

Payroll Updates



September 2026

Workplace Pension Schemes

Which pension provider you chose to use will dictate the type of pension you operate. Here's a brief overview of the main types of pension on offer.

Relief at Source (RAS)

As used by the more traditional pension companies and also mainly used by Nest and People's Pension.

Contributions are deducted from pay after tax and National Insurance has already been deducted. For every 80 pence you pay, the pension company claims a further 20 pence (the basic rate of tax) from HMRC and adds it directly to the pension pot.

Relief at source pensions are particularly useful for those employees who do not earn enough to pay tax as the 20% relief uplift is still added to their pension fund.

Net Pay Arrangements (NPA)

As favoured by the likes of Smart and Now.

Unlike a relief at source deduction, a NPA reduces the gross pay amount that is subjected to tax. The employee ends up with more in their pocket, but less in their pension.

Historically, as a net pay arrangement reduces an employee's tax liability, it was not suited to those employees who fall below the tax threshold. However, from April 2024 the government sought to re-dress this and it is now the responsibility of HMRC to make annual top-up payments directly to eligible individuals. The NPA is also known as the gross tax basis as contributions are taken from the gross pay.

Salary Sacrifice

Although far from being a default policy, most pension companies offer salary sacrifice pension options.

Salary sacrifice schemes are formal agreements where an employee's salary is reduced and the employer pays that exact amount directly to the pension scheme. The employee therefore pays less tax and National Insurance thereby keeping more money in take home pay. The employer National Insurance is also reduced and many employers opt to add this to the pension pot.

From April 2029, a £2,000 annual cap on National Insurance exempt pension contributions made via salary sacrifice comes into force.

Payrolling Benefits 2027-28

On Monday 15th June, HMRC announced that, once again, there is a delay in the wholesale mandatory implementation of payrolling benefits. Instead, we will see a phased-in approach beginning April 2027. Some will see this as a sensible move giving more time for software providers to prepare the necessary digital fields within the payroll software and allowing companies more time to adapt to the new system. Others will see this as HMRC again failing to deliver on long established deadlines and any delay just serves to further complicate the P11D process.

From April 2027 it will be mandatory to payroll:

- Company cars and fuel
- Vans and fuel
- Private medical benefits

All other benefits, except for accommodation and loans, will become mandatory from April 2028. Accommodation and loans will remain as voluntary for the foreseeable future.

No announcement has yet been made regarding the registering of either mandatory or non-mandatory benefits but, it is assumed, that mandatory benefits will be included in future payroll software and will not need to be registered. Any companies wishing to payroll all their benefits from April 2027, thereby avoiding a two-tier approach, can register with HMRC in the normal way.



Why Untaken Holiday Cannot Be Paid Out

Many companies choose to align their holiday year with the start of a tax year, so now seems as good a time as any to refresh memories of the rules concerning the practice of paying employees for untaken holiday.

Under the Working Time Regulations Act 1998, holiday should be taken for rest and must not be replaced by cash payments. Employers are restricted from paying for, or carrying over, minimum statutory leave, except upon employment termination.

- **Health** - the main purpose of paid leave is to ensure employees get sufficient rest in order to prevent burnout either physically or mentally
- **Legalities** - Rules prevent replacing minimum statutory leave with payment in lieu
- **Encouraging time off** - the “use it or lose it” rule (unless the contract of employment states otherwise) encourages employees to take holiday rather than saving it for financial gain.

By law a worker can only carry over holiday if their employer either does not encourage the taking of holiday, or the employer fails to inform the worker they will lose any untaken holiday.

There are only two exceptions to the rules concerning payment for untaken holiday:

- **Contractual/Extra Leave** - if the employment contract provides more than the statutory 5.6 weeks and company policy allows for it, additional untaken holiday could be paid or carried forward
- **Sickness** - if the full holiday entitlement could not be taken due to ill-health, the employee may be able to carry it over.

Get In Touch

Holiday is complicated, so if you have any queries regarding holiday pay, please contact your local Whitings LLP office.



Mileage Payment Changes 2026-27

HMRC has announced changes to the approved mileage allowance payment (MAP), which can be backdated to the start of the 2026-27 tax year.

Rates have:

- Increased to 55p per mile for first 10,000 miles,
- Remained at 25p per mile after 10,000 miles

The NI contributions disregard for Relevant Motoring Expenses have also increased to 55p per mile.

If employees have been paid below the approved rate, employers could consider increasing the amount paid to reimburse employees for business miles.

If employees have been paid above the old rates, income tax or class 1 NI may have been deducted which is no longer due. Employers will need to examine whether employees have overpaid tax and NI in the previous months of the 2026-27 and, if so, arrange for this to be refunded.



Recording Staff Holiday from April 26

Not exactly launched with any blazing publicity but, as part of the 2026 Employment Rights Act, from April 6, 2026, employers have a new legal duty to maintain records proving they have given their employees their full holiday entitlement.

The records must show the basic four weeks holiday as well as the additional 1.6 weeks holiday. It must also include provisions for irregular hours and part-time workers and demonstrate that the holiday pay has been calculated correctly.

The records do not have to be backdated, but they must be retained for a minimum period of 6 years.

The records must show evidence of:

- Holiday entitlement
- Holiday taken
- Holiday carried forward and the reason why it was carried forward
- How holiday is calculated
- Holiday in lieu for leavers
- Evidence to show workers were able to take leave

The records can be kept in whichever format the employer wishes but it must be detailed enough to prove compliance.



Student Loans 2027/28

The Department for Education has confirmed the updates to student loan interests for the 2027/28 tax year.

The major change sees an increase in the threshold from £26,900 to £28,005 for Plan 1 (loans taken out between 1998 & 2012) borrowers before they start making repayments. Interest rates on the loans are based against an RPI rate of 4.1%.

Plan 1:

Maximum interest of 4.1% (the lower of RPI or Bank Base Rate + 1%).

Plan 2:

(Loans taken out between 2012 and 2023): Interest varies from RPI at 4.1% to RPI plus 3% at 7.1%, capped at 6%.

Plan 5:

(From 2023): Fixed at RPI of 4.1%.

Plan 3:

(Postgraduate loans): RPI + 3% (7.1%), also capped at 6%.

Plan 4:

(Scottish student loan taken out post September 1998) remains unchanged with a repayment rate of 9% on earnings above £33,795 and interest charges of 3.2%. These figures may be revised later in the current tax year.

The Plan 2 payment threshold will remain frozen at £29,385 through to April 2030. The effect of this will mean that, with inflation wage increases, over the next few years, more of the income will be above the threshold meaning that borrowers will repay 9% on more of their earnings than they would have done if the threshold were to increase with RPI.

Get In Touch

Our dedicated Payroll team are here to help with any questions you may have on the articles in this newsletter and how we can assist you with your Payroll needs.

Simply contact a member of our Payroll team listed at the bottom of this page to discover our range of services available.



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