

Tax Deduction Procedures

1. Introduction

Purpose of the Policy

This policy outlines the procedures for calculating, processing, and reporting tax deductions, including those under the Construction Industry Scheme (CIS), Pay As You Earn (PAYE), National Insurance Contributions (NIC), and other statutory deductions. It ensures that Youco complies with HMRC regulations and maintains accurate records.

Scope and Legal Framework

This policy applies to all employees, subcontractors, and company officers involved in payroll and financial operations. It is guided by relevant UK tax laws, including CIS for subcontractors, PAYE for employees, and other statutory contributions such as pensions and student loans.

2. Types of Deductions

CIS Tax Deductions for Subcontractors

Under the CIS, Youco must deduct tax from payments to subcontractors who do not qualify for gross payment status. These deductions are reported to HMRC and offset against the subcontractor's tax liabilities.

PAYE Deductions for Employees

For employees, income tax is deducted at source under PAYE. The amount of tax deducted is determined by the employee's tax code, which reflects their allowances and tax band.

National Insurance Contributions (NIC)

Employees and employers are required to make National Insurance Contributions. NIC is calculated based on earnings, and the rates are determined by HMRC guidelines. The employer must ensure both employee and employer NIC are accurately calculated and paid to HMRC.

Student Loan and Pension Contributions

Where applicable, student loan repayments and workplace pension contributions must be deducted from employees' pay. Youco follows HMRC guidelines on calculating these deductions and ensures compliance with pension auto-enrollment laws.

Other Statutory Deductions

Other deductions, such as child support payments or court orders, are processed in accordance with legal requirements. Youco will ensure these are handled promptly and in compliance with the relevant authorities.

3. Calculation of Tax Deductions

CIS Deduction Rates

CIS deductions are applied at the following rates:

- **Standard Rate (20%):** For verified subcontractors.
- **Higher Rate (30%):** For unverified subcontractors.



PAYE and NIC Calculation Methods

PAYE deductions are calculated based on the employee's tax code and taxable earnings. NIC is calculated according to the employee's earnings threshold and HMRC guidelines, including Class 1 NICs.

Gross vs. Net Pay Deductions

Gross payment status under CIS exempts subcontractors from deductions. For employees, tax is deducted from gross pay, which includes salary, bonuses, and any other taxable income.

Adjustments for Tax Codes and Allowances

Tax codes are issued by HMRC and determine how much tax-free income an employee is entitled to each year. Youco ensures that employees are taxed according to the correct tax code and makes any necessary adjustments when tax codes change.

4. Payment Procedures

Payroll Schedule for Employees

Employees are paid on a regular schedule, typically weekly or monthly. Deductions for PAYE, NIC, pensions, and other statutory payments are made before the net salary is transferred to employees.

Payment Process for CIS Subcontractors

Subcontractor payments are processed after the applicable CIS tax deductions have been made. Youco will ensure prompt payment of the net amount to the subcontractor.

Issuing Payslips and Deduction Statements

Employees will receive payslips detailing their gross pay, deductions (PAYE, NIC, pensions), and net pay. Subcontractors will be issued deduction statements showing the CIS tax deducted, gross amount, and net payment.

5. Reporting and Submission to HMRC

Monthly and Annual Reporting

Youco submits Real-Time Information (RTI) reports to HMRC for PAYE deductions. These reports must be submitted each time employees are paid. For CIS deductions, Youco submits monthly returns to HMRC, detailing all payments made to subcontractors and the tax deducted.

Payment Deadlines to HMRC

PAYE and NIC payments must be made to HMRC by the 22nd of the following month (if paid electronically). CIS payments must also be made monthly, by the 19th of each month. Failure to meet these deadlines may result in penalties.

Correcting Errors in Tax Deductions or Submissions

If errors are found in tax deductions or submissions, Youco is responsible for correcting them promptly. Corrections must be made in line with HMRC procedures to avoid penalties.



6. Record Keeping

Documentation of Deductions and Payments

Youco must maintain detailed records of all tax deductions, including PAYE, NIC, CIS, and other statutory deductions. These records should include payslips, deduction statements, and reports to HMRC.

Retention Period for Payroll and Tax Records

All payroll and tax records must be kept for a minimum of six years, in line with HMRC requirements. This includes payslips, tax returns, deduction statements, and records of payments to HMRC.

7. Compliance and Audits

Internal Compliance Checks

Youco will regularly review its payroll and tax deduction processes to ensure compliance with current tax laws. Internal audits will be conducted periodically to verify the accuracy of deductions and payments.

HMRC Audits and Inspections

Youco must be prepared for HMRC audits, which may review payroll records, deduction calculations, and payments to subcontractors and employees. Full cooperation with HMRC during audits is required to ensure continued compliance.

Penalties for Non-Compliance

Failure to comply with tax deduction obligations can result in penalties from HMRC. Youco will take all necessary steps to avoid penalties by adhering to procedures and deadlines.

8. Employee and Subcontractor Communication

Informing Employees about Deductions

Employees will be informed of any deductions from their pay through regular payslips. Youco will ensure that employees understand how PAYE, NIC, pensions, and other statutory deductions are calculated.

Providing CIS Deduction Statements to Subcontractors

Subcontractors will receive monthly CIS deduction statements, detailing the amount deducted for tax purposes. This is a legal requirement, and Youco will ensure that subcontractors receive these on time.

9. Data Protection

Safeguarding Employee and Subcontractor Information

Youco is committed to protecting the personal data of employees and subcontractors. All tax-related information will be stored securely and only accessed by authorised personnel.

GDPR Compliance in Handling Tax Records

Youco will comply with GDPR when handling and storing personal and financial data. Appropriate measures will be taken to protect data from unauthorised access, loss, or disclosure.



10. Review and Updates

Regular Policy Reviews

This policy will be reviewed annually to ensure it remains up-to-date with current tax legislation and HMRC guidelines. Any changes will be communicated to relevant staff and subcontractors.

Updates Based on Legislation Changes

Youco will update this policy as necessary to reflect changes in tax law, including updates from HMRC on PAYE, NIC, CIS, and other deductions.

