

BUSINESS TAX

Taking On Your First Employee: Payroll, Pensions and Costs

What you must do before and after an employee starts, what the true cost is, and how to set up payroll and pensions without surprises.

FOR: OWNERS HIRING FOR THE FIRST TIME • NEW TO EMPLOYING

Hiring is a big step

Taking on your first employee changes your business. You gain capacity, but you take on legal duties, a regular cost, and responsibility for another person's livelihood. Most of the rules are straightforward if you know them in advance. Missing them is what causes trouble. This guide sets out what to arrange, in the order you will need it.

Before they start

- **Check the right to work.** You must check that the person can work in the UK, and keep a copy of the evidence. Do it before they start, in the way the Home Office requires.
- **Agree the terms in writing.** Employees must be given a written statement of their main terms on or before their first day. A proper contract goes further, protecting you as well. Take advice on the contract and on any policies you will need.
- **Check minimum wage rules.** Pay must meet the legal minimums for the person's age and status, including for apprentices. The rates change at least once a year.
- **Take out employers' liability insurance.** It is a legal requirement for almost all employers, and you must display the certificate.
- **Register as an employer with HMRC.** You must do this before the first payday.
- **Choose payroll software,** and set up the employee.
- **Choose a pension scheme.** Automatic enrolment duties begin when you have an eligible employee.

What you do each time you pay

- Calculate pay, income tax and employees' national insurance.
- Calculate employer's national insurance and any pension contributions.
- Report to HMRC on or before the payday, in real time, through payroll software.
- Give the employee a payslip.
- Pay HMRC what you owe, normally by the 22nd of the following month if paying electronically.

Who this is for

- Owners about to take on their first employee
- Sole traders becoming employers
- Directors paying themselves a salary

Key points

- Register as an employer before the first payday.
- Check the right to work and put terms in writing.
- Budget for the full cost, not just the salary.
- Automatic enrolment applies from the first eligible employee.
- Use payroll software, and keep records.

The real cost of an employee

The salary is only the start.

COST	NOTES
Employer's national insurance	A percentage above a threshold. Some relief may be available
Employer pension contribution	A minimum percentage under automatic enrolment
Holiday pay	Statutory minimum holiday, paid
Equipment and software	Computer, phone, tools, licences
Training and supervision	Time, as well as fees
Insurance and sick pay	Statutory sick pay in some cases
Payroll and admin	Software and professional fees

Ask your accountant for a total employment cost, for a particular salary, before you make an offer.

First employee checklist

- Right to work checked
- Contract signed
- Insurance in place
- Employer registration done
- Payroll software set up
- Pension scheme chosen
- Total cost budgeted

Pensions

Under automatic enrolment, you must put eligible employees into a workplace pension and pay in at least the minimum, and you must write to employees, tell the Pensions Regulator that you have complied, and keep records. The rules apply even if you employ only one person, with some differences for directors in one-person companies. Ask your accountant.

Employing family or a director

If you employ a family member, pay a fair rate for real work and keep records. If you are a company director and the only employee, the rules differ, and the tax benefit of paying a small salary is often worth considering. Our guide on paying yourself explains.

Things people forget

Holiday accrual, sickness, maternity and parental leave, probation, performance, health and safety, data protection about employees, and a clear way to deal with problems. A staff handbook and a few good policies help.

Related guides

If this is useful, you may also want:

- Benefits and expenses
- Paying yourself
- Registering your business

How King Street can help

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We register you as an employer, set up payroll and a pension scheme, calculate the full cost before you hire, run payroll each month, and make the HMRC and pension filings. We work with employment specialists for contracts and policies, and can introduce you.

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