



**S·I·P·H·E·R**  
ACCOUNTING & TAX

Detailed PAYE and workplace pension

## Salary

You, as a director, and your employees can take a monthly/weekly salary from your limited company. This will be regarded as an expense which means that if you take £10,000 p.a. salary it will save you £1,900 in corporation tax. When someone says PAYE it would normally mean both Income Tax and National Insurance. They are calculated using different methods and each has its own set of rules.

## PAYE (Pay As You Earn) Income Tax

If you are an employee, income tax is collected under the PAYE (Pay As You Earn) system. This means that income tax is deducted from your salary before you receive it. Your company will be paying this tax over to HMRC either monthly or quarterly. Sipher Accounting & Tax recommends paying tax quarterly, if you would like to pay tax monthly please do let us know.

## Personal allowances and tax bands

Income tax is paid at three different rates –the Basic Rate, the Higher Rate and the Additional Rate. Most people have a tax-free allowance and tax is only deducted from income that exceeds this allowance. The following table shows the tax rates and bands for the current tax year:

| Allowances          | Tax year 2018/19  |
|---------------------|---|
| PAYE tax threshold  | £1,047.50 per month or £12,570 per year                               |
| Basic tax rate      | 20% on annual earnings above the PAYE tax threshold and up to £37,700 |
| Higher tax rate*    | 40% on annual earnings from £37,701 to £125,140                       |
| Additional tax rate | 45% on annual earnings above £125,140                                 |
| Emergency tax code  | 1257L   |

\* The Personal Allowance reduces where income is above £100,000 - by £1 for every £2 of income above the £100,000 limit.

## Checking your tax code

Information about your tax-free allowances is contained in your personal tax code. The standard tax code for the 2023/24 tax year is 1257L – indicating the basic personal allowance of £12,570.

If your tax code is not the standard one, HMRC will usually send you a Notice of Coding. This will set out the allowances for which you are eligible and any deductions from and restrictions to these allowances. Subtracting the deductions and restrictions from the allowances will produce your tax-free allowance. Your tax code is produced by substituting the final digit of your tax-free allowance with a letter.

The following table explains the different tax code letter suffixes:

|                  |  |
|------------------|--|
| Code ends with L | Basic Personal Allowance                                   |
| Code ends with P | Age-related personal allowance for someone aged 65-74      |
| Code ends with Y | Age-related personal allowance for someone aged 75 or over |
| Code ends with T | Tax code under review                                      |

Occasionally (if you have another source of income or have underpaid tax in the past) you might have a negative tax allowance: in this case your tax code will begin with a K and the number after the letter K is the excess income that needs to be taxed in addition to any income you receive from your employment. In calculating your tax, Sipher Accounting & Tax will take account of this excess income.

As a client, it is your duty to provide us any changes in your employees tax codes.

There are five other tax codes sometimes used that indicate that tax is deducted from all your income at the same rate, without any allowances. These are:

|         |   |
|---------|---|
| Code BR | All income taxed at Basic Rate (20%) – no allowances given      |
| Code D0 | All income taxed at Higher Rate (40%)– no allowances given      |
| Code D1 | All income taxed at Additional Rate (45%) – no allowances given |
| Code NT | No tax paid on this income                                      |
| Code 0T | All income taxed at all tax bands. No allowances given          |

These codes are usually only applicable if you have more than one jobs. In case of NT you're your income is being taxed in another country. If your think that we are using the wrong code to calculate your taxes please let us know immediately.

If we do not receive a P46 or P45 when you start working, we will operate BR as a default code, until the P46 or P45 is received.

### How PAYE works

In general, each month you are able to earn 1/12th of your personal allowance tax-free, and the rest of your income is divided up into the different tax bands and taxed accordingly.

However it is important to note that tax codes are normally operated cumulatively – this means that previous earnings in the tax year are taken into account when tax is calculated each month. If your gross earnings are the same each month, the income tax deducted will remain about the same. However if your earnings vary from month to month, or if a new tax code is applied, we will recalculate the tax due for previous months, and if you have either under- or overpaid tax earlier in the year, an appropriate tax deduction or refund will be made from your next salary.

Please note that the UK tax year runs from 6 April through to 5 April. If you have overpaid tax in previous years and believe you are due a tax refund, speak to us immediately.

### **New starter checklist**

If you or your employee are starting with us during the year or joining us from another employer, they should have issued you with a P45. You must email us the P45. If you do not have the P45 you must tick and let us know by completing a New Starter Checklist, this is an online form which you can access via our website at [www.sipheraccounting.com](http://www.sipheraccounting.com).

### **If you have more than one job**

If you have more than one job, you will have a tax code for each employer. You will usually be given your tax allowances against your earnings in what you and HMRC consider your main job. Your earnings in your second job will all be taxed at Basic Rate or, if appropriate, the Higher Rate. If your total earnings with both employers are below the threshold for basic rate tax, then you may be due a tax refund at the end of your employment.

### **Leavers**

When you leave your employment, we will issue you with a P45. This will be emailed to you or your employer.

You need to give this form to your next employer or keep it safely until you start work again. If you have not received your P45 before you start your new job, you are advised to complete a New Starter Checklist for your new employer. This should prevent them taxing you at Basic Rate before your P45 is received.

### **Leaving the UK**

If you are planning to leave UK for good then it is recommended to contact HMRC to inform them of your situation. This will enable them to ascertain your residency for tax purposes and whether you are due a refund of taxes. Sipher Accounting & Tax will assist you in completing the required HMRC forms.

### **What happens at the end of the tax year**

If you or your employees are still working with you at the end of a tax year, Sipher Accounting & Tax will issue eP60 which will be emailed to you in the beginning of April, setting out what your taxable earnings in the tax year were and how much tax and national insurance you have paid.

### **Student loans**

HMRC is responsible for the collection of most student loans. They will collect the loans repayments on behalf of Student Loans Company.

Where applicable, in 2023/24 we will make a deduction whenever your earnings in any month are above £1,834 (equivalent to £22,015 a year) for Plan 1 i.e. Pre-2012 loans and above £2,274 (equivalent to £27,295) for Plan 2 or Post-2012 loans.

Deductions are made at the rate of 9% on any earnings above this threshold. The deductions operate non-cumulatively, i.e. each month's calculation is made independently. This means, for example, if your earnings are above the threshold at the beginning of the tax year, but then fall below it, no refund of loan repayment is due.

However if your total earnings are less than the above minimums for the whole of the tax year, you can claim a refund from the Student Loans Company on production of a P60 or other evidence.

### **National Insurance**

National Insurance (NI) in the UK is a deduction from earned income paid by people aged over 16 and under the state pension age. Employers are also required to make contributions.

There are various classes of National Insurance Contributions (NICs), paid by employees, employers and the self-employed. Employees will pay Class 1 Contributions.

Everybody who pays National Insurance has an NI account and, by payment of NI contributions, accrues rights to certain state benefits, i.e.:

- Employment and Support Allowance;
- Jobseekers Allowance;
- Maternity Allowance;
- Retirement Pension;
- Bereavement benefits.

## **National Insurance Number**

UK citizens are automatically sent an NI number just before their 16th birthday (the number is generated at birth).

If you have come to the UK from abroad, you are legally obliged to apply for a number and register for NI purposes as soon as you start work here. Without an NI number, you will not be able to claim any tax refund owed to you when leaving the UK. You should contact the Department for Work and Pensions office.

## **Class 1 National Insurance contributions**

As an employee you pay Class 1 NI contributions based upon your earnings.

## **Over state pension age**

If you are over state pension age (minimum 65 for men, approximately 61 for women – see below), you do not have to pay employee's contributions.

## **Increases in the state pension age**

The Government has announced plans for the equalisation of the state pension age. If you are a woman born before 6 April 1950 your state pension age will be 60; if you are a woman born on or after 6 April 1955 your state pension age will be 65; if you are a woman born between 6 April 1950 and 5 April 1955, your state pension age will be between 60 and 65 depending on your exact date of birth.

The previous Government announced that the state pension age for both men and women will increase from age 66 to age 68 between 2024 and 2046.

You can find out your state pension age by using this HMRC calculator <https://www.gov.uk/state-pension-age>.

## National Insurance rates

National Insurance rates and thresholds for 2023/24 are:

### NATIONAL INSURANCE CONTRIBUTIONS

| <b>Class 1</b>                          |                     |                          |                     |
|---|---------------------|--------------------------|---------------------|
| <i>Employer</i>                         |                     | <i>Employee</i>          |                     |
| <i>Earnings per week</i>                | <i>Rate payable</i> | <i>Earnings per week</i> | <i>Rate payable</i> |
| £0.01 - £175                            | Nil                 | £0.01 - £242             | Nil                 |
| Over £175.01                            | 13.8%               | Over £242 to £1,048      | 12%                 |
|   |                     | Over £1,048              | 2%                  |
| <b>Class 1A and 1B (employers only)</b> | 13.8%               |                          |                     |

|                                |   |
|--------------------------------|---|
| <b>Class 2 (self employed)</b> | £3.45 per week (small profits threshold £6,725) |
| <b>Class 3 (voluntary)</b>     | £17.45 per week                                 |

|                                |                                 |    |
|--------------------------------|---------------------------------|----|
| <b>Class 4 (self-employed)</b> | Profits up to £12,570           | 0% |
|                                | Profits £12,570 to £50,270      | 9% |
|                                | Profits above £50,270 per annum | 2% |

## Employee National Insurance

There is a further threshold, the Lower Earnings Limit (LEL), currently £533 per month, used in National Insurance calculations. If you earn above the LEL but below the Primary Earnings Threshold (£1,048 per month), you are not liable to pay any Employee contributions but your NI account is credited as if you had made contributions, and you accrue rights to benefits accordingly.

In general, each month you are able to earn £1,048 without paying class 1 NI, if your monthly income is over £1,048 you will be paying 12% on all earnings above the Earnings Threshold (£1,048 per month) up to Upper Earnings Threshold (£4,189 per month). You will be paying 2% of earnings over the Upper Earnings Threshold.

## Employer National Insurance

Your employer also pays Class 1 contributions, at a rate of 13.8% on all earnings above the Primary Earnings Threshold (£758 per month). There is no Upper Earnings Threshold for

Employers.

Note that, unlike income tax, National Insurance contributions are not calculated cumulatively, ie each month's calculation is made independently. This means, for example, if your earnings are above the Earnings Threshold at the beginning of the tax year, but then fall below it, no refund of contributions is due.

Employers also pays Class 1A National Insurance at 13.8% on benefits paid to employees.

### **Class 2 National Insurance**

If you are self-employed and your profits are over £6,725, you will be paying Class 2 NI at £3.45 per week or £179.40 per tax year.

### **Class 4 National Insurance**

Self-employed persons pay class 4 NI. These are paid at 9% on profits between £12,570 to £50,270. The rate of payments falls to 2% on any profits over £50,270.

## **Workplace pension**

### **What Is Auto Enrolment?**

Auto-enrolment was introduced by the government and requires every employer in the UK to set up a workplace pension scheme and enrol their staff into this scheme, as well as contribute to their employee's pension.

### **How Does The Auto Enrolment Process Work?**

Employers must automatically enrol certain employees into the workplace pension. An employee qualifies for auto-enrolment if they:

- are aged between 22 and State Pension age;
- earn more than £10,000 a year;
- work in the UK.

Employees contribute a percentage of their pay into the workplace pension scheme. The employer, as well as the government, also must contribute a set percentage to the employee's pension pot.



## Rates

| Date         | Employer minimum contribution | Staff contribution | Total minimum contribution |
|--------------|-------------------------------|--------------------|----------------------------|
| Current rate | 3%                            | 5%                 | 8%                         |
|              |                               |                    |                            |

## When Is My Staging Date?

You will receive a letter from the The Pensions Regulator (TPR) with information on your staging date. You must email Sipher Accounting & Tax the letter so that we can deal with it.

## Directors only companies

If you have no employees other than yourself as directors then you can choose not to pay the pension on your payroll. However Sipher Accounting & Tax do suggest to look for alternative ways of investments for your retirement.

If you fall into the above category Sipher Accounting & Tax will declare you NOT AN EMPLOER with TPR.

## What if you have employees?

If you have qualifying employees the earliest you can postpone your pension is 3 months from your staging date. After that you have to start paying pension to your employees.

## How can Sipher Accounting & Tax help?

We work with NEST, who is a workplace pension setup by the government. We will setup your pension scheme with NEST and add your employees to the scheme. Once the scheme is setup, you and your employees will see a deduction for Pension through their payslips. We will transfer the payment details to NEST each month and they will deduct the money from your company account each month via Direct Debit. We will file the Declaration of Compliance with TPR.

Sipher Accounting & Tax will also provide you NEST paperwork to provide to your employees. Once an employee is added to NEST, your employees will receive a letter from NEST with a code. If you employee would like to opt-out, they will have 30 days, after which they will be automatically included in the pension scheme.

If you have any further questions please do not hesitate to contact us.

Website: [sipheraccounting.com](https://sipheraccounting.com)  
Phone: 0203-490-5470

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