

Payroll

Employing Staff for the First Time

There are a few things you need to do when you employ staff for the first time. You will need to send details of the job (including terms and conditions) in writing to your employee and you must provide them with a written statement of employment if you are employing them for more than 1 month. You should also consider employment contracts for everyone you employ.

Employers' Liability Insurance

As soon as you become an employer, you must take out employers' liability insurance (although you may not need to if you only employ family members). The insurance must provide cover of at least £5 million and will help to pay any compensation that may be due if an employee is injured at work, or becomes ill because of the work they do for you.

The certificate should be displayed and you must make it available to inspectors should they ask to see it. This is a legal requirement and you could be fined £2,500 per day for every day you are not correctly insured. You can also be fined £1,000 for not displaying the certificate or not making it available to inspectors.

Employee Checks

You must check that any potential employees have a legal right to work in the UK. There is an online tool to help with this here: <https://www.gov.uk/legal-right-work-uk>.

Depending on the nature of your business, you may also have to apply for a DBS check (previously called a CRB check).

National Minimum Wage

It is a criminal offence not to pay any employees entitled to National Minimum Wage at an hourly rate below that amount. Most employees (other than apprentices) of school leaving age or above must be paid at least the National Minimum Wage. Apprentices are entitled to the apprentice rate if they are aged under 19, or over 19 and in their first year of apprenticeship (after which they are entitled to the National Minimum Wage).

There are a few workers who are not entitled to the National Minimum Wage, including:

- company directors
- volunteers and voluntary workers
- family members living in the employer's home
- anyone who has not yet reached school leaving age
- higher and further education students on a work placement of up to 1 year

The current National Minimum Wage hourly rates (effective from October 2014) are:

Apprentice	Aged under 18	Aged 18 to 20	Aged 21 and over
£2.73	£3.79	£5.13	£6.50

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Register with HMRC as an Employer

You will need to register as an employer with HM Revenue & Customs (HMRC). You must do this before the first pay day, but note that it can take up to two weeks for the registration process to complete. You can complete the registration online here: <https://www.gov.uk/register-employer>.

Setting up a Payroll

Once you are registered as an employer, you must decide whether to run a payroll yourself, or use a payroll provider. Either way, you will decide when and how often your employees will be paid.

If you are running your own payroll, you will need to use payroll software to record your employees' personal details as well as the hours that they work. You will need software to:

- calculate the pay and deductions for each employee
- calculate any statutory sick pay/maternity pay/paternity pay
- deal with any pension contributions (and possibly charitable donations)
- prepare payslips
- deal with the reports for HMRC
- work out how much you need to pay HMRC

Record Keeping Requirements

As an employer you must maintain certain records and you must do so for at least three years from the end of the tax year to which they relate. Failure to keep full and proper records could lead to a fine from HMRC of up to £3,000. You must collect and keep records of:

- what you pay your employees and the deductions you make
- reports and payments you make to HM Revenue and Customs (HMRC)
- employee leave and sickness absences
- tax code notices
- taxable expenses or benefits
- if you operate a Payroll Giving Scheme, all related documents including the agency contract and employee authorisation forms

You must also abide by the Data Protection Act – if you are unsure of your obligations, see this area for full guidance: <https://www.gov.uk/data-protection-your-business>.

Need help?

For information on reporting requirements, annual year end procedures and more, please see our separate guides. Waveney Tax Solutions can help you to select payroll software or provide a payroll service for your business. For further details please call 01502 370620 or 07919 924273, or alternatively email us at nina@waveneytaxsolutions.co.uk.