



Indie Dev' Guide

Payroll and Workplace Pensions

Introduction

Many start-ups will begin with one or two directors and no other employees. The minimum wage rules do not apply to directors of UK Limited companies, which allows them to have extra flexibility over payroll.

Taking on your first employee is a big step and there are a number of matters you will need to consider.

The government have introduced work place pension schemes (auto enrolment) for all businesses, which may come at a cost to your company and with an administrative burden.

Director only companies

When a company only has directors (who by default are employees), there is not an automatic requirement to set up a Pay As You Earn (PAYE) scheme. Directors do not have to be remunerated by way of salary and where this is the case and the director is also a shareholder, they could be remunerated purely by way of dividends. This method can be more tax efficient and cost effective, but is not always the most appropriate way to be remunerated.

Often director only companies will pay the director a basic salary equivalent to the National Insurance Primary Threshold for that particular tax year. For 2019/20 this threshold is £8,632. At this level, there are no National Insurance deductions and there should be no income tax due, as it is less than their personal allowance (currently £12,500). The company saves corporation tax on the salary paid (currently 19% @ £8,632= £1,640). The director also receives their annual credit towards their state pension.

It should be noted, that just because a salary is processed, it does not mean the director must pay themselves the salary. They could credit this to their director's loan account and withdraw it at a later date tax-free, when there are funds to do so. This has the benefit of helping cash-flow, whilst also obtaining the corporation tax relief.

It is important to consider whether a higher level of salary is more appropriate. There are several reasons this may be preferred including:

- Certainty over your level of income each month. Dividends can only be paid when there are sufficient posttax profits available and in the early stages of a business, profit can be difficult to predict
- A higher level of taxable income, when dividends are uncertain, may help with obtaining mortgages
- Increased value of R&D and Video Games Tax Relief claims, because only salary qualifies and not dividends



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Employees

In the early stages of a business, it is common to use freelancers (subcontractors) to help complete certain projects. This is because freelancers, can be used for a fixed amount of time at a fixed rate and also because it enables the business to bring in specialist skills as and when required, without attracting the administrative and financial burden of employing someone.

As the business grows, it is likely that at some point the company will look to take on its first employee. An employee works under an employment contract with your company. An employee has employment rights, which include some of the following, some of which require a minimum length of service:

- Statutory sick pay, statutory maternity and paternity pay
- Minimum notice periods if their employment will be ending
- Protection against unfair dismissal
- Statutory Redundancy Pay

There are a number of matters to consider when taking on your first employee including:

- How much the employee will be paid, the Employers NI and Pension liability
- Obtaining Employers' liability insurance
- Notifying HMRC by registering as an employer

It is recommended that you take specialist advice when taking on employees.

Workplace pensions

The government have introduced a legal requirement for all employers to offer a workplace pension scheme. The employee, the employer and the government will pay into the employees' pension, if they are enrolled into a workplace scheme.

Director only companies can claim exemption from this legal requirement, but they must actively do so by contacting The Pensions Regulator and submitting this request. Claiming exemption will avoid the need to set up a scheme and subsequently "opt-out", if they do not wish to pay into a pension and have the administrative burden of running this. Exemption does not prevent the director from setting up a company pension scheme.

Once the company has employees, the employer must automatically enrol the employees into a pension scheme and make contributions to their pension if they:

- are aged between 22 and State Pension age
- earn at least £10,000 per year
- work in the UK

It is recommended that you take specialist advice when considering workplace pensions.

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