Guide to Take Home Pay

Welcome to our comprehensive guide on PAYE, P60, P45, and Paying Yourself in the UK. Whether you're a business owner, an employee, or someone understanding the complexities of UK tax regulations, this guide is designed to provide you with clear and concise information to understand and manage your payroll responsibilities effectively.

Let's understand PAYE, know the significance of P60 and P45 forms, and gain insights into the process of paying yourself as a business owner. Let's dive in!

Table of Content

About GoForma

Since 2019, GoForma has been providing support for UK individuals and companies with their tax, filing and accounting needs.

We provide a highly personalised service with access to a dedicated accountant, industry specialists and bespoke software designed to reduce your admin and optimise your tax.

Learn more

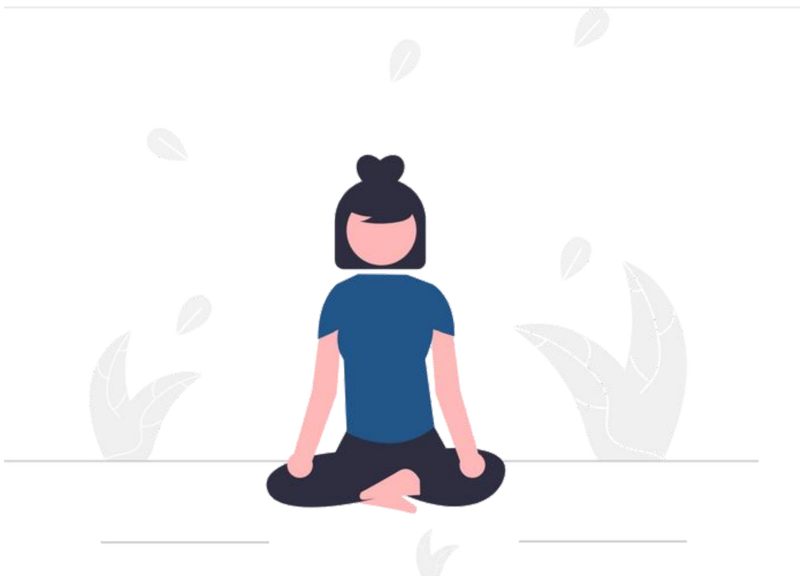
Part 1

Understanding PAYE

What is PAYE?

PAYE, or Pay As You Earn, is the system used by employers in the United Kingdom to deduct income tax and National Insurance contributions from employees' paychecks before they receive them. This means that the tax and NI contributions are deducted directly from the employees' wages or salary by the employer and then paid to HM Revenue and Customs (HMRC) on their behalf.

Under the PAYE system, employers are responsible for calculating and deducting the correct amount of tax and NI contributions based on each employee's earnings and tax code. Student loan repayments may also be deducted in this manner. This ensures that employees' tax liabilities are spread evenly throughout the tax year and helps to simplify the process of paying taxes for both employers and employees.



How does PAYE Work?

- **Tax Code:** Each employee is assigned a tax code by HMRC which is used by the employer to calculate and deduct tax from their pay.
- **Income Tax:** Employers use the tax code to calculate the amount of income tax to deduct from each pay period. This deduction is based on the employee's earnings and tax allowances.
- **National Insurance Contributions (NICs):** In addition to income tax, employees also pay National Insurance contributions. The amount deducted depends on the employee's earnings and the National Insurance category they fall into.
- **PAYE Deductions:** The income tax and National Insurance contributions are deducted from the employee's gross pay (total earnings before deductions) each pay period. This deduction is reflected in employees' payslips, which show the gross pay, deductions, and net pay (take-home pay).
- **Payment to HMRC:** Employers are responsible for collecting the income tax and NICs from their employees' pay and paying them to HMRC on their behalf. They usually do this on a monthly or weekly basis, depending on the pay frequency.
- **Reporting:** Employers are required to report their PAYE deductions to HMRC through Real Time Information (RTI) submissions, which provide details of employees' earnings and deductions.

Who Uses PAYE?

PAYE is used by:

Employers: Employers of all sizes and types, including businesses, charities, and government entities, use PAYE to deduct income tax and NICs from employees' pay.

Employees: Most employees in the UK are subject to PAYE deductions on their earnings, regardless of their employment status or the industry they work in. PAYE deductions apply to full-time, part-time, and temporary employees, as well as to individuals with multiple employments.

Benefits of PAYE for Employers

- **Compliance:** Using PAYE helps employers stay compliant with HMRC. The system ensures that the correct amount of tax and National Insurance is deducted from employees' pay and paid to HMRC on time.
- **Simplified payroll processing:** Using the PAYE streamlines payroll processing for employers by automatically calculating and deducting the correct amount of tax and NICs from employees' pay.
- **Real-time reporting:** PAYE requires employers to report payroll information to HMRC in real-time, which helps to ensure accurate and up-to-date records of tax and NICs owed by employees.
- **Employee trust:** Accurate and timely tax deductions through PAYE instill trust and satisfaction in employees. They can rely on their employer to deduct the correct amount of tax and National Insurance from their pay, which contributes to a positive employer-employee relationship.

Benefits of PAYE for Employees

- **Tax compliance:** PAYE ensures that employees' income tax obligations are met through regular deductions from their pay, reducing the risk of underpayment and associated penalties.
- **Budgeting:** PAYE provides employees with predictability and transparency regarding their take-home pay, making it easier to budget and manage their finances.
- **Access to benefits:** Contributions made through PAYE, such as National Insurance contributions, entitle employees to various state benefits, including the State Pension, Statutory Sick Pay, and Maternity Pay.
- **Reduced administrative burden:** With PAYE, employees do not need to calculate and pay their income tax separately; instead, it is automatically deducted from their pay by their employer.

PAYE when You're Self-employed

Unlike employees, self-employed individuals must complete a Self Assessment tax return and make two payments on account each year. However, you can pay your Self Assessment tax bill through PAYE if all three conditions below apply:

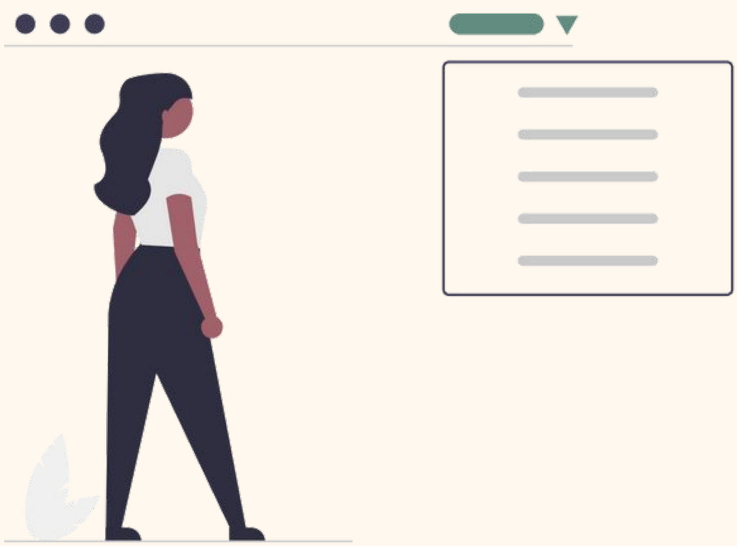
- You owe less than £3,000 on your tax bill
- You already pay tax through PAYE (such as when you're an employee or receive a company pension)
- You've submitted your paper tax return by 31 October or your online tax return online by 30 December.

When Do I Need to Register for PAYE?

As an employer, you need to register for PAYE with HMRC when one of the following factors below apply:

- You pay any employees, including company directors, £123 or more per week.
- You've hired employees who are employed elsewhere or is receiving a pension.
- Your employees get expenses or benefits.
- You hire subcontractors in the construction industry.
- Your employees received Jobseeker's allowance, employment and support allowance or incapacity benefit.

Do note that you must keep payroll records, even if you don't need to register for PAYE.



Reporting to and Paying HMRC

You'll need to report PAYE information to HMRC on or before each payday. You'll have to send another report to claim any reduction on what you owe HMRC (such as statutory pay).

Payments to HMRC are due on the 22nd of the following month for online payment and 19th if you pay by post. If you usually pay less than £1,500 per month, you may be able to make quarterly payments. These are due on the 22nd after the end of the quarter. Contact HMRC at the payment helpline to determine if you qualify for quarterly payments.

Ways to pay:

Same or next day	3 working days	4 working days
approve a payment through your online bank account	single payment Direct Debit (if you've set up one for HMRC before)	automatic Direct Debit (if you have not set up one for HMRC before)
online or telephone banking by Faster Payments or CHAPS	online or telephone banking by Bacs	
by debit or corporate credit card online	by cheque through the post	

Part 2

PAYE Forms

PAYE Forms Explained

You'll need to know about the different forms associated with PAYE. Below, we'll briefly explain what each form is for and the details it covers.

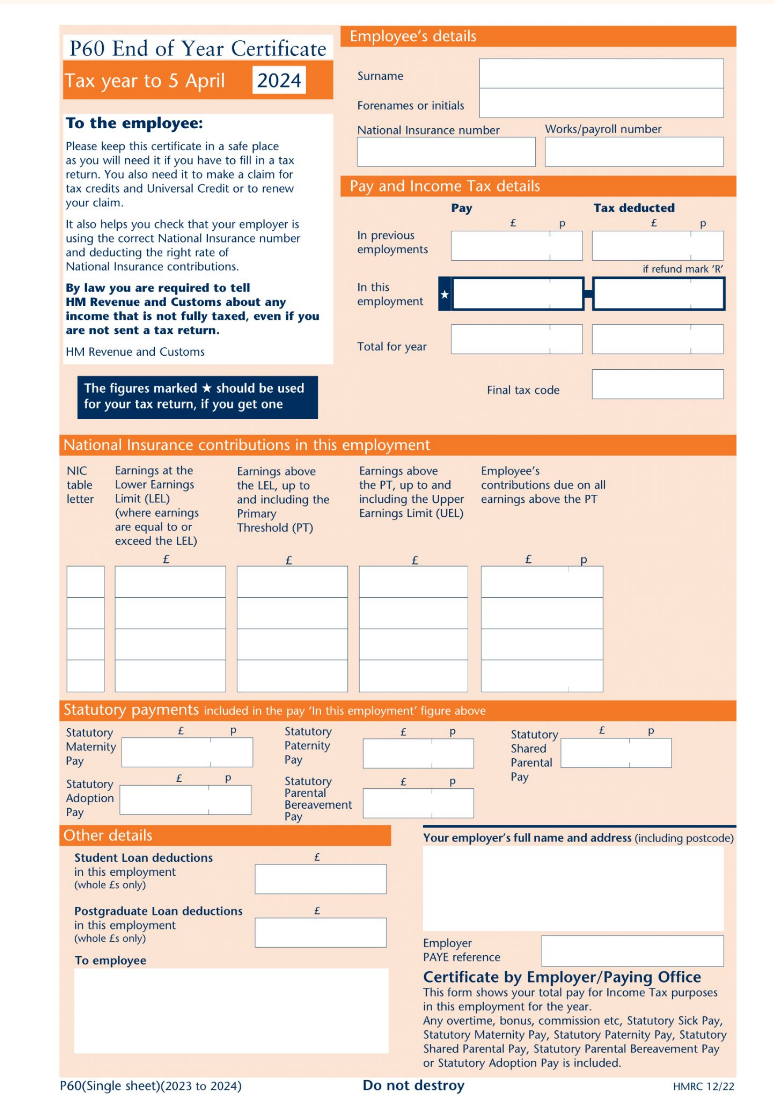
P45: A P45 form is issued to employees when they stop working for you. It shows how much the employee has paid in tax and NICs throughout the tax year.

A P45 has 4 parts (Part 1, Part 1A, Part 2 and Part 3).

- Part 1 is sent to HMRC
- Part 1A is for the employee's records
- Part 2 is given to the new employer for tax purposes
- Part 3 is kept by the employer

P60: A P60 form is an official form issued to employees on your payroll who are working for you on the last day of the tax year (5 April). The form indicates how much the employee has earned over the tax year and the amount they've paid in PAYE income tax and NICs. Employees may need their P60 for various purposes, such as applying for a mortgage or claiming tax refunds. You need to issue the P60 to your employees by 31st May each year.

If you're a limited company director, you're considered both an employer and an employee. As such, you'll have to issue yourself a P60 form.



P60 End of Year Certificate
Tax year to 5 April 2024

To the employee:

Please keep this certificate in a safe place as you will need it if you have to fill in a tax return. You also need it to make a claim for tax credits and Universal Credit or to renew your claim.

It also helps you check that your employer is using the correct National Insurance number and deducting the right rate of National Insurance contributions.

By law you are required to tell HM Revenue and Customs about any income that is not fully taxed, even if you are not sent a tax return.

HM Revenue and Customs

The figures marked ★ should be used for your tax return, if you get one

Employee's details

Surname

Forenames or initials

National Insurance number

Works/payroll number

Pay and Income Tax details

	Pay £ p	Tax deducted £ p
In previous employments		
In this employment	★	if refund mark 'R'
Total for year		

Final tax code

National Insurance contributions in this employment

NIC table letter	Earnings at the Lower Earnings Limit (LEL) (where earnings are equal to or exceed the LEL) £	Earnings above the LEL, up to and including the Primary Threshold (PT) £	Earnings above the PT, up to and including the Upper Earnings Limit (UEL) £	Employee's contributions due on all earnings above the PT £ p

Statutory payments included in the pay 'In this employment' figure above

Statutory Maternity Pay £ p

Statutory Paternity Pay £ p

Statutory Shared Parental Pay £ p

Statutory Adoption Pay £ p

Statutory Parental Bereavement Pay £ p

Other details

Student Loan deductions in this employment (whole £s only) £

Postgraduate Loan deductions in this employment (whole £s only) £

To employee

Your employer's full name and address (including postcode)

Employer PAYE reference

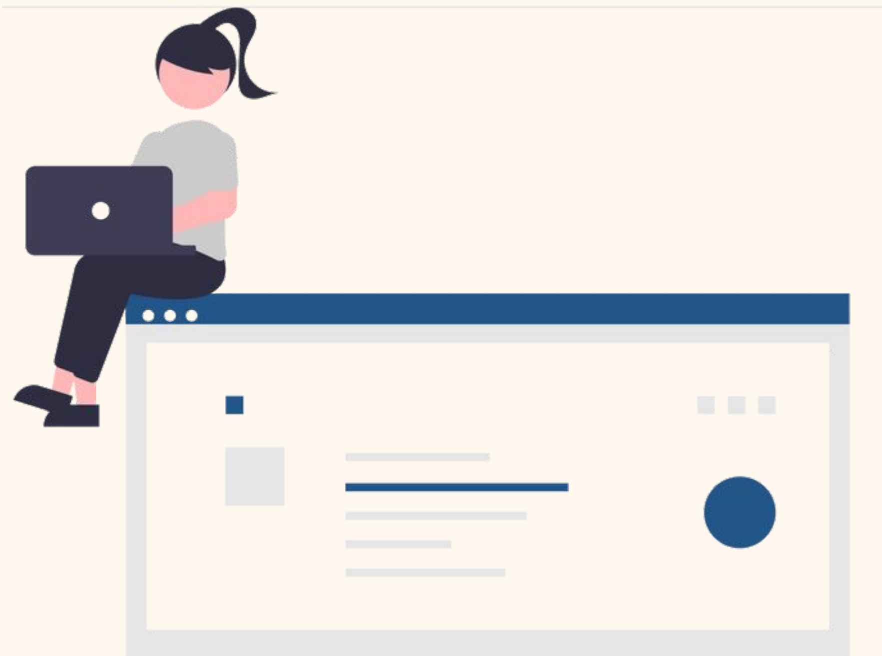
Certificate by Employer/Paying Office
This form shows your total pay for Income Tax purposes in this employment for the year.
Any overtime, bonus, commission etc, Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Shared Parental Pay, Statutory Parental Bereavement Pay or Statutory Adoption Pay is included.

P60(Single sheet)(2023 to 2024) **Do not destroy** HMRC 12/22

P11D: A P11D form is used to report taxable benefits and expenses provided to employees by their employer, such as company cars, private healthcare, or other non-cash benefits.

Employers must submit a P11D form to HMRC by July 6th following the end of the tax year, and provide a copy to the employee. If you're paying tax on all their benefits through your payroll, submitting a P11D isn't required.

P11D(b): This form is used by employers to report the total taxable value of all benefits and expenses provided to employees, as well as any Class 1A National Insurance contributions due on those benefits. It's submitted to HMRC along with the P11D forms by July 6th following the end of the tax year.



Sample P11D Form

HM Revenue & Customs

P11D Working Sheet 2
Car and car fuel benefit 2023 to 2024

Note to employer

Do not use this form if the benefits are provided under an optional remuneration arrangement. Instead use working sheet 2b. Also, read appendix 12 in tax guide '480' for guidance on how to determine the relevant amount to be treated as earnings.

You do not have to use this form but you may find it a useful way to calculate the cash equivalent for each car made available to a director or an employee for the year 2023 to 2024 (that is 6 April 2023 to 5 April 2024).

A separate form is needed for each car provided to the director or employee during 2023 to 2024.

Read the 'P11D Guide' before you complete this form. It refers to paragraphs in tax guide '480 (2024)'.

We advise you to keep a copy of each completed working sheet as it could help you to deal with enquiries. You do not have to give a copy of the completed working sheet to the director or employee. Do not send a copy to HM Revenue and Customs.

You must fill in forms P11D and 'P11D(b) Return of Class 1A National Insurance contributions due' whether or not you use this form to calculate car and car fuel benefits.

The term employee is used to cover both directors and employees throughout the rest of this form.

To avoid completing P11D forms, you can payroll car and car fuel benefit for future tax years online. For more information, go to www.gov.uk/guidance/paying-your-employees-expenses-and-benefits-through-your-payroll

Employer details

Employer name

Employer PAYE reference

Employee details

Employee name

Surname

First names

Works number or department

National Insurance number

Make and model of car available to employee

Date the car was first registered / /

Was this the only car made available to the employee? Yes ☐ No ☐

If 'No' please make sure that working sheets are completed for each car made available to the employee in 2023 to 2024.

If more than one working sheet 2 is completed for this employee, enter the number of sheets here

1 List price of the car

Complete box A as follows:

- enter the list price of the car as published by its manufacturer, importer or distributor
- if the car had no list price when it was first registered you need to enter the notional price – that is, the price which might reasonably be expected to be its list price on that date if the car's manufacturer, importer or distributor had published a list price for an equivalent car for a single retail sale in the UK
- if the car is a classic car, enter the price that the car might reasonably be expected to fetch if you sold it on the open market on 5 April 2024
- if the car is a classic car and was unavailable to the employee on 5 April 2024 then use the last day in the tax year 2023 to 2024 that it was available to the employee – for this purpose, assume that all the qualifying accessories available on the car are included in the sale

A classic car is one which:

- is at least 15 years old on 5 April 2024
- has a market value of at least £15,000
- has a market value which is higher than the original list or notional price (including accessories)

Price of the car including standard accessories **A** £

2 Accessories

Price of all accessories read the 'P11D Guide' and tax guide '480 (2024)' **B** £

A + B **C** £

3 Capital contributions

Capital contributions made by the employee towards the cost of the car or the accessories max £5,000 **D** £

4 The price used to calculate the car benefit charge for 2023 to 2024

C minus D **E** £

P11D WS2 (2024) HMRC 04/24

1

Part 3

Paying Yourself as a Sole Trader

Paying Yourself as a Sole Trader

As a sole trader, paying yourself involves managing your personal finances alongside your business income. Unlike employees who receive a regular paycheck, sole traders have more flexibility in how they pay themselves. Here's a detailed breakdown of how to pay yourself as a sole trader:

1. Separate Business and Personal Finances: It's essential to keep your business finances separate from your personal finances. This means having a dedicated business bank account as you'll need to keep records of these drawings and your sales and expenses.

2. Determine a Salary or Draw: Sole traders typically take money out of their business in two ways: salary and draws. A salary is a fixed amount paid to yourself regularly, similar to how an employee is paid. Draws, on the other hand, involve taking out money from your business account as needed.

3. Set a Reasonable Salary: When deciding on a salary, consider factors such as your business's profitability, industry standards, and your personal financial needs. Keep a balance between paying yourself a fair wage and ensuring your business has enough funds for growth and emergencies.

4. Keep Track of Business Profits: Monitoring your business profits regularly allows you to make informed decisions about how much to pay yourself.
5. Consider Tax Implications: As a sole trader, you're responsible for paying income tax and National Insurance contributions on your business profits. Be sure to set aside a portion of your earnings to cover these taxes. Consulting with a sole trader accountant can help you understand your tax obligations and optimize your salary structure for tax efficiency.

Tax Obligations as a Sole Trader

1.Income Tax: As a sole trader, you are required to pay income tax on your business profits. Business profits are calculated by deducting allowable business expenses from your total income. The remaining amount is subject to income tax at the applicable tax rates.

2. **National Insurance Contributions (NICs):** Sole traders are also liable to pay Class 2 and Class 4 National Insurance contributions on their profits.

3. **Self-Assessment Tax Return:** To report your income and calculate the tax and NICs you owe, you must complete a Self-Assessment tax return each year. This includes declaring your business income, deducting allowable expenses, and calculating your tax liability.

4. Allowable Expenses: Sole traders can deduct certain business expenses from their total income before calculating their taxable profits. Keeping accurate records of your expenses is essential to ensure you claim all eligible deductions.

5. **Payments on Account:** If your tax bill exceeds £1,000 for the tax year, HMRC may require you to make payments on account towards your next tax bill. Payments on account are due in two instalments: by January 31st and July 31st following the end of the tax year.

6. Capital Gains Tax: If you sell or dispose of assets used in your business, such as property or equipment, you may be liable for Capital Gains Tax on any profit made. The rate of Capital Gains Tax depends on your total taxable income and the type of asset sold.
7. VAT (Value Added Tax): If your business's taxable turnover exceeds the VAT registration threshold (currently £90,000), you must register for VAT and charge VAT on your goods and services.
VAT-registered sole traders must also submit VAT returns to HMRC.

Calculating Sole Trader Income Tax

As a sole trader, your income tax is calculated the same way as if you were employed. For the 2024/25 tax year, the income tax rates and bands are:

Tax Band	Tax Rate	Income
Allowance	0%	£12,570
Basic tax rate	20%	From £12,571 to £50,270
Higher tax rate	40%	From £50,271 to £125,140
Additional tax rate	45%	Above £125,140

Keep in mind that the tax rate applies only on the amount that falls between the brackets, and not your entire profit.

Example:
Income tax on a profit of £75,00:

No tax is paid on £12,570
Basic rate: £50,270 - £12,570 = £37,700.
20% x £37,700 = £7,540
Higher rate: £75,000 - £50,270 = £24,730.
40% x £24,730 = £9,892
Total income tax = £7,540 + £9892 = £17,432

Calculating Class 2 NICs

Profits above £6,725:

Class 2 contributions are treated as having been paid to protect your National Insurance record. This means you do not have to pay Class 2 contributions.

Profits less than £6,725:

You do not have to pay anything but you can choose to pay voluntary Class 2 contributions.

Class 2 NICs are at a fixed weekly amount of £3.45 per week (for the 2024/25 tax year).

These payments are calculated based on the number of weeks you've been self-employed in the tax year. For instance, if you became self-employed on 1 January 2024, you'll pay a total of £48.30 - the sum of 14 weeks of Class 2 payments starting from 1 January 2024 until 5 April 2025 (the end of the tax year).

Calculating Class 4 NICs

Class 4 NICs are calculated based on your self-employed profits.

You'll need to make Class 4 payments of 6% on profits between £12,570 and £50,270 (for the 2024/25 tax year). If your profits are above the upper profits limit of £50,270 (for the 2024/25 tax year), you'll pay a lower rate of 2% on profits.

Calculating Taxes Being Employee as well as Self-employed

Running a business or freelancing on the side in addition to holding down a full-time job? Here's how your taxes are calculated:

Income tax is calculated on the total amount you earn, so you'll need to sum up your salary from your full-time role and profits you earn as a self-employed worker.

Example:

Individual earning a full-time salary of £30,000 and sole trader profits amounting to £15,000:

Total income: £30,000 + £15,000 = £45,000
No tax is paid on £12,570 (personal allowance)
Total taxable Income: £45,000 - £12,570 = £32,430
Basic Rate: £50,270 - £12,570 = £37,700. As the individual's total taxable income (£32,430) falls under the basic rate income band, the total income tax paid will be: 20% x £32,430 = £6,486

Important Deadlines

Self Assessment Tax Return:

- **5 October:** Deadline for registering for Self Assessment for the first time
- **31 October:** Deadline for Self Assessment paper tax return
- **31 January:** Deadline for Self Assessment online tax return and tax payment due
- **31 July:** Second payment deadline, if you make advance payments towards your bill (known as 'payments on account').

VAT:

- Register for VAT within 30 days of fulfilling the conditions that makes VAT registration compulsory.
- Submit your VAT return online every quarter, even if you don't have VAT to pay or reclaim.
- Submit a VAT return and make payments one month and seven days after the end of a VAT period

Construction Industry Scheme (CIS):

If you're a CIS contractor, you need to send your monthly returns to HMRC by the 19th of each month, , followed by payments made by 22nd of each month.

Penalties

If you miss the deadline of tax return or fail to pay your bill on time, you'll get penalties.

If your tax return is up to 3 months late, you'll incur a late filing penalty of £100. The penalty increases if your return is even later or if you delay paying your tax bill.

You'll be charged interest on late payments.

You can estimate your penalty for Self Assessment tax returns that are more than 3 months late and for late payments.

However, if you have a reasonable excuse for missing the deadline or payment, you can appeal against the penalty.

Part 4

Paying Yourself as a Limited Company Director

Paying Yourself as a Limited Company Director

As a limited company director, there are two main ways in which you can take money out of your limited company: taking a salary or drawing dividends.

1. Taking a Salary: As the director of a limited company, you're also considered an employee. As such, any salary you draw will be paid through the PAYE scheme -similar to how other company employees will receive their pay.

You'll run a payroll, report to HMRC and receive your salary (after taxes have been deducted at source).

2. Dividends: A dividend is a payment of profit that a limited company distributes to its shareholders.

While dividends can be drawn at any frequency across the year - as long as there are sufficient distributable profits - payments are typically made monthly or quarterly.

Drawing a Salary

Advantages:

- You can draw a salary even if your company doesn't make a profit
- A salary is an allowable business expense, so you'll reduce the corporation tax your company pays
- You build up qualifying years towards your state pension
- You can make higher personal pension contributions
- You qualify for maternal benefits. Dividend income doesn't count towards your average earnings for Statutory Maternity Pay (SMP) or Maternity Allowance.
- A salary provides you with a stable and predictable income, allowing you to plan your personal finances more effectively.

Disadvantages:

- Dividend tax rates are lower than income tax rates
- Depending on the salary you draw, you and your company may need to pay NICs.
- Paying yourself a salary involves additional administrative tasks which can be time-consuming and may require the assistance of accountants.

How much should I Take as a Salary?

It would be best to consider important tax implications when you're deciding on the amount you should draw as a salary.

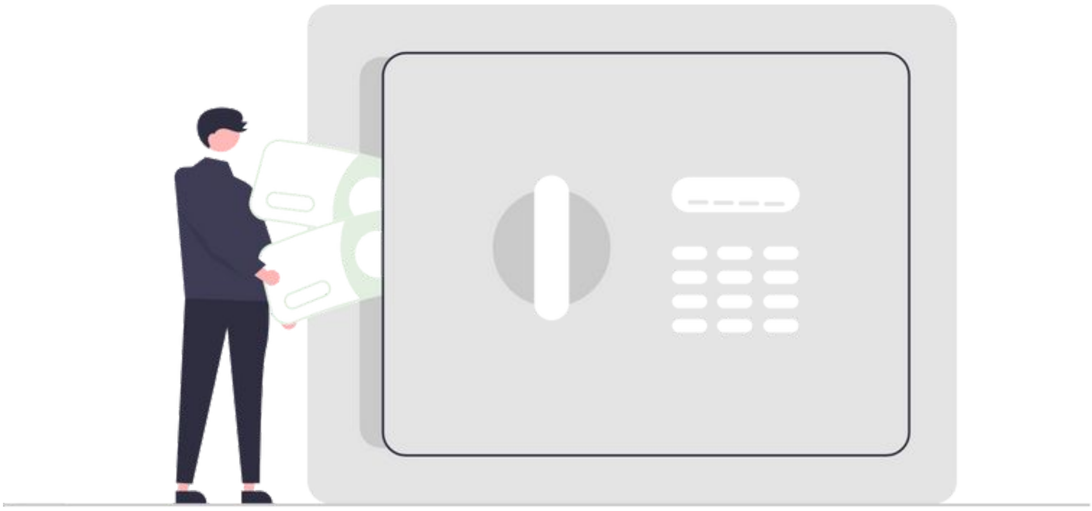
Income tax: You won't pay income tax on your salary if it falls below £12,570 - the Personal Allowance for the 2024/25 tax year. Do note that income tax is calculated on a cumulative basis. For instance, if you've earned £5,000 from other forms of employment, your Personal Allowance will be = £12,570 - £5,000 = £7,570.

Employee NICs: You need to pay NICs if your salary is above the Primary National Insurance threshold of £9,500 per annum (for the 2020/21 tax year)

Employer NICs: Your company will pay 13.8% employer's NICs on employee salaries above the secondary threshold (£169 per week for the 2024/25 tax year). This applies even if you're the sole employee and director of a limited company.

Pension: The salary you draw will also affect your pension entitlement. To maintain your State Pension contribution record, you'll need to draw a salary above the Lower Earnings Limit (set at £6,240 per annum for the 2024/25 tax year).

And if you're making contributions to a personal or executive pension scheme, you'll have to check in with your accountant on whether there are any minimum salary requirements.



Dividends

How are dividends issued?

To make a dividend payment, you must:

- hold a directors' meeting to 'declare' the dividend
- keep minutes of the meeting, even if you're the only director

You'll need to have the correct dividend paperwork in place. For every dividend payment made, a dividend voucher must be issued with the following details:

- date
- company name
- names of the shareholders being paid a dividend
- amount of the dividend

Each recipient must receive a copy of the voucher. A copy should also be kept for your company's records.

Two common types of dividends:

Final dividends are declared at the end of a fiscal year after all year-end financial statements have been recorded and reported during the Annual General Meeting. It is typically paid on an annual basis.

Interim dividends are dividend payments made before a business's year-end financial statements are released. Interim dividends can be paid at any time across the year and are typically a smaller payout than the final dividend.

Dividend Taxes, Rates and Allowances

There is no corporation tax levied on dividend payments. Depending on the amount of dividends paid out, each recipient may be required to pay dividend tax. According to HMRC, this refers to the rates by which those dividends are taxed. Each year, these tax rates may differ.

Dividend tax rates and thresholds for the 2024/25 tax year:

Tax Band	Tax rate on dividends over the allowance
Basic tax rate	8.75%
Higher tax rate	33.75%
Additional tax rate	39.35%

Dividend allowance: A dividend allowance of £500 is provided for the 24/25 tax year. This means that you'll only pay tax on dividends exceeding that amount.

Calculating Dividend Tax Example

A limited company director draws a salary of £9,500 (the National Insurance primary threshold for the 2020/21 tax year) and receives dividends amounting to £55,000.

Total income = £9,500 + £55,000 = £64,500
First £9,500 = Falls under personal allowance. No tax paid.
Next £3,000 = Falls under personal allowance. No tax paid.
Next £2,000 = Falls under dividend allowance. No tax paid.
Next £35,500 falls under the basic rate of dividend tax.
£35,500 x 7.5% = £2662.50
£55,000 - £35,500 - £2,000 - £3,000 = £14,500. This amount falls under the additional rate of dividend tax.
£14,500 x 32.5% = £4,712.50
Total dividend tax = £4,712.50 + £2662.50 = £7,375

Part 5

Accounting Support in the UK

- Free Accounting Consultation
- Hire a Sole Trader Accountant
- Hire a Limited Company Accountant
- Why GoForma?

Accounting Support by GoForma

Schedule a Free Consultation:

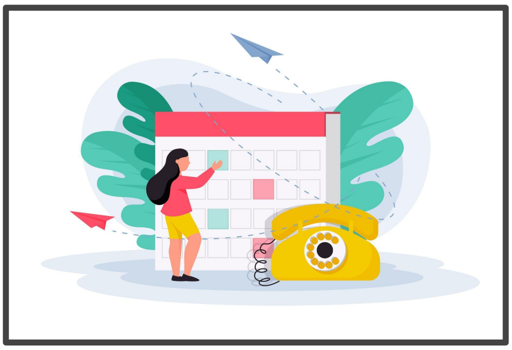
We can help walk answer any general UK accounting related questions you may have in a free 20 minute consultation.

Hire a Sole Trader Accountant:

Ready to streamline your sole trader accounting and ensure compliance with tax regulations? Hire our expert lsole trader accountants today, and maximise your business's potential.

Hire a Limited Company Accountant:

Ready to streamline your limited company's accounting and ensure compliance with tax regulations? Hire our expert limited company accountants today, and maximise your limited company's potential.



Book a free self-employed accounting consultation

Schedule a call

Why GoForma?

Some of the key reasons to use GoForma:

- Unlimited bookable support with a dedicated accountant
- Personal tax support for self assessment filing, sole trader accounting, limited company accounting and more
- Business accounting support for Limited Companies, Sole Traders and Umbrella Companies
- 20+ unique partner offers on insurance, banking and software
- All your HMRC and Companies House filing sorted

100+ 5 star reviews on Trustpilot and Google:

★★★★★

The team at GoForma are very responsive and nothing ever seems like too much trouble for the team.

★★★★★

Incredibly friendly, knowledgable and transparent advice from Jawad. Such a pleasure to chat with him.

★★★★★

I could not be more happy about our experience with GoForma. We had many quotes from other accountants before choosing GoForma, but nobody gave us such a professional impression