Demystifying payroll for SMEs

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An introduction to UK PAYE and payroll management

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What is PAYE?

First introduced in 1944, Pay as You Earn – frequently abbreviated to PAYE – is the system by which employers in the UK deduct Income Tax and National Insurance contributions from an employee's wages before paying their salary or pension. An employee's tax code determines how much an employer deducts from someone's gross pay. The amount someone is paid after deductions have been made is called net pay.

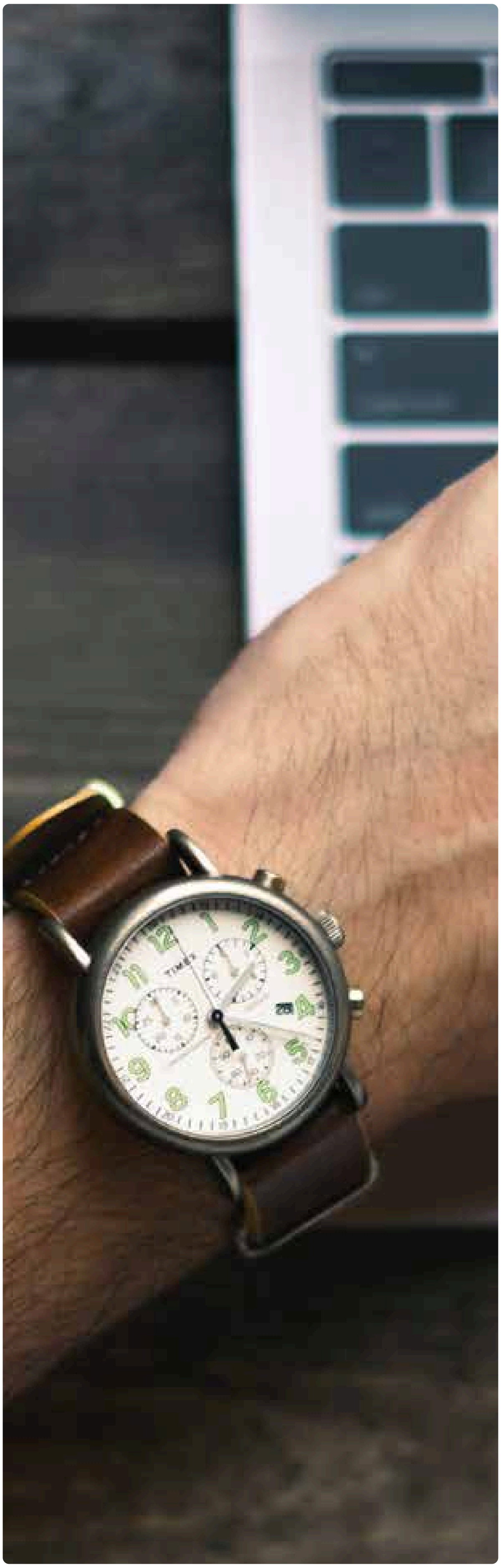
All money collected from deductions is sent to HMRC by employer 'at source' – meaning directly from employees' wages before it reaches their bank account. National Insurance and student loan repayments may also be deducted in this way.

Wherever a company is based in the UK, it's crucial that its directors understand their tax position. It used to be that all tax policy was governed entirely by central government in London. But as Wales and Scotland have gained devolved powers, this is no longer the case. They now have the opportunity to set income tax rates that best suit their local populations.

The information in this chapter applies to PAYE rules which apply to businesses registered in England, Wales and Northern Ireland.

If you're already involved in managing PAYE, there is a high chance that you are using one of the many payroll software systems that are available on the market which automate the calculations of deductions and net pay. There are also tools produced by HMRC itself which automate some of the more basic calculations. Some of these tools are freely available from HMRC's website.

Real Time Information (RTI) Reporting



Until relatively recently, employers were obliged to file detailed reports of all deductions at the end of the financial year to HMRC, however, this changed in 2013 with the introduction of Real Time Information (RTI) reporting. This made it compulsory for employers to report their payroll calculations throughout the year and also provide these to HMRC online. This made the whole process much quicker and more efficient. If payroll is outsourced, the reports are submitted by the company which provides the service.

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Working with tax codes

The deductions are worked out using each employee's tax code and National Insurance category letter.

Employers input an employee's tax code into their payroll software or HMRC system to work out how much tax to deduct from their pay throughout the year.

When an employer takes on a new employee, they normally work out their tax code by using their P45. The code will usually be made up of several numbers and a letter, such as 1257L.

Employers usually need to update an employee's tax code at the start of a new tax year. If the tax code changes during the year, HM Revenue and Customs (HMRC) will notify a company's designated payroll administrator. Payroll records should then be updated as soon as possible.

Did you know the most common tax code for tax year 2021 to 2022 is 1257L? It's used for most people with one job and no untaxed income, unpaid tax or taxable benefits for example a company car).

Compulsory PAYE deductions

So, what Income Tax and National Insurance deductions does a business need to make? HMRC provide very clear guidance on this matter, providing a definitive list which is updated as and when PAYE legislation is amended.

Summary of deductions

- Employee Income Tax deductions
- Class 1 and 1B National Insurance
- Class 1A National Insurance on termination awards and sporting testimonials
- Student Loan repayments
- Construction Industry Scheme (CIS) deductions
- Apprenticeship Levy payments
- Student and postgraduate loan repayments
- Compulsory child maintenance deductions

What are PAYE reporting forms?

These are the forms which are used to provide employees with information about their gross and net pay, including tax, NI and other types of deductions and payments made to HMRC during a financial year. The main forms are:

Payslips

An employer should provide all employees with payslips each pay-day which show gross and net pay alongside tax and NI deductions. Payslips should also include information about all other deductions, for example, student loan repayments and pension contributions.

P60

The P60 form shows an employee's total earning from jobs or pensions in the previous tax year in addition to how much tax they have paid. If your employee is working on 5th April of any year, then you need to provide them with a P60 form by 31st May each year.

A P60 is an End of Year Certificate and is needed for claiming back overpaid tax and applying for tax credits.

P11D

The P11D form is used to report any benefits in kind an employee has received during the financial year. These are items or services an employee received from their employer in addition to their salary. These include private healthcare, interest-free loans (to pay for season train tickets for example) and company cars.

P45

When a leaving employee starts a new job, they provide their new employer with their P45. This enables the new employers to register the employee and take on the management of their salary and deductions. The P45 is comprised of two parts; one for the new employer and a second part for the employee and their records.

Key facts

- Employers are required to issue a P45 to all team members who leave their employment.
- This form includes an employee's name, their tax office and reference number alongside the tax code used to calculate tax deductions.
- The P45 also shows when an employee was last paid and the gross pay they have received in the tax year before joining their new employer.

P45 form vs 'starter checklist'

If your new employee arrives without a P45 you will need the employee to complete a starter checklist (formerly a P46 form) and enter the information into your payroll system. If your payroll software doesn't generate the necessary checklist then you can find the starter checklist on the Government's website.

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Year-end reporting

Before 2013, payroll administrators and managers dreaded annual year-end reporting which could be incredibly time-consuming and complex, especially if their payroll calculations were completed manually or compiled in spreadsheets. These were notoriously prone to errors and reporting PAYE information for even a relatively small numbers of employees was a thoroughly onerous task.

By spreading out reporting responsibilities throughout the financial year, RTI has benefitted payroll administrators and managers by eliminating the pressure and burden of manual year-end calculations and form submissions.

There are, however, a small number of tasks which businesses (or their service providers) need to complete at the end of each financial years.

What you need to do	When
Send your final payroll report of the year	On or before your employees' paydays
Update employee payroll records	From 6th April
Update payroll software	From 6th April (or earlier if your software provider asks you to)
Provide your employees with P60s	By 31st May
Report employee expenses and benefits	By 6th July

Employees and pensions

Under the Pensions Act 2008, every employer in the UK must put their eligible staff into a workplace pension and pay into it.

A business has legal duties from the moment they employ their first member of staff.

However long their company or organisation has been running for, when they take on their first worker, they have automatic enrolment duties that they must comply with straight away.

The duties apply from the new staff's first day of employment - this is known as a business' duties start date.

If a business employs at least one person, that means they're classed as an employer, and by law they have responsibilities that they need to act on. A business should be ready to comply with their legal duties as soon as their new member of staff begins employment, whether they have a PAYE scheme or not.

Staff eligibility for automatic pension enrolment

Not all staff will need to be automatically enrolled into a workplace pension, but you must still assess them and determine their eligibility.

If an employee meets the eligibility criteria, they must be put into a pension:

- aged from 22 up to state pension age
- earnings before tax are at least £10,000 per year (or £833 per month, or £192 per week)

If an employee doesn't meet the eligibility criteria, they don't need to be automatically enrolled in a pension unless they ask to be put into one. You only have to pay into it if the staff earn more than £120 per week/£520 per month/£6,240 per year.

What is IR35?

IR35 is shorthand for the UK tax legislation that is designed to identify contractors and businesses which are avoiding paying the appropriate tax by working as 'disguised' employees or are engaging workers on a self-employed basis to 'disguise' their true employment status.

IR35 was rolled out in the private sector in April 2021 and takes its name from the original press release published by Inland Revenue (now HMRC) announcing its creation.

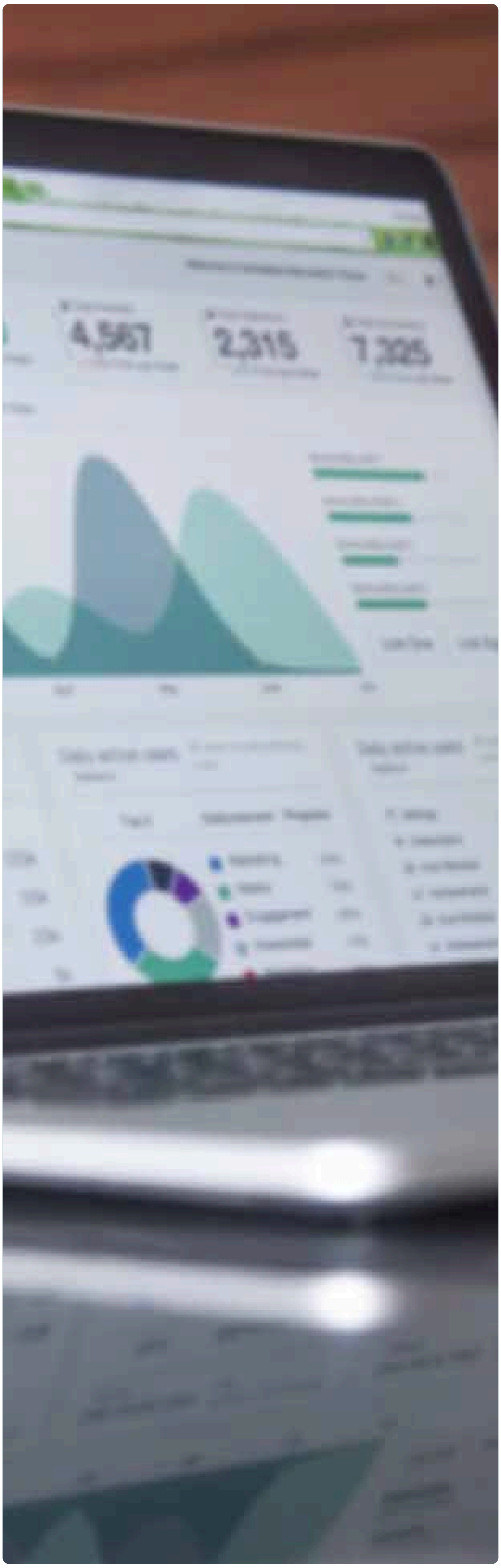
IR35 is essentially an employment status test for tax, which works out whether a contract points towards employment or self-employment:

- If an employee's contract is 'inside IR35', it points towards employment. HMRC sees them as an employee and they face an income tax and National Insurance deductions, as per PAYE rules and regulations.
- If an employee's contract is 'outside IR35', it points towards self-employment, and they can enjoy the tax efficiency that self-employment brings (as well as the associated risks)
- Many small businesses are exempt from IR35. A business is deemed to be small if it satisfies two or more of the following requirements:
  - It has an annual turnover not exceeding £10.2m
  - It has a balance sheet total not more than £5.1m
  - It had an average of no more than 50 employees for the company's financial year

Payroll software and automation

Payroll software systems have been used by organisations of every size, in some cases for decades to automate manual PAYE calculations and reporting. Updated every year to reflect any changes to PAYE rules and regulations, payroll software systems are also equipped with the means of online reporting and RTI monthly filing of information to HMRC.

If you were involved in payroll management before 2013 you'll be well aware of how this has changed over the last decade with businesses moving on from manual and spreadsheet based calculations. The ability to calculate all necessary deductions and report these to HMRC accurately and on time is of paramount importance if a business is to avoid fines for inaccurate and late filing.



PAYE term definitions

The following list includes the most common PAYE terms, their definitions and the acronyms by which they are also known. Most of these have been in use for some time, however, the underlying tax, NI payment and deductions they cover are subject to change.

Additional Statutory Paternity Pay (ASPP)

Additional statutory paternity pay is payable during the period for which the mother or main adopter would have received statutory maternity pay, maternity allowance or statutory adoption pay had he or she not returned to work. In most cases, the maximum period of payment will be 19 weeks.

BACS Approved Bureau (BAB)

The BACS Approved Bureaux Scheme (BABS) is for business bureaux that submit transactions through the BACS service on behalf of third-party organisations.

Bankers Automated Clearing Service (BACS)

BACS is a United Kingdom scheme for the electronic processing of financial transactions.

Construction Industry Scheme (CIS)

The CIS sets out the rules for how payments to subcontractors for construction work must be handled by contractors in the construction industry.

Corporation Tax Reference (COTAX)

This can also be called the Company Unique Taxpayer Reference and will have been issued by HMRC. It is made up of ten numbers and can be found on the 'Notice to deliver a company Tax Return' (form CT603).

Employer Alignment Submission (EAS)

Employer Alignment Submission (EAS) is used to send in details of employee data held in the payroll software to HMRC so that HMRC and employer data for the active employment (along with details of starters and leavers in the current tax year) can be matched.

In most cases, for employers with less than 250 employees operated from within a single payroll dataset, the Employer Alignment will be performed by HMRC when a first Full Payment Submission (FPS – please see below) is submitted. If an employer still wishes to send an EAS for Payroll Alignment, they may do so.

Employer's contracted-out number (ECON)

ECON stands for Employer's Contracting-Out Number. SCON stands for Scheme Contracted-out Number. They are optional 9-character reference numbers. You will have an ECON if the employer has an occupational pension scheme that is contracted out of the State Second Pension.

Employer Payment Summary (EPS)

An EPS submission is sent under RTI to report a reduction in the amount an employer pays to HMRC or if they haven't paid any employees in a pay period.

Earlier Year Update (EYU)

An EYU submission is sent under RTI to correct, after 19 April any of the year-to-date, totals submitted in your final FPS for the previous tax year.

Full Payment Summaries (FPS)

FPS submissions are sent under RTI each and every time an employer pays their employees.

Lower Earnings Limit (LEL)

The amount of earnings that allow an employee to qualify for certain state benefits (such as qualifying years for the basic state pension). The lower earnings limit is set each tax year by the government.

Maternity Allowance (MA)

Maternity Allowance is a payment female employees receive when they take time off to have a baby. Employee could receive it if they employed but cannot get Statutory Maternity Pay (SMP) or if they are self-employed.

National Insurance (NI)

Employees pay National Insurance contributions to build up their entitlement to certain state benefits, including the State Pension. The contributions they pay depend on how much they earn and whether they are employed or self-employed. Employees stop paying National Insurance contributions when they reach State Pension age.

National Insurance Contributions (NICs)

Payments made by employees and employers into NI.

National Insurance Number (NINO)

Refers to (an employee) National Insurance Number. All UK NINOs are nine characters long and follow the format, two-letter (alpha) characters, followed by six number (numeric) characters, followed by one final letter character at the end. They are typically written in the form: QQ 12 34 56 A.

(National Insurance) Number Verification Request (NVR)

A National Insurance Number Verification Request (NVR) can be used by an Employer to verify or obtain a National Insurance number (NINO) for existing or new employees. HMRC will use the information included in the NVR to provide an employer with the correct NINO to use for a employee.

Ordinary Statutory Paternity Pay (OSPP)

An employee may be entitled to OSPP if their partner has a baby or adopts a child. This replaces their normal earnings and helps them take time off to care for the child or support the mother.

Pay-As-You-Earn (PAYE)

PAYE is the system that HMRC uses to collect Income Tax and NICs from employees' pay as they earn it.

Primary Threshold (PT)

PT and ST represent the points from which payment of NICs arises, as opposed to the point at which entitlement to benefit builds up, which is set by the LEL.

Real-Time Information (RTI)

Real-Time Information (RTI) means reporting payroll almost in 'real-time' to HMRC. Employers report to HMRC online using payroll software in advance of making any salary or wage payments to employees.

Real-Time Information Notice (RTINO)

A notice HMRC sends out to employers with regard to RTI, for example, a notice advising an employer on which NINO to use.

Self-Assessment (SA)

Self-Assessment is a system HM Revenue and Customs (HMRC) uses to collect Income Tax. Tax is usually deducted automatically from wages, pensions and savings. People and businesses with other income must report it via an annual tax return.

Statutory Adoption Pay (SAP)

If an employee adopts a child, they may be entitled to Statutory Adoption Pay (SAP). SAP replaces an employee's normal earnings if they take time off when the adoption takes place. If an employee is adopting a child with a partner, one of them may be entitled to SAP and the other may be entitled to OSPP. Employers may be able to recover some or all of the SAP they pay.

Scheme Contracted-out number (SCON)

See ECON

Statutory Maternity Pay (SMP)

If an employee is expecting a baby, she may be entitled to SMP. This replaces her normal earnings to help her take time off around the time of the birth. She also has a statutory right to a minimum amount of maternity leave. SMP is paid for a maximum period of 39 weeks.

Statutory Sick Pay (SSP)

SSP is the is the money paid by an employer when they are unwell and unable to work. SSP is paid when the employee is sick for at least 4 days in a row (including non-working days). SSP is paid for a maximum period of 28 weeks.

Secondary Threshold (ST)

Please see PT.

Service User Number (SUN)

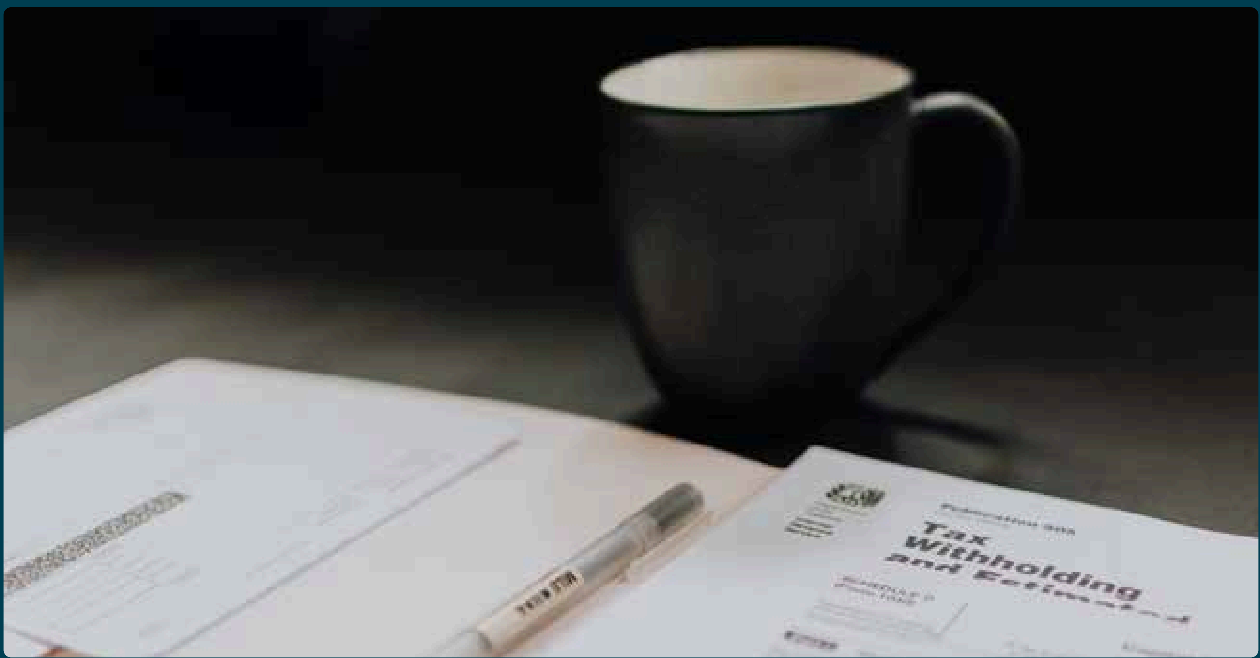
The term Service User Number or SUN refers to the unique identifier that is used by organisations and businesses collecting payment by Direct Debit. This ID is used in all communications with BACS and is stored to record the transaction.

Upper Accrual Point (UAP)

The Upper Accrual Point (UAP) is a threshold for the calculation of both State Second Pension and contracted-out NICs rebates. Anyone who is contracted out of the State Second pension only receives a NIC rebate on earnings between the LEL and the UAP.

Upper Earnings Limit (UEL)

An amount set by the government for each tax year for the purposes of calculating National Insurance contributions (NICs) payable by employees.



SME payroll management trends in 2021

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There's no doubt that PAYE and payroll management is one of the most important aspects of business administration. Employees must be able to rely on being paid on a consistent basis and without delays, as failing to do so could result in them missing bills and potentially damaging their credit score. Alongside the negative hit on employee morale, getting this wrong could also result in damages to the company's reputation.

Yet according to our own research, 1 in 10 British SMEs are still using manual spreadsheets – prone to human error – to manage this process.

From the moment a business takes on its first hire, payroll should immediately be a priority. This means deciding on whether PAYE and payroll management is something taken care of in-house or outsourced to a specialist service provider. Companies who provide this service are frequently known as payroll bureau.

We researched the UK SME market to understand trends and the challenges small businesses are facing.

1 in 10

British SMEs are still using manual spreadsheets

SMEs and payroll management – our market research

In August 2021 we assessed the attitudes of people involved in PAYE and payroll management, its importance within an organisation and how it is being managed in an age of digitalisation and automation.

We commissioned a leading market research company – Censuswide – to survey 500 respondents who work for companies with 10-250 employees, with payroll management being all or a part of their responsibilities. This included people with the following job titles: Payroll Officer, Payroll Administrator, Payroll Assistant, Finance Manager and HR Manager.

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Payroll training and qualifications

We began by asking our respondents about any formal payroll management qualifications they hold. 65% of the people we surveyed said they held a qualification. 85% have received training.

These numbers indicate that while training is important to most SMEs we surveyed, a lack of more formal qualifications and accreditations isn't necessarily a barrier to employment in payroll management roles in, perhaps, the same way they would be in other areas of accountancy.

Between them, our survey respondents listed more than 30 different types of payroll management qualifications, ranging from entry level diplomas to advanced post-graduate masters' degrees and courses provided by payroll software providers.

65%

of the people we surveyed said they held a qualific tion

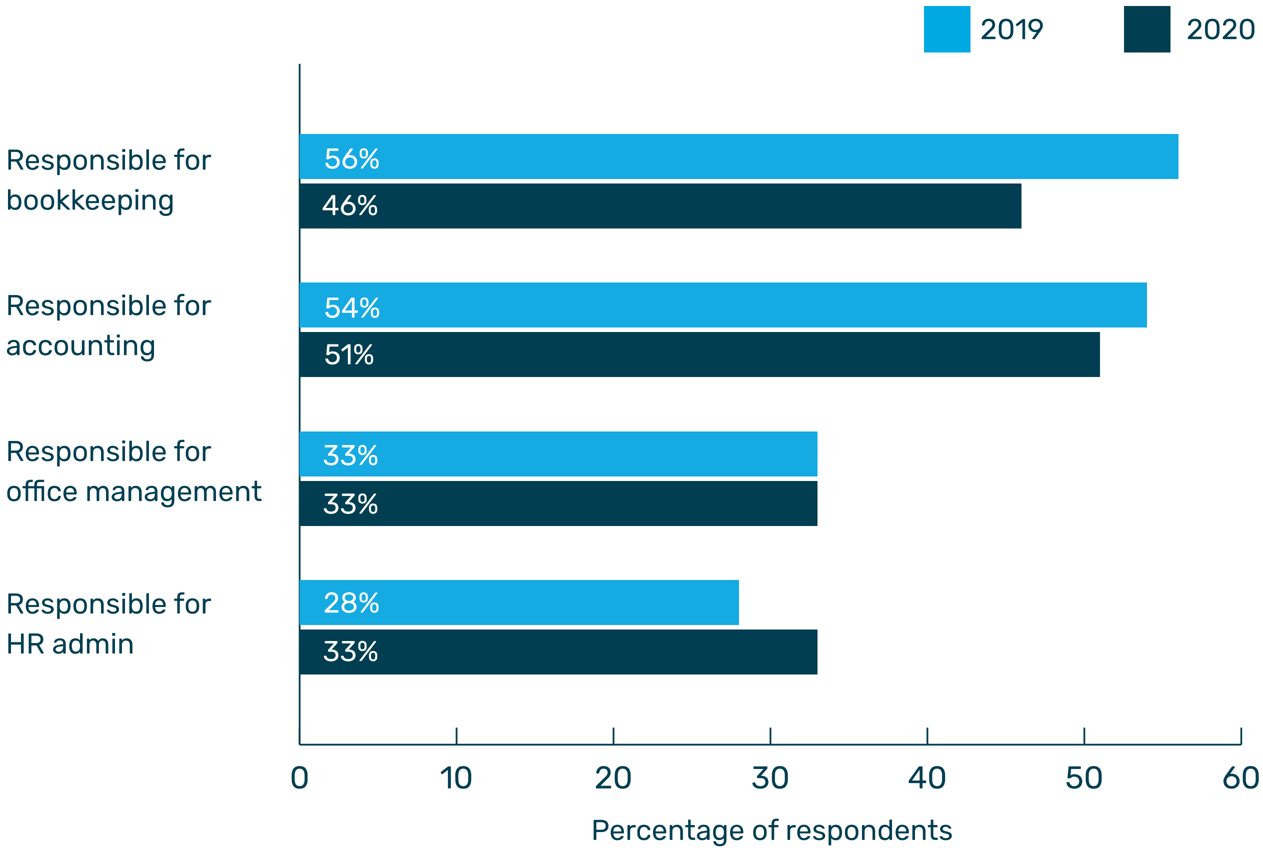
In short, when it comes to training and qualifications, there seems to be something available for everyone which is good news for businesses and employees as they make their way up the payroll management career ladder.

So, who are payroll managers and administrators and how do their roles and responsibilities weigh up against other duties within their organisations?

Payroll duties shared between SME bookkeepers, accountants and HR managers

The way businesses distribute administrative responsibilities has changed. Interestingly, our research revealed distinct changes between when the pandemic took hold in 2019 and the landscape in 2021, as businesses continue to emerge from the crisis.

Respondents were asked what areas of administration (on top of their payroll duties) if any, they were responsible for managing each year, and the contrast is clear:



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The slight decrease in the number of people who share payroll management duties with bookkeeping and accounting responsibilities is interesting in comparison to the number of respondents who have taken on some degree of HR management. There is a sharp uptick in those taking on more HR admin responsibilities beyond their payroll responsibilities. This is a similar outcome to the results of our 2021 Culture Economy Report. In this, we noted the increase in time spent on HR-related managerial duties above and beyond administration as employees' support needs changes or increased because of COVID-19.

Although it would be tempting to overanalyse these figures, the differences here do indicate subtle changes in peoples' key areas of focus – from financial admin to people admin.

37%

of respondents spend around 12-17 hours a week managing payroll

Half of managers' working week spent on payroll admin

Within our research we wanted to understand how many people are responsible for managing payroll in the SMEs we surveyed and how much time they spend each week focusing on this aspect of their duties.

- The majority of those surveyed (45 %) said a team consists of 2-5 people
- 17% said they handle it solo – this is still quite a substantial figure, especially in view of the breadth in the size of businesses we surveyed
- The large majority (37%) of respondents said they spend around 12-17 hours a week managing payroll which is a significant number of hours in a work week
- The average number of hours spent comes out as 14 hours on payroll per week. Assuming an average 35 hour working week, payroll management is taking an average of 40% of people's time each week

This leads us to the next aspect of our research and a look at what time spent on payroll administration involves, as well as the tools people are using to manage it.

Two thirds of SMEs now using payroll software

More than half (57%) of survey respondents – an overwhelming majority – report they use dedicated payroll management software.

This isn't surprising when one considers that businesses have been obliged to file information about payments and deductions in real time throughout the financial year since Real Time Information (RTI) was introduced in 2012, as we discussed in the first chapter of this report.

Payroll software is nothing new. It has been available to businesses for several decades, however, widespread adoption was accelerated when RTI rules came into force.

57%

report they use dedicated payroll management software

Although HMRC doesn't commercially produce payroll management software of its own, it has developed a free application for companies with fewer than 10 employees. This is called Basic Free Tools. This application enables payroll administrators to perform simple payroll tasks, including working out the tax deductions and National Insurance contributions for employees and sending this information to HMRC online.

In other words, the free application enables businesses to do enough to comply with the HMRC's rules. But there are limitations when compared with commercially developed software which is more sophisticated in terms of functionality and suitable for companies with more than 10 employees. HMRC's Basic PAYE Tools is also unsuitable for agents (e.g. accountants and bookkeepers) and specialist payroll bureau companies which manage more than 3 clients.

One tenth of payroll managers still using spreadsheets

If a third – not an unsignificant number – of the businesses we surveyed are not yet using dedicated payroll software, they are very likely to be outsourcing payroll management to a service provider, or using a combination of manual and spreadsheet-based calculations alongside HMRC's basic tool.

Our survey results revealed that, rather worryingly:

1 in 10 are still using spreadsheets to manage payroll, which leaves a huge margin for human error to occur

A further 11% are also relying on manual timesheets to manage and calculate payroll, which suggests a lot of time will be spent on this area of business

It may well be the case that payroll managers and administrators who are reliant on spreadsheets and manual timesheets are performing basic calculations and then providing data to third party payroll service providers or inputting data into HMRC's basic tool for online reporting purposes.

Either way, this 'semi-automated' way of working is likely to be making heavy work of something which could be completed in the fraction of the time it would take if these businesses were equipped with more modern payroll software designed to automate all aspects of PAYE management.

Spreadsheets are prone to flaws and PAYE legislation is updated by the government each financial year. This means spreadsheets must be updated too and if they are not, they may well be errors in calculations related to payments and deductions.

Staying abreast of PAYE legislation can be an onerous, time-intensive task. The difficulty increases when managers must also unpick and update spreadsheet formulae for calculating payments and deductions based on different tax rates and codes, as and when they change.

Payroll managers' confidence running high

Although PAYE is a complex subject, we were interested to note that our survey respondents were mostly confident in terms of this area of financial management, perhaps underlining the effectiveness of the training they have received as part of their roles.

- 50% of those surveyed say they are 'quite confident' in handling it all themselves
- Cumulatively 82% of respondents say they are in some way confident in handling it
- A small margin is ambivalent (12%) and then only a small percentage are unconfident (5%)

Although those people who are ambivalent about their abilities or who feel unconfident about PAYE management are in the minority, this is a point of concern, especially in view of the importance of accuracy and compliance with employment law and legislation.

If people feel out of their depth or overwhelmed, this clearly underlines the need for more training. Failing to invest in this is a false economy, and a lack of knowledge which leads to inaccuracies could put a business on a collision course with HMRC.

Speaking of HMRC, we also wanted to understand how positive people feel about their dealings with the department and the support they receive. The answers we received painted a mostly positive picture:

68%

say they do feel supported by HMRC on payroll matters

12%

say they do not feel supported by HMRC on payroll matters

Similarly, most respondents (82%) felt payroll as a function is well understood by colleagues in their company. Although the finer points of PAYE are likely to be understood by those responsible for PAYE and payroll management, it is reassuring that administrators and managers think their roles and the importance of what they do is respected. Whether their assumptions on this knowledge are correct, however, is up for debate.

Ongoing concerns about cloud data security

We found that businesses are using an incredibly broad spectrum of systems. Many businesses have already adopted cloud-based Software-as-a-Service (SaaS) systems which are hosted on their behalf by software providers. The Cloud Industry Forum estimates that 88% of UK SMEs are now using at least one SaaS application.

But despite the increase in the use of cloud-based software, there is still some skepticism. We were interested to assess attitudes towards cloud computing and our respondents' answers were telling.

51%

said security was a top concern

- The majority (51%) said security was a top concern
- Budget constraints came in a close second (28%) as barriers to the adoption of cloud-based business management technologies

In the next chapter, we will examine the security aspect of the debate around cloud-computing in depth and make the case that in many circumstances, a business' data is far more secure in today's sophisticated datacentres.

Although we applaud people for prioritising the security and integrity of their company's data, the simple fact is that these days, it is often far safer in ISO27001 accredited datacentres than it is in a business' own on-premises infrastructure.

Analysis: Security and cloud computing

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In the last chapter, we discussed our research findings which revealed that approximately half of the people in financial and payroll related roles we interviewed have reservations about cloud computing, and these are largely based on doubts related to data security.

In this chapter we wanted to take the time to address the subject in detail. In the age of increasingly sophisticated viruses and cyber-attacks, we completely understand concerns about data security. In fact, the handling and security of your employee and PAYE-related data is our highest priority at Breathe.

One of our central company values is to “do the right thing” and that means not just ticking boxes to ensure your data is safe, but questioning everything we do with the intent of making it safer. It’s not just the right thing to do; it makes good business sense.

What is Software-as-a-Service (SaaS)?

Software as a service (SaaS) is a way of delivering software via the internet – as a service. Instead of installing and maintaining software on local, in-house PCs and servers, users access applications online, over the internet. These applications and programs are usually described as being hosted "in the cloud". SaaS applications are also referred to as web-based software, on-demand software or hosted software.

SaaS and the hybrid working revolution

Cloud computing and SaaS have been key enablers to collaboration and central to business and economic continuity during a time like no other. The value of remote working is clear and made possible with these tools. At the height of the crisis, over a third of British workers were working from home, with millions regularly using video conferencing, group chat and other online tools as part of their job for the first time.

According to the Office of National Statistics (ONS), the proportion of people working from home (WFH) more than doubled in 2020. The ONS research also showed that 25.9% – or 8.4 million people – were completing duties from their place of residence at some point in the week they were spoken while being surveyed between April and May 2021.

The release of the ONS research findings coincided with the publication of the third in our series of Breathe's Culture Economy Report. In this edition we examined working trends throughout the pandemic. Our own research underlined the importance of technology as an enabler, which was key to helping people remain productive while working separately and away from the office for a sustained period of time.

Data security and ISO 27001 accreditation

In February 2021, the Federation of Small Businesses (FSB) announced research findings which revealed that 41% of organisations believe remote working is still not as secure as the office from a cybersecurity point of view.

The FSB's research revealed that despite peoples' security related reservations, when COVID-19 hit, 83% of organisations were forced to make changes to their IT strategy. A majority of respondents (55%) increased their adoption of cloud technologies to meet this challenge, and 88% expect to increase their adoption of cloud services over the course of 2021.

Many businesses' hands were forced in terms of adopting cloud technology during the pandemic, but there are very sound reasons for doing so. Dedicated datacentre facilities can provide a far, far greater level of data security than in-house on premise-systems.

In fact, moving your data to a reputable cloud hosting service such as Amazon Web Services or Microsoft Azure provides a level of security that it would be very difficult to duplicate on site. That's because most organisations simply don't have the financial or staffing resources to provide the same security benefits as large cloud services providers can.

Our latest survey revealed that just over half (51%) of SMEs which didn't use cloud-based software to process payroll, admitted this was because security was a top concern. It's clear that there is still a way to go when it comes to building confidence in what will undoubtedly underpin the future of intelligent tech and digital industry.

Now, cloud datacentres focus heavily on ensuring data is encrypted and stored with added security in mind. Breathe's software for instance, is hosted by Amazon Web Services (AWS) in their state-of-the-art datacentres which are ISO 27001 certified. As an added precaution, we ourselves are ISO 27001 accredited, reflecting the commitment to security demonstrated by our working practices and data-handling expertise.

GDPR and Subject Access Request compliance

Since the EU rolled out General Data Protection Regulation (GDPR), businesses have been working hard to ensure they are compliant. The Information Commissioner's Office (ICO) has the power to fine organisations found guilty of a data breach up to £20 million or 4% of their annual turnover and they regularly announce which firms have been penalised.

The list of companies found guilty of nuisance calls and spam – as well as losing data – shows that the ICO has the smaller companies in its sights as much as larger firms. For SMEs, the penalties can be far more damaging, in comparison to enterprises with dedicated legal teams to handle any disputes and navigate the regulatory minefield.

To date, much of the emphasis in the press and business blogs has been on the use (or misuse) of marketing, prospect and customer information. However, it's important to remember that GDPR rules apply to employee data, too.

Information about your people held in software systems, spreadsheets and filing cabinets is about as sensitive as it gets. By storing employee information in secure systems like Breathe's HR software, you can significantly reduce the risk of data going astray. This mitigates the risk of being found guilty of a data infringement by the ICO and being fined as a result.

The business case for cloud computing

Many businesses which invest in SaaS enjoy reduced tax rates. Software hosted in the cloud is assessed by HMRC as an ongoing Operational Expense (OPEX) and not a Capital Expense (CAPEX) following a one-off purchase. It's worth investigating which is best for your business. For most UK businesses, the OPEX model is the most cost-effective option.

Breathe's software offers this and more.

Other benefits include:

- Daily backups run on your behalf by specialist engineers
- High security levels with data housed in state-of-the-art datacentres
- High system uptime and software availability
- Fully supported by a team of specialists
- Reduced carbon footprint – AWS committed to using renewable energy

Migrating from older payroll systems

If you have been an employer for some time, there is a very strong chance you are already using payroll software of some description. The market is a mature one and there are numerous systems provided by HMRC or independent software companies that have been available, in some cases, for decades.

Many older payroll software systems were developed before cloud computing and SaaS became commonplace and in languages that made it difficult for providers to make them available to their customers online and therefore benefit from systems housed in the cloud.

One thing is for certain: cloud infrastructure is becoming the pillar of all future business. Firms that neglect to invest in the right tools to support them into this next wave of digital industry risk falling behind and losing their competitive edge. It's a good idea to weigh up and pros and cons of any tech procurement and take a look at what competitors are doing to stay ahead of the curve.

Concluding thoughts

At time of writing – December 2021 – the business media is reflecting on the challenges of the last 12 months and those that SMEs will face in 2022.

What has been termed 'The Great Resignation' is making it harder for companies to recruit people and many existing employees are considering changing jobs and moving employers. Data from Microsoft published earlier in the year suggests that an estimated 40% of the global workforce is considering changing jobs in 2021.

Generation Z in particular has had enough. A recent Adobe survey of 5,500 workers found that 56% of those ages 18–24 say they are planning to switch jobs in the next year.

Research from Microsoft and Bankrate backs this up, reporting that 54% and 77% of Gen Zs, respectively, are thinking about quitting.

To attract new employees and retain existing members of staff, businesses are having to re-think employee incentivisation. This is bringing payroll and HR management closer together than ever before.

Employers who are having to offer higher salaries, increase pension and benefits may see changes such as different tax thresholds and a need to update employees' tax codes.

Of course, incentivisation goes far beyond adjustments to payroll. Many are people choosing to move jobs and employers because of cultural reasons. The pandemic has provided people with the time to think about their careers and where they want to be and what they want to do.

Researchers from Gallup recently noted that:

"The Great Resignation is really the great discontent."

Rather than being an issue with pay or industry, the researchers said:

"The pandemic changed the way people work and how they view work …reversing the tide in an organisation requires managers who care, who engage, and who give workers a sense of purpose."

In other words, people are looking for roles with more progressive, supportive cultures than they may have experienced to date. There is now a greater emphasis on wellbeing and flexibility and companies who do not prioritise culture and putting people first run the risk of losing people or not being able to recruit them in the first place.

In this report we have identified the fact that although there is some crossover and shared responsibilities between those responsible for payroll and HR management, they are often managed by people with different areas of responsibility.

To overcome the challenges brought about by The Great Resignation, it has never been so important that financial and payroll management professionals work with their colleagues who are responsible for HR. Although we may be close to the other side of the pandemic, we are now facing a new set of challenges to which the alliance of payroll and HR professionals will be key to overcoming.

Glossary of common PAYE acronyms

The following is a list of frequently used abbreviations related to managing PAYE and tax.

ASPP - Additional Statutory Paternity Pay

BAB - BACS Approved Bureau

BACS - Bankers Automated Clearing Service

CIS - Construction Industry Scheme

COTAX - Corporation Tax reference

EAS - Employer Alignment Submission

ECON - Employer’s contracted-out number

EPS - Employer Payment Summaries

EYU - Earlier Year Update

FPS - Full Payment Submission

LEL - Lower Earnings Limit

MA - Maternity Allowance

NI - National Insurance

NICs - National Insurance Contributions

NINO - (employees) National Insurance Number

NVR - (National Insurance) Number Verification Request

OSPP - Ordinary Statutory Paternity Pay

PAYE - Pay-As-You-Earn

PT - Primary Threshold

RTI - Real-Time Information

RTINO - Real-Time Information Notice

SA - Self Assessment

SAP - Statutory Adoption Pay

SCON - Scheme Contracted-Out Number

SMP - Statutory Maternity Pay

SSP - Statutory Sick Pay (SSP)

ST- Secondary Threshold (ST)

SUN - Service User Number (SUN)

UP - Upper Accrual Point (UAP)

UEL - Upper Earnings Limit (UEL)

Escape people admin and focus on what matters

Breathe's award-winning HR software helps over **11,000** SMEs to streamline their everyday people-tasks and covers everything from holiday, sickness & document management to expenses, rotas and performance.

The software is GDPR-compliant & ISO27001-accredited, offering the highest level of data security. The system is also 100% cloud-based, making it easy to access from anywhere.

Breathe have been part of the ELMO Software group since 2020.

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