

## 8. Payments

**No matter how you choose to operate your payroll, once the tax and National Insurance contributions (NIC) have been calculated on your employee's gross pay (and any other deductions made), you must pay your employee and HM Revenue & Customs (HMRC). Paying your employee will involve issuing them with a payslip. This factsheet explains more about paying your employee and HMRC.**

### Example

You pay an employee £210 on 31 October 2015 for the week. In accordance with the employee's tax code (1060L) and NIC category letter (A) you have worked out the following amounts of tax and NIC are due and have made a record of the information:

	Gross pay	£210.00
Less	Employee NIC	£6.60
Less	Tax	£1.23
		£202.17

What you must now do is pay your employee the £202.17, and pay HMRC the £7.83.

**We explain about tax codes and how you work out your employee's tax code and NIC category letter on our website: [www.disabilitytaxguide.org.uk/paying-wages/taking-on-a-new-employee/tax-codes/](http://www.disabilitytaxguide.org.uk/paying-wages/taking-on-a-new-employee/tax-codes/)**



### Paying your employee

You can pay your employee by cash, cheque or bank transfer – or a combination. It is important to understand that it is absolutely fine to pay your employee 'cash in hand' but you must make sure that you only give them the amount after the appropriate deductions have been made. These details of the payment must then be recorded as normal and the deductions paid over to HMRC.

**On our website we guide you through making and keeping proper records about your employees and their pay.**

### Paying HMRC

Normally you must pay all the amounts due to HMRC on a month by month basis. However, if you estimate your total payment will be on average less than £1,500 per month, you can choose to make quarterly payments instead in:

- July
- October
- January
- April

If you pay by post (i.e. by cheque) your payment must reach HMRC no later than 19th of the relevant month. If you pay electronically (i.e. internet banking or debit/credit card) the payment must reach HMRC no later than the 22<sup>nd</sup>.

There may be penalties for late payments.

Generally electronic payments are more efficient and secure than payments by post.

## Using the correct reference when paying HMRC electronically

Be sure to use the right reference so that HMRC can allocate your payment correctly. The easiest way to check you are using the correct reference is to use HMRC's online reference checker: [www.gov.uk/pay-payee-tax](http://www.gov.uk/pay-payee-tax)

**Find more information about paying HMRC electronically (and by post) here:**

[www.disabilitytaxguide.org.uk/paying-wages/paying-hmrc/](http://www.disabilitytaxguide.org.uk/paying-wages/paying-hmrc/)

## Giving your employee a payslip

By law, you must give your employee a payslip when you pay them. Payslips can be produced electronically (if you are using payroll software this will usually produce one for you) or on paper (blank payslips can be purchased from most stationers for you to fill out by hand).

The payslip must show various things, including

- The gross pay (before the deduction of tax or NIC and any other deductions)
- The employee's NIC deducted
- The employee's tax deducted
- Any other deductions and the purposes for which they were made – see below
- The net pay (this is the amount of take home pay after all the deductions have been made)

Additional information might be shown on the payslip, for example the employee's National Insurance Number and tax code.

## HMRC's Basic PAYE Tools and payslips

HMRC's free payroll software Basic PAYE Tools, does not produce payslips, however we have developed a tool that can be used in conjunction with it to produce payslips:

[www.disabilitytaxguide.org.uk/paying-wages/reporting-payee-in-real-time/rti-software/hmrc-basic-payee-tools/payslip-tool/](http://www.disabilitytaxguide.org.uk/paying-wages/reporting-payee-in-real-time/rti-software/hmrc-basic-payee-tools/payslip-tool/)



## Other deductions you might make – student loans

Students start repaying their student loans once they have left their course (from the April following) and their income is more than a certain amount. In 2015/16 the income limits above which someone must start to repay their student loan are £1,444 per month or £333 per week.

You deduct 9% of their income that is above the threshold and pay it to HMRC who then pay it to the Student Loans Company. If your employee is due to pay back a student loan, they should tell you when they first start with you. If they become liable for student loan deductions whilst they are employed by you, HMRC will send you a notice.

## Other deductions you might make – pension contributions

The Government are gradually requiring employers to automatically enrol all eligible workers into a workplace pension scheme. Auto-enrolment is being phased in over several years, starting with the larger employers from October 2012 and eventually taking in people who employ just one person. Your start date could therefore as far off as 2017. But its best to be prepared. The Pensions Regulator has lots of useful information and tools for employers: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

When the time comes, you will need to make contributions to the scheme. Any contributions you make will not be treated as taxable income on your employee. Any contributions your employee makes will be deducted from their wages. See [www.disabilitytaxguide.org.uk/paying-wages/payslips-and-deductions/](http://www.disabilitytaxguide.org.uk/paying-wages/payslips-and-deductions/) to find further help on auto-enrolment.

**This factsheet is intended to provide general information only and does not constitute advice.** Before taking any action, you should get appropriate immigration, benefit or tax advice from a professional adviser which is based on your particular circumstances. We have done our best to ensure that the information in this factsheet is up to date as of April 2015. You can read our full disclaimer on our website: [www.litr.org.uk/legal](http://www.litr.org.uk/legal).