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FREE GUIDE · 2026/27 · UPDATED OCTOBER 2026

Payroll & Workplace Pensions

An employer's guide to setting up a PAYE scheme, running payroll, salary sacrifice schemes and auto-enrolment pensions

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Taking on your first employee, or paying yourself a salary as a director, means running payroll. That brings legal duties: registering a PAYE scheme, reporting pay to HMRC in real time, paying statutory pay and the minimum wage, and enrolling eligible staff into a workplace pension. This guide explains each step in plain English, with the key figures for 2026/27.

> *"I started Zen to make finance feel calm and clear for business owners. I hope this guide answers your questions, and if anything doesn't quite fit your situation, I'm always happy to talk it through with you."*
>
> **Ann Williams**
> Founder, Zen Bookkeeping & Advisory

In this guide

01 Setting up your PAYE scheme
02 Running payroll each pay period
03 Paying yourself as a director
04 Salary sacrifice and other employee schemes
05 Holiday pay, starters and leavers
06 Workplace pensions and auto-enrolment
07 Your employer checklist

01 Setting up your PAYE scheme

Before you pay anyone, including yourself as a director if your salary is at or above the lower earnings limit, you must register as an employer with HMRC and set up a **PAYE scheme**.

1. **Register as an employer**
   Register with HMRC before the first payday. It can take up to 5 working days to receive your employer PAYE reference and Accounts Office reference, and you can't register more than 2 months before you start paying people.
2. **Choose payroll software**
   You must use HMRC-recognised payroll software to report pay in real time.
3. **Collect new starter information**
   Get each employee's P45 from their last job, or a starter checklist, plus their National Insurance number and bank details.
4. **Check right to work**
   You must check every employee has the right to work in the UK before they start.
5. **Set up your workplace pension**
   Your auto-enrolment duties start on the day your first employee starts work (see section 4).

02 Running payroll each pay period

Task	When
Calculate pay, tax, National Insurance, student loans and pension contributions	Every payday
Send a Full Payment Submission (FPS) to HMRC	On or before each payday
Give employees a payslip	On or before each payday
Send an Employer Payment Summary (EPS), if needed	By the 19th of the following tax month, for example to claim the Employment Allowance or report statutory pay recovery
Pay HMRC the PAYE and National Insurance due	By the 22nd of the following tax month if paying electronically (19th by cheque); quarterly if your monthly bill is under £1,500 on average
Give each employee a P60	By 31 May after the end of the tax year
Give leavers a P45	When they leave

15%
employer's National Insurance above £5,000 a year

£10,500
Employment Allowance to reduce employer's NI (not for one-director-only companies)

8% / 2%
employee's NI between £12,570 and £50,270 / above

Key figures for 2026/27

	2026/27
National Living Wage (21 and over)	£12.71 an hour
Minimum wage age 18 to 20	£10.85 an hour
Minimum wage under 18 and apprentices	£8.00 an hour
Statutory Sick Pay	£123.25 a week, or 80% of average weekly earnings if lower, from the first day of sickness
Statutory Maternity Pay	90% of average weekly earnings for 6 weeks, then £194.32 a week (or 90% if lower)
Statutory Paternity Pay	£194.32 a week, or 90% of average weekly earnings if lower
Student loan thresholds	Plan 1 £26,900; Plan 2 £29,385; Plan 4 £33,795; Plan 5 £25,000; Postgraduate £21,000

You must keep payroll records for at least **3 years** from the end of the tax year they relate to.

03 Paying yourself as a director

Most owner-directors pay themselves a small salary through payroll and take the rest as dividends. For 2026/27, a common salary is **£12,570**, matching the personal allowance:

- No Income Tax or employee National Insurance is due on it.
- It counts towards your State Pension record.
- It's an allowable expense, saving Corporation Tax.
- Employer's National Insurance of 15% applies above £5,000, unless the company can claim the Employment Allowance (not available if the director is the only employee).

✦ Zen tip

The best salary depends on whether you can claim the Employment Allowance, your other income and the company's profits. We set it up correctly from the start.

04 Salary sacrifice and other employee schemes

A **salary sacrifice** scheme is where an employee agrees to give up part of their salary in return for a non-cash benefit. Because their salary is lower, both the employee and employer can save tax and National Insurance. Popular schemes include:

Common schemes

- **Pension contributions**: the most popular, saving National Insurance for both sides
- **Electric car schemes**: low 4% BIK rate in 2026/27
- **Cycle to work**: bikes and safety equipment
- **Additional holiday** purchase schemes

Rules to follow

- The contract must be changed properly, with the employee's agreement
- Pay can't fall below the National Minimum Wage
- It can affect statutory pay, mortgage applications and some benefits
- Most benefits (other than pensions, cycles and ultra-low emission cars) don't save tax this way

! Change from April 2029

From 6 April 2029, National Insurance relief on pension contributions made through salary sacrifice will be capped at **£2,000** per employee per year. Contributions above that will attract employee and employer National Insurance. Income tax relief on pensions isn't affected.

05 Holiday pay, starters and leavers

Holiday entitlement

Most workers are entitled to **5.6 weeks** of paid holiday a year, which is 28 days for someone working 5 days a week (bank holidays can be included). For irregular-hours and part-year workers, holiday can be calculated as **12.07%** of hours worked in each pay period, and holiday pay can be "rolled up" into their pay.

New starters

1. **Collect their details**
   Name, address, date of birth, National Insurance number, bank details and their P45 or a starter checklist.
2. **Check right to work**
   Before they start, and keep a copy.
3. **Add them to payroll**
   Their details go to HMRC on your first Full Payment Submission.
4. **Assess for auto-enrolment**
   Check their age and earnings each pay period.

Leavers

Pay any final salary and untaken holiday, report the leaving date on your FPS, and give them a **P45**.

Statutory payments

Statutory Maternity, Paternity, Adoption and Shared Parental Pay can be largely recovered from HMRC: usually 92%, or more if you qualify for Small Employers' Relief. Statutory Sick Pay can't be recovered.

06 Workplace pensions and auto-enrolment

Every employer in the UK has legal duties to provide a workplace pension. Your duties start on the day your first employee starts work, and you must:

- **Automatically enrol** eligible staff: workers aged 22 to State Pension age earning over £10,000 a year.
- **Contribute** at least 3% of qualifying earnings, with a total minimum of 8% including the employee's contribution.
- Let other staff **opt in** or join, and pay employer contributions for those who earn over £6,240.
- Write to staff within 6 weeks of their start date to explain how auto-enrolment applies to them.
- Complete your **declaration of compliance** with The Pensions Regulator within 5 months of your duties starting.
- **Re-enrol** staff who have opted out every 3 years, and redeclare compliance.

£10,000
earnings trigger for automatic enrolment

£6,240 – £50,270
qualifying earnings band

8%
minimum total contribution, with at least 3% from the employer

Postponement and opting out

You can postpone auto-enrolment for up to **3 months**, for example for new starters on probation, as long as you tell them in writing. Employees can choose to opt out within one month of being enrolled and get a refund of their contributions, but you must never encourage them to.

Director-only companies

If your company has only directors, and none of them has an employment contract, you usually don't have auto-enrolment duties. You should tell The Pensions Regulator so it doesn't treat you as an employer with duties.

! Penalties

The Pensions Regulator can issue fixed and escalating penalties if you don't meet your duties, such as not enrolling staff or not paying contributions on time.

07 Your employer checklist

- [ ] Registered as an employer with HMRC and received the PAYE references.
- [ ] Using HMRC-recognised payroll software.
- [ ] Right-to-work checks completed and starter information collected for every employee.
- [ ] Paying at least the National Minimum Wage, including after any salary sacrifice.
- [ ] FPS sent on or before each payday, with payslips issued.
- [ ] PAYE and National Insurance paid to HMRC by the 22nd.
- [ ] Employment Allowance claimed, if eligible.
- [ ] Workplace pension set up, staff enrolled and contributions paid on time.
- [ ] Declaration of compliance submitted, and re-enrolment diarised every 3 years.
- [ ] P60s issued by 31 May, P45s for leavers, and records kept for at least 3 years.

✦ Zen tip

Payroll mistakes can be costly and stressful. Outsourcing your payroll and pensions to us means it's done right, on time, every time, and you have one less thing to think about.

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How Zen can help

We run accurate, on-time payroll and pensions for businesses of every size, from a single director to a growing team.

- PAYE scheme registration
- Weekly, fortnightly and monthly payroll
- Payslips, P60s and P45s
- Auto-enrolment set-up and compliance
- Salary sacrifice and benefits advice
- Statutory pay and holiday calculations

Book a free, no-obligation call

Tell us about your business and we'll explain how we can help, with a tailored fixed-fee quote for just the services you need.

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