

Turner / + accountants



Xero Training Manual

Module 9: Payroll



9 Payroll

9.1 Prepare for payroll

Get Payroll Admin access

Ask your Payroll Admin to [set up a new user with Payroll Admin access](#), or if you're the Subscriber (the one who set up the Xero account), you already have Payroll Admin access and you can start setting up payroll now.

1. Click on the organisation name, select **Settings**, then click **Users**.
2. Click the name of the person responsible for managing payroll.
3. Select the **Payroll Admin** checkbox.
4. Click **Save**.

Check your [pricing plan](#) (xero.com website), and make sure you [add payroll to your pricing plan](#).

Collect your organisation's payroll information

Payroll accounts

- Bank account you will use to pay employees
- Wages payable and expense accounts
- PAYE and NIC liability accounts
- Employer NIC account
- (Optional) BACS Service User Number (SUN)

Pay calendars

- Pay period frequency: such as weekly, fortnightly, 4 weekly, monthly, quarterly, or annually

Pay items

- Earnings, benefits, deductions, reimbursements, time off and earnings orders that make up your employees' pay
- Expense or liability account for each item

You may also need to provide:

- Workplace pension information for auto enrolment
- Pension provider contact information and SCON
- Pension administrator contact information
- Workplace pension type
- Employee's and employer's pension contribution amount
- Public holiday calendar to pay employees for public holidays
- Xero tracking categories if you want to produce payroll reports for employee groups

Collect your HMRC reference and office numbers

HMRC information

- Employer PAYE reference
- Accounts Office reference
- RTI credentials (User ID and Password to log into the government gateway)

You may also need to provide the following HMRC reference numbers:

- Corporate Tax (COTAX) if you are a limited company
- Employer Contracted-Out (ECON)
- Self-Assessment Unique Tax (SA UTR) if you are a sole trader
- Small Employers Relief (SER) if you are eligible to claim additional statutory maternity, paternity, adoption and shared parental pay in your Employer Payment Summary (EPS)
- Employment Allowance if your business or charity pays employers' Class 1 National Insurance

Collect your employee's payroll information

Employee personal and contact details

- Contact information and home address
- Email address to invite them into Xero's My Payroll (to view their pay information, and submit time off requests and timesheets)
- (Optional) Emergency contact information

Employment details

- Start date
- National Insurance number
- NI Category
- Payroll calendar the employee belongs to
- Salary or wage details
- Tax information
- Time off and accrual details
- Employee payment method
- Employee number
- Pay template information for each employee if any employee has recurring pay items for each pay run, such as student loans or earnings orders

Now that you've got Payroll Admin access and collected the relevant information, you're ready to set up your organisation with payroll.

9.2 Set up your organisation with payroll

Select your payroll accounts

How it works

- Xero records your payroll transactions in the general ledger making it easier to reconcile your payroll.
- You can use the default Xero liability and expense accounts or choose your own. If you're unsure about which account to select, speak with your accountant or bookkeeper.
- You can add your organisation's Bacs service user number (SUN) if you are paying your employees electronically using Bacs.

Set up payroll accounts and BACS for your organisation

1. Click on the organisation name, select **Settings**, then click **Payroll settings**.
2. On the **Organisation** tab, select your payroll accounts that you wish to use. If the account you're looking for isn't available, add it to your [chart of accounts](#) or [bank accounts](#).
3. (Optional) Under **Payroll Payments & Tracking**, add your **BACS Service User Number (SUN)**.
4. (Optional) Assign tracking categories under **Employee Groups** if you are tracking payments.
5. Click **Save**.

Set up payroll to report to HMRC

Add your employer PAYE, RTI and other filing details so we report your payroll taxes to HMRC throughout the year.

Set up your payroll taxes for filing to the HMRC

1. Click on the organisation name, select **Settings**, then click **Payroll settings**.
2. Select the **HMRC** tab.
3. Enter all **Employer PAYE Reference** information:
 - The **Reference Number** is in your P6 or P9 coding notice or an Annual/Budget pack letter.
 - The **Accounts Office Reference** is on your P30BC booklet (payslip booklet) or P30B letter (paying PAYE electronically).
 - (Optional) **COTAX reference**.
 - (Optional) **Self Assessment Unique Tax Reference (SA UTR)**.
 - (Optional) **Employer Contracted-Out Number (ECON)**.
4. Under **Are you eligible for Small Employers Relief?**, select the **Yes** checkbox if your business qualifies.
5. Under **Will you be claiming the Employment Allowance?**, select the **Yes** checkbox if your business qualifies.

6. Under **RTI Submission**, enter your **User ID** and **Password**.
These are the same details you use to log in to the [Government Gateway](https://www.gov.uk) (gov.uk website). Your credentials must be activated with HMRC before Xero can accept them. It's important to set up your HMRC password correctly. The should be between eight and twelve characters and:
 - Contain at least one number (0-9)
 - Contain at least one letter (a-z)
 - Not contain the word 'password'
7. Under **Are you submitting to RTI as an agent?**, click **Yes** if you registered as an agent with Government Gateway, and enter all details.
Please note the fields for **Agent Business Name**, **Agent First Name** and **Agent Last Name** are limited to 35 characters each by HMRC.
8. Click **Save**.
If necessary, you can [fix errors that occur when connecting payroll to HMRC](#).

Post a pay run to submit your filings to HMRC

1. In the **Payroll** menu, select **Pay employees**.
2. Select a pay period from the menu.
3. Click **Process Pay Run**.
4. Click **Post**.

Posting a pay run, even without employees in it, automatically submits your filings to HMRC. You will need to make payments to HMRC outside Xero. You can view the Journal Report by searching for the pay run payment date.

WHAT'S NEXT?

Now that you've set up your payroll accounts, you can [add an employee to payroll](#).

Add an employee and enter their basic information

Before you start

- Add a pay calendar
- Set up your organisation for pensions
- Collect your employees' details: name, date of birth, address, phone number, start date, salary information, pay frequency, bank account details and pension information

Enter personal details

1. In the **Payroll** menu, select **Employees**
2. Click **Add Employee**
3. Enter the employee's basic information, then click **Add**
4. (Optional) Add their email address

5. (Optional) Select the **Invite to My Payroll** checkbox to invite the employee to My Payroll. You must include an email address for the employee to invite them to My Payroll
6. (Optional) Select the **Approve Time Off checkbox** to authorise the employee to approve time off
7. (Optional) Enter their job title and phone number.
8. Click **Continue**

Enter employment details

1. In the **Employment** tab, enter an **Employee Number**.
2. Enter the employee's **National Insurance Number** (optional) and **NI Category**. See [National Insurance rates and categories](#) (GOV.UK website) for more information.
3. Select the employee's **Employment Start Date**. The start date sets the anniversary date for the employee's time off accruals.
4. Select the employee's **Payroll Calendar** (eg weekly or monthly). Xero will suggest an option if you only have one calendar or you've [set a default calendar](#).
5. (Optional) Select the employee's **Holiday Group** and **Employee Group**.
6. Under **Paid Intermittently**, select **Yes** or **No**.
7. Click **Add Salary & Wages**, then enter the employee's pay details.
8. Set an **Effective Date**.
9. Click **Add**, then click **Continue**.

Add tax details

You can enter an employee's tax details even if you don't have their P45 yet.

1. In the **Taxes** tab, select the employee's **Starter type** and **Starter declaration**.
2. (Optional) Adjust the employee's **Tax code** and the **W1/M1 (Non-cumulative)** checkbox.
For more information on W1/M1 tax codes, see [emergency tax codes](#)(GOV.UK website).
3. For a new employee with a P45: enter the employee's **Previous taxable pay** and **Previous tax paid**.
For a new employee without a P45: you can [review and update an employee's tax information](#) at a later date.
4. Select the checkboxes that apply to the employee:
 - **Does the [employee] have student loans?** You can then select the student loan type.
 - **Does the [employee] have postgraduate loans?**
 - **Is the [employee] a Director?** You can then select a **Directorship Start Date** and **NICs Calculation Method**.
5. Click **Continue**.

An employee to your pension scheme

When you add pension settings for the employee, Xero will assess the employee for auto enrolment. The assessment takes place when you post a pay run on, or after, your staging or postponement date.

1. In the **Pension** tab, select whether or not to postpone auto enrolment.
2. Leave **Eligibility Status** and **Eligibility Status Date**. Xero populates these fields when you post a pay run.
3. Select whether the employee is in a pension scheme:
 - If **No**, Xero assesses the employee for auto enrolment, and adds pension pay items to their pay template.
 - If **Yes**, Xero won't assess the employee for auto enrolment. Instead, you'll need to add employee pension contributions to their pay template.
4. Under **Excluded from Auto Enrolment?**, select to include or exclude the employee.
5. Leave **Opt Out Reason**, **Opt Out Date** and **Opt In Date**. If applicable, you can return to these fields after Xero has assessed the employee for auto enrolment.
6. (Optional) Add **Pension Group**, **Pension Subgroup** and **Member Plan Number**.
7. Click **Save**.

Add bank account details

Add bank account details to pay an employee by BACS. You can also pay employees by cheque or using another method outside of Xero.

1. In the **Payroll** menu, select **Employees**.
2. Click on the employee to open their details.
3. Click the **Pay** tab and select **Electronic Transfer**.
4. Enter the bank account details, including the sort code for the employee's bank.
5. Click **Save**.

Users with Payroll Admin permission will receive an email when the employee's bank account updates.

9.3 Process a pay run and pay employees

Create a draft pay run:

1. In the **Payroll** menu, select **Pay employees**.
2. From **New Pay Run**, select a pay period.
3. Click **Process Pay Run**.
4. (Optional) In the **Payslip Message** field, enter a message to show at the bottom of all payslips.

Adjust an employee's pay and post a pay run

Adjust an employee's earnings, deductions, taxes, reimbursements or time off before posting a pay run. For example, you can add to an employee's earnings by giving them a bonus or you can manually adjust their employee taxes.

If an employee's start date falls part way through a pay period, then Xero will pro rata their pay automatically based on the number of working days.

1. From a draft pay run, click the employee who needs a pay adjustment.
2. Click **Add [pay item]** for the adjustment type you want.
3. Enter an amount to add or deduct for the adjustment.
To see how much you contribute to each employee's pension scheme and how much you'll need to pay your pension provider, [view and print a Pension Contribution Report](#).
4. (Optional) [Manually adjust tax for an employee's pay](#).
5. Click **Save & Close**.
6. (Optional) Click the **Memo** button to add a personal message on the employee's payslip.
7. Click **Post**.
8. If you've set up automatic enrolment for your pension scheme, we'll post an alert to let you know if you should enrol any employees before you complete the pay run. You can either:
 - Choose to postpone their enrolment for up to three months, by selecting a date in the **Postponement Date** field. Then click **Save & Review**.
 - Choose to enrol the listed employees, by leaving the **Postponement Date** field blank. Then click **Save & Review**. This will apply default pay items to the employees and a whole period pension deduction will be calculated for both employee and employer in this pay run.
9. Click **Post** to confirm your pay run.
When you post the pay run, Xero automatically submits RTI filings to report your employees' pay to the government. You can also post a pay run without employees in it to submit your filings to the HMRC.
Xero also calculates the amount of tax and National Insurance that's due for each employee, and sends that information to HMRC in an [FPS](#).

Pay your employees

If you've set up your organisation to process payments by BACS and entered each employee's bank account information, download the BACS file in Xero and import it with online banking to pay your employees.

Transfer funds to your employees' bank accounts

If you're not paying your employees by bank transfer, you'll need to pay them another way.

1. In the **Payroll** menu, select **Pay employees**.
2. Click the posted pay run period to download the payment file.
3. Click **Options** and select **Download BACS File**.

4. Save the file and import it to your online banking account.
After your bank makes the payments, you'll need to code the transaction to the wages payable account you selected during set up.