

PAYE 'trap' for employers introducing pay cuts

UK employers introducing pay cuts across their workforce as an emergency measure to deal with the financial impact of the coronavirus pandemic could find that they are still liable to PAYE on the full amount, an expert has said.

Employment tax expert Chris Thomas, of Pinsent Masons, said: "PAYE liabilities for employers are calculated on the amounts which employees are entitled to. If the employer has not properly dealt with the formalities it could find itself still liable to HMRC for the PAYE on the full salary and not the reduced salary."

Under most employment contracts the employer cannot unilaterally impose a pay cut or reduce the employee's hours – the employee has to consent to a change in their terms and conditions of employment.

"Timing is also important – any agreement to accept a lesser salary needs to be in place before the employee is entitled to receive their salary for the month," Thomas said. "In the current exceptional circumstances, HMRC may not actually take the point, but for businesses seeking to reduce their overheads, it makes sense to get the formalities right and comply with the strict letter of the law."