

# Payroll Compliance Issues for the Smaller Business

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- the PayPerShop website and newsletters
- the training courses run by HRD & Payroll Solutions
  - Croner's Payroll Handbook
- Consult Gee (Payroll Systems sections)

*Most aspects of this article are specific to the UK*

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*For the latest version of the article, click <http://www.paypershop.com/compliance>.*

## Contents

<b>Is Your Business a "Smaller Business"?</b> .....	1
<b>The Key Payroll Issues for 2006/07</b> .....	2
Age discrimination.....	2
Attachment of earnings order.....	2
Collective redundancies.....	2
Company cars.....	2
Construction Industry Scheme.....	2
Employer contracting-out numbers.....	2
Expatriate employees.....	2
Flexible working.....	2
Holiday Pay Issues.....	2
Home Computing Initiative.....	2
Mobile phones.....	2
National Minimum Wage.....	3
Pension schemes.....	3
Statutory Redundancy Pay.....	3
Statutory Sick Pay.....	3
Tax avoidance schemes.....	3
Tips and tronc.....	3
Week 53 processing in 2007.....	3
Work and Families.....	3
<b>Keeping Up-to-date with Payroll Regulations</b> .....	3
Your payroll software or service provider.....	3
HM Revenue and Customs.....	3
Training providers.....	4
Magazines and newsletters.....	4
Loose-leaf and electronic manuals.....	4

## Is Your Business a "Smaller Business"?

What is a small business in the context of payroll?

If we take some of the measures used within tax legislation, an employer is a "small employer" if

- payments of tax and NICs due to the employer's Accounts Office may be paid quarterly because the average amount due monthly is not more than £1,500
- the employer may recover 100% of SMP, SPP and SAP paid to employees, plus a further 4½% NICs compensation, because not more than £45,000 of Class 1 NICs were paid to the employer's Accounts Office in the previous tax year.

A statistical approach to the question, using analyses of employers published by the Small Business Service each year, indicates that there are

- 8,240 employers with 250 or more employees
- 29,735 employers with between 50 and 249 employees
- 1,216,160 employers with fewer than 50 employees.

These 50 and 250-employee thresholds are used by HMRC to determine whether employers are "small", "medium-sized" or "large" in the context of filing year-end returns electronically and making payments to the Accounts Office electronically.

On this basis, 97% of all employers are "small", and 99½% of all employers are "small" or "medium-sized".

Another measure of "small" is how many people are involved in looking after the employer's payroll. Depending on the complexity of the payroll, an employer with 100, 200 or even more employees may have just one person running the payroll. Below those numbers, the payroll administrator may work part-time or look after payroll as just one of a number of jobs.

It is this last definition that is used in this article when it talks about the "smaller business". Do you run your employer's payroll single-handedly? If so, you may or may not take comfort in knowing that there are more than a million other payroll administrators in just the same situation as you.

You have to meet weekly, monthly and annual deadlines without fail – and probably with little obvious appreciation. You take your holidays around the payroll schedule. All of the employees in your business rely on you to pay them on time and accurately. Compliance with a wide range of tax and other legislation is your job.

And, on top of everything, you have to keep up to date with change – in a country which arguably has the highest level of continuous statutory change in the world.

How do you do it? It's alright for those employers with several people in the payroll department, and those with a training budget that allows the payroll staff to attend training courses regularly. But there's just you, trying to keep up to date!

This article will give you an overview of the many changes that may affect you and your payroll during 2006 and 2007. It will also provide practical suggestions on how you can keep up to date with legislative change, how you can make best use of your payroll software provider and the help available from Her Majesty's Revenue and Customs (HMRC).

### **The Key Payroll Issues for 2006/07**

Among the many payroll-related issues you must be aware of during 2006 and 2007 are the following. The links in each section will take you to the PayPerShop news items that discuss the changes in more detail. Those links, in turn, give you access to the original source information.

#### ***Age discrimination***

New regulations took effect from 1 October 2006 which, among many other changes,

- remove the lower and upper age limits for SSP
- remove the upper age limit for SMP, SPP and SAP
- remove the lower and upper age limits for Statutory Redundancy Pay
- restrict the use of age-related wage bands
- introduce new procedures for handling retirements if they are to be considered fair dismissals
- restrict the provision of age-related benefits.

#### ***Attachment of earnings order***

Scottish Orders: From 6 April 2006, the administration fee that may be deducted by employers increased to £1, the daily protected earnings rate for Current Maintenance Arrestments increased to £12, and new deduction tables were introduced for Earnings Arrestments.

Schedule 5 Attachment of Earnings Orders: The pilot scheme was replaced, from 3 July 2006, by full powers for magistrates' courts to issue new-style AEOs for the collection of fines.

Deduction from Earnings Orders: The Child Support Agency is contracting-out the enforcement of child maintenance to debt collection agencies, which are able to issue DEOs direct to employers. Employees may also enter into voluntary deduction from earnings arrangements.

#### ***Collective redundancies***

From 1 October 2006, the Secretary of State must be notified of collective redundancies before notice is given to any employees to terminate their contracts.

#### ***Company cars***

New advisory mileage fuel rates were introduced from 1 July 2006.

#### ***Construction Industry Scheme***

Major changes are being made to the Construction Industry Scheme from April 2007. Tax certificates, registration cards, payment vouchers and year-end returns are replaced by a new verification procedure and

a new monthly return. Contractors must sign that they have checked the employment status of every contractor. Deduction of tax may be made at one of two different percentage rates. The monthly return may be filed manually or electronically.

#### ***Employer contracting-out numbers***

An employer should have only one ECON for each PAYE scheme. Employers with more than one ECON should transfer all contracted-out schemes to a single ECON, using the appropriate forms.

#### ***Expatriate employees***

New modified tax and NICs procedures are available for employers to use when paying tax equalised employees coming from abroad and employees assigned from the UK to work abroad. Employers wishing to use the new procedures must apply before 6 April 2007.

#### ***Flexible working***

From 6 April 2007, the right of employees to request a contractual variation to care for a child under age 6 or a disabled child under age 18 is extended to include adults aged 18 and over. Employees must meet the definition of "carer".

#### ***Holiday Pay Issues***

Entitlement to statutory holiday pay is increased to 5.6 weeks, with an absolute maximum of 28 days, in instalments, starting in October 2008.

Following the decision of the European Court of Justice, in March 2006, the practice of "rolled-up" holiday pay is lawful under the requirements of the Working Time Regulations. Holiday pay must be paid at the time the holiday is taken.

Employers may consider Hospital Pay Funds as an alternative approach to "rolled-up" holiday pay.

#### ***Home Computing Initiative***

The tax exemption that allowed employers to provide their employees with computers without a tax charge was withdrawn from 6 April 2006, except for those already provided. As a result, no further computers could be provided, using salary sacrifice arrangements, under the Home Computing Initiative. Transitional arrangements were put in place.

A new scheme, called "Home Training Initiative" is being promoted as a replacement for HCI. Employers should be aware that this scheme is unlikely to receive HMRC approval.

#### ***Mobile phones***

The tax exemption that allowed employers to provide their employees with mobile phones without a tax charge was amended from 6 April 2006, except for those already provided. As a result, the exemption only applies to a single mobile phone and does not apply to phones provided for the employee's family or household.

### ***National Minimum Wage***

The adult [minimum wage](#) rate increased to £5.35 from October 2006.

Minimum agricultural rates apply from October 2006 in [England and Wales](#), from [January 2006](#) and [October 2006](#) in Scotland, and from April 2006 in [Northern Ireland](#).

### ***Pension schemes***

A major reform of [pension scheme](#) rules took place from April 2006. It removed the payroll requirement to monitor contribution limits and introduced a requirement to handle [trivial commutation payments](#) under PAYE, using the [correct tax codes](#).

[Further pension scheme reforms](#) are planned from 2012 onwards.

### ***Statutory Redundancy Pay***

The facility to [offset pension and lump sum payments](#) against statutory redundancy payments is withdrawn from 1 October 2006.

The [weekly maximum payment](#) is increased from £290 to £310 per week from 1 February 2007. The Government also intends to make a [one-off increase](#) to this rate, likely during 2007.

### ***Statutory Sick Pay***

Following the increase in the linking period of 52 weeks to [104 weeks](#) when an employee returns to work from Incapacity Benefit with a BF220B linking letter, employers must check whether a new sickness absence links before paying SSP. [Form SSP1](#) has been updated accordingly.

### ***Tax avoidance schemes***

New rules for the [disclosure of tax avoidance schemes](#) were introduced from August 2006.

### ***Tips and tronc***

Following a change in HMRC interpretation, the [NICs exemption for gratuities](#) paid to employees from a tronc is not affected (1) if the payment counts towards the National Minimum Wage, and (2) as long as the contract does not provide entitlement to a defined payment.

### ***Week 53 processing in 2007***

PAYE Regulations require employers who make payments by BACS on Thursday, 5 April 2007, instead of bank holiday Friday, 6 April 2007, to treat them as [week 53 payments](#). The next payment made on Friday, 13 April 2007, is a week 2 payment, not week 1. HMRC is reviewing these rules in view of the burdens they impose on employers and system developers.

### ***Work and Families***

From April 2007, under provisions in the [Work and Families Act 2006](#),

- maternity leave is extended to 52 weeks, without any qualifying service requirement

- SMP, SAP and maternity allowance are extended to 39 weeks
- employees' notice to return to work early is extended to 8 weeks
- maternity pay periods may start on any day of the week, like SAP and SPP
- employees on maternity or adoption leave may work on up to 10 "Keeping in Touch Days" during leave
- in some situations, SMP, SPP and SAP may be paid using daily rates

Some examples are provided of the calculation of SMP, SPP and SAP using [daily rates](#).

A further increase in the payment period of SMP and SAP, from 39 weeks to 52 weeks, and the introduction of Additional Statutory Paternity Pay (ASPP) for up to 26 weeks, are likely to occur from [April 2009](#).

### ***Keeping Up-to-date with Payroll Regulations***

There is no easy way to keep up-to-date. One way or another you are going to have to spend time reading, researching, listening and/or discussing.

There are also many sources of information. Some have a cost, others are free – free, that is, other than the cost of the time you spend in learning and training.

The following section describes the various sources of information that can help you, as a payroll administrator, keep your knowledge of payroll regulations current. There is no single source that provides everything you need – explore the ones that interest you and make good use of them.

#### ***Your payroll software or service provider***

To run your payroll, you may use a computerised payroll system or make use of the services of a payroll bureau or firm of accountants – for which you pay monthly or annual charges.

All payroll software suppliers and service providers offer a helpdesk service. In most cases, the helpdesk staff are not just there to help you with systems problems; they are also equipped to answer your compliance questions. Many payroll bureaux require their staff to be IPPM qualified, or to undertake the qualification course.

#### ***HM Revenue and Customs***

All of the services provided by HMRC are free, so they should be explored and made use of.

The [HMRC website](#) is very comprehensive, so much so that the answers to questions can be difficult to find. Searches often give too many results, so it is often better to make use of the menus.

Some of the author's most used links are:

- [What's New](#)
- Construction Industry Scheme – [Old](#) and [New](#)
- [Employer Orderline](#)
- [Expenses and Benefits in Kind](#)
- [Employment Income Manual](#)
- [National Insurance Manual](#)

- [Rates and allowances](#)
- [Tax Bulletins](#)
- [Notes for Software Developers](#)

If it takes a while searching for the answer to a question, don't forget to 'bookmark' the page for future reference.

Many payroll questions can be answered quickly and easily by phoning the appropriate HMRC Helpline. The Employer Helpline (08457 143143) gives advice on PAYE, NICs, statutory payments, tax credits, stakeholder pensions, student loan repayments and Construction Industry issues. There are, in addition, other more specialist [Helplines](#).

Each year, HMRC publishes two invaluable CD-ROMs, one before the end of the tax year, the other after the Budget. They are sent free to all employers. In addition to providing 'pdf' copies of all of the key forms and publications, the disk offers a range of other facilities, such as calculators for PAYE, SSP and SMP, a "teach yourself" programme. If you haven't got the latest disk, you can order one [here](#).

HMRC run a number of [Business Advice Open Days](#) and [EmployerTalk](#) events, and also take stands and provides speakers at various conferences and exhibitions.

In addition, regional Business Support Teams run free tax clinics and [training workshops](#) to help employers with a range of compliance matters, including basic subjects like paying employees, expenses and benefits, SSP, SMP, SPP and SAP, and year-end returns, and more technical areas such as P11D reporting and the new Construction Industry Scheme.

### ***Training providers***

A number of specialist payroll training providers offer training in various formats, including commercial courses usually using hotel conference facilities, in-house programmes tailored to the employer's specific needs, courses geared towards attaining payroll qualifications, and e-learning programmes.

Training courses are pitched at differing levels of expertise – basic courses for newcomers, intermediate courses for those wishing to extend their skills, and advanced courses in specialist areas of payroll.

Contact information for many of the specialist training providers is available in the [PayPerShop directory](#).

Many of the training providers offer an annual Update event, covering changes in the past and coming tax years. Such an event would be invaluable for a payroll administrator in a smaller business. The cost, however, is likely to be a problem; a day's training costs well over £300 + VAT. A sensible way of reducing the expense is for one employer to club together with a number of other employers and arrange an in-house course – this can reduce the cost per employer considerably.

### ***Magazines and newsletters***

A subscription to one of the specialist payroll magazines is an excellent way of updating your knowledge of

current payroll issues. There are four monthly magazines published in the UK:

- [PayrollProfessional](#) and weekly newsletter
- [Pay Magazine](#)
- [Payroll Manager's Review](#) and weekly newsletter
- [Payroll World](#)

Annual subscriptions cost from £75 upwards, although PayrollProfessional and Payroll Manager's Review are included as part of the membership package of the Institute of Payroll Professionals (IPP) and Payroll Alliance, respectively.

The publishers of these four magazines also provide a number of complementary services, at a price, including support helpdesks to help employers with compliance questions.

The weekly [PayPerShop newsletter](#) is not a glossy magazine but a free web-based publication. It is published each Monday in UK, US and Worldwide editions and sent to subscribers by email. The UK edition provides in-depth and practical coverage of all payroll-related news from a wide range of sources, as may be seen from the links in the section of this article that summarises the current payroll issues for employers.

The PayPerShop newsletter is supported by a range of [features](#), [articles](#), Frequently Asked Questions, aimed at both [employers](#) and [employees](#), and a discussion [forum](#).

### ***Loose-leaf and electronic manuals***

Many of the options discussed so far involve keeping up-to-date with the news. However, payroll compliance is not always about keeping up with the changes. It often involves simply applying the current rules correctly. HMRC's Employer Helpline and the many documents provided on the annual CD-ROM may provide all the help you need.

Payroll manuals can also provide detailed and practical support on all current statutory requirements. They are relatively expensive but are invaluable compliance aids. The traditional loose-leaf manuals are generally also available in CD-ROM format and/or online.

Payroll manuals are generally kept up-to-date monthly, although the online versions are often updated more frequently.

The manuals currently available are:

- [Croner's Payroll Information Service](#) and newsletter
- [Consult Gee](#) (online only)
- Gee [Payroll Factbook](#) and newsletter
- Gee [Essential Facts: Payroll](#)
- IPP [Payroll Reference Manual](#) (CD-ROM only)
- Tolley's [Payroll Fact File](#)
- Tolley's [Payroll Link](#)

The manuals cost from around £105 upwards, although the Payroll Reference Manual and the Payroll Fact File are included as part of the membership package of the Institute of Payroll Professionals (IPP) and Payroll Alliance, respectively.