white paper

Surviving the
Payroll Year End

At the end of each tax year, 5 April, every UK employer must collect data relating to all payments to its employees and submit the information to HM Revenue & Customs (HMRC) on forms P35 and P14 by 19 May, as well as to employees on P60 forms by 31 May.

This Sage white paper provides advice to help employers through this busy period.

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Contents

1 Legal requirements

Your obligations

- **You must file an Employer Annual Return** - known as form P35 - with HMRC by 19 May.

- **The return must include** details of all staff paid in excess of £100 in any week, or more than £1 in any week if they have another job or a pension.

- **The return must also show** a number of statutory declarations, including one relating to the IR 35 provisions for self-employed workers.

- **You must provide two copies** of form P14 for each member of staff if you file on paper. If you file online, this is part of the process.

- **You must issue forms P60** to your employees by 31 May.

- **You must consider** whether forms P11D or P9D are due in respect of benefits your employees receive. These are due by 19 July - not along with the main year end return.

You will also need to complete a nil return if you have paid any employees more than £90 in any week. They may not have to pay tax and national insurance contributions, but they will be entitled to credits for state pension. These credits can only be recorded by preparing a P14 for them showing the earnings and including the information on form P38A - even if they are your only employee.

2 **Get ready early**

You cannot start the year end procedure until you have made the last payment for the year. But you can start to prepare and check the data you are going to use ahead of the year end, so that once your last payroll has been run you are ready to finalise the return.

- **Order any stationery** you need for the payroll year end process. This includes paper versions of forms P60 for employees, whether you intend to print out from software or prepare the return manually. Some software allows you to print the entire form on a plain sheet of paper - you will need to check with your software provider. If you are not submitting online, you also need acceptable versions of forms P14 and P11D (and P9D if appropriate). Information about benefits reported to HMRC on form P11D can be provided to staff in any format so special forms are not mandatory.

- **The data you need will cover** all payments to employees which fall within the reporting criteria, together with information about tax and national insurance contributions (NIC) for each of them.

- **You also need details** of any statutory payments you have paid to staff as part of their wages, such as Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP) and other similar payments.

- **Employers with staff** who repay student loans through the payroll also need to collate data about how much has been deducted for student loan repayments.

- **Staff who joined this year** and gave you a P45 form must be included in the payroll, irrespective of how much they were paid. Make sure these employees, together with those who have left, are included in the data you collate.

- **Finally, you need details of the amounts** you have paid over to HMRC in respect of PAYE, NICs and student loan repayments. You also need a separate record of deductions for recovery of Statutory payments such as SSP and SMP during the year. If HMRC sent you money to fund statutory payments or tax refunds then this information is also needed.

If you have not reclaimed SSP, SMP and other statutory payments, you may find that you are entitled to do so. Be ready to check this aspect. Different rules apply to SSP and SMP - see 'Recovery of statutory payments' section below.

3 Check your data

Your employee data, such as name and national insurance numbers must be correct or your return will be rejected. This happens whether your return is submitted on paper or online, so you need to double check.

- **If the employees were brought forward** from last year, and you successfully filed last year without problems, then last year's return and working papers is a source of "clean data".

- **If you took on new employees** during the year, HMRC may have sent you coding notices about them. This gives you a reliable source for checking national insurance numbers.

- **You do not need to provide dates** of birth this year, but in future forms P45 and P46 will require this information, so it may help to start preparing for that now.

- **Check NIC table letters** where necessary.

Using software to complete your payroll during the year ensures that the data you bring forward from year to year is correct. With a manual payroll you must be extra careful when copying information from one year to another so that you don't make mistakes with data such as national insurance numbers.

Payroll software also normally helps you with the data checking procedure, as it is programmed to identity a number of errors that would cause problems at year end, so you can correct those early. However, not every error can be identified in advance of filing the return with HMRC so you must still leave time to correct a rejected form before the deadline of 19 May.

4 Reconciliations

Every aspect of the payroll must agree. Here are the main financial reconciliations you should perform. Once again, if you are using payroll software, some of the work is done for you by providing you with totals at any point in the year.

● PAYE tax

The amount deducted from employees should have been paid over to HMRC in full. Calculate the total tax deducted for each employee, reconciling the amount deducted each month or week with the tax due to date in case you have made an error during the year. Once again, these checks will not be necessary if you have used payroll software. Even with software you need to check that the amount actually paid is correct.

● National insurance contributions

Similarly, you need to calculate the total NIC deducted from all employees, and the total amount due to HMRC (which includes the employer contributions). Totals for each employee are shown on forms P14. Where employees are liable to NIC under more than one table letter you must keep the contributions made under each table letter separate for each employee. The NIC paid over should reflect these amounts, unless there have been any recoveries in respect of statutory payments.

● Statutory payments

Statutory payments, such as sick pay, maternity, paternity and adoption pay, must be totalled for each employee and overall for the business. Statutory Sick Pay totals must be kept separate from other statutory payments, as the way in which this is recovered is determined differently. If you have received funding from HMRC to help pay statutory payments, you must include those amounts in your reconciliation. More information about recovery of statutory payments is given below.

● Student loans

The total for each employee and the total due to HMRC for student loans must be reconciled to payments made.

● Other amounts

Where other amounts are calculated through the payroll for pension contributions or other liabilities, they must be totalled and reconciled to the onward transmission of those payments. These do not form part of the HMRC year end process and so are not dealt with any further in this guide, but year end is a good time to reconcile these items.

Recovery of statutory payments

- **Statutory Sick Pay** may be recovered only by small employers. The recovery is made by setting off the SSP paid against the NIC due for the same period. The definition of a small employer relates to the amount of SSP sought in relation to the NIC payable for the period. This must be calculated on a tax month basis (irrespective of whether it is paid on a weekly basis). The SSP recovery is calculated as the excess over 13% of the NIC due (both employee and employer contributions) for the period. So to check, calculate 13% of the total NIC due for the month, and subtract this amount from the SSP paid in the month. The balance is recoverable.

- **Statutory Maternity, Paternity and Adoption Pay** are only recoverable in full by small employers; large employers can recover only part of the SMP they pay. This time the definition of small is based on the total NIC payable, taking both employer and employee contributions into account. If the total for the year of the NIC due is less than £45,000 then the employer can recover not only the gross SMP, SPP and SAP, but also NIC compensation at 4.5% of the gross amount. The amount recovered is also set off against the NIC due for the year. When the total NIC liability for the year is more than £45,000 you can only recover 92% of the amount you have paid, and there is no compensation for NIC on payments. Where you have recovered SMP and related payments during the year, you will need to check at the year end that you meet the relevant definition.

5 Completing the forms

Once you have reconciled the financial totals, and have totals ready for every employee, you need to complete the relevant forms to complete the year end process. Once again, using payroll software enables you to complete this task fairly seamlessly as all of the totals are prepared automatically. Once you are satisfied that you have ironed out any wrinkles, you can run the year end process, preparing the P14s, P60s and also P35 in the process.

- **Prepare a form P14 in duplicate and a P60** for each employee paid at or above the Lower Earnings Limit for the year. If you have staff paid below this threshold for whom no tax or NIC is due you must use NIC table letter X when you make an online submission - this indicates that no payment is due. **Complete ☐**

- **Once the forms have been completed** you then need to list the employees on the reverse of form P35, showing the tax and NIC due in respect of each. You can then enter the totals for tax and NIC deductions, recoverable statutory payments and student loan deductions. **Complete ☐**

- **Calculate the total amount due to HMRC** for the year and then by deducting payments made (and making adjustments for any funding received to make statutory payments) the amount outstanding can be calculated and reconciled. **Complete ☐**

- **Send the amount payable to HMRC by 19 April** (or 22 April if paying electronically). You should leave sufficient time for the payment to reach HMRC by the due date - in the case of electronic payment this can mean initiating the payment before the due date. Any amount outstanding after the due date is liable to interest. **Complete ☐**

- **Once you are satisfied** that this amount is correct, you can complete the declarations on the form. Once this has been done and the form reviewed, sign it and send it to HMRC with the P14 forms. If you file electronically now is the time to perform a test filing to check that your data is correct, and once this has been accepted you should reset the test flag and submit the final return. **Complete ☐**

Small employers, with fewer than 50 staff will receive an incentive payment if they file online successfully before the deadline. The tax free payment of £75 will be credited to your PAYE account once the return has been processed - a notice of entitlement to the payment will be issued, from about July 2009 onwards.

6 **Payroll Year End resources**

If you're looking to update the way you deal with your payroll, our payroll software is fully accredited by HMRC and is packed with time saving features that help cut your workload.

Key facts about our payroll software:

- **Stay right up to date** with HMRC legislation
- **Automate** complex payrolls
- **File** PYE forms to HMRC online
- **Print payslips** or email electronic payslips to employees
- **Reduce** all your paperwork
- **Bank** electronically as standard
- **Full** electronic document and audit trails
- **Work** seamlessly with Microsoft® Office

Plus our technical and legislation support ensures you are always compliant year after year. Call one of our Payroll Team today on **0800 44 77 77** or visit **www.sage.co.uk/pyestore**

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