstanding, the reputational damage and adverse PR that would result from a significant lack of compliance. When coupled with a hefty fine, any payroll non-compliance can be very difficult to recover from.

In this guide, you'll find an overview of some of the most significant legislation affecting payroll, what they mean for your business and how you can use software to help ensure your continued compliance with these rules.

Wagamama fined for failing to pay the minimum wage

9 March 2018

Restaurant chains Wagamama and TGI Fridays have each been fined an undisclosed amount for failing to pay staff the National Minimum Wage.

They were among 43 employers in the hospitality sector on the government's latest list of firms breaking the law.

Wagamama has repaid an average of £50 to 2,630 employees. TGI Friday's had to repay £25 each to 2,300 staff.

Wagamama blamed "an inadvertent misunderstanding" of the rules on staff uniforms for the blunder.

BBC News

Named and shamed: 179 companies fined for paying less than minimum wage - including Wagamama, Marriott and TGI Friday's

In total, the 179 companies underpaid 9,200 workers £1.1m in back pay and have been fined £1.3m

The Mirror

Cosmetics company Lush admits to underpaying Australian workers by $4.4m

Company's Australian arm underpaid 3,130 employees from 2010 to 2018 and breached three awards

The Guardian

Income tax

What is it?

Income tax is a tax that employees pay on their earnings. The percentage of tax paid varies depending on the annual earnings of employees. Most employees in England benefit from a yearly Personal Allowance of £12,500 upon which no tax is due. After that, tax rates vary from 20% on earnings up to £50,000 to 45% on earnings exceeding £150,000.

What does it mean for employers?

As an employer, you are responsible for deducting income tax from an employee's wages every month. The amount you deduct depends on an employee's tax code which will be displayed on your employee's P45 form when they join your business or will be issued by HMRC.

This tax code usually dictates an employee's tax-free income allowance (one-tenth of it), followed by a letter which represents how the tax should be deducted from an employee's income and at what rate.

1250L is currently the most commonly used tax code for those with one job or a pension. This code signifies that an employee is entitled to £12,500 tax-free income, and the L means they are entitled to the standard tax-free Personal Allowance.

How can software help?

Software can help to automate the calculations of tax due by employees and ensure these are correct. With less chance of mistakes in pay, software can effectively manage PAYE tax calculations, deductions and RTI submissions.

> Organisations need to face up to the challenges facing payroll. The disconnect between finance, HR and payroll systems creates a countdown to a potential disaster.
>
> **- PwC**

Tax calculations and deductions must be made accurately for each employee according to the rates that apply to their taxable income.

As an employer, this is crucial to ensure that all employees are paid correctly and there is no need to supplement or recoup funds for any over or underpayments.
Employers must retain records of PAYE deducted from each employee and how you have worked this out. These must be stored securely and provided to HMRC upon request. Using payroll software will help you to maintain secure records of PAYE paid by your employees.

National Insurance Contributions

What is it?

National Insurance contributions (NICs) are paid by both an employee and employer. These contributions are paid in order for employees to qualify for certain benefits and the State Pension.

Employers pay NICs on their employees' earnings and benefits. They are also responsible for collecting employees' Class 1 National Insurance contributions and income tax deductions through the PAYE system.

What does it mean for employers?

As an employer, you have a duty to pay primary Class 1 NICs (deducted from employees' earning) and secondary contributions to HMRC alongside payments of PAYE tax in full and on time, every month. For most employees, they will pay Class 1 NICs as long as they earn more than £120 per week (the Lower Earnings Limit or LEL) and less than £962 per week (the Upper Earnings Limit or UEL) (2020/21 tax year).

£962 per week
Upper Earnings Limit

£120 per week
Lower Earnings Limit

Most employee contributions are payable at the primary rate (12% for 2020/21) on earnings between the primary threshold (£183 per week for 2020/21) and the UEL (£962 per week for 2020/21). Contributions are payable at the additional rate (2% for 2020/21) on earnings above the UEL.

Employers pay 'secondary' Class 1 National Insurance contributions (NICs) as part of their PAYE bill. Employers pay 13.8% on every pound the employee earns over £8,788 per year (2020/21 tax year). There is no cap.

Employers are also liable to pay employer-only Class 1A NICs on most taxable benefits and expenses such as company cars, health insurance and so on.

How can software help?

In a similar way to how software can help employers to calculate PAYE deductions, these tools can help to ensure NICs due by both employer and employee are calculated accurately.

As an employer, you have a legal duty to retain records of NICs deducted from each employee and how you have worked this out. These must be stored securely and provided to HMRC upon request. Using payroll software will help you to maintain secure records of NICs paid by your employees.

> National Insurance contributions are paid into a fund, from which some state benefits are paid. This includes the state pension, statutory sick pay or maternity leave, or entitlement to additional unemployment benefits.
>
> **- Which.com**

Student loan repayments

What is it?

For those of your university-educated employees, the majority will have a student loan to repay. This may be for undergraduate or post-graduate education and, the amount they repay depends on which payment plan they are on (plan 1 or plan 2).

Plan 2 student loans are those that were taken out from September 2012 onwards. Older loans or those taken out in Scotland or Northern Irelands are called plan 1 loans. For plan 1 loans, the thresholds are £372 a week or £1,615 a month (before tax and other deductions). For plan 2 loans, the thresholds are £511 a week or £2,214 a month (before tax and other deductions). They change on 6 April every year.

What does it mean for employers?

When processing payroll, it is important to ensure your employees with student loans begin repaying their loans when they become due (i.e. they hit the relevant threshold) and that any new employees' student loans repayment continue when they join your business.

How can software help?

For those employees with a plan 2 student loan, they are able to earn more before their repayments kick in and the repayments are lower than those made on plan 1 student loans. Once an employee's income goes over the relevant threshold, the employer will deduct 9% of their income that's over the threshold towards repaying their loan. Payroll software will calculate out the repayments due by an employee, provided you select the correct plan in your payroll software. Most payroll software will automatically deduct the repayments once you have selected a repayment plan for an employee.

Plan 1 loans

Plan 1 refers to a student loan taken out before September 2012 (in England or Wales)

Plan 2 loans

Plan 2 refers to a student loan taken out from September 2012 onwards (in England or Wales)

Pension auto-enrolment

What is it?

The Pensions Act 2008 placed a duty on employers to automatically enrol their employees into, and contribute to, a qualifying pension scheme.

The auto-enrolment duties were phased-in by employer size, starting in October 2012 with large employers. Small and micro employers were brought into the reforms between June 2015 and February 2018.

As such, it is a legal requirement for business (whether they employ one person or 100 people) to enrol their people into a workplace pension automatically.

The minimum contribution is set at 8% of your member of staff's earnings (including 3% from employers, 4% from employees and 1% tax relief). You, the employer, must pay at least 3% of this, but you can choose to pay more depending on the pension scheme your business has selected.

What does it mean for employers?

Each time you pay your staff (including new starters), you must monitor their age and earnings to see if they need to be put into a pension scheme and how much you need to pay in.

Automatic enrolment only applies to workers aged 22 or over. But if you have younger employees that are earning £6,240 or more (in the tax year 2020-21), they are still able to opt into your pension scheme.

What's more, employers have a duty to keep records of how they have met their legal obligations in regards to autoenrollment.

This must include the names and addresses of those placed in a pension scheme, records of money paid into the scheme, requests to leave or join scheme and pension scheme reference number. These records must be kept for 6 years.

How can software help?

If you choose to use an integrated HR and payroll software system, like Natural HR – you can set up automated workflows that notify you when an employee is approaching their 22nd birthday and are eligible for enrolment in your pension scheme.

Once enrolled, payroll software will calculate the contributions due by you as an employer and make the correct deductions from staff pay.

Software can also help you to maintain secure records of your pension scheme. The data you are legally obliged to keep is highly sensitive, so must be stored in a secure environment, away from prying eyes.

Payroll software set up for automatic enrolment will calculate contributions for you and make the correct deductions from staff pay.

> By law, every employer with at least one member of staff has duties, including enrolling those who are eligible into a workplace pension scheme and contributing towards it. This is called automatic enrolment
>
> **- The Pensions Regulator**

National Living Wage & National Minimum Wage

What is it?

All workers are legally entitled to be paid at least the National Minimum Wage. For those employees that are aged 25 or over, they are legally entitled to the National Living Wage.

The National Minimum Wage (NMW) is the minimum pay per hour most workers aged under 25 in the UK are entitled to by law. The rate varies depending on their age and whether they are an apprentice. The National Living Wage was introduced in April 2016 and is the highest rate of the National Minimum Wage.

What does it mean for employers?

Employers must ensure that all workers are being paid fairly and in line with government guidance.

If you are found to have been paying workers less than the correct minimum wage, you will be obliged to pay any outstanding amounts to these workers along with a fine from HMRC for paying below the minimum wage.

If HMRC finds that an employer has not been paying the correct rates, any arrears have to be paid back immediately. There will also be a fine and offenders might be named by the government.

It's the employer's responsibility to keep records proving that they are paying the minimum wage - most employers use their payroll records as proof. All records have to be kept for 3 years.

Age	Minimum hourly rate
25 and over	£8.72 (NLW)*
21 to 24	£8.20
18 to 20	£6.45
Under 18	£4.55
Apprentice	£4.14

*The national living wage (NLW) will increase by 2.2% to £8.91 from 1 April 2021 and will become available to people aged 23 and above, down from the current age of 25

How can software help?

Using an integrated HR and payroll software system, like Natural HR, makes record-keeping of wages and employee data more transparent. What' more, you will be able to set up automated workflows that notify you when an employee is due to enter the next age category, thus entitling them to a higher minimum wage or, if they are turning 25, the NLW.

These integrated systems will also allow you to track salaries against hours worked to ensure you are not underpaying your people.

It is a legal requirement for employers to maintain accurate records or pay for 3 years. Software can act as a secure repository for your payroll records and these are readily available to download should HMRC request them.

Full Payment Submission (FPS)

What is it?

Full Payment Submissions (also known as FPS) tell HMRC about payments to your employees and what deductions you have made. This information helps HMRC track that each individual's tax and NI contributions are correct.

The FPS is the submission you must make to HMRC each time you pay your employees and it usually contains:

- Starter and leaver information
- Employee information such as name, address, NI number and tax code
- Employee payment and deduction information
- Tax, NI and student loan contributions

What does it mean for employers?

FPS must be submitted every month on or before your employees' payday and must include employer and employee information, pay, deductions, and National Insurance information.

How can software help?

Using software, these submissions are usually created and automatically sent to HMRC on or before employees are paid to avoid any late filing penalties. This saves your HR and payroll teams the time of manually generate FPS and reduces the risk of any mistakes.

Tax year end documents (P60 & P45)

What is it?

All employees must be provided with a P60 at the end of every tax year. P60s prove how much tax an employee has paid on their salary in the previous tax year. This document can be used to claim back overpaid tax, to apply for tax credits or as proof of income if they apply for a loan or a mortgage.

P45s are issued when an employee stops working for you. A P45 shows how much tax an employee has paid on their salary so far in the tax year (6 April to 5 April). Employees will give a part of their P45 document to their new employer to provide them with details of how much taxable income they have already paid over the course of the current tax year, along with how much has been deducted and their tax code.

What does it mean for employers?

Employers must ensure that P60s are issued to employees on time. If employers fail to do so (without a reasonable excuse), HMRC does have the right to charge initial penalties of around

> HMRC do have the right to charge initial penalties of around £300 for late issuing of P60s, plus around £60 every day after that until you issue the P60.
>
> **- SimplyBusiness.co.uk**

£300 for late issuing, plus around £60 every day after that, until you issue the P60.

How can software help?

Payroll software can automate the production of all mandatory documents, including P60s and P45s where applicable. If you are using integrated HR and payroll software, these documents can also be securely distributed electronically.

These can then be added to each individual employee's self-service record for safekeeping and easy access to the previous year's documents – rather than paper-based documents that may get damaged or misplaced.

Apprenticeship Levy

What is it?

The Apprenticeship Levy is a UK tax on employers which is used to fund apprenticeship training for all employers. This fund is used to support all employers and help to cover the costs of apprenticeship training.

This levy allows employers (those with an annual pay bill of less than £3 million) to pay just 5% of the cost of any apprenticeship training – the money raised by the Apprenticeship Levy will fund the rest.

What does it mean for employers?

The Apprenticeship Levy was initiated by the UK government in April 2017 and is payable by those employers that are classed as 'large' employers. That is, their wage bill is more than £3 million annually. The levy is fixed at 0.5% of their total annual pay bill.

50%
of apprenticeships
are funded
by the Levy

2%
of employers pay
the Levy

Source: gov.uk, 2019

This levy allows employers (those with an annual pay bill of less than £3 million) to pay just 5% of the cost of any apprenticeship training – the money raised by the apprenticeship levy will fund the rest.

How can software help?

The Apprenticeship Levy is based on 0.5% of a company's total pay bill. This 0.5% represents their apprenticeship levy, against which they can offset a £15,000 levy allowance.

Where payable, it is important that companies meet their monthly Apprenticeship Levy contributions and that these are reported to HMRC through the Employer Payment Summary section of Real Time Information submissions.

As such, employers must keep track of their annual pay bill and if/when this rises over the £3 million threshold, they must report this to HMRC and commence payment of the Apprenticeship Levy.

Statutory pay and leave

What is it?

Under government guidance, employees are entitled to statutory pay during certain circumstances when they are unable to work.

This may be due to sickness (Statutory Sick Pay & Leave), become a mother (Statutory Maternity Pay & Leave), a father (Statutory Paternity Pay & Leave), adopt a child (Statutory Adoption Pay & Leave) or lose a baby or a child (Parental Bereavement Pay & Leave).

Statutory Sick Pay and Leave

Employees must be sick for at least four days in a row (including bank holidays and weekends) and have earnings over £120 per week to qualify for SSP.

SSP is paid at a flat rate of £95.85 per week for a maximum of 28 weeks.

Statutory Paternity Pay and Leave

Employees that are becoming fathers, adopting a child or are an intended parent via surrogacy arrangements are entitled to up to two weeks of paternity leave and pay.

SPP is £151.20 a week or 90% of average weekly earnings (whichever is lower).

Statutory Maternity Pay and Leave

New mothers can take up to 52 weeks of maternity leave, but SMP is only paid for up to 39 weeks.

The first six weeks at 90% of their average weekly earnings. The remaining 33 weeks at £151.20 or 90% of average weekly earnings (whichever is lower).

Statutory Adoption Pay and Leave

Only one person in a couple can take adoption leave - the other partner could get paternity leave instead.

Statutory Adoption Pay is either £151.20 a week or 90% of average weekly earnings (whichever is lower).

What does it mean for employers?

These statutory entitlements are the minimum entitlements to pay and leave that your employees must be offered, at minimum. You may choose to supplement statutory pay or extend periods of leave but this is entirely at your employer's discretion and should be clearly documented as a company policy.

Employers must also accurately track those taking statutory leave and thus, are entitled to statutory pay (at minimum) during these periods.

As an employer, you can usually reclaim 92% of employees' Statutory Maternity (SMP), Paternity, Adoption, Parental Bereavement and Shared Parental Pay. The exception to this rule is Statutory Sick Pay which cannot be reclaimed. Thus, the need for accurate records is crucial in order for employers to reclaim these funds.

What's more, employers are legally obliged to keep a record of all statutory leave and pay. This must include payments made, payments reclaimed, dates or payment and leave periods, weeks statutory entitlements have not been paid and why and all relevant documentation such as sick notes from an employee's doctor and proof of pregnancy or adoption. These records must be kept for a minimum of three years.

How can software help?

Software can help you to keep track of which employees are receiving statutory pay as well as those on all types of leave. Not only will these help your managers to understand which employees are due to go on leave or which are due to return from leave; but it will ensure your business ensures they reclaim the 92% of statutory payments for Statutory Maternity (SMP), Paternity, Adoption, Parental Bereavement and Shared Parental Pay to which they are entitled.

Furthermore, it is crucial that as an employer, you retain a record of all statutory leave and pay as well as the relevant documentation that proves an employee's entitlement. These documents are incredibly personal and sensitive in nature, so making sure they are stored in a secure but accessible location is key.

If your company has specific policies which supplement statutory pay or extend leave, it is important that these are kept up to date and made readily available to your employees for reference. Integrated HR and payroll software can ensure these documents are easily accessible you both your employees and managers. What's more, with one central location for your most recently up-to-date policies to be stored, your HR and payroll teams to ensure they are adhering by the same policies and guidelines when processing statutory pay and leave entitlement.

Please note: the figures in this eBook are for the 2020/21 tax year and are correct at the time of writing. If you are reading this at a later date, please check gov.uk for all of the latest figures and information.

Learn more

Join hundreds of happy customers who use Natural HR every day to help them manage employees more effectively. Get in touch today to arrange a free one-to-one demo.

★★★★½ Based on reviews from G2 CROWD Capterra

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"The future will see us use Natural HR as an all-in-one system to remove all the manual processes, and we all absolutely love it! The system has benefitted us in so many ways and is a great platform.

— **Olivia Anderson-Lynch, HR and Admin Officer**

BCI Better Cotton Initiative

"Natural HR ticked all the boxes. From an HR perspective, it has everything we need. Natural HR is an easy system to use and that's what we wanted.

— **Anne Dyer, HR Director**

Breyer Group