New employer starter guide

A guide to setting up payroll when a business employs somebody for the first time

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Setting up

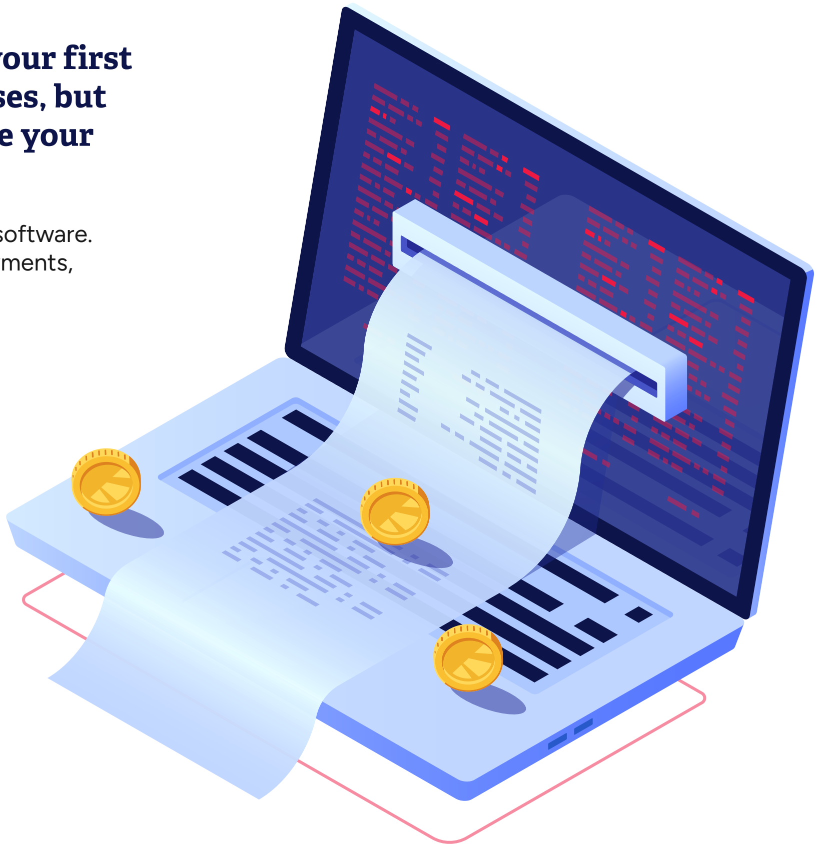
Setting up your payroll processes to support your first employee is often a daunting time for businesses, but with some careful consideration, you can make your life much easier.

You will need to consider what you need to get from your payroll software. Will you want it to produce pay slips, make automatic pension payments, automatically update HMRC or do it all?

Another consideration could be that you want HMRC-recognised software. This can make legal compliance much easier.

When deciding on your payroll processes, you need to decide what will work best for your business.

A successful payroll set up can help make processes repeatable for all future runs and should be easily scalable as the business grows.



Gathering employee information

Employee information is really important when you are enrolling them into many processes associated with payroll.

Employers should collect this information early, as this can prevent delays in employees receiving their salary and reporting issues when the first payroll run approaches.

You should gather:

- Full name and address
- Date of birth
- National Insurance number
- Bank details
- Start date
- Rates of pay
- Working hours and employment status
- Tax information, such as a P45 or any student loans
- Workplace pension details

Once the information has been gathered, it should be stored in a secure way as to not breach UK GDPR and data laws.

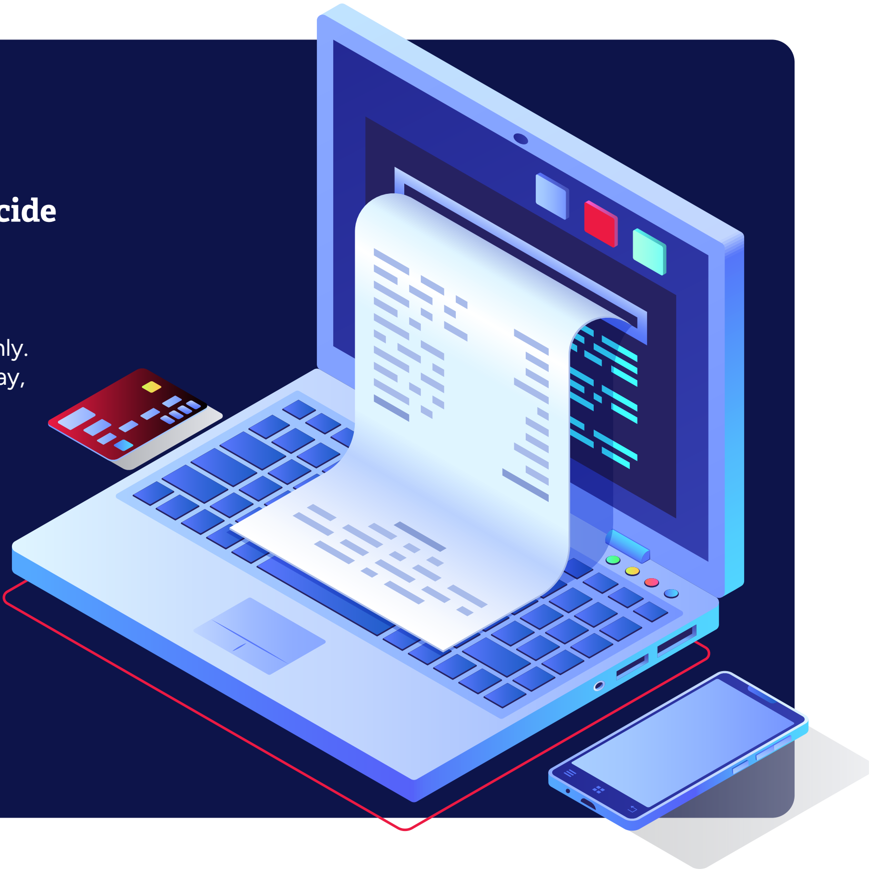
Choosing a payday

Before the first payday, you will need to decide the frequency of paydays, including how payments will fall.

Some employers choose to pay weekly, four weekly or monthly. It is important to remember that the more frequent the payday, the more often payroll processes will have to be completed.

This decision is likely to be based on the type of workforce you have. For example, salaried employees tend to be paid monthly while shift workers tend to be paid more frequently.

Once you have decided on a date, you can then work backwards to decide on pay cut-offs. This ensures that all payroll is processed and approved in time for payday.



Paying the right wage

For many businesses, the National Minimum Wage (NMW) and National Living Wage (NLW) are one of the most complicated areas of payroll.

As the NMW changes from year to year, it is important to have processes in place to ensure that you are abiding by the law on the minimum amount you pay employees.

Employers should regularly review pay rates to reflect changes in employees' wages and to assess whether any deductions take people below the minimum wage.

To find the current NMW and NLW, check the government ***website***.

Understanding the NMW is important, as it is a legal obligation for employers to pay in accordance with the NMW.

If employees are not paid the correct wage for their age range or role, they can be given fines by HMRC and ordered to pay backpay as well as facing being publicly named and shamed by the tax authority.

Some employers pay their employees more for working unsociable hours, this can include night shifts, bank holidays or early hours. However, there is no legal obligation to pay more for these hours.

It is an employer's responsibility to prove that they are paying the minimum wage. You must keep records for up to six years should HMRC officers decide to check your business.

National Insurance

National Insurance contributions (NICs) are paid by both employers and employees and help fund certain state benefits and services.

As a general rule, employees' National Insurance contributions are deducted through payroll once they ***earn above the relevant thresholds***.

Employers are also required to make employer National Insurance contributions on qualifying earnings.

The amount deducted depends on factors, such as an employee's earnings, age and National Insurance category letter.

Payroll software will usually calculate these contributions automatically, helping to reduce the risk of errors.

Employers must ensure that National Insurance deductions are reported correctly to HMRC through their payroll submissions.

Maintaining accurate records is important, as mistakes can result in penalties or the need to make corrections at a later date.

PAYE

In order to set up PAYE for your first employee, you must register your business as an employer with HMRC and provide your employees' details.

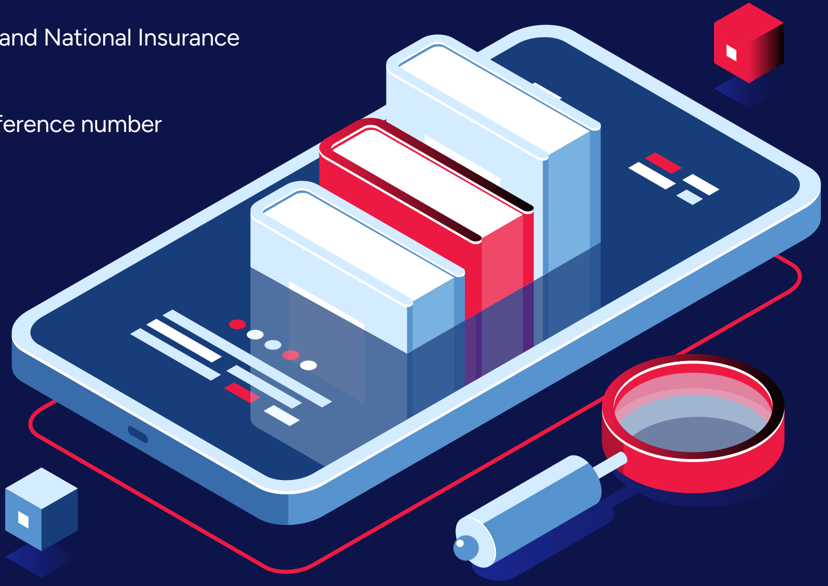
PAYE, or Pay as you Earn, is the system used to collect Income Tax and National Insurance contributions directly from employees' wages.

Once registered, HMRC will provide you with an employer PAYE reference number and Accounts Office reference number.

These details are required when submitting payroll information and making tax and National Insurance payments to HMRC.

Employers must submit payroll information to HMRC on or before each payday through Real Time Information (RTI).

This ensures tax and National Insurance records remain up to date throughout the year.



Pension contributions

Most employers in the UK have legal duties under automatic enrolment legislation to provide a workplace pension to employees.

Eligible employees must be enrolled into a qualifying workplace pension scheme, with contributions being made by both the employee and employer.

The minimum percentage that an employee should pay is around five per cent. Employers must then pay at least three per cent, totalling eight per cent at a minimum.

Not every employee will qualify for automatic enrolment immediately, but employers must assess their workforce and keep records of their decisions.

Employees must be automatically enrolled in a workplace pension if they are over the age of 22 and earn over £10,000 a year.

Payroll systems can often calculate pension contributions automatically and submit information directly to pension providers.

Employees who are not automatically enrolled may still have the right to join a pension scheme.

Failure to comply with workplace pension duties can result in fines from The Pensions Regulator, so pension processes must form part of your payroll setup from the beginning.

Holiday pay

All workers in the UK are entitled to be paid annual leave, making holiday pay an important part of payroll administration.

For employees with fixed hours and pay, holiday pay calculations are generally straightforward.

However, workers with irregular hours, variable pay or shift patterns may require more detailed calculations.

Accurate holiday records help ensure employees receive the correct entitlement and reduce the risk of disputes.

Payroll software can often track accrued holiday entitlement and calculate holiday pay automatically.

Employers should ensure that holiday policies are clearly communicated and that requests are recorded consistently throughout the year.

Statutory sick pay

Employees who are unable to work due to illness may be entitled to Statutory Sick Pay (SSP), provided they meet the qualifying criteria.

From April 2026, employees now have a day one right to SSP, meaning that they will be paid from the first day of sickness as opposed to the third, which was the previous rule.

Employers are responsible for identifying when SSP should be paid and ensuring that the correct amount is processed through payroll.

SSP is subject to regular change, employers should follow up-to-date ***government guidance***.

Employees should be informed of any evidence requirements, such as self-certification or medical certificates, depending on the length of their absence.

Maintaining accurate absence records is important for payroll accuracy and legal compliance. Having clear sickness reporting procedures can make managing SSP much easier.

Benefits in Kind

Some employers provide employees with additional perks or benefits as part of their employment package. These are known as Benefits in Kind.

Common examples include company cars, private medical insurance, low-interest loans and certain accommodation arrangements.

Depending on the type of benefit provided, additional tax and National Insurance obligations may apply.

Employers should identify any benefits offered and understand how they need to be reported to HMRC.

Keeping accurate records throughout the year can make year-end reporting much simpler and help avoid compliance issues.

Statutory forms

Throughout employment, employers may need to process and retain various statutory forms and documents.

These can include P45s from previous employers, starter checklists for new employees, P60s at the end of the tax year and documentation relating to statutory payments and workplace pensions.

If you are an employer providing Benefits in Kind, you may also need to file a P11D form. This form is used to report any benefits in kind that haven't been payrolled.

However, this is due to change as benefits in kind become mandatorily payrolled from 2027, with further changes in 2028. Employers should follow up-to-date government guidance when assessing Benefits in Kind.

Ensuring that these forms are completed accurately and stored securely is an important part of payroll administration.

Having organised records can also help if HMRC requests information during an inspection.

Keeping track

Once payroll has been set up, ongoing record keeping is essential.

Employers should maintain accurate records of wages, tax deductions, National Insurance contributions, pension contributions, statutory payments and employee details.

Good record keeping helps demonstrate compliance with legal obligations and makes it easier to resolve any payroll queries.

Regular payroll audits can help identify errors before they become significant problems.

Reviewing payroll processes periodically also ensures that procedures remain effective as the business grows.

By establishing strong payroll processes from the outset, employers can reduce administrative burdens, remain compliant with legislation and ensure employees are paid accurately and on time.

A well-managed payroll system provides a solid foundation for future business growth and employee satisfaction.

How can we help?

We are here to help you manage payroll when hiring your first employee.

We can help you with:

- Setting up payroll processes
- Managing SSP, holiday pay and Benefits in Kind
- Setting up PAYE
- Managing National Insurance contributions
- Issuing statutory forms
- Managing pay

We make sure to tailor payroll processes so that they fit the individual needs of your business.

And as your business evolves from one employee to more, we can help scale up your processes to fit your business's needs.

Need support with payroll processes? Get in touch with our team!

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