

## PAYE – Pay As You Earn? Or Penalties As You Earn?

Financial expert **Priya Kotecha** has an important update for practice owners. . .

If you own a practice and employ staff, or think you may buy a practice, you really need to read this if you want to avoid HMRC breathing down your neck, which let's face it – is not a pretty thought (HMRC that is – not your neck).

### Penalties

Penalties on the late payment of PAYE and National Insurance (NIC) were introduced on 6 April 2010 and many businesses are still reeling.

If you employ staff, you will usually have to pay the PAYE and NIC you have collected by the 19 or the 21 of each month (if paid electronically). If you are late, HMRC will penalise you as a percentage of the total amount of defaults and they will do this according to how many times you have been late.



Priya Kotecha (ACA, DipPFS) is a partner & chartered accountant with Mac Kotecha & Company, established for over 28 years, where her and the senior partner deal exclusively with dentists. They offer accountancy, taxation & payroll services in addition to invaluable advice on practice management, buying/setting up a practice and other dental issues. Contact on 020 8346 0391 or go to [www.specialistdentalaccountants.co.uk](http://www.specialistdentalaccountants.co.uk).

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Number of defaults	Penalty
1-3	1%
4-6	2%
7-9	3%
10 or more	4%

Let's assume you have a staff of one receptionist and two nurses and that your monthly PAYE bill is around £3,000. If, every month, you were two days late paying the PAYE and NIC to HMRC, you would be looking at a penalty of £1,440 over the year!

### Rates

It is worth mentioning also that from 6 April 2011, all NIC went up by 1%:

Employees NIC class 1 – from 11% to 12%.

Employers NIC Class 1 – from 12.8% to 13.8%.

Class 4 NIC up from 8% to 9%.

NIC Surcharge – from 1% to 2%.

Class 4 NIC is a tax all but in name – you get no state pension, benefits etc from this whatsoever.

### RTI

April 2012 saw the introduction of Real Time Information (RTI) by HMRC – a pilot scheme which, some would say, is more intrusive than open heart surgery.

This will involve the employer having to input a wide range of details for each employee per month. The details will include the more standard things like name, NI number, date of birth etc but could also ask for details such as the number of hours that employee has worked. HMRC have stated that the reasons behind this are to reduce their admin, non

compliance and tax credit fraud as well as simplify and improve the system. Experts, however, agree that there could be some other outcomes as well:

- HMRC may work with the Home Office to crack down on illegal workers. If you don't have a NI number for a member of staff, you will need to enter their passport number
- Could HMRC challenge situations where a director of a limited company dental practice pays himself a low salary and high dividends?

### Dental associates may be under attack

So is it really all that bad if an associate is deemed employed rather than self employed? Well actually, yes, it is.

- Practice now has to pay 13.8% Employers NIC
- Associate has to pay 12% Employees NIC
- Associate can only get tax relief on those expenses that are 'wholly, exclusively and necessarily' incurred in the course of their employment, as opposed to being able to get tax relief on any expenditure that is 'wholly and exclusively' incurred in the course of their trade.

Whether you are deemed employed or self employed is not a matter of choice – it is a question of fact and so long as you can prove self employed status – HMRC should hopefully not be successful in any challenge but it is essential to contact your specialist dental accountant now to discuss your position and take steps to protect your situation. **adt**