



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

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

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

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

		<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

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).*

