PAYE vs Your Own Limited Company

September 2015

Got a question ? Contact the office on 01372 231007 or e-mail admin@Care101.co.uk

In the agency world especially, you may have heard of people talking about "limited companies" or "limited accounts". You'll also probably heard of PAYE in terms of earnings and tax. Here we'll describe the two and their respective benefits.

PAYE

PAYE or "Pay As You Earn" is the way most people in the UK get paid. Put simply you get paid and HMRC deduct the tax you owe as you go along, taking into accounts various tax allowances and other benefits you may have. In effect, the tax is deducted by us when we pay you; we then pay all tax owed by all PAYE employees that month in a single sum.

When you have a single job this is relatively simple; with multiple jobs it gets more complex because the tax is based on your entire earnings for the year and not simply what that job paid a particular week or month. Ultimately HMRC reconcile the tax at the end of the tax year based on your self assessment or what they deem to be owed – either to you or to them.

The PAYE deductions themselves will be a combination of your income tax and National Insurance (NI) contributions. National Insurance is a compulsory deduction of a fixed percentage of your earnings that allows you to have access to benefits and services such as the National Health Service (NHS). The amount withheld is determined by a tax code which applies the taxpayer's individual tax liabilities.

Each year you'll be issued with a P60 form containing details of all the tax you've effectively paid via these deductions. If you leave a job, the employer issues a P45 instead. This summarises the same information for the part of the year you worked for that employer

You should keep these documents. You'll need them if you wish to claim a tax refund.

Limited Company/Account

As an alternative to PAYE, you can instead be paid as though you yourself were a limited company – albeit a limited company of maybe 1 person. In fact to do this, you must create & maintain your own limited company with Companies House and have an associated company bank account. This may be of benefit, especially if you work for multiple employers as it can reduce the overall tax you pay.

With a limited account, you get the full amount owed to you, with no deductions being made by HMRC as per the PAYE scheme. Assuming you meet the guidelines set by HMRC, you will pay a lower tax rate (corporation tax) which effectively means you can pay less tax overall when compared with the PAYE scheme. However …

- You must comply with all company and other statutory issues, including company law requirements to file accounts and returns to Companies House.
- You need to manage your accounts carefully, including any payroll requirements or statutory returns.
- You must run the company, creating invoices, potentially appointing and paying an accountant to handle all pay & tax affairs and accounts on your behalf.
- You must ensure all the necessary insurances are in place in order for you to trade and protect your clients.

Which type does Care101 work with ?

By default when you join, you'll be put on the PAYE scheme. However, if you have a limited account and feel it's of benefit to you, we are happy to pay you on that basis.

For the purposes of our payroll, limited account employees are treated as suppliers. This means you won't get a payslip because you won't be paid through the payroll itself. Instead, you simply invoice us for the work you've done, based on a completed timesheet and we remit against that invoice.

For more information on this, please contact the office and we'll discuss the options with you.