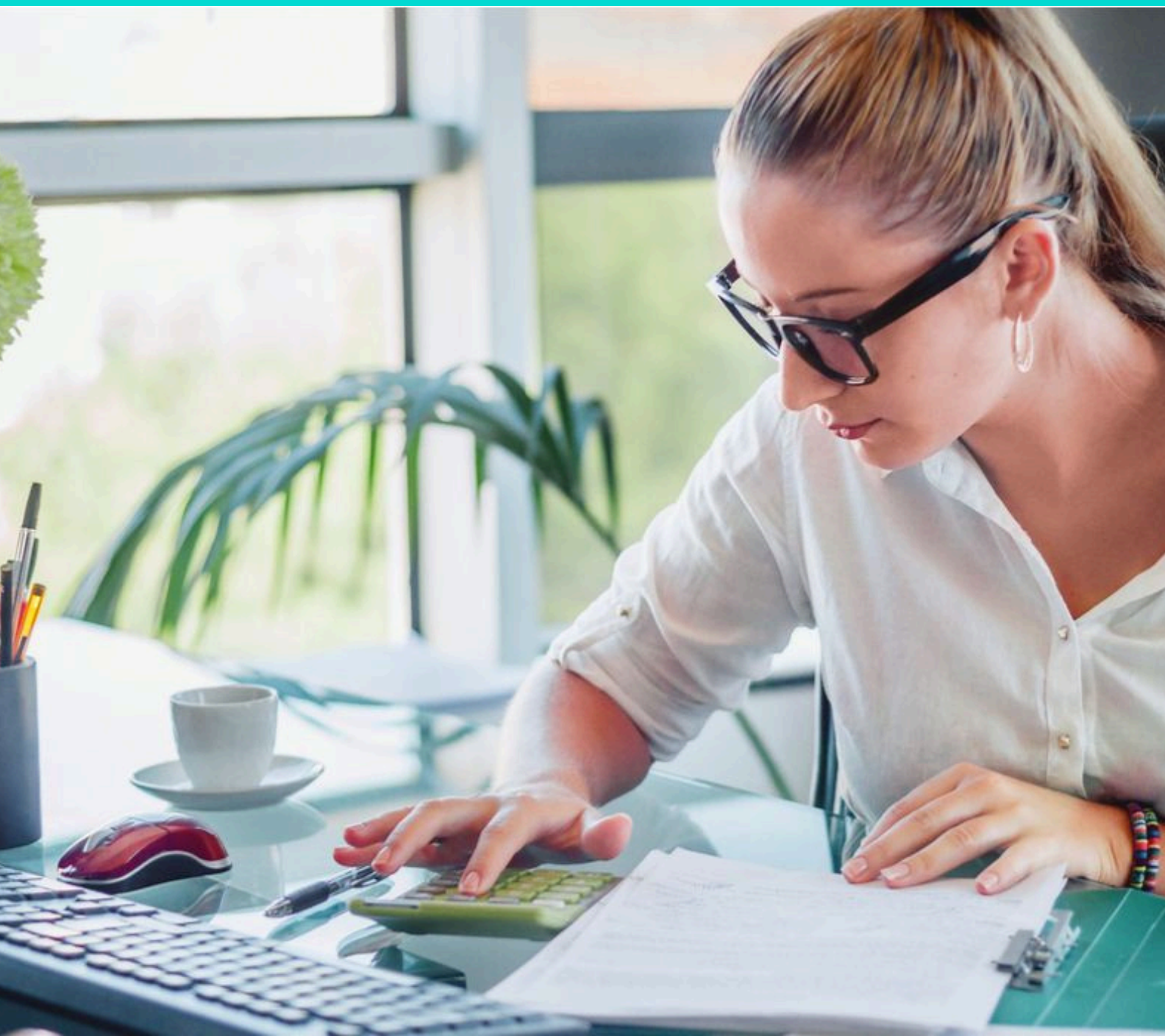


# Louenna's Nannies Guide to *Payroll*



# Employing a nanny: *the legals, compliance and ongoing payroll*

## Congratulations, you have just hired a nanny. Now what?

You have become an **employer**. This means that you will need:

- ✓ An employment contract with your nanny;
- ✓ To be set up with HMRC as an employer;
- ✓ To set up a pension scheme for your nanny;
- ✓ To start running payroll and making regular payments to your nanny, HMRC and pension scheme.

# Setting up with HMRC

As an employer you are legally required to register with HMRC. In order for your payroll provider to do this for you, follow these two steps:

## **1) You need to register yourself with HMRC**

You will need to complete an employer registration form to provide your payroll provider with the relevant details to register you with HMRC.

## **2) They need authority to act on your behalf**

Once they have registered you with HMRC, your payroll provider will request authority to act on your behalf. This can take up to 14 days and once completed, you will get a letter informing you that you are set up and registered.

**Final setup step:** Once all of the above is completed, your provider will send a *new employee form* to the nanny for them to fill in. This includes (among other) information about their last job, national insurance number and any student loans or other government debt they have.

# Pension set up

**As an employer you are legally obliged** to enrol your employees onto an approved Pension Scheme for any employee between the ages of 22 and state pension age, who earns more than £120 per week.

When setting up a pension scheme your payroll provider will need your HMRC PAYE and Accounts Office Reference numbers, which you get when you register as an Employer with HMRC.

- 1) Your accounts office reference number (e.g. 120PS18345624)
- 2) Your PAYE reference number (e.g. 120/VE18999)

You will receive an email confirming that a scheme has been created, and a verification link which you will need to click to complete the set up.

Once a scheme has been successfully created and your payroll provider has been granted access, they will enrol your nanny and manage all pension contributions on your behalf.

Please note that the compliance with the pension scheme is mandatory, regardless of whether your nanny wants it or not. Only once it is set up, your nanny can decide to opt out by completing a form included in her Nest enrollment welcome pack, delivered by post. To receive a full refund of contributions paid in the first month, this needs to be done within 30 days. Unless instructed otherwise, most payroll providers will set up all pension schemes based on the minimum contribution levels of 5% of the gross salary from the employee and 3% from the employer.

# FAQs

**What do I need to do in order to become an employer?** - You need to have an employment contract in place, set up with HMRC and set up payroll.

**What is payroll?** - Payroll is the managing of employee wages and taxes. It keeps track of worked hours and calculates wages, taxes, national insurance, pension contributions and any other government debt or payment obligation.

**What is calculated on a payslip?** - The employees net income, income tax, national insurance contributions by both the employer and the employee, pension contributions by both and any other obligations or debts to the government, for example student loans.

**How are sick days reflected in payroll?** - Unless you have a different agreement in your contract, [statutory sick pay](#) rules apply.

**How are holidays/bank holidays factored in?** - Typically, these are minimum 20 days + 8 bank holidays, assuming the nanny works full time. They are paid at a normal rate. As an employer you should be tracking how many days a nanny has taken, but the nanny is paid normally for these days unless they go over.

**What if my nanny takes unpaid days off?** - If you agree to this that is fine, but let your payroll provider know so they can adjust payroll accordingly.

**What are my liabilities as an employer towards HMRC?** - The nanny's income tax and employer and employee national insurance. Your provider will calculate all of these on each payslip and make those contributions in your name directly to HMRC.

**What are my liabilities with regards to pension?** - As an employer you are obliged to enrol your employee onto a pension scheme. It is then the decision of the employee whether they opt in or out of the scheme, you cannot choose for them. The minimum contribution level are 5% by employee and 3% by employer (unless the nanny opts out). Please note, if you have agreed a net salary both are your duty to pay.



# Payroll Cheatsheet

These pages explain the different elements that make up the total cost of employing a nanny and when you will pay them through payroll.

The Louenna's Nannies team will be able to give you an idea of your total cost of employment.

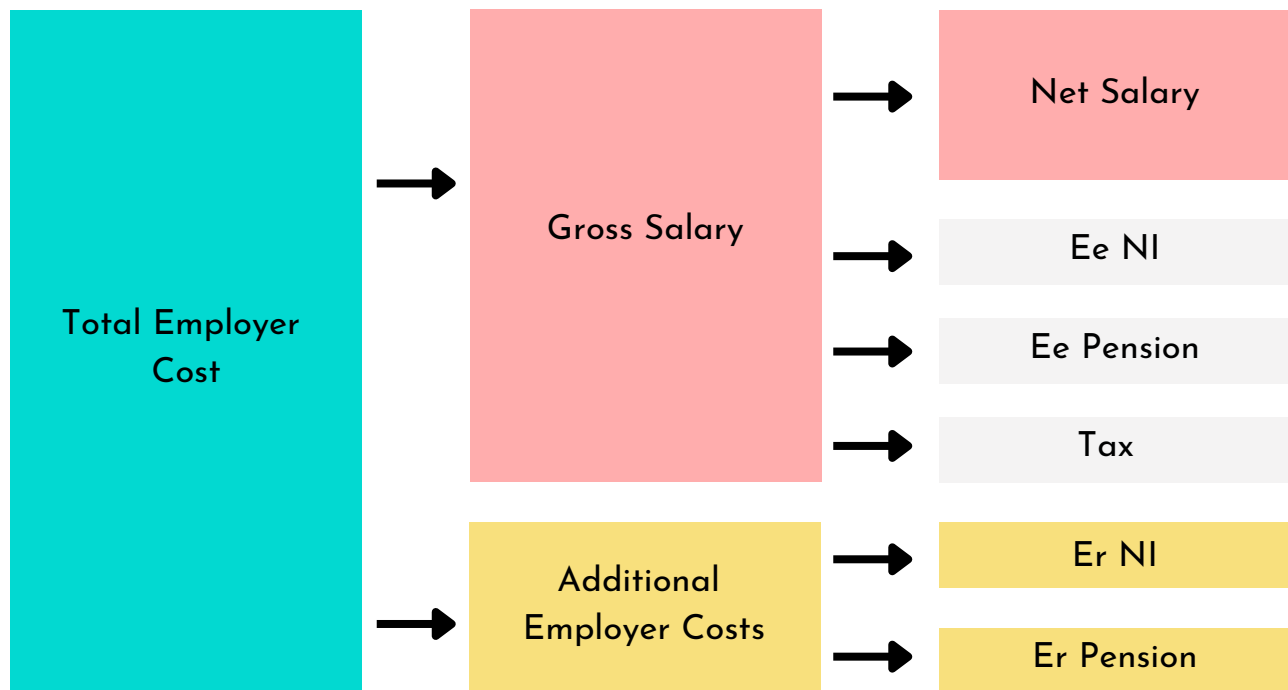
## Employer's Costs

<b>Net Salary</b>	Paid each time payroll is run, either monthly or weekly. Net Salary is Gross salary minus tax, Employee NI, Employee Pension and any other deductions such as student loans
<b>Employer Pension Contribution</b>	Paid each time payroll is run, Employer Pension Contributions are not deducted from Gross salary, they are an additional employer cost
<b>Employee Pension Contribution</b>	Paid each time payroll is run, this amount is deducted from the employee's Gross salary

## Employee's Costs

<b>Employee Tax</b>	Paid each quarter, this amount is deducted from an employee's Gross salary
<b>Employee NI</b>	Paid each quarter, this amount is deducted from an employee's Gross salary
<b>Employer NI</b>	Paid each quarter, this amount is paid in addition to the employee's gross salary

# Payroll Cheatsheet



**Are there any other costs?** - There are some others which you would be obliged to pay as the employer on the nanny's behalf, such as: student loans, government debt. However, on a gross pay agreement, this will come out of the nanny's gross salary (no additional cost to you). This is a different story for net pay arrangements...

**Should I do a net pay arrangement or gross?** - If you have not already agreed a contract, it is always better to go gross. Agreeing a net pay arrangement means that you are obliged to ensure that they will always receive that amount regardless of anything additional that they might owe to HMRC. Which could mean additional costs to you, and is much more difficult to budget for.

**What are the things I could be liable for if I agree a net arrangement?** - This is not a conclusive list, but can include the following:

- Employee Income Tax and Employee National Insurance (always)
- Employee Pension Contributions (majority of the time)
- Student Loan Repayments
- Unpaid taxes from previous employment
- Government debt

**Can I change my nanny's contract after it's already been set up?** - Yes, it will need to be redrafted and agreed by both parties, but once that is done payroll data can be updated to reflect any changes you decide on.