

Employing an individual in the UK

UK Income Tax

Subject to very limited exceptions, the UK payroll tax deduction system known as 'Pay As You Earn' (PAYE) must be operated for all employees who work under the day to day control and management of an entity in the UK. This is the case even when the individual is being paid by a foreign entity by whom they are employed.

Therefore full details of the individual's pay are required in order for UK PAYE to be operated and processed through the monthly payroll.

To summarise see Table 1 below.

Table 1.

Is PAYE to be operated on a UK salary?

	UK Resident Company Employer	Non-UK Resident Company Employer
UK Resident Employee	yes*	yes*
Non-UK Resident Employee (present in the UK for less than 183 days)	yes*	yes*

* wherever paid

However a foreign national who only intends to be present in the UK for a period of no more than two years may be able to make use of the Secondment Rules. These Rules entitle the employee, being transferred to the UK but remaining on his existing overseas contract, to exemption from UK tax on that portion of his income paid abroad, to the extent that such payments relate to work duties performed abroad and paid to a non-UK bank account and not remitted to the UK.

If, however, the intention is to stay in the UK for more than two years, then the employee will not be entitled to make use of the Secondment Rules and all income from the relevant employment will be taxable in the UK.

To summarise see Table 2 below.

Table 2.

Who is exempt from UK income tax on income earned and paid abroad?

	UK Resident Company Employer	Non-UK Resident Company Employer
UK Resident Employee	Not exempt	Not exempt
Non-UK Resident Employee	Exempt*	Exempt*

* where the intention is to stay here less than 2 years and income not remitted

If exemption is available a claim must be agreed with HM Revenue & Customs before any deduction can be made in the payroll. If successful HM Revenue & Customs will issue instructions over what % of the payroll should be exempted from UK tax at source

Non-Cash Benefits

Non-Cash Benefits, such as company cars and accommodation etc, provided to employees are additionally taxable on the individual recipients.

However, where an individual is transferred to the UK for a period of less than two years then the Secondment Rules will apply. The Rules entitle the employee to non-cash benefits such as accommodation and certain travel (e.g. flights to and from their original home a couple of times a year) without incurring UK tax on such items.

National Insurance

National Insurance is the UK social security tax applied to earned income and is charged on both the employer and employee, except where the employer has no physical presence in the UK in which case no charge can be levied on the employer.

Certain countries have agreements with the UK to enable a claim for exemption to be made where an individual is only working in the UK country temporarily - up to two years. The claim may exempt the individual from liability in the UK but often continued payment in the home country is required.

Exemption is only available on a successful claim and will depend upon the agreement with the home country concerned.

To summarise see Table 3 below

Table 3.

Who is exempt from National Insurance/Social Security?

	UK Resident Company Employer	Non-UK Resident Company Employer
UK Resident Employee	Not exempt	Not exempt
Non-UK Resident Employee	Possibly Exempt*	Possibly Exempt*

* depending on social security treaty position

Payment of Tax

Income Tax and National Insurance will be collected via the PAYE payroll. Settlement of the monthly liability has to be made by the 19th day of the following month.

At the end of each fiscal year, being the 5th April, a summary of the total Income Tax and National Insurance deductions has to be made on a form P35 and submitted to the HM Revenue & Customs by the 19th May.

Details of non cash benefits, such as company cars and accommodation etc, provided to employees for each fiscal year ended 5th April, have to be submitted to the HM Revenue & Customs on a form P11D by the 6th July.

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