Payroll Updates

March 2025

Payrolling Benefits In Kind

From April 2026 it will be compulsory to payroll all benefits barring employment related loans and accommodation (loans and accommodation will be voluntary). With that in mind, just what would be the advantages of getting in early and payrolling your benefits from April 2025?

Apart from scrapping the need to produce P11D's a year early, the answer has to be, pretty much nothing. However, you will be getting ahead of the game and, as the employees will be paying tax on their benefit via the payroll, it means the correct amount of tax will be paid in the year the benefit applies to. No shock underpayment notices from HMRC for the employer and no backdated tax code alterations for the employee.

As we already know, all payrolled benefits must be registered BEFORE the start of the tax year they are pertaining to and, if I was to say the take up on registering early has been a little on the slow side, I'd be in danger of over-stating the take up rate. Initially the complicated sign-up procedure could be seen as an excuse for the poor rate of registration, however the rules have been changed and we, as agents, can apply for payrolled benefits on behalf of clients.

Despite there being no real advantage to registering a year early, it would still be advisable to do so. Time passes quickly and the all too common "I'll do it next week" approach is most unwise. By the time this is published it will be too late to register benefits for the 2025-26 tax year however, it can never be too soon to register for 2026-27.

Remember, under the existing system, the last time you can file a P11D will be 6th July 2027 which will reflect the benefits paid in the 2026-27 tax year. If you do not register to payroll benefits before April 2026, you will not be able make the necessary returns to HMRC.

Payroll Causing You A Headache?

Why Outsource Your Payroll?

As employers approach the new tax year, those who do not have the administrative capabilities or expertise to run a payroll function may wish to consider outsourcing. Payroll outsourcing involves the hiring of an external individual, or company, usually in the form of an accountant/bookkeeper, or via a specialist bureau to complete the payroll function on your behalf.

For any organisation employing staff, attending to payroll concerns can demand a great deal of time and expertise. Even single director only payrolls need to be processed in a timely and efficient manner in compliance with HMRC directives.

Employing specialist help can:

- **Free up time to concentrate on the core business**

  Freeing up time to concentrate on the core business speaks for itself. It is unlikely that payroll is to be the core of your business. The more time you devote to running the payroll, the less time you have available to concentrate on what your business was set up to do. Employing a third-party expert to complete your payroll process can free up this time.

- **Remove the cost of maintaining your own payroll software**

  Outsourcing your payroll can save money when compared to operating in-house. Processing in-house means investing in the necessary IT hardware and software, not to mention providing the staff with adequate training in how to use the software and keeping abreast of all the latest legislative changes.

- **Reduce employment costs & decrease the chance of errors caused by untrained staff**

  For many companies' payroll is only a concern for a limited time of the month. The need to employ anyone for two or three days per month can be prohibitively expensive. Outsourcing the payroll can reduce the employment costs of a company, by utilising the expertise of an external company but you can also cut down on the chances of errors arising when using untrained or part-trained staff.

- **Enable the business to stay compliant with latest payroll legislation and thereby lessening the chances of late filing penalties or payroll omissions**

  For many small to medium sized businesses complying with constantly changing laws, rules and regulations is just too daunting a task. The latest rulings concerning holiday pay is just one small example as to how complex payroll law is becoming. Failure to file the appropriate returns on time; or failure to comply with the latest holiday pay regulations can be very costly errors for any company to have to face. Outsourcing the payroll to a trustworthy service provider can help to avoid these pitfalls.

- **Provide secure on-line 24-7 payroll access**

  A modern-day payroll provider allows access to payroll information 24 hours per day. The use of cloud-based payroll reporting and individual employee logins, provides the employer with instant access to all payroll data at little or no extra cost. No need for costly storage facilities.

Student Loans 2025-26

Plan 1

Current interest rates will remain as Bank Base Rate + 1%. Threshold to increase to £26,065.

Plan 2

Interest charge is RPI increasing on a sliding scale to RPI + 3% depending on income and whether the student has finished their course. Through to August 2025 RPI calculated as 4.3%. Threshold will increase to £28,470 from April 25.

Plan 5

Interest charge is RTI currently set at 4.3% through to August 25. Plan 5 repayments begin April 2026 and have a threshold of £25,000.

Plan 3 Postgraduate Loan

Interest set at RPI + 3% where RTI is set at 4.3% through to August 25. Threshold for loan repayment has not been set as of Feb 25 but currently kicks in at £21,000.

Mortgage Style Loans

So called as they are based on income and re-paid over 5 or 7-years dependent on the length of the original course and do not vary in accordance with salary. No new loans of this type were issued post August 1998.

Interest currently charged at RTI, 4.3% & the threshold is set at £39,543

National Living Wage & National Minimum Wage Increases

From 1 April 2025 changes to the National Living Wage (NLW) and National Minimum Wage (NMW) rate will come into effect.

These changes reflect a notable increase particularly for younger works, this is part of the government’s aim to extend the NLW to 18-year-olds in the future.

The NMW is the minimum pay per hour for almost all workers by law. Employers should note that the NMW increase, and an existing salary sacrifice scheme may reduce salaries to below the NMW threshold.

The change in NMW can also affect Statutory Maternity Pay (SMP) so worth noting this will need to be checked in April for any employees on NMW.

The following rates apply from 1 April 2025:

Category Of Worker	Rate From 01 April 2025
Aged 21 and above (National Living Wage rate)	£12.21
Aged 18 to 20 inclusive	£10
Aged under 18 (but above compulsory school leaving age)	£7.55
Apprentices aged under 19	£7.55
Apprentices aged 19 and over, but in the first year of their apprenticeship	£7.55

Employer Allowances and NI, and the Effect of the NMW Rise

Employer Allowances

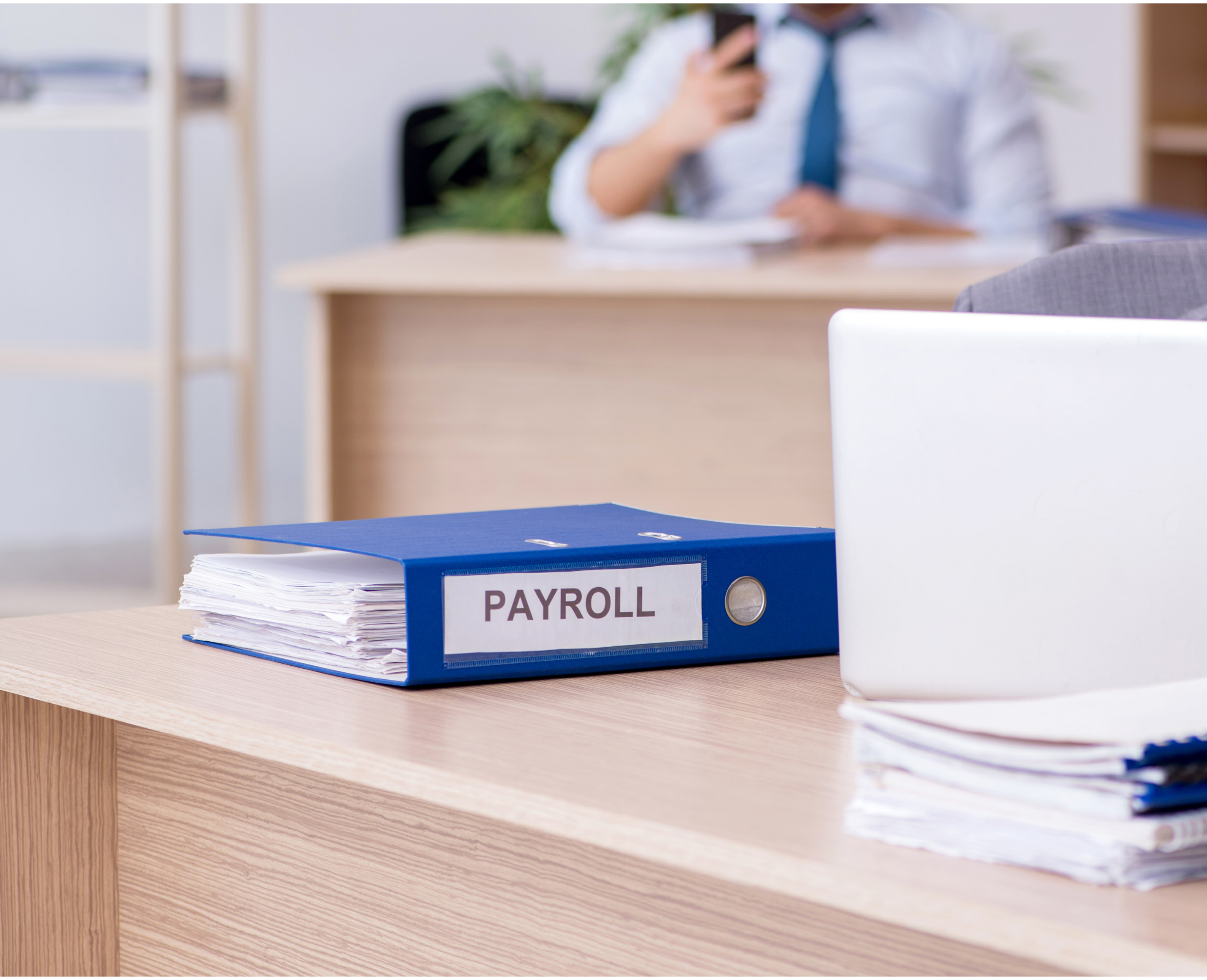
The employer allowance is feted to rise to £10,500 in the new tax year. In addition to this, the cut-off point for eligibility (£100,000 previously) of the allowance is being scrapped. This means that all companies who are not classed as a public sector business, or are part of a group of companies, can now claim the allowance, no matter how much NI their payroll generates. However, as everyone is now aware, big increases in employer NI contributions kick in from the start of the 2025-26 tax year.

Increases in Employer NI

The secondary threshold (where employers start to pay NI) drops from £9,100 to £5,000 per month. At the same time the rate at which NI is charged increases from 13.8% to 15%. So, for an employee earning £2000.00 per month, the NI liability will increase from £171.40 to £237.45 per month. However, that isn't the only sting, as (depending on how many hours your employees work) minimum wage increases could see your employee earning £2,000 receive a pay increase as well.

Knock-On Effect of NMW Rise

The minimum wage is rising to £12.21 per hour, meaning the cost of employing a worker on minimum wage, on a 40-hour week basis, will rise from £1,982.93 to £2,116.40. Add on an extra £85.87 per month in employer NI and the increase in cost comes out at £219.34 per month per employee. If you then have to factor in maintaining pay differentials, the next two years (before further NI changes kick in) could prove very expensive indeed.



New Statutory Pay Rates, Changes To SSP and Increase In Small Employer Relief

Whilst there are no changes to the rules surrounding statutory pay the annual rate of pay for statutory maternity pay, adoption, paternity pay etc. will increase from £184.03 to £187.18. At the same time statutory sick play will increase from £116.75 to £118.75 per week.

In order to qualify for statutory pay employees must earn at least the lower earnings limit. Currently the threshold is £123.00 per week. This will increase to £125.00 per week in the 2025-26 tax year.

The big change is in SSP regulations. As things stand an employee also has to earn at least £123.00 per week to qualify. To claim any SSP whatsoever, the employee has to be off for four consecutive days or more. The first three days are unpaid (waiting days). On 5th March, under the Employments Rights Bill, the government announced that they were abolishing the need to earn above the £123.00 threshold. It would also abolish the three waiting days rule. Once implemented, sick pay would become a day one right and, those employees earning below the threshold, would be entitled to 80% of their average earnings as SSP.

As the updates to SSP were not announced until 5th March, the new rules are unlikely to implemented from April. It is more likely to take effect from 1st October, or even be delayed until April 2026.

The small employer relief (SER) is the amount employers, who paid less than £45,000 in total NI contributions in the previous tax year, can reclaim from HMRC when making statutory payments to their staff. The current rate of relief is 3%, so for every £100 you pay in SMP, you can reclaim £103 from the revenue. From April 2025, the relief figure will increase to 8.5%.

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