



UNIT-6

Payroll Accounting/ Terminology

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Understand what Payroll is?
- ✓ Understand the difference between Gross wages and Net wages
- ✓ Understand what is Basic Payroll Terminology?

Unit 6

Payroll Accounting / Terminology

In this unit, we will be discussing many terms which involve dealing with the financial aspects of your business. We will also be discussing the accounting methods and terms used in reference to your employees, by briefly going over the following terms: gross wages, net wages, employee tax withholdings, employer tax expenses, salary deferrals, employee payroll, employee benefits, tracking accrued leave, and government payroll returns and reports.



Gross Wages

The amount of compensation paid to employees for work before taxes have been removed. The gross wage is based on the number of hours worked multiplied by the rate of pay per hour. Hourly wages are usually paid to those in non-managerial positions as well as other positions.



Net Wages

The amount of compensation paid to employees for work after taxes have been removed. The net wage is based on the number of hours worked multiplied by the rate of pay per hour (gross wage) minus taxes and other fees. Hourly wages are usually paid to those in non-managerial positions as well as other positions.



Employer Tax Expenses

There are specific rules for payroll and taxation in the UK that must be complied with by all types of companies. The primary concerns for a foreign company that needs to comply with tax laws in the UK are: individual income tax for employees in the UK, social security costs, payroll tax, VAT, National insurance, Employer's liability insurance, corporation tax and permanent establishment concerns.



Employee Payroll

The wages paid to any employee who performs work for an entity and is paid directly by that entity is an employee of that entity and is on its payroll. It is important for a business to keep very accurate records of all wages paid to employees mainly for tax purposes. Whether the pay occurs weekly, monthly, or just periodically, it is all considered part of an employee payroll.



Employee Benefits

Employer-provided compensation received by employees in addition to wages or salary. Such compensation includes but is not limited to health care, child care, and life insurance. These benefits, also known as fringe benefits are meant to increase the economic security of employees.



Tracking Accrued Leave

Leave that has been earned and taken should be tracked at the end of each month. Vacation days that have not yet been taken are a liability to the business until they are taken. A business should keep accurate records of all days taken off and/or vacation days fulfilled by its employees.



Government Payroll Returns/Reports

Payroll returns are those that are required to be submitted with one's payroll tax. It must be submitted within a certain timeframe known as the return period.



Basic Payroll Terminology

| Acronym / Term | Meaning | Comment |
|----------------|--|--|
| 480 | Expenses and benefits – A tax guide | The HMRC collection of P11D processing guides, now housed online |
| 490 | Employee travel – A tax and NICs guide for employers | The HMRC collection covering tax and NICs on employee travel |
| APP | Appropriate Personal Pension | A personal pension scheme |
| AML | Additional Maternity Leave | The 26-week statutory entitlement that follows Ordinary Maternity Leave (OML) |
| AML | Anti-money Laundering | For some businesses in the financial sector who may need to register with an anti-money laundering scheme |
| APL | Additional Paternity Leave | Now abolished |
| AVC | Additional Voluntary Contribution | In respect of pension – where the employee chooses to pay more into their pension scheme |
| AWE | Average Weekly Earnings | A calculation relevant for determining eligibility and rate of payment for statutory payments (SSP, SMP etc) |
| BIS | Department for Business, Innovation and Skills | Government department for economic growth – abolished July 2016 |
| BPT | HMRC's Basic PAYE Tool | A free piece of HMRC payroll software that allows employers to run payroll, calculate payroll deductions and report in real time |

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| BR | Basic Rate | In relation to income tax, a tax code indicating that all income is to be taxed at the basic rate (for UK taxpayers) |
| BSP | Basic State Pension | The BSP is a regular payment from the government if State Pension age (SPa) is reached before 6 April 2016. Applies to: Men born before 05 April 1951 Women born before 05 April 1953 |
| CA37 | Simplified National Insurance Tables | For some employers where HMRC have advised them to operate simplified PAYE |
| CA38 | Standard Rate National Insurance Contributions (NICs) Tables | For letters A, H, J, M and Z |
| CA40 | NICs Tables for employee-only Contributions | For use when authorised by HMRC |
| CA44 | NICs guidance for company directors | As company directors can pay NICs using an annual threshold rather than on a per- pay-period basis |
| CBR | (Cymru) Basic Rate | In relation to income tax, a tax code indicating that all income is to be taxed at the basic rate (applying to Welsh taxpayers) |
| CCV | Childcare Vouchers | A form of Employer-Supported Childcare with tax and NICs relief. Closed to new entrants from the 4 th of October 2018 but still operated for those in the scheme at this time |
| CIS | Construction Industry Scheme | A taxation system for construction workers (different to PAYE for employees) |
| CJRS | Coronavirus Job Retention Scheme | A UK-wide HM Treasury / HMRC scheme to cover some of the costs of employment when an employee is furloughed as a result of COVID-19 |
| Class 1 | In relation to NICs | This is the only NICs that can be collected through the payroll as part of the PAYE process |
| Class 1A | In relation to NICs | Secondary NICs on benefits-in-kind |
| Class 1B | In relation to NICs | Secondary NICs payable on the value of benefits and tax under a PSA |
| Class 2 | In relation to NICs | The flat rate Primary NICs payable by the self-employed |
| COP | Computerisation of PAYE | The previous HMRC PAYE system, now NPS |
| CPD | Continuing Professional Development | An activity where an individual undertakes a task that contributes to their continuing learning in a profession |
| CTAEO | Council Tax Attachment of Earnings Order | Issued for non-payment of Council Tax |
| CWG2 | Employers' Further Guide to PAYE and NICs booklet | HMRC manual with more in-depth information for employers |

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| DP | Data Protection | As per the UK Data Protection Act 2018 |
| DWP | Department for Work and Pensions | The UK body responsible for welfare, pensions and child maintenance policy – mainly Great Britain |
| ECOS | Employee Car Ownership Scheme | A “tax efficient scheme” where the employee owns their vehicle from day one |
| EPS | Employer Payment Summary | The RTI submission that declares, amongst other things, recoveries that an employer can make for SMP, SAP etc. |
| ERA | Employment Rights Act (1996) | The major piece of employment legislation in Great Britain |
| ERO | Employment Rights Order (1996) | The major piece of employment legislation in Northern Ireland |
| ESA | Employment Support Allowance | A benefit paid by Job CentrePlus in Great Britain and the DFC in Northern Ireland |
| ESC | Employer-Supported Childcare | A mechanism whereby employers can help employees with childcare costs, commonly provided via the CCV. Abolished for new entrants on or after the 4 th of October 2018 |
| ESFA | Education and Skills Funding Agency | Agency, sponsored by the Department for Education in England, accountable for funding education and skills for children, young people and adults |
| FET | Fair Employment Tribunal | In Northern Ireland, this could be said to be the equivalent of the EAT in Great Britain |
| FPCS | Fixed Profit Car Scheme | A scheme allowing car owners to claim a standard rate for business mileage. |
| FPS | Full Payment Submission | The main RTI submission reporting details of what has been paid in that pay period (plus YTD values) |
| FOI | Freedom of Information | As per the FOI Act 2000 (UK) |
| Furlough | In relation to COVID-19 and the CJRS | An employment status where the employer and individual mutually-agree that no work will be performed under the contract of employment |
| GAYE | Give As You Earn | An employer-provided mechanism whereby an employee has deductions made free of tax, donated to charity |
| GDPR | General Data Protection Regulation | An EU data protection Regulation governing the processing of personal data and the free movement of such data. Effective the 25 th of May 2018 |
| GHIC | Global Health Insurance Card | Post EHIC expiry, the card which, upon issue, gives an individual the right to access state-provided healthcare during a temporary stay in the EU |
| GMP | Guaranteed Minimum Pension | Broadly, the minimum pension which a UK occupational pension scheme has to provide employees who were contracted out of SERPS between the 6 th of April 1978 and 5 th of April 1997 |

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| GPGR | Gender Pay Gap Reporting | From 2017, the 6 “reports” or 14 pieces of separate information designed to expose whether women are paid less than men in a company |
| GPP | Group Personal Pension | A type of occupational pension arrangement |
| HMCTS | Her Majesty’s Courts and Tribunal Service | Created 1 st of April 2011 and responsible for the administration of the courts of England and Wales, the Probate Service and tribunals in England and Wales and non-devolved tribunals in Scotland and Northern Ireland |
| HMRC | Her Majesty’s Revenue and Customs | Created in 2006 following a merger of the Inland Revenue with HM Customs and Excise |
| ITA | Income Tax Act 2007 | The primary Act of Parliament concerning income tax paid by UK earners |
| ITT | Invitation to Tender | Terminology that would be used when an organisation invites 3rd party providers to supply documentation in an attempt to win a contract |
| JSA | Jobseeker’s Allowance | Paid by Job CentrePlus |
| KPI | Key Performance Indicators | An employer may monitor an employee or department’s performance by setting KPIs |
| LEL | Lower Earnings Limit | The first threshold of NI’able earnings that must be recorded |
| LGPS | Local Government Pension Scheme | The statutory public service pension scheme |
| MA | Maternity Allowance | An allowance that might be paid if the woman does not qualify for SMP. Paid by Job CentrePlus in Great Britain and DFC in Northern Ireland |
| MLP | Maternity Leave Period | The period a woman is entitled to or utilising her maternity leave entitlement |
| MPP | Maternity Pay Period | The period during a woman is entitled to receive or is receiving SMP |
| NI | Northern Ireland | A separate country in the UK |
| NICs | National Insurance Contributions | The monetary value of Social Security contributions (either through or outside payroll) |
| NICO | National Insurance Contributions Office | Part of HMRC in Newcastle |
| NINO | National Insurance Number | The unique reference number issued by the DWP via Job CentrePlus |
| NLW | National Living Wage | Effective April 2016, the minimum rate that must be paid to workers over 23 (from April 2021) |
| NMW | National Minimum Wage | The minimum rate that must be paid to workers under 23 (from April 2021) |
| NSP | New State Pension | The new UK State pension system for individuals reaching SPa on or after the 6 th of April 2016. The NSP is payable for: <ul style="list-style-type: none"> • a man born on or after 6th April 1951 |

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| | | <ul style="list-style-type: none"> a woman born on or after 6th April 1953 |
| OAL | Ordinary Adoption Leave | The first 26 weeks |
| OML | Ordinary Maternity Leave | The first 26 weeks of maternity leave, including CML |
| OAP | Occupational Adoption Pay | An enhancement to SAP |
| OMP | Occupational Maternity Pay | An enhancement to SMP |
| OPP | Occupational Paternity Pay | An enhancement to SPP |
| OSP | Occupational Sick Pay | An enhancement to SSP |
| P2 | In-year tax code notification to individuals | Showing how the tax code is calculated by HMRC |
| P6 | In-year tax code notification to employers | Showing only the tax code and basis |
| P6T | Tax information guidance following a Budget | For reference only |
| P9 | Start of year tax code notification to employers | The employee will receive any notification of a change of tax code via the P2 |
| P9D | Return of employee's expenses payments and benefits paid during the tax year | Where the employee earned at a rate of less than £8,500 in the tax year. Abolished 6 th of April 2016 |
| P9X | Global tax code uplift notification to employers | Details of which tax codes employers must change and how to change them ready for the new tax year on 6 th of April |
| P11D | Return of employee's expenses payments and benefits paid during the tax year | Issued to employee and HMRC on or before the 6 th of July following the end of the tax year |
| P14 | End of year PAYE and NICs reconciliation form – one per PAYE employee | Now largely obsolete - this can only be used for the small number of employers that are not obliged to operate RTI. The P35 used to be the accumulation of all of the P14s |
| P35 | End of year PAYE and NICs reconciliation form – one per PAYE reference number | Now largely obsolete - this can only be used for the small number of employers that are not obliged to operate RTI |
| P45 | Leaver statement of pay and tax | 3-part form given to an employee when they leave a job to be given to the new employer (parts 1A, 2 and 3). Part 1 is filed by payroll software to HMRC |
| PAYE | Pay As You Earn | The system by which HMRC collect the annual tax liability on a per-pay-period basis |
| PPF | Pension Protection Fund | A statutory UK fund intended to protect members if their defined benefits pension fund becomes insolvent. |
| PPP | Paternity Pay Period | The period for which SPP is payable |

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| PSA | PAYE Settlement Agreement | Where the company enters into an arrangement with HMRC to meet the tax on a benefit-in-kind provided to an employee |
| S2P | State Second Pension | Aka the Additional State Pension which replaced SERPS on the 6 th of April 2002. It was abolished on the 6 th of April 2016 |
| SAL | Statutory Adoption Leave | The employee's statutory right to take time away from the workplace as a result of adoption |
| SAP | Statutory Adoption Pay | An in-work State benefit paid by the employer to the primary adopter |
| SIT | Scottish Income Tax | As per the Scotland Act 2016, the tax sharing regime that replaced SRIT for Scottish Taxpayers |
| SME | Small and Medium-sized Enterprises | The usual definition of a SME is a business with fewer than 250 employees |
| SPa | State Pension age | 65 for men, gradually increasing from 60 to 65 for women by 2020 and then increases to 66 and 67 |
| TFC | Tax-Free Childcare | Government childcare scheme introduced throughout 2017, eventually replacing ESC |
| TOIL | Time Off in Lieu | An arrangement where an individual works extra hours but is given time off rather than payment |

Further Reading:

- ✓ *Nishat Azmat, Andy Lymer, (2019), Basic Accounting: The step by step course in elementary accountancy (Paperback).*
- ✓ *Ted Wainwan, (2015), How To Talk Finance: Getting to grips with the numbers in business (Paperback).*

