

Payroll Terminology 2016

When talking to clients, we are often asked by clients who have read something in the news or been sent a letter by HMRC, or their staff have raised a query, what something means, how does it relate to them and what if anything do they need to do.

As a company we believe in communicating at a level our clients can understand. There is little point in producing reports and talking to our clients in such a way they are left thinking, "What were they talking about?"

Below is a list of common payroll terminology used in or to refer to payroll:

1. Payroll – A list of all employees receiving, wages or benefits with the amounts due to be paid to each employee. A 'payroll' encompasses all the calculations and processes involved in working out employees' pay and deductions under the Pay As You Earn scheme.

It also includes the submissions made to HMRC. It's important that ALL employers keep accurate payroll records.

2. Gross Pay – The total amount of pay due to employees before deductions such as PAYE, National Insurance, Pensions, Give as you Earn etc. Gross pay includes overtime, holiday and sick pay, bonus, commission and other payments.

3. National Insurance – Contributions made to the Government to help employees build up entitlement to state benefits such as State Pension. NI is a compulsory deduction of a fixed percentage of an employee's earnings.

Paying NI give the employee access to benefits and services, such as the National Health Service (NHS). Both the employee and the employer pay NI on the employees' earnings.

4. PAYE – Pay as you Earn – A tax employees pay on the amount they earn and is paid over to HMRC, subject to any allowances. The employer pays the amounts collected to HMRC in their monthly or quarterly payments.

5. Tax Code – Represents an amount of (tax) free pay someone is allowed to earn before income tax is deducted. Each employee has a tax code, which determines how tax is calculated and deducted from their pay.

If an employee has more than one job, they can have a different tax code for each. Some tax codes, such as 'L' tax codes, show how much free pay an employee has in the year.

6. Deductions – Amounts taken off the gross pay such as National Insurance, PAYE, Student Loans etc.

7. **Net Pay** – Net pay is the employee’s actual take-home pay after tax, NI and any other deductions.
8. **SMP – Statutory Maternity Pay** – An amount of pay employees may be entitled to when taking time off to have a baby. If the employee meets the necessary qualifying conditions, you’re legally obliged to pay her SMP up to a maximum of 39 weeks.
9. **OSPP – Ordinary Statutory Paternity Pay** – An amount of pay to an employee if their partner adopts or has a baby. If the employee meets the necessary qualifying conditions, you’re legally obliged to pay them OSPP for either one or two full weeks.
10. **SSP – Statutory Sick Pay** – An amount of pay an employee may be entitled to when taking time off for illness. SSP is paid by employers to employees who have a sickness absence of at least four consecutive days.
11. **SHL – Statutory Holiday Leave** – An amount of pay all workers are entitled to when taking time off
12. **P45** – A form used by employers to detail how much income tax has been paid on employee’s wages/salary. Issued to staff leaving an employers employment
13. **P14** – This is an end of year summary of National Insurance, PAYE and statutory payments made in the tax year. This form must be submitted to HMRC
14. **UTR Number** – Unique Tax-Payer Reference – When a company record is first setup, the HMRC computer allocates a ten, (10), digit reference number. This number is used by the company for the duration of its existence. The same procedure applies to partnerships and individuals.
15. **Student loans** - Student loans are a form of financial support available to students carrying out a course of higher education in the United Kingdom. Since 6 April 2000, any outstanding student loans that were taken out after August 1998 are repayable through payroll.

You must deduct student loans only if you receive a start notice (Form SL1) from HMRC, or if you take on a new employee and their P45 has a Y in the Student Loan deductions box, or they select Statement D on form P46.

Forms and Reports

1. **P9: Tax code notice** - P9 tax code notices are issued to employers by HMRC to advise of a change in the employee’s tax code.
2. **P38** - if you take on a student who works solely during their holidays from a full-time course in the UK, provided the student has signed a P38, you can pay them without deducting any tax. When setting up their record, you would use tax code NI.

3. **Employer Payment Record** - This report shows how much you owe HMRC for each month of the tax year. It includes all deductions for tax and NI, as well as any statutory payments that can be recovered. You then need to pay this amount to HMRC on a monthly or quarterly basis. Keep the P32 Employer Payment Record report for your records.
4. **P11 Deductions Working Sheet** - There are two P11 Deduction Working Sheets in Sage One Payroll.
5. **P11 Deductions Working Sheet (PAYE)** – This report is a record of the employee’s pay and tax information for each pay period.
6. **P11 Deduction Working Sheet (NIC)** -This report is a record of the employee’s NI information and statutory payments made throughout the year.
7. **P60 – End of Year Certificate** - At the end of each tax year, employers must give a P60 to each of the employees still working for them on 5 April. The P60 includes the taxable gross pay, tax, NI, student loan and statutory payments.

General Terms

1. **Her Majesty’s Revenue and Customs (HMRC)** - HMRC (also known as ‘the Revenue’) is the government agency responsible for the administration and collection of taxes.
2. **Government Gateway** - The Government Gateway is the website you use to register for online government services.

Once you’re registered, you can make online submissions to HMRC, and receive information from them.