

A smiling man with dark hair and a mustache, wearing a white t-shirt and a blue denim apron, stands in a kitchen. He is looking towards the camera. In the background, there are shelves with stacks of white plates and a warm, blurred light source.

How to take on your first employee

Accelerate your small business to the next level

Starting a business in the UK is as easy as opening a laptop or switching on your smartphone. Case in point are websites such as eBay, Instagram and Fiverr that are full of people flexing their side hustles, pushing the number of self-employed people to a peak in 2020 of more than five million, up from just over three million in 2000.

But while hundreds of thousands of people strike out on their own each year, only a small proportion of these businesses grow their headcount beyond the initial founder. Of the current crop of 5.6m private sector businesses, 4.2m have no employees.

Given the amount of creativity and effort on show, what's holding the country back?

The key issue for budding entrepreneurs is that while starting a business is easy, recruiting people to help run that business is hard. First, there's the practical reality that, in order to take on a recruit, you must devote time away from core business tasks to prepare for a newcomer, find the right talent and then train them to work independently.

Next, you must sacrifice revenue to pay them adequately for the work they do, as well as related

costs. In short, most businesses can't avoid the short-term hit when they become an employer for the first time – and this puts many people off.

Then there's the admin. Small businesses know the government's main concern is that you pay your taxes on time, but when you start recruiting it needs to ensure you treat people fairly and that they have a safe working environment.

Growing a business means stepping back, at least to a degree, from your day-to-day work and focusing on issues related to HR compliance. Of course, you might employ more people to take care of this work too, leaving you to deal exclusively with strategy and growth – though that step is probably somewhere off in the future.

But while taking on staff isn't straightforward, the rewards of expanding your business are worth it. And with the right software and support, it doesn't have to be painful.

In this smallbusiness.co.uk guide to taking on employees, in association with Intuit, we'll look at how to grow your team successfully, from getting started to managing the payroll.

Lucy Wayment, content editor,
SmallBusiness.co.uk

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Getting started

Dan Matthews shares 7 essential steps to growing your team

If you've made the decision to employ someone, then congratulations. Let's imagine you have already interviewed a selection of candidates and are ready to hire. You've cast the net wide, reviewed CVs, had the conversations, ensured they're made of the right stuff and, finally, you're ready to move forward.

Now, take time to ensure you're ready.

1. Legal status

For obvious reasons it's hard to quantify how many people are working in the UK without the legal right to do so. It's why the authorities take an extremely dim view of employers hiring workers illegally, with maximum penalties including five years in prison and unlimited fines.

The law targets those with 'reasonable cause to believe' a member of staff lacks the right to work in the UK, perhaps because they don't hold the right permissions or aren't allowed to carry out certain types of work.

'Employing people is daunting, but with the right tools you can lay the foundations of stellar growth'

Always assess documents for authenticity and carry out a right-to-work check if you are concerned, especially if you operate in an industry where the problem is common. And don't assume that if a person has a National Insurance number they have a right to work in the UK. This isn't always the case. And conversely, someone may have a [right to work](#) but no National Insurance number.

2. Pay at least minimum wage

The National Minimum Wage is there to ensure people get a basic rate of pay. The rate varies

among different age groups and workers over 23 years of age are entitled to the higher rate National Living Wage.

The legislation affects all employers, large and small, and the rate of basic wages increases most years, set by the Low Pay Commission. It's worth checking the current [National Minimum Wage and National Living Wage rates](#).

3. DBS checking

If your employees will be working with vulnerable groups, such as children and people with special needs, they'll also need to pass a [Disclosure and Barring Service \(DBS\) check](#).

A DBS check will turn up any unspent convictions, while more thorough versions also show whether candidates appear on any lists barring them from specific roles. You can check [which DBS check is right for your employee](#).

4. Get insured

You're responsible for the welfare of your people, so secure employers' liability (EL) insurance before their first day on the job. EL insurance will help you pay compensation if an employee is injured or becomes ill because of the work they do for you.

The policy should provide at least £5m of cover and come from an authorised insurer. Otherwise you'll pay [a £2,500 fine](#) for each day you employ someone without a policy in place.

5. Provide a written statement of employment

As an employer you must provide this – it sets out the [terms of employment](#) – if you're employing someone for more than one month. It must include important details such as pay, working hours, holiday entitlement, sick pay and other paid leave (even if you only keep to the statutory minimum requirements), any benefits, as well as conditions for termination. It's worth noting that a written statement of employment isn't the same as an [employment contract](#).

As a start, you can [download the template provided by Acas](#).

6. Tell HMRC

Before taking on your first employee, [register as an employer with HMRC](#). You must do this within four weeks of new staff members' first payday. HMRC will provide you with an employer PAYE reference number, which can take up to five working days.

Sticking with financial matters, you must also set up and manage a basic [workplace pension](#) scheme for all eligible employees. And you must make an employer's contribution where applicable.



'Smart, simple accounting software smooths tasks such as bookkeeping, staff expenses and payroll'

7. Get organised

With all the above to manage, it pays to get organised. Smart, simple accounting software smooths tasks such as bookkeeping, staff expenses and payroll, as well as invoicing and VAT tax calculation.

The best accounting software allows you to synchronise with your preferred business apps, while automating the link between your bank accounts and your business' financial records, removing a lot of admin.

If you're serious about your business, employing people is a must. Doing it for the first time is a daunting task, but with the right preparation and tools you can make a success of it, potentially laying the foundations of stellar growth to come.

Payroll: DIY or bring in the professionals?

The pros and cons of going it alone versus engaging a specialist

Once everything is set up for your first employee to start, the next most crucial step is to ensure that you're equipped to get them paid on time – and that the relevant authorities are in the loop.

One of the biggest decisions all employers face is whether to run your own payroll, pay for the services of a bookkeeper or, perhaps if your business is big enough, an accountant, either full or part-time.

The quid pro quo is fairly clear: doing it yourself saves money; getting someone in saves time. Which is more valuable depends on the stage of your business and whether you are cash-rich and time-poor or vice versa.

Many business owners are somewhere in the middle, so the choice isn't completely clear. But here are some pros and cons to help you decide.

DO IT YOURSELF

PROS

It's cheap. The most obvious reason to take the DIY route is also the best: it's cheaper to do it yourself. If you can spare the time, then this is the route for you.

CONS

It's quite complex. Setting up and maintaining your payroll requires an upfront investment of effort followed by routine maintenance.

The steps include:

- **Registering as an employer.** This is necessary whether you run the payroll yourself or not. As a new employer, you must notify HM Revenue



and Customs (HMRC) within four weeks of your employees' first payday and request a login for the [PAYE Online service](#).

The PAYE Online service allows you to pay bills, check tax codes, get alerts if you report or pay late, and send expenses and benefits returns.

- **Deciding what payroll software to use.** Since payroll must be done using software – and HMRC permits exemptions on a case-by-case basis only – you'll need to decide what payroll software to use. Payroll software is designed to seamlessly transact with the HMRC, and pension provider if applicable, taking the pain out of financial record-keeping and compliance, such as QuickBooks – more on this on page 7.

- **Keeping your records accurate and up to date with HMRC changes.** As an employer, HMRC requires you to keep records such as what you've paid your employees, reports you make to HMRC, and so on. And probably the trickiest part of running your own payroll is keeping on top of changes including tax code notices.

Then there are P45s, student loan repayments, payroll-giving schemes and apprenticeships. The list goes on. If you have ever described yourself as 'not a detail person' – or you're the type who leaves everything to the last minute – this is not the job for you.

- **Annual reporting.** On top of keeping a running total of every financial matter impacting your business, you'll also need, as an employer, to submit the final FPS of the tax year as well as your employees' P60s.

GETTING THE EXPERTS IN

PROS

Focus With a payroll professional to help you, such as a bookkeeper or accountant, you're free to work on your business, including strategy, marketing and business development. You have the opportunity to capitalise on your investment by growing the business faster than if you spent time on payroll tasks.

Professionalism A specialist works faster and smarter than a novice, with less room for mistakes. But know that, as the employer, even if you outsource payroll, you're still liable for fines and penalties if you don't meet your obligations to HMRC.

Get some time back. For many business owners, the technical and compliance aspects of their

operation come a distant second to the job of attracting customers and revenue. Admin tasks are often left until after growth projects are complete, meaning late in the day or even after normal working hours. In this case a payroll professional will give you back your free time. And with payroll sorted, you're free to work on your business and do what you do best.

Business insights A bookkeeper or accountant will create useful reports and potentially highlight problems or opportunities you might otherwise miss. A good accountant is worth their weight in gold, providing you with business insights to help you grow your business. They'll also give you a strategic advantage by helping you understand the implications of the numbers on the page.

CONS

Cost Hiring a payroll professional (assuming they are reputable and do a good job) does cost money. And you'll need to factor in time communicating with them, a small amount of disruption if they need to engage employees, and the fact you can never completely rid yourself of responsibility for form filling, however hard you try.

Whether you run payroll yourself or hire the services of an expert, it's important to use the best tools for the job.



Using software to run your small business

How the right software and support takes the pain out of the process

In the current tech-enabled, hyper-connected business environment it's hard to do anything without software. Payroll is no different. In fact, you must use software for payroll – there's no other option except in very limited circumstances.

Payroll software sends real time information to HMRC on or before your employees' payday. Known as a Full Payment Submission, it tells HMRC about payments to your employees and what deductions you've made.

But how do you know which package is best for your business?

Payroll software processes the financial information you input and, with automation, smooths the process of paying your people, while tracking and maintaining the financial information this creates.

It is designed with features to help you make the right choices dependably and securely. It

'Payroll software is designed with features to help you make the right choices dependably and securely'

might offer the option to connect with your banking provider so that financial information is logged without you having to manually input data, saving time and potentially also costly errors.

In short, the benefits of payroll software are that it is custom designed for the job, easier to maintain, reduces human error and speeds up the process of inputting and filing information.

Of course, you must pay subscription fees – how much depends on your provider and the level of service you require – and you might need training or even additional staff members to keep your information up to date.

6 questions to ask before choosing payroll software

If you're serious about adopting payroll software to help you compensate staff, provide benefits and comply with HMRC's rules and regulations, then there are a few questions to ask yourself before choosing any specific package:

1 What services do I need?

The best software providers offer packages tailored to different types of businesses, from director-only operations, to growing firms with dozens of staff members. Take your time to understand what's right for you.

2 How do I pay?

Like most software these days, many payroll providers offer their products 'as a service', so instead of paying a large upfront fee, you pay a subscription on a monthly or annual basis to use the software. And you might get a discount for paying for a period in advance.

3 Is it easy to set up?

Your provider must show their system integrates easily with your organisation's everyday processes. Look for information on the set-up process and ask customer service staff for details of how this works, and whether any free training is provided for new customers. What does it involve,

how long might it take and what help will you receive?

4 Is your provider reputable and secure?

Read reviews online and ask your peers for their views on the reputation of the software company you want to use. Look, in particular, for feedback on security, customer service, and ease of use.

5 Can you try before you buy?

Market-leading payroll software companies are proud of the service they provide and should be confident you'll buy if you're allowed to try. Ask about trial periods or money-back guarantees – these are your 'get out of jail free cards' in the event you make the wrong decision.

6 Is it cloud-based and how many users am I allowed?

Cloud-based software is accessible anywhere, as long as you have the right login details and permissions, so it's a lot more flexible from a user's point of view. It's also more secure in most cases, because information is stored on dedicated servers and not, for example, on a computer in your office. Make sure you have enough licences to cover your team.

Payroll software can be a quick, efficient and no-nonsense way to run your company payroll, leaving you more time to focus on boosting your business. By taking your time and picking the best possible service for your business, you could see returns for many years to come.



Dedicated accounting software, such as QuickBooks, makes tasks like bookkeeping, staff expenses and payroll easier, quicker, and more accurate. And accountants and bookkeepers can work collaboratively online with you, which means you'll all have access to up-to-date information.

The best software allows you to sync bank accounts and business apps, providing a secure channel of information between the two. Meanwhile, automated filing of income and payments removes the need to input data manually and potential data-entry errors.

Like all forms of business compliance, payroll is a complex yet necessary task. How you deal with it is up to you, but the job is a lot easier if you take advantage of the payroll software on offer.

For more information, visit quickbooks.intuit.com/uk/payroll/