The Crystal Ball
2025

Payroll compliance update

Our special edition guide covers current and upcoming legislation to help businesses navigate the complexities of payroll.

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Welcome!

Here we cover the areas you need to be aware of as a result of legislative changes and a shifting business landscape.

There are some very important updates outlined in this document which employers need to stay abreast of.

Read on!

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Current Legislation

Discover current legislation which could impact your business.

Tax bands for England and Northern Ireland

Effective from 6 Apr 2025

Rate	Band (£)
20%	Up to £37,700
40%	£37,701-£125,140
45%	Over £125,140
Emergency tax code	1257L W1/M1/X

Tax Bands Wales

Effective from 6 Apr 2025

Rate	Band (£)
20%	Up to £37,700
40%	£37,701-£125,140
45%	Over £125,140
Emergency tax code	C1257L W1/M1/X

Tax Bands Scotland

Effective from 6 Apr 2025

Rate	Band (£)
19%	Up to £2,827
20%	£2,828-£14,921
21%	£14,922-£31,092
42%	£31,093-£62,430
45%	£62,431-£125,140
48% Over	£125,140
Emergency tax code	S1257L W1/M1/X

National Insurance (NI) thresholds

Effective from
6 Apr 2025

Employers and employees pay Class 1 National Insurance depending on how much the employee earns.

Pay Frequency / Pay Period	ST	LEL	PT	FUST/IZUST	UEL	UST/AUST/VUST
Weekly	£96	£125	£242	£481	£967	£967
Two Weekly	£193	£250	£484	£962	£1934	£1934
Four Weekly	£385	£500	£967	£1924	£3867	£3867
Monthly	£417	£542	£1048	£2083	£4189	£4189
Quarterly	£1250	£1625	£3143	£6250	£12568	£12568
Half-Yearly	£2500	£3250	£6285	£12500	£25135	£25135
Annual	£5000	£6500	£12570	£25000	£50270	£50270

LEL = Lower Earnings Limit
ST = Secondary Threshold
PT = Primary Threshold
FUST = Freeport Upper Secondary Threshold
IZUST = Investment Zone Upper Secondary Threshold
UEL = Upper Earnings Limit
UST = Upper Secondary Threshold
AUST = Upper Secondary Threshold for Apprentice
VUST = Veterans Upper Secondary Threshold

Class 1 National Insurance rates

Employee (primary) contribution rates

Deduct primary contributions (employee's National Insurance) from your employees' pay through PAYE.

National Insurance category letter	Earnings at or above LEL up to and including PT	Earnings above PT up to and including UEL	Balance of earnings above UEL
A, F, H, M, N, V	0%	8%	2%
B, E, I	0%	1.85%	2%
C, K, S	nil	nil	nil
D, J, L, Z	0%	2%	2%

Employer (secondary) contribution rates

You pay secondary contributions (employer's National Insurance) to HMRC as part of your PAYE bill.
Find out more about running payroll and paying HMRC.
Pay employers' PAYE tax and National Insurance.

National Insurance category letter	Earnings above ST up to and including LEL	Earnings above LEL up to and including FUST and IZUST	Earnings above FUST and IZUST up to and including UEL, UST for under 21s, apprentices and veterans	Balance of earnings above UEL, UST for under 21s, apprentices and veterans
A, B, C, J	15%	15%	15%	15%
D, E, F, I, K, L, N, S	0%	0%	15%	15%
H, M, V, Z	0%	0%	0%	15%

National Insurance changes for 2025/26

National Insurance is seeing a wide array of changes, including:

- The rate of employer's National Insurance Contributions (NICs) will rise by 1.2%, bringing it to 15%
- The Employer's NI Secondary Threshold will decrease from £9,100 to £5,000. This change, alongside the rate increase, means a higher NI burden for many businesses
- The Employment Allowance will increase from £5,000 to £10,500, and the current £100,000 threshold for eligibility will be removed. All other eligibility requirements remain unchanged
- Income tax and NI thresholds, currently frozen, are not set to extend beyond the 2028/29 fiscal year
- Employer's NI relief for employing veterans has been extended for an additional fiscal year, continuing the support for businesses employing veterans

National Minimum Wage (NMW) and National Living Wage (NLW)

Effective from
1 Apr 2025

Category of worker	Hourly rate (£)
Aged 21 and above (National Living Wage rate)	£12.21
Aged 18 to 20	£10.00
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

Use the National Minimum Wage calculator to check if you're paying a worker the National Minimum Wage or if you owe them payments from past years.

Note: You can see rates for previous years here.

Statutory payment rates 2025/26

Effective from
6 Apr 2025

Type of payment or recovery	Old Rate	New Rate
Statutory Sick Pay (SSP)	£116.75	£118.75
Statutory Maternity Pay (SMP)	£184.03	£187.18 or 90% of your average weekly earnings (whichever is lower) after the first 6 weeks
Statutory Paternity Pay (SPP)	£184.03	£187.18 or 90% of your average weekly earnings (whichever is lower)
Statutory Adoption Pay (SAP)	£184.03	£187.18 or 90% of your average weekly earnings (whichever is lower) after the first 6 weeks
Statutory Shared Parental Pay (ShPP)	£184.03	£187.18 or 90% of your average weekly earnings (whichever is lower)
Statutory Parental Bereavement Pay (SPBP)	£184.03	£187.18 or 90% of your average weekly earnings (whichever is lower)
Statutory Neonatal Care Pay (SNCP)	£184.03	£187.18 or 90% of your average weekly earnings (whichever is lower)

Use the maternity, adoption and paternity calculator for employers to calculate your employee's:

- Statutory Maternity Pay (SMP)
- Paternity or Adoption Pay
- Qualifying week
- Average weekly earnings
- Leave period

Statutory Neonatal Care Pay (SNCP)

Neonatal Care Leave will apply to parents of babies who are admitted into neonatal care up to 28 days old and who have a continuous stay in hospital of 7 full days or longer.

These measures will allow eligible parents to take up to 12 weeks of leave (and, if eligible, pay) on top of any other leave they may be entitled to, including maternity and paternity leave.

Small Employers Relief – compensation percentage increased

Employers in previous tax years could reclaim 92% of employees' Statutory Maternity, Statutory Paternity, Statutory Adoption, Statutory Parental Bereavement and Statutory Shared Parental Pay.

If a business has paid £45,000 or less in Class 1 National Insurance (ignoring any reductions like Employment Allowance) in the last complete tax year they can qualify for Small Employers Relief, and reclaim 100% of the Statutory Payment, and an additional 3% compensation.

From 6 April 2025, the rate of compensation will increase from 3% to 8.5%.

Employers who qualify for Small Employers Relief will therefore be able to reclaim 108.5% from HMRC from 6th April 2025.

The new 8.5% compensation rate will apply to the following Statutory Payments:

- Statutory Maternity Pay
- Statutory Paternity Pay
- Statutory Adoption Pay
- Shared Parental Pay
- Statutory Parental Bereavement Pay
- Statutory Neonatal Care Pay

The Small Employers Relief threshold will remain at £45,000.

Real-Time Information (RTI) submission changes

Effective from 6 Apr 2025

For Full Payment Submissions (FPS), the following is changing:

- Neonatal Care values now included in the FPS submission each period
- NI Letters – If employee is on NI letter F,I,L,S,N,E,D or K then Employee Workplace Postcode must be present
- NI Letter – NI letter cannot be B, E, I or T if employee DOB is after 5/4/1961

For Employer Payment Summary (EPS), the following is changing:

- SNCP recoverable amount added to submission along with compensation amount for those claiming Small Employers Relief

Employment (Allocation of Tips) Act 2023

Effective from 1 Oct 2024

The Employment Act mandates workers must receive all tips, ensuring a fairer tipping environment.

It's projected that the new act could result in an additional £200 million in revenue being directly given to hospitality workers.

Under the act, businesses must abide by requirements such as:

- Giving the entirety of the tip to the employee, aside from mandatory deductions like tax
- Issuing all eligible tips by the end of the month following the one in which the tip was first received, with service charges, card gratuities and employer-influenced cash tips now defined as eligible tips
- Granting agency workers similar rights to permanent employees in terms of tip distribution
- Implementing fair mechanisms, such as a tronc system, to ensure compliance and fairness
- Sharing your tipping policy with both staff and agency workers
- Maintaining records should a tribunal request arise, just as you would with other employment and financial documents

Note: workers will be able to request information on their tips distribution every quarter, and they have the right to take their employer to a tribunal if they believe their tips have been unfairly distributed.

To comply with this new legislation, many are opting for a Tronc Scheme which relies on a "Troncmaster" to gather and distribute the tips fairly.

Tronc Schemes

A Tronc Scheme is a special pay arrangement that allows organisations in the hospitality and leisure sector, to fairly share pooled tips, gratuities and discretionary service charges given by customers.

Pooled tips distributed through a Tronc scheme do not attract National Insurance, either Employers' or Employees', saving 13.8% for Employers and 10% for employees.

EXAMPLE per £100 of pooled tips

Processing Tips via PAYE WITHOUT a Tronc

Cost to employer
• £15

NI cost Employee
• £8.00 NI deduction
• £20.00 tax deduction (+/- depending on total earnings)
• £72.00 take-home pay

Processing Tips via PAYE WITH a Tronc

Cost to employer
• £0 NI cost

Employee
• £0 NI deduction
• £20.00 tax deduction (+/- depending on total earnings)
• £80.00 take-home pay

Employer National Insurance Contributions have increased from 13.8% to 15%.

The threshold at which businesses start paying National Insurance (NI) on workers' earnings has also lowered from £9,100 per year to £5,000.

Additionally, the Employment (Allocation of Tips) Act 2023 is now in place, businesses must distribute all qualifying tips to staff without deductions while also ensuring fairness and transparency.

This change has prompted businesses to reassess and update their procedures, with many now opting for a Tronc Scheme.

Working with a third-party Troncmaster, keeping the division or disbursement of the Tronc separate from the employer, removes the requirement to pay Employer's National Insurance and Employee's National Insurance on qualifying tips.

This benefit can massively help businesses keep up with the new increase in Employer National Insurance Contributions.

Workplace postcode

Effective from 6 Apr 2025

HMRC intends to reject an FPS if a Freeport or Investment Zone NIC category letter is reported for employment but does not contain the workplace postcode for any qualifying employee.

Student Loans

Effective from 6 Apr 2025

Threshold Plan 1	£26,065 per year
Threshold Plan 2	£28,470 per year
Threshold Plan 4	£32,745 per year
Rate	9%

Postgraduate loans

Effective from 6 Apr 2025

Threshold	£21,000 per year
Rate	6%

Pensions: Auto enrolment & re-enrolment

Auto enrolment ensures all eligible workers are automatically enrolled into a workplace pension from 1st February 2018.

From April 2019, the minimum pension contribution also increased to 8% - a 5% input from the employee and 3% input from the employer from April 2019 for a Qualifying Earnings pension scheme.

If you have certified under an approved alternative earnings basis those percentages also remain the same with Set 1 being a total contribution of at least 9% (Employer contribution must be at least 4%), Set 2 being the same as Qualifying Earnings, and Set 3 being a total contribution of 7% (Employer contribution must be at least 3%).

Unless legislation changes, it will remain at these minimum levels.

Automatic enrolment annual thresholds

Qualifying Earnings Lower Threshold	£6,240
Automatic Enrolment Trigger	£10,000
Qualifying Earnings Upper Threshold	£50,270

Re-enrolment

Re-enrolment takes place three years after your company's staging date.

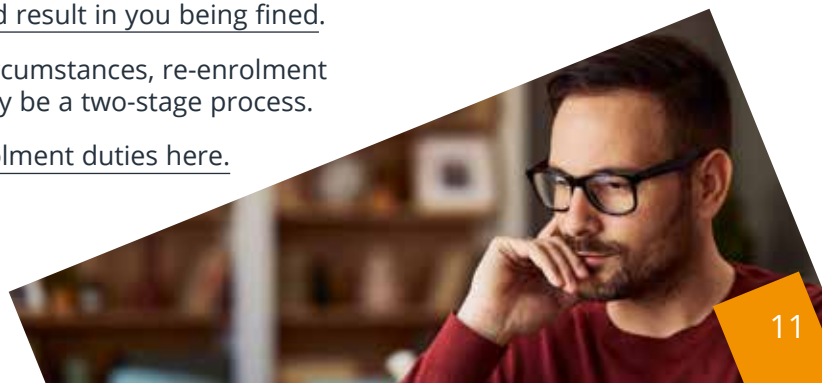
Every three years you must put certain staff who have left your pension scheme back into it.

Regardless of whether you have employees to put back into your scheme or not, you must complete a re-declaration of compliance, telling the Pensions Regulator how you have met your duties.

Remember, re-enrolment and re-declaration are your legal duties and failure to comply could result in you being fined.

Depending on your circumstances, re-enrolment and re-declaration may be a two-stage process.

Work out your re-enrolment duties here.



HMRC Advisory Fuel Rates (Pence per mile)

Effective from
1 March 2025

The advisory electricity rate for fully electric cars is 7p/mile.

Hybrid cars are treated as either petrol or diesel cars for advisory fuel rates.

Engine size	Petrol - rate per mile	LPG – rate per mile
1400cc or less	12p	11p
1401cc to 2000cc	15p	13p
Over 2000cc	23p	21p
	Diesel - rate per mile	
1600cc or less	12p	
1601cc to 2000cc	13p	
Over 2000cc	17p	

Approved Mileage Rates

	First 10,000 miles	Each subsequent mile
Cars and vans	45p	25p
Motorcycles	24p	24p
Bicycles	20p	20p
Passenger rate	5p	5p

Company Car Tax Rates

Effective from 6 Apr 2025

(Cars registered from 6 April 2021)

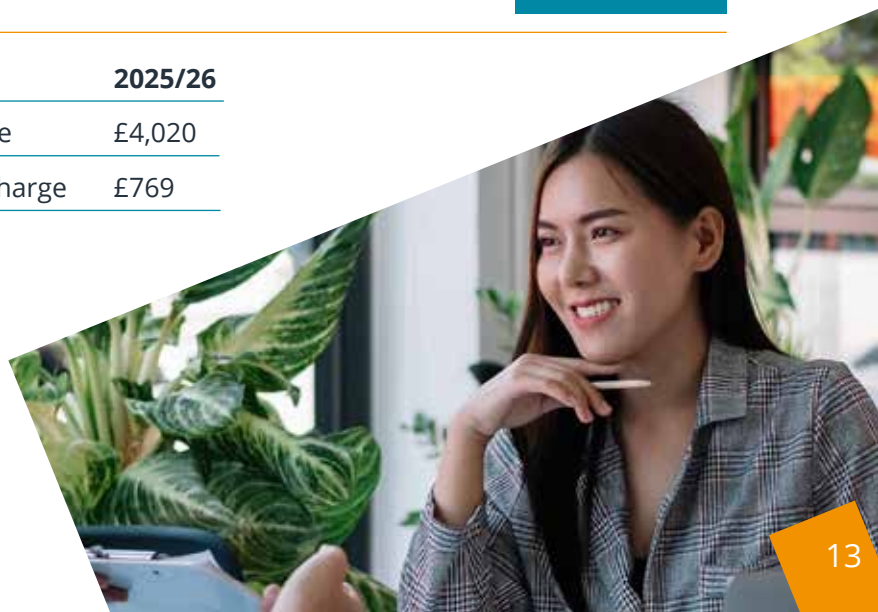
C02 (g/km)	Electric Range (Miles)	(%)
0	N/A	3
1-50	>130	3
1-50	70-129	6
1-50	40-69	9
1-50	30-39	13
1-50	<30	15
51-54		16
55-59		17
60-64		18
65-69		19
70-74		20
75-79		21
80-84		22
85-89		23
90-94		24
95-99		25
100-104		26
105-109		27
110-114		28
115-119		29
120-124		30
125-129		31
130-134		32
135-139		33
140-144		34
145-149		35
150-154		36
155-159		37
160-164		37
164-169		37
170+		37

A 4% surcharge applies to diesel vehicles not meeting the RDE2 standard.

Van & van fuel benefit charges

Effective from 6 Apr 2025

	2025/26
Van benefit charge	£4,020
Van fuel benefit charge	£769



Holiday pay

Effective from
1 Apr 2024

Previously, holiday pay for irregular-hours workers and part-year workers was based on their average pay over the past 52 weeks.

Under the new changes, the 52-week average is no longer required.

Instead, 12.07% of actual hours worked in a pay period is to be used if you are:

• A part-year worker

• A worker with irregular hours

Note: The new categories are 'irregular-hours workers' for those whose contractual hours are wholly or mostly variable and 'part-year workers' who are employees whose contracted hours require them to work part of the year only, such as term-time workers.

This doesn't include periods when employees take a break from work, such as parental leave.

The 12.07% figure is based on the fact that all workers are entitled to 5.6 weeks of leave.

A worker's total working weeks in a year is 46.4 (52 weeks in a year minus 5.6 weeks of leave) – 12.07% of 46.4 is 5.6.

Example: Sarah has worked part-time at your business for three years. Rather than calculating her holiday pay based on her earnings over the past 52 weeks, you should now base it on 12.07% of her hours worked.

Employers can continue to calculate on an average of the last 52 weeks; however, using 12.07% of the previous pay period will ensure holiday pay is a more accurate reflection of the pay rate at that particular time.

Rolled up holiday pay for irregular-hours workers

Following the changes, employers can now "roll-up" holiday pay into a basic rate of pay for irregular-hours workers and part-year workers only.

With rolled-up holiday pay, employers can include an additional amount with every payslip, covering a worker's holiday pay, as opposed to paying holiday pay when a worker takes annual leave.

Leave carryover

If a regular-hours worker is unable to take some or all their leave due to sickness, they can carry up to 20 days of that untaken leave into the next leave year.

Now, an irregular-hours worker or part-year worker will also be entitled to carry across up to 28 days of leave should they also be unable to take it due to sickness.

Like regular workers, irregular-hours workers or part-year workers will need to use the leave they have carried over within 18 months, starting from the end of the leave year in which it was accrued.

Off-payroll working (commonly known as IR35)

ONGOING

Introduced in 2021 for the private sector, and in 2017 for the public sector, IR35 requires businesses that use contractors from a personal service company (PSC), or other similar arrangements to determine whether those workers are suppliers or employees.

If a worker is deemed to be working as self-employed, this is known as "outside of IR35".

However, if the contractor is being treated as a full-time employee, then it is deemed as "inside IR35"; for example, a contractor working at your office full-time who is expected to pick up a range of jobs rather than one specific project.

As an employer, once you make your decision, you must:

- Inform the party you are engaging with (agency or umbrella company) and the worker of your decision, determining whether the rules apply, their status and your reasoning
- If a labour supply chain is involved, your decision must be cascaded down each part of the chain
- Help: Use the Government tool here to determine if a worker is a contractor or employee.

HMRC policy: P11D and P11D(b) deadlines

The deadline for reporting P11D(b) Class 1A National Insurance contributions, P11D expenses and benefits in kind provided in the 2024 to 2025 tax year, is 6 July 2025.

Your P11Ds and P11D(b) must be filed online and at the same time.

Late submission may result in a penalty.

HMRC charge penalties on a monthly basis and issue penalty notices each quarter until you file your return.

Future legislation

Let's take a look at where legislation and compliance is heading next, and what you can expect.

Plan 5 postgraduate & student loans

Effective from Apr 2026

Repayment Plan 5 is a new repayment plan for students starting undergraduate and Advance Learner Loan courses on or after 1 August 2023.

Loan repayment at 9% for earnings above £25,000 a year, £2,083 a month or £480 a week in the UK.

There is no expectation that any repayments will be made for Plan 5 loans until April 2026 at the earliest.

As with other student loans, repayments only commence when income exceeds the repayment threshold.

Pension eligibility changes

TBC

Pensions (Extension of Automatic Enrolment) Bill has not yet been finalised but has been granted Royal Assent.

It will include the reduction of age eligibility from 22 to 18 and remove the lower earnings limit.

While the changes – which were originally proposed in 2017 – have received Royal Assent, it remains unclear how and when they'll be introduced.

A consultation is required to agree a timeline.

Payrolling of benefits

Effective from Apr 2027

HMRC announced they are looking to mandate the payrolling of benefits from April 2027 which will remove the administrative burden of submitting P11Ds.

Strengthening Statutory Sick Pay (SSP)

TBC

The Employment Rights Bill has documented that entitlement to Statutory Sick Pay (SSP) will improve, providing workers access to sick pay from the first day of illness rather than from day four.

The Government has also stated they are removing the lower earnings limit for all workers.

The Fair Work Agency

TBC

Also announced in the Employment Rights Bill were plans to establish a new Fair Work Agency (FWA).

This Fair Work Agency will bring together a range of existing bodies to enforce rights such as Holiday Pay.

The FWA will also be on hand to offer support to employers looking for guidance on how to comply with the law.

Day-one rights

TBC

Under the Employment Rights Bill, workers will have day-one rights, including protection against unfair dismissal and paternity leave.

Note: maternity leave is not included under this change as it is already a day-one right.

Prior to this change, workers had to wait two years to access these basic rights and protection.

It's thought that around 9 million employees will benefit from this change.

Ending fire and rehire

TBC

Another big change outlined in the Employment Rights Bill is ending ' fire and rehire' in all but the most extreme cases.

Context: fire and rehire relates to when a worker is made redundant, only to be rehired on typically worse terms, conditions and pay.

The goal is to provide workers with the peace of mind that their terms and conditions (T&Cs) can't be voided under threat of dismissal.

National Minimum Wage

TBC

The Minimum Wage was initially introduced by the Labour Government.

They now wish to 'go further' and increase the Minimum Wage to ensure people can truly live on it.

To achieve this, Labour has stated it will change the Low Pay Commission's remit so that alongside the median wages and economic conditions, the Minimum Wage will for the first time reflect the need for pay to take into account the cost of living.

Additionally, plans have been proposed to remove the age bands, ensuring every adult worker benefits; however, no set date has been outlined for this change.

Closing words

Payroll is undoubtedly challenging, especially with regularly changing legislation and new requirements on the horizon.

It's a complex task that demands accuracy, attention to detail and a strong understanding of legislation.

However, staying up to date and keeping processes correct and compliant is a non-negotiable.

Hopefully, this guide has provided some insights!

By keeping informed, you're better equipped to handle the intricacies of payroll and adapt to any changes that come your way.

IRIS Payroll

Payroll is a crucial part of business.

Getting it wrong can negatively impact employees' trust, motivation and morale.

It's no secret that payroll is incredibly complex and requires a lot of effort, time and resources, which is why good software is a must.

Alternatively, for some businesses, the demand is simply too great, which is why many choose to outsource their payroll to a specialist provider, such as IRIS Payroll Services.

Learn more about our award-winning payroll software and payroll outsourcing here!

IRIS | Payroll Services

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*Please note, this guide does not constitute legal advice. Whilst every effort has been made to ensure this information is correct, please check with HMRC if unsure.