

**Employee Reward & Benefit**

**HR Guide**

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# Introduction

This guide covers a range of information which includes:

* Overview
* Pay structure
* Pay As You Earn (PAYE)
* National Insurance Contributions (NIC)
* Tax guide
* Equal pay
* Workplace pensions

**See below for more detail**

# Overview

Employment benefits covers how employees are rewarded in accordance with their value to an organisation. It is appropriate to consider both financial and non-financial rewards and embrace the strategies, policies, structures and processes used to develop and maintain reward systems. The ways in which people are valued can make a considerable impact on the effectiveness of the organisation and is at the heart of the employment relationship.

The aim of employee reward policies and practices is to help attract, retain and motivate high-quality people. Getting it wrong can have a significant negative effect on the motivation, commitment and morale of employees and ultimately impact on your labour turnover costs and recruitment costs.

# Pay structure

In all employment situations, it will be necessary to identify the gross weekly payment made to an employee.

This is obviously very straightforward where the pay does not vary at all from week to week, but there are situations where an employees’ salary does vary from week to week. In these circumstances the law can intervene to clarify the situation.

Legislation exists relating to employees paid by piece rates, variable bonuses and commission. There is also legislation to deal with overtime working and how and when this should be included in the week’s pay calculation. Shift or rota workers and employees with no normal working hours are also covered in the regulations.

The calculation of a week’s pay can be relevant to a number of the other employment rights available to employees. In each case there may be a different calculation date, which forms the basis for the calculation of the week’s pay.

Employees who consider that their week’s pay has been wrongly calculated can apply to an Employment Tribunal for a remedy.

# Pay As You Earn

The Pay As You Earn (PAYE) system is a method of collecting income tax at source from employment income, pensions and taxable state benefits. Employed earners and their employers must also pay National Insurance Contributions (NIC).

The aim of the PAYE system is to ensure that the correct amount of tax is deducted from each individual’s income according to their personal circumstances and paid to Her Majesty’s Revenue and Customs (HMRC) at regular intervals.

The administrative burden is placed on the employer who has four main obligations:

1. To calculate and deduct the correct amounts
2. To pay the correct amounts over to HMRC by the correct day
3. To keep detailed records for each employee and make appropriate reports to HMRC
4. To provide each employee with the appropriate information so that they can check the deductions made and complete self assessment tax returns, if relevant

The tax year runs from the 6th April to the 5th April the following year. Most employees are paid either weekly or monthly and therefore the tax year is divided into tax weeks and months starting on the 6th April. Tax months therefore end on the 5th day of each calendar month. A tax year contains 52 weeks but, as a calendar year has 52 weeks and an extra day or two in a leap year, employees can be paid during tax week 53 for which there are special rules.

# National Insurance Contributions

There is a National Insurance Fund which provides subsistence level benefits to those in need.

All individuals covered by the scheme are given a National Insurance number and the collection of National Insurance is administered by the National Insurance Contributions Office (NICO) which is part of HMRC.

The contributions payable in respect of the employment of an employed earner are either:

* Class 1 payable in respect of earnings by both the employer and employee
* Class 1a payable in respect of benefits in kind by the employer only
* Class 1b payable by the employer where he has entered into a PAYE settlement agreement with HMRC.

Liability for contributions start once an individual attains the age of 16. Liability for most contributions ceases when an individual employee reaches pensionable age.

A National Insurance number is issued to individuals shortly after their school leaving date. Where an individual starts work without a number, employers may use a temporary number which comprises the prefix TN followed by the employee’s date of birth and then a suffix letter of ‘M’ for males or ‘F’ for females. If the employee does not provide the proper number within eight weeks then employers should apply to HMRC to chase the number or for the issue of a new number.

The rules relating to National Insurance Contributions are many and complex and specialist advice should be sought if there are any individual queries that arise in relation to employees or employers payments.

# Tax guide

Where employees are ordinarily resident in the UK and perform employment duties wholly in the UK for a UK employer, an employee will be taxed on the earnings arising from that office or employment.

Earnings are essentially summarised as a payment in return for acting or being an employee and may be defined as any salary, wages or fee, any gratuity or other profit or incidental benefit of any kind obtained by the employee, if it is in monetary value or anything else that constitutes an emolument of employment.

The factors which must be taken into account in determining whether such amounts are earnings include the judgment to decide if there is a direct link to the employment, their monetary value and the time where the remuneration is assessed.

Not all payments made by employers to employees constitute earnings and each case is assessed on its merits by the tax authorities. These include gifts, prizes, compensation, inducements, reasonable expenses, payments from someone other than the employer, payments to a third party, payments made in exceptional circumstances or payments anticipated by an employee.

In addition to earnings paid in the normal course of employment, payments may also be made in the form of a lump sum on the commencement, termination or variation of employment. As before, the nature of such payments will determine whether and how they are taxed.

However, there are specific provisions in relation to redundancy payments, payments in lieu of notice, garden leave, restrictive covenants, outplacement counselling for losing employment and unfair dismissal compensation, including legal costs.

A summary of benefits that are commonly taxed include:

* Accommodation
* Ancillary expenses and services for accommodation
* Vouchers and credit cards
* Permanent health benefits
* Medical insurance
* Company cars
* Car fuel
* Company vans
* Cheap loans
* Payment of directors PAYE

Given the complexity of tax regulations and taxation law, specialist advice should be sought on any individual item of remuneration prior to decisions being taken whether it is taxable or not.

# Equal pay

There is long standing legislation in place which affords the right, to men or women, to claim pay equal to that of a person of the opposite sex who carries out the same job, in other words, there should be equality.

There is also legislation to enable employees to claim that their work is equal in value to that of a person of the opposite sex.

Over the years, equal pay provisions have included the total pay ‘package’ received by employees. Equal pay must be ensured in both the overall assessment of the pay and in consideration of each aspect of that payment taken in isolation.

The Equal Pay Act applies to women and men of any age, including children. It also applies to people who are ‘employees’ in the sense required for other employment rights, such as the right not to be unfairly dismissed, but also to other people who are engaged under a contract personally to execute work or labour.

There is also a range of defences that an employer can use to argue against the contention that equal pay should be applied in a

particular situation.

Employees who believe that they are entitled to equal pay, as compared with the pay afforded to a person of the opposite sex, can serve an equal pay questionnaire before deciding to bring a claim before an Employment Tribunal for a remedy.

The equal pay provisions are now in inextricably linked with the sex discrimination.

# Workplace pensions

Under the provisions of the Pensions Act 2008, there are now new rules for workplace pensions in the UK. These changes impact on every workplace and are designed to ensure that every worker has the opportunity to become a member of a pension provision and to be given a means to save for their retirement.

From October 2012, the rules on “automatic enrolment” began to be implemented. Under these rules, and based upon the total number of employees within their organisation, employers have begun to enrol their employees into a workplace pension arrangement.

The government has set a minimum amount that must be paid into a pension scheme for eligible and non-eligible jobholders. This is 8% of qualifying earnings shared between the employee and employer. . Employees who fall outside of qualifying criteria are entitled to join the scheme if they express a wish to do so.

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