



**Home Learning**  
college for a brighter future

## **DIPLOMA IN PAYROLL MANAGEMENT**



## Bonus Payments

As with piecework rates, these are linked to productivity. An employer may offer a bonus payment scheme in order to motivate the workforce to maximise productivity or to increase sales. The bonus may be offered on the basis of payment to an individual, a group of individuals or the workforce as a whole. For example this may be offered to:

A machine worker on a one-off basis or longer as agreed and is similar to a Piecework payment system.

A group of workers may share in a bonus sum where, for example, sales for a given period (Week, Month and Year) exceed an agreed level.

### Example 1.3

A bonus of 5% of any sales over £10,000 in the current week is offered to shop staff of 10 persons - Sales double to £20,000 - each person receives a bonus amounting to £50.00.

### Answer to example 1.3

Additional Sales	= £10000
Bonus on additional sales	= 5 % of £10000 = £500
Each assistant collects	£50

All persons on the payroll (weekly and salaried staff) may share in the profitability of the business.

### Practice Question 1.3

In the following week Adam is told he can earn an additional bonus for any units he produces over and above 1150 units during the week. The bonus amount will be £1.10 for every 5 units in excess of this figure.

His production for this week is as follows:

	Units produced
Monday	255
Tuesday	250
Wednesday	270
Thursday	265
Friday	250

Calculate Adam's gross earnings for the week.

## Tax Codes

Everyone who works is given a tax code by HMRC. The tax codes are usually made up of a letter and numbers and are used to calculate the personal allowance and the taxable pay.

- The letter simply shows how it should be adjusted following any changes announced in the Budget. **It does not affect the amount of tax you pay.**

This is what the letters mean:

- **L** is for a tax code with the basic personal allowance.
- **P** is for a tax code with the full personal allowance for those aged 65-74.
- **Y** is for a tax code with the full personal allowance for those aged 75 or over.
- **T** is used if there are any other items the Inland Revenue need to review in a person's tax code or where a person asks the Inland Revenue not to use any of the other tax code letters listed above.
- **D1** is used where an employee's earnings are taxable at 50%.

The **T** does not mean that a person has been given a temporary code.

- The number in the tax code is used to work out the amount that a person can earn before paying tax. It is the normally first three digits of the personal allowance.

### Example 2.2

For the year 2011-12, the tax code for a person on a basic personal allowance of £7475 will be 747L.

### Practice Question 2.2

Given the following personal allowances, work out the tax code that would be applied in each case:

- a) A person aged 45 with a personal allowance of £3560
- b) A single person aged 67 with a personal allowance of £6505
- c) A single person aged 78 with a personal allowance of £8157

## Preparing the P11

A P11 should be prepared at the start of each financial year for all existing employees who were subject to deductions in the previous year unless their circumstances change to the degree that they do not now pay PAYE or NI. Likewise a P11 can be raised at any time if an employee's circumstances change to bring him into the tax net.

A P11 should be raised for employees joining the firm starting with the information contained on their Form P45. Where a P46 has been raised employers should still prepare a P11.

## Details required on form P11

The top part of the form is a record of general information and should be completed as indicated in the boxes- Employers Name, Employees names, Employees National Insurance Number, a works number and the current Tax Code. You will notice that there is provision to amend the code if required during the period.

Box H	Day	Month	Year	Box K	Tax code †	Box M	Tax Credits
Date of starting in figures						If authorised to make payments to employee, and 'stop' details here. Record amounts paid to	
Box I				Box L	Amended code †	Start Date	Daily Rate
Date of leaving in figures					Wk/Mth in which applied	Day Month Year	£
Box J							
Student Loan Deductions case (/)							

The form is printed on both sides to cover the 52 weeks/12 months. Each side is divided down the centre line. The left hand side covers National Insurance Contributions, whilst the right is for PAYE Income Tax, which we shall use in this lesson.

## ASSIGNMENT 7

Joyce James is a director who pays standard A rate, not contracted – out, contributions and receives a salary of £3000 per month. She has been in post all of the current tax year. In February she receives an additional payment of £2500 as a bonus.

Calculate the NICs due each month for the tax year using the **non-cumulative (alternative) method**.

Month	Earnings	Director's NICs (Col 1f on P11)	Employer's NICs	Total NICs Due (Col 1e on P11)
April				
May				
June				
July				
August				
September				
October				
November				
December				
January				
February				
March				
Total NICs Due				
NICs already paid				
NICs to be paid in March				

## Holiday pay with a week1/month1 tax code

Where PAYE is being worked out on a week/month 1 basis the pay should be split equally between the full weeks of the holiday and PAYE worked out and recorded on each amount separately for each week.

### Example 8.2

If Suki was paid on a week one basis, her P11 would show the following:

Month no	Week no	Pay in the week or month including Statutory Payments SSP/SMP/SPP/SAP		Total pay to date		Total free pay to date		Total taxable pay to date		Total tax due to date as shown by Tables SR +B to D		Tax deducted or refunded in the week or month <b>Mark refunds 'R'</b>	
		2	£ p	3	£ p	4a	£ p	5	£ p	6	£ p	7	£ p
3	9	285	00			143	84	141	16			28	20
	10	285	00			143	84	141	16			28	20
	11	285	00			143	84	141	16			28	20
	12	285	00			143	84	141	16			28	20

### Practice Question 8.2

Assuming that James was on a week 1 basis, complete the P11 for the same period.

Month no	Week no	Pay in the week or month including Statutory Payments SSP/SMP/SPP/SAP		Total pay to date		Total free pay to date		Total taxable pay to date		Total tax due to date as shown by Tables SR +B to D		Tax deducted or refunded in the week or month <b>Mark refunds 'R'</b>	
		2	£ p	3	£ p	4a	£ p	5	£ p	6	£ p	7	£ p
3	9												
	10												
	11												
	12												
4	13												
	14												
	15												
	16												

## NIC summary

The following table shows the totals transferred from the NIC columns of the P11 to the summary. The various rows in the table are for the different NIC tables used throughout the year. Normally only Table A has been used, so only one row will be needed. The column to the left hand side of the table is used to enter the table used, column 1a shows the total of all entries in column 1a and so on.

You can refer back to your assignments from lessons 3 and 4 in book 1 of this course to see the figures that you would have had for the first four weeks. This will give you an idea of what you should be entering.

End of year Summary																	
	1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p	1f	£	p

The National Insurance side is as follows:

**Example of completion** Page 1 – Weeks 1-30 & Page 2 – Week 31 onwards

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**Deductions Working Sheet: P11** Year to 5 April 200X

**Box B** Employer's name: **VFM LTD**

**Box C** Inland Revenue Office and Employer's PAYE reference: **131/V30**

**Employer's details in CAPITALS**

**Box D** Surname: **COWPER**

**Box E** First two forenames: **JAMES ANDREW**

**Box F** National Insurance no.: **AB 12 34 56 C**

**Box G** Date of birth in full:

**Box H** When paid (m, etc.):

**Notes:**

1 For guidance on earnings, National Insurance and completing columns 1a to 1f, see CWG1 Employer's Quick Guide to P11 and P11C.  
For guidance on Statutory Sick Pay figures, see booklet CA10 and for Statutory Maternity Pay figures, see booklet CA29.  
For guidance on Student Loan Deductions, see Card 22 of CWG1.  
If you need further assistance, please contact the Employer's Helpline on 0845 7 143 143.

2 In the N Table, enter it shown at the top of each section, for example A, B, C, D or E. Copy the Table Letter you use to the Table Letter box in the 'End of Year Summary' section. If the employer's circumstances change part way through a year, the Table Letter may change as well. Record all Table Letters used and enter separate totals for each one.

**National Insurance contributions** (NIC = Lower Earnings Limit, HIL = Upper Earnings Limit)

Month no	Week no	Pay Employer's rate	Earnings details			Contribution details			Rebate details (for contracted-out employer only)			Statutory Sick Pay paid to employee in the week or month included in column 2	Statutory Maternity Pay paid to employee in the week or month included in column 2	Student Loan Deductions	
			Earnings above the LEL (where earnings are equal to or exceed the LEL)		Earnings above the Earnings Threshold, up to and including the LEL	Total of employee's and employer's contributions payable	Employee's NIC relate to his earnings in 11 (to be deducted from contributions in 1a)	Employer's NIC relate to 11 and any rebates of employee's NIC relate (but not shown in 11)	11	12	13				
			1a	1b	1c	1d	1e	1f							
1															
2															
3															
4	1	230.77	72	15	143	31.43	14.35								3
48		692.31	72	15	488	120.79	48.80								44
49		230.77	72	15	143	31.43	14.35								3
50		230.77	72	15	143	31.43	14.35								3
51		230.77	72	15	143	31.43	14.35								3
52	12	230.77	72	15	143	31.43	14.35								3
5															188

Complete this form if your day falls on 5 April.

**End of Year Summary**

Table Letter	1a	£	1b	£	1c	£	1d	£	1e	£	1f	£	1g	£	1h	£	1i	£
A	3	3,528	735	7,352	1,629.43	737.60												

**Total of 11a to 11i**

Enter this amount in Box 11 on form P14

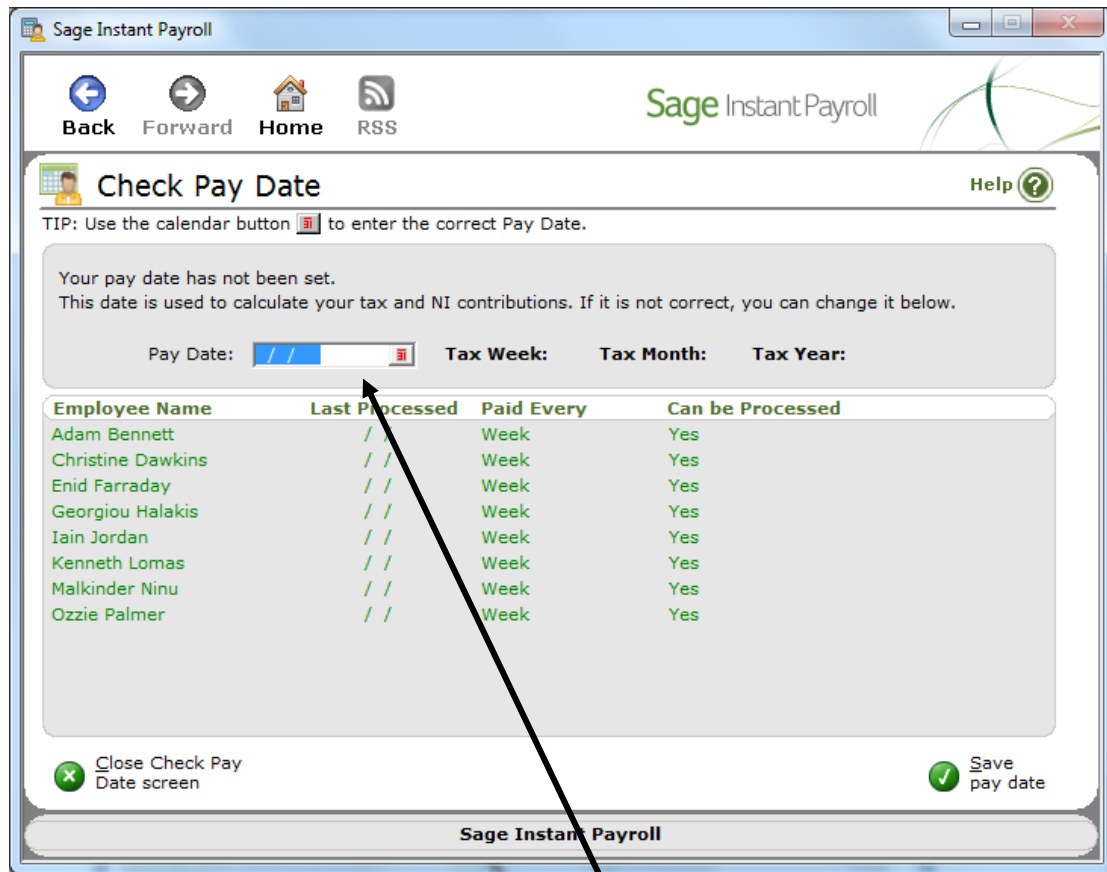
Enter this amount in Box 11 on form P14

Enter this amount in Box 11 on form P14

## Setting the pay date

The next stage is to set up the pay date. We are going to pay people on the Friday of each week. The Friday of week 1 is 8 April 2011.

Click on the Pay Employees tab on the left-hand side of the screen followed by the Check Pay Date button.



Tax Calendar button

You will see that the Pay date box is highlighted. You will need to enter the date 08/04/2011 either by entering in the figures using the keyboard, or by using the tax calendar button to the right of the pay date box.

Note: as with all Sage software, you can enter any date in the simpler format of dd/mm/yy or even more simply ddmmyy such as 080411 for 8 April 2011. Sage will automatically enter the figures into the correct part of the date field or give you an error message if it does not recognise the format you have used.

## Statutory Sick Pay

Your pay date should now be set to Friday 10 June 2011, week 10.

Kenneth Lomas rang in on Monday 6 June to say he was sick. He remained off sick for the entire week. This means that when the payroll is run on Friday 11 June, he has been away for five days. His absence means that he has a period of incapacity for employment, his waiting days are Monday, Tuesday and Wednesday, and he should therefore qualify for SSP for Thursday and Friday of week 10.

To set up a payment under SSP, use the diary as before. Select the appropriate employee, and the dates they are off work. In this case, he is still absent on the Friday of that week. Note that Iain's holiday period is displayed for week 10 from earlier. Enter the details as follows:

The screenshot shows the Sage Instant Payroll 'Employer Diary' interface. At the top, there are navigation buttons: Back, Forward, Home, and RSS. The main title is 'Employer Diary' with a 'Help' icon. A tip reads: 'TIP: Enter absence details then click 'Save and close absence' to continue'. Below this is a calendar grid for May, June, and July. The date 'Monday 06 June 2011' is selected. The calendar shows a series of '1's representing absence days from Monday to Friday of week 10. Below the calendar is a 'Go to today' button and a 'Go to:' field. The main form has the following fields:

Employee Name	Absence Type	From Date	am/pm	To Date	am/pm
Kenneth Lomas	Sickness	06/06/2011	am	10/06/2011	pm

Below the form is a 'Comments:' field. At the bottom of the form are buttons: 'Close and discard absence', 'Save and close absence', 'Print absence by employee', and 'Print absence by date'. At the very bottom of the window, a status bar displays: 'Your pay date is set to : Friday - 10/06/2011 Tax Period : Week : 10 Month : 3 Year : 2011/2012'. Four black arrows point from the top right corner of the window to the 'Save and close absence' button, the 'Print absence by date' button, the 'To Date' field, and the 'am/pm' dropdown for the 'To Date' field.

When you click on Save and close absence both absences will be displayed. Note you will get a message telling you to check the SSP.

## Other Statutory deductions from pay

There will be times when you will need to make statutory deductions, such as court orders and student loans, from pay. The relevant amounts are calculated, taken from net pay and recorded on the payslip. However no entries are made on the P11 form. The deductions are then sent to the relevant authority as part of the month end process.

## Attachments of Earnings

Note this issue is extremely confidential.

If you are informed officially that you must make certain deductions from an employee's pay then this is done using the Maintain existing employee button on the Employee tab on the main screen. This type of deduction is called an attachment.

You are notified that Ozzie Palmer is to start paying Child Support of £20 per week from the Monday of week 15.

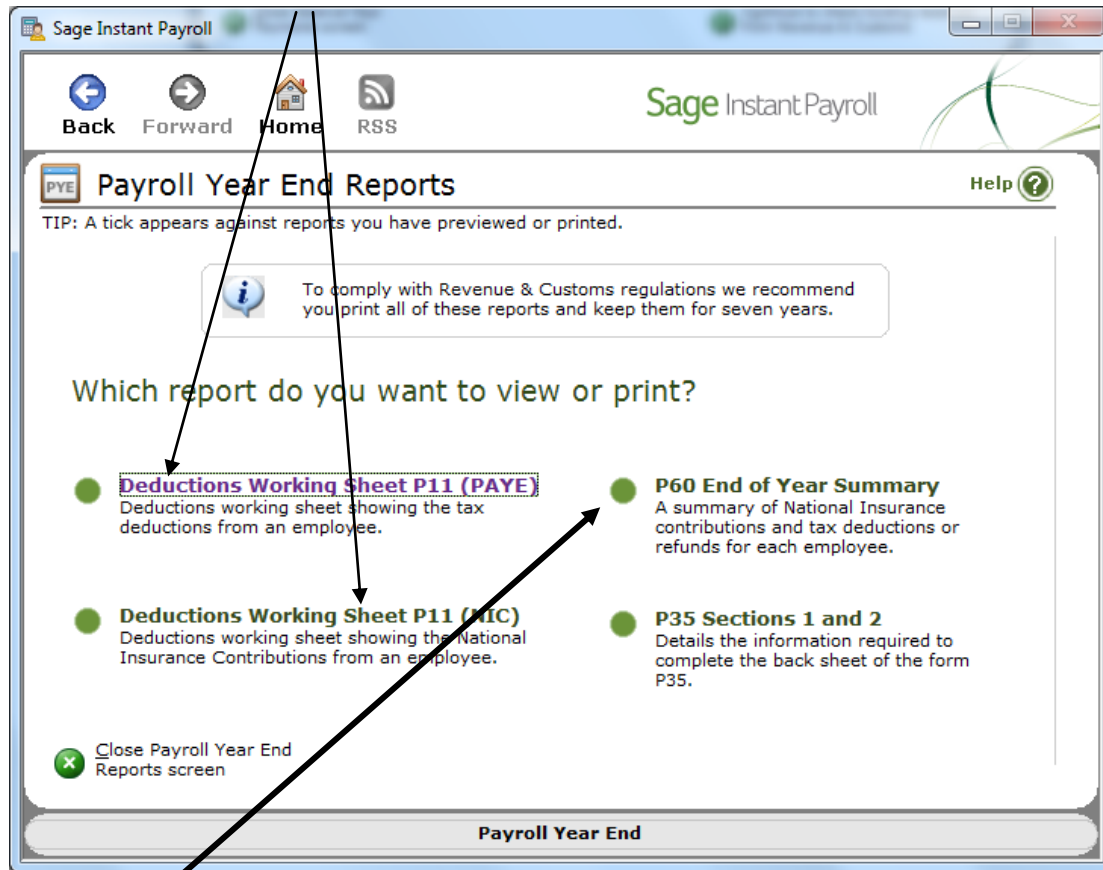
Select Ozzie's record and click on the Deduction details tab at the top of his screen. Note the attachment details section.

The screenshot shows the Sage Instant Payroll interface. At the top, there are navigation buttons: Back, Forward, Home, and RSS. The main title is "Existing Employees >> Deduction Details". Below this, there are tabs for Personal Details, Payment Details, Deduction Details (which is active), and Absence Details. The interface is divided into several sections:

- Pension Details:** A dropdown menu for "I want to deduct pension contributions using scheme:" is set to "None".
- Student Loan Details:** Fields for Start, End, Priority (0), and Protected (0.00).
- Attachment Details:** A table with columns: Attachment Name, Priority Order, Normal Rate, Prot Earns, Total, Order Issued, Order Reference, and Admin Fee. The first row contains the text "Click to add attachment...".

On the right side, there is a list of employees: Terry Baxter, Christine Dawkins, Iain Jordan, Kenneth Lomas, Malkinder Ninu, Ozzie Palmer (highlighted), and Stephen Plymouth. At the bottom, there are buttons for "Close Existing Employees screen", "Print details", and "Save details". The footer displays: "Your pay date is set to : Friday - 15/07/2011 Tax Period : Week : 15 Month : 4 Year : 2011/2012".

You have a number of options. You would normally print out the P11 deductions working sheets for each employee for both PAYE and NI for your records – note there is no need to do this as it generates masses of paper.



The P60 year end summary forms can be printed out onto pre-printed forms that can be ordered from Sage or the Revenue and Customs. Look at these reports which should mirror the ones you saw in the manual lesson. Again, there is no need to print out these forms.

Click on the P35 Sections 1 and 2 buttons. If you did not complete the Balance your Payments section earlier, then you will get a warning message.

### Assignment 18 Task 1

The report will now generate and you should print /save these reports ready to be submitted for marking. Save the two parts as separate reports.

Click on the 'Close Payroll Year End Reports Screen' button to return to the Payroll Year End Screen. If you have not run your P11 forms the following message will appear as shown on the next page, click **Yes** to continue.