Introduction to the PAYE System
Registration

In general, a person or a limited company will register as an employer when first registering for tax purposes. This is usually done by submitting either a Form TR1 (sole-traders & partnerships) or a Form TR2 (companies) to the local tax district.

When an employee begins

When engaging a new employee, it is the employee’s responsibility to provide the necessary documentation to the employer to enable the correct PAYE/PRSI be deducted.

The employee must present a form P45 received from his previous employment to the new employer who will forward this to the Revenue Commissioners to enable them to issue the appropriate certificate of tax credits and cut-off points to the employer (PAYE1). Until these documents are received the employer should use the tax credits and standard rate cut off point included on the form P45 to calculate the PAYE arising from the employee’s salary (calculated on a week 1 or month 1 basis).

If the employee cannot provide a Form P45 for whatever reason they must fully complete a Form 12A on starting employment. The employer will forward this Form 12A to the Revenue Commissioners who will then issue the appropriate certificate of tax credits and standard rate cut-off point.

This certificate will contain all the relevant information to allow for the correct PAYE to be calculated, including the tax credits and standard rate cut-off point attributable to the employment. These figures depend on the employee’s personal circumstances and may differ significantly between employees.

Emergency basis

The rules for the Emergency Basis depend on whether or not the new employee has provided the employer with a PPS number. (It should be noted that “Gross Pay” is the salary after deduction of qualifying pension and PHI contributions where relevant).

Where no PPS number is provided, the employer is obliged to calculate tax on the gross pay at the marginal rate of tax (41% in 2010). No tax credits and no standard rate cut-off point should be used.

If the new employee does provide his PPS number, then in 2010 he is taxed as follows:
For the first 4 weeks, tax is calculated on the basis that he is entitled to a standard rate cut-off point of €700pw and to tax credits of €35.19pw.

For weeks 5 to 8, tax is calculated on the basis that he is entitled to a standard rate cut-off point of €700pw with no tax credit deduction.

From week 9 onwards, tax is calculated at the higher rate of tax (41% in 2010). No tax credits and no standard rate cut-off point should be used.

Obviously, where the individual is paid monthly rather than weekly, the above figures need to be adjusted accordingly.

**PRSI/Levies**

In addition to PAYE, the employer must also deduct PRSI and Levies at source from the employee’s salary. The amount of PRSI and Levies arising depends on the PRSI class applicable to that employee, as different rates apply to different classes.

The employee’s PRSI class is determined by his personal circumstances, e.g. whether he is a proprietary director/shareholder, a medical card holder, a widower or a lone parent. Most employees are insured under Class A.

A detailed summary of the different PRSI classes - and rates and exemption limits applicable to each class can be obtained from the Department of Social, Community and Family Affairs.

The amount of employer’s PRSI arising is also determined by the PRSI class applicable to the employee. In general, for Class A employer’s PRSI of 8.5% arises if the employee’s gross weekly salary is less than €356.01. An increased rate of 10.75% applies if the gross weekly salary is greater than €356.01pw (2010 figures). Each week is assessed individually.

**Gross or net pay**

PAYE and PRSI is calculated on an employee’s gross pay, i.e. pay before any deductions are made, while net pay is what the employee receives after PAYE and PRSI and other deductions, i.e. take home pay.

If an employer agrees a net pay with an employee then in effect the employer is agreeing to pay the employee’s PAYE/PRSI for them. This also means that if an employee’s tax credits or standard rate
cut-off point change the employer will have to pay any additional tax arising. Therefore an employer should never agree a net pay with an employee.

Revenue returns

A P30 Return must be submitted to the Revenue Commissioners setting out details of the total PAYE/PRSI deducted. Depending on the size of the employer the P30 will be issued either on a monthly, quarterly or annual basis. The P30 must be submitted before the 14th day of the month following the period end, e.g. the P30 for January must be submitted by 14 February. If there is no PAYE/PRSI liability for a particular month, the Form P30 should be marked ‘Nil’ and submitted in the normal manner. If an employer will be filing and paying their Form P30 online then they must pay by the 23rd day of the following month.

PAYE/PRSI payments can be made either by post, online or direct debit.

If paying via direct debit, a standard payment is made each month directly from the employer’s bank account. It should be noted that interest and penalties can arise if the amount paid under this system is not sufficient and therefore it may be necessary to increase the monthly payments to ensure the correct PAYE/PRSI is paid. The advantage of paying by this method is that there is no need to submit monthly/quarterly P30 Returns but the annual P35 must be submitted in the normal manner (see below).

End of year return

The annual PAYE/PRSI Return (P35) must be submitted at the end of the year detailing the PAYE/PRSI arising for each employee. The deadline for submission of the P35 is 15 February (for example, the 2010 P35 must be submitted on/before 15 February 2011). The completed P35 is submitted to the Revenue Commissioners together with a cheque in settlement of the balance of PAYE/PRSI due, if any.

A Form P60 and an income levy certificate must be given to every employee who is employed at the end of the tax year, i.e. employed on 31 December. Among other things, this form contains details of the employee’s gross pay, tax and PRSI contributions for that year.

When an employee leaves

When an employee leaves during the tax year, the employer must provide him/her with a Form P45 and an income levy certificate. The P45 confirms the employee’s gross pay, tax and PRSI contributions from the start of the tax year until the date of leaving.

The P45 is made up of four separate parts – Part 1 should be sent to the tax office but Parts 2, 3 and 4 should be given directly to the employee on the date of cessation.
Please call Noel Murphy today on 021-4310266 if you need further information on the PAYE system or a free consultation.