

## Employment taxes

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When you hire an employee in the UK, you must register and operate a payroll scheme.

This payroll scheme will be a PAYE (Pay As You Earn) scheme and must be registered with HMRC (the UK tax authorities). For further information regarding the set-up and operation of a PAYE scheme, please see our Quick Guide “**Payroll Management**”.

There are three taxes associated with a UK payroll scheme, two that affect the employee and one that affects the employer. These taxes are listed below with their corresponding rates.

Employee taxes:

PAYE (Income tax)	-	20%-45%
		(depending on earnings)
National Insurance (social security)	-	2-12%

Employer taxes:

National Insurance	-	13.8%
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As you can see above, both the employee and the employer contribute to social security in the UK.

This is illustrated in the examples below.

Gross salary	<b>£30,000.00</b>
Less: personal allowance*	-£12,500.00
Taxable salary	£17,500.00
PAYE @ 20%	£3,500.00
National Insurance @ 12%**	£ 2,460.00
Employee pension (incl tax relief of £237.60)	<u>£1,188.00</u>
<b>Employee net wage</b>	<b>£22,852.00</b>
Employers National Insurance @ 13.8%**	£2,927.26
Employers pension contribution	<u>£712.80</u>
	£ 3,640.06
<b>Total Cost to Company</b>	<b><u>£ 33,640.06</u></b>

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Gross salary	<b>£130,000.00</b>
Less: personal allowance*	-
Taxable salary	£130,000.00
PAYE @ 20%	£7,500.00
PAYE @ 40%	£37,000.00
National Insurance @ 12%**	£4,860.00
National Insurance @ 2%**	£1,600.00
Employee pension (incl tax relief of £437.60)	<u>£2,188.00</u>
<b>Employee net wage</b>	<b>£76,852.00</b>
Employers National Insurance @ 13.8%**	£16,727.26
Employers pension contribution	<u>£1,312.80</u>
	£18,040.06
<b>Total Cost to Company</b>	<b><u>£148,040.06</u></b>

\* The personal allowance is an annual allowance that is given to UK employees and is dependent upon benefits received, the tax year that it falls in etc. The default personal allowance for the tax year 2019/21 was £12,500. The personal allowance has remained the same for the 2020/21 tax year.

\*\* Earnings up to £9,500 are charged at 0% NI for employees and £8,788 for employers.

\*\*\*The personal allowance starts to decrease after £100,000 and by £125,000 is nil.

The PAYE, Employees National Insurance and Employers National Insurance payments need to be made to HMRC by the 21<sup>st</sup> of the month following the month in which they were earned if paying online.

If an employee is seconded to the UK on a work assignment, there could be NI exemptions depending on their home country.

As well as salaries, certain benefits may also be taxable in the above manner. For further information regarding this please see our Quick Guide “**Employment Tax - Provision of Benefits and Paying Employee Expenses**”.

Disclaimer:

This note does not contain a full statement of the law and it does not constitute legal advice. Please contact us if you have any questions about the information set out above.

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