



Bookkeeping and Accountancy Ltd

Bookkeeping and Accountancy Ltd

---

# Simplifying Payroll for Small Teams

*A practical guide to handling salaries, benefits, and HMRC compliance*

---

## Introduction: Getting Payroll Right

Payroll can seem daunting, especially when you take on your first employee. The regulations are complex, the deadlines are strict, and the penalties for getting it wrong can be significant. However, with the right systems and understanding in place, payroll becomes a manageable routine process. This guide takes you through everything you need to know to run payroll confidently and compliantly.

**Top Tip:** Consider using payroll software or an accountant to manage your payroll - the cost is often outweighed by the time saved and errors avoided.

## Setting Up as an Employer

Before you can pay your first employee, there are several essential steps to complete:

### Registering with HMRC

You must register as an employer with HMRC before your first payday. This should be done at least two weeks in advance to allow time for processing. You will receive an Employer PAYE Reference Number and an Accounts Office Reference, which you will need for all submissions.

- Register online at [gov.uk/register-employer](http://gov.uk/register-employer)
- Choose your payroll frequency (weekly, fortnightly, monthly)
- Set up access to your HMRC online account
- Enrol for electronic communications

### Employee Documentation

Collect essential information from each new employee before their first day:

- Completed Starter Checklist (formerly P46)
- National Insurance number (or apply if they do not have one)
- P45 from previous employer if applicable
- Proof of right to work in the UK
- Bank details for salary payments
- Emergency contact information

## Choosing Payroll Software

HMRC-recognised payroll software is essential for compliance. Options range from free basic tools to comprehensive paid solutions:

- HMRC Basic PAYE Tools (free, suitable for up to 9 employees)
- Xero, QuickBooks, or FreeAgent with payroll modules
- Sage Payroll for larger organisations
- BrightPay or Moneysoft for dedicated payroll

## Running Payroll Each Pay Period

Each time you pay your employees, you must complete a series of calculations and submissions:

### Calculating Pay

For each employee, you need to work out their total pay and deductions:

- Calculate gross pay (basic salary plus overtime, bonuses, commission)
- Apply the correct tax code to calculate Income Tax due
- Calculate employee National Insurance contributions
- Deduct any pension contributions
- Process student loan repayments if applicable
- Account for any salary sacrifice arrangements
- Calculate statutory payments (SSP, SMP, SPP if applicable)

### Employer Contributions

On top of gross pay, you must calculate employer costs:

- Employer National Insurance contributions
- Employer pension contributions (minimum 3%)
- Apprenticeship Levy if payroll exceeds £3 million

## Real Time Information (RTI)

You must submit payroll information to HMRC on or before each payday using a Full Payment Submission (FPS). Late submissions can result in penalties. If you pay no employees in a month, submit an Employer Payment Summary (EPS) to tell HMRC.

**Top Tip:** Run your payroll at least two days before payday to allow time for bank transfers and to resolve any issues.

## Understanding Tax Codes

Tax codes tell you how much tax-free pay an employee is entitled to. Getting the tax code right is essential for accurate deductions.

### How Tax Codes Work

The standard tax code for 2024/25 is 1257L, which represents the Personal Allowance of £12,570. The number indicates the tax-free amount (multiply by 10 and add up to 9), and the letter provides additional information about how to apply it.

### Common Tax Code Letters

- L - Standard Personal Allowance
- M - Marriage Allowance recipient (extra 10%)
- N - Marriage Allowance donor (reduced by 10%)
- BR - All income taxed at Basic Rate (20%)
- D0 - All income taxed at Higher Rate (40%)
- NT - No tax to be deducted
- K - Allowance has been reduced below zero

### When Codes Change

HMRC will send you updated tax codes when circumstances change. Always use the most recent code and never use a code from a P45 if HMRC has sent you a different one. If in doubt, contact HMRC for clarification.

## Workplace Pensions and Auto-Enrolment

Auto-enrolment requires all employers to provide a workplace pension and automatically enrol eligible workers.

### Who Must Be Enrolled

Eligible jobholders must be automatically enrolled. These are workers who are aged between 22 and State Pension age, earn more than £10,000 per year, and work in the UK.

- Eligible jobholders - must be enrolled
- Non-eligible jobholders - can opt in, employer must contribute
- Entitled workers - can opt in, employer contribution optional

## Minimum Contributions

The minimum total contribution is 8% of qualifying earnings:

- Employer minimum contribution: 3%
- Employee minimum contribution: 5%
- Qualifying earnings band: £6,240 to £50,270 (2024/25)
- Many employers choose to contribute more generously

## Ongoing Duties

After initial setup, you have continuing responsibilities:

- Assess new joiners for eligibility
- Monitor existing workers for changes in eligibility
- Process opt-outs within strict time limits
- Re-enrol workers who have opted out every 3 years
- Keep records for 6 years

**Top Tip:** Consider salary sacrifice for pension contributions - both you and your employees save on National Insurance.

## Common Payroll Mistakes to Avoid

These are the errors that most frequently cause problems for small employers:

- Missing RTI submission deadlines - can result in automatic penalties
- Using incorrect or outdated tax codes - leads to over or underpayment of tax
- Failing to apply National Minimum Wage correctly - includes not counting all working time
- Not providing payslips - a legal requirement for all workers
- Forgetting to include taxable benefits in kind
- Missing pension contribution deadlines
- Not keeping adequate records - you must keep payroll records for 3 years minimum

- Incorrect calculation of holiday pay - common issue with variable hours workers
- Not processing student loan deductions correctly
- Failing to issue P60s by 31 May each year

## Year-End Payroll Procedures

At the end of each tax year (5 April), there are specific tasks to complete:

- Submit your final FPS of the year on or before the last payday
- Submit an EPS to confirm all submissions are complete
- Issue P60s to all employees employed at 5 April by 31 May
- Report any expenses and benefits on form P11D by 6 July
- Report the Class 1A NIC due on benefits by 6 July
- Pay any Class 1A NIC due by 22 July (19 July if paying by post)
- Update your payroll software with new tax codes and thresholds

---

### Need Personalised Advice?

Every business is unique. Contact Fortis Accountancy today for tailored support that fits your specific needs and goals.

[www.fortisaccounts.com](http://www.fortisaccounts.com)

Your Trusted Financial Partner