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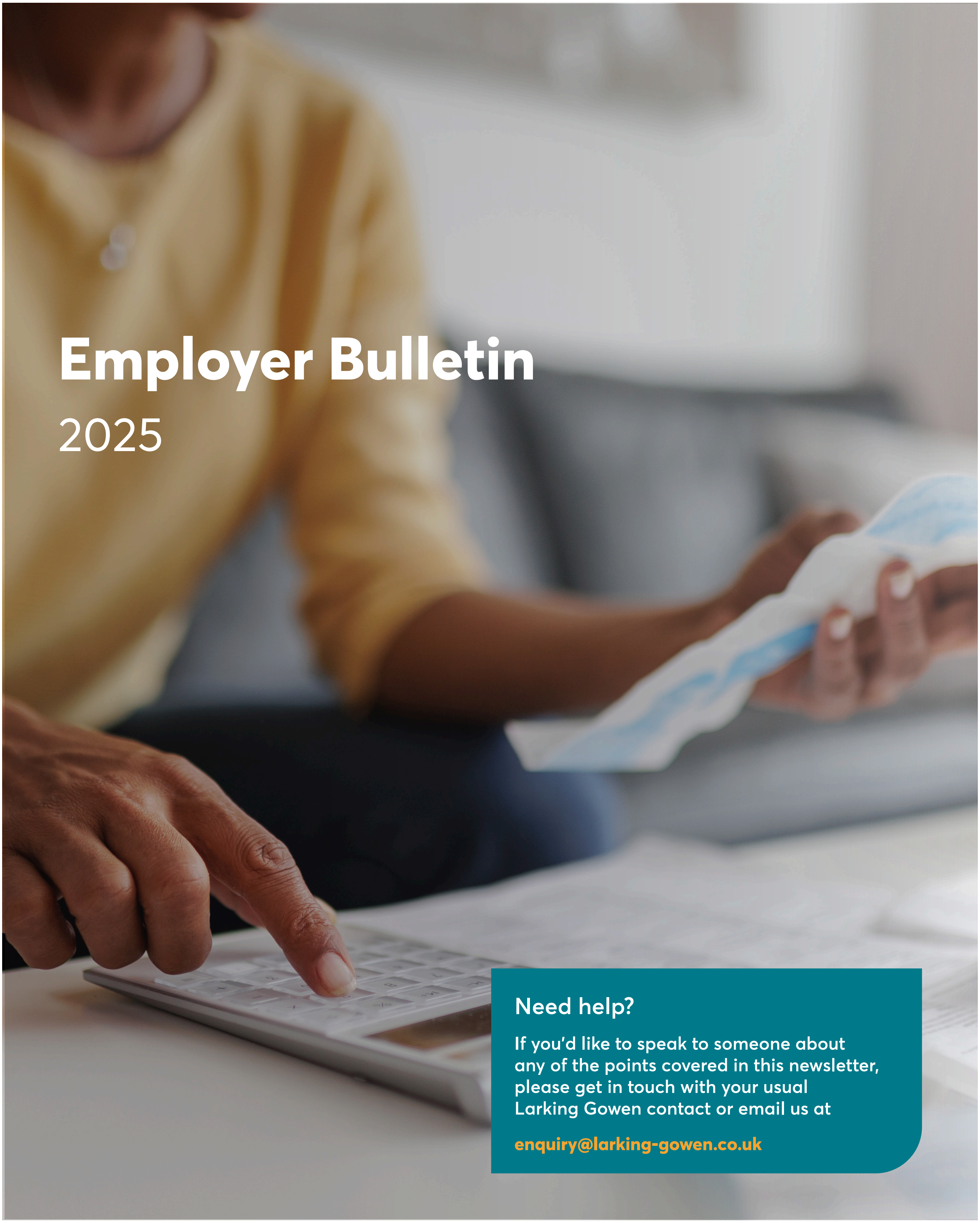

# Employer Bulletin

2025

## Need help?

If you'd like to speak to someone about any of the points covered in this newsletter, please get in touch with your usual Larking Gowen contact or email us at

**enquiry@larking-gowen.co.uk**

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**Welcome to this edition of our Employer Bulletin, where our expert payroll team keeps you informed on key legislative updates and payroll changes that may impact your business.**

**In this issue, we cover important updates, including National Insurance threshold changes, payrolling benefits in kind and salary sacrifice opportunities. We also highlight employment tax and law changes such as new rules on double cab pickup and the Employment (Allocation of Tips) Act 2023. It's important for employers to keep up to date and compliant with these ever-changing regulations and our expert payroll team is here to help you understand and implement these changes. If you need support, don't hesitate to get in touch.**

## National Insurance thresholds and Employment Allowance

### Changes to National Insurance thresholds

As announced in the Autumn Budget 2024, employers are going to be hit with big changes to employer National Insurance Contributions (NIC), with a change to the secondary threshold (the level of pay above which employer National Insurance applies) and an increase in the rate of NIC that is paid.

The secondary threshold has dropped from £9,100 to £5,000 and the rate of employer NIC has increased from 13.8% to 15%.

For most employers this is a minimum increase of £615 per employee.

### Employment Allowance (EA)

HMRC's EA allows eligible employers to reduce their NIC liability by up to £10,500 (from 25/26).

If you wish to claim EA, you'll need to send a submission from your payroll software to HMRC. No employer NICs are payable until your £10,500 allowance has been used up. Some employers may not reach £10,500, in which case their EA is capped at the employer NIC liability for the year. Your software will still calculate employer NIC and show it on reports, but the first £10,500 will show as being credited. The P32 report will apply the credit before arriving at the amount payable to HMRC.

If you were not eligible in the past, we recommend reviewing this again as the NIC threshold exclusions have been removed from 25/26.

### Examples of how these changes could affect your business

**Example situation 1**
The below shows an example of one employee on average earnings, leading to an increase in employer NIC

| | 24/25 | 25/26 |
|---|---|---|
| Gross salary | £36,000 | £36,000 |
| Employer secondary threshold | (£9,100) | (£5,000) |
| | £26,900 | £31,000 |
| | | |
| Employer NICs | £3,712<br>13.80% | £4,650<br>15% |
| **Increase in Employer NIC*** **assuming Employment Allowance is not claimable* | | **£938** |

**If you would like any support in forecasting your change in costs, please get in touch.**

**Example situation 2**
The below shows an example of a small business with five employees earning £25,000 each, leading to a decrease in employer NIC

| | 24/25 | 25/26 |
|---|---|---|
| Gross salaries | £125,000 | £125,000 |
| Employer secondary threshold | (£45,500) | (£25,000) |
| | £79,500 | £100,000 |
| | | |
| Employer NICs | £10,971<br>13.80% | £15,000<br>15% |
| Employment Allowance | (£5,000) | (£10,500) |
| Net Employer NIC | £5,971 | £4,500 |
| **Decrease in Employer NIC** | | **£1,471** |

**Example situation 3**
The below shows an example of a large business with 200 employees earning £40,000 each, leading to an increase in employer NIC

| | 24/25 | 25/26 |
|---|---|---|
| Gross salaries | £8,000,000 | £8,000,000 |
| Employer secondary threshold | (£1,820,000) | (£1,000,000) |
| | £6,180,000 | £7,000,000 |
| | | |
| Employer NICs | £852,840<br>13.80% | £1,050,000<br>15% |
| Employment Allowance* | £0 | (£10,500) |
| Net Employer NIC | £852,840 | £1,039,500 |
| **Increase in Employer NIC*** **assuming not entitled 24/25 and entitled 25/26* | | **£186,660** |

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## Salary sacrifice

Employees, now more than ever, are looking to increase their take-home pay and, with the continued increases in the costs of employing workers, we take a look at salary sacrifice arrangements, how they can benefit employees and employers, and some areas and potential pitfalls to be aware of.

### What is salary sacrifice?

Salary sacrifice is a change in the terms of the employment contract where the employee sacrifices their future cash earnings (usually salary) in exchange for a new or increased entitlement to non-cash benefits. Some salary sacrifice arrangements are excluded from the Optional Remuneration Arrangements legislation, making them effective salary sacrifice arrangements. Examples of these are pension, the cycle to work scheme, additional holiday and electric vehicles. We cover these specific non-cash benefits in more detail below.

### Salary sacrifice pension

As part of the employee's salary is 'exchanged' rather than paid to the employee, National Insurance Contributions (NICs) are not due on the amount exchanged, resulting in cash savings for both the employer and employees.

Contributions into workplace pension schemes are exempt from income tax regardless of whether the employee or employer is making the contribution.

The cash savings available are equal to the NIC savings which, for the employer, will be 15% on earnings over £5,000, from 6 April 2025, whilst basic rate taxpayers can personally save 8%, with higher rate earners saving 2%.

### Examples

As an example, let's look at an employee earning £35,000, who is auto enrolled on all earnings.

| 25/26 | Relief at source | Salary sacrifice |
|---|---|---|
| Gross pay | £35,000 | £33,250 |
| Tax | (£4,486) | (£4,136) |
| NIC | (£1,794) | (£1,654) |
| Pension | (£1,400) 4% | £1,750 5%* |
| Net pay for employee | £27,320 | £27,460 |
| Employee saving | | £140 |
| ERS NIC | £4,500 | £4,238 |
| ERS pension | £1,050 | £1,050 |
| Cost to employer | £5,550 | £5,288 |
| Employer saving | | £262 |
| Total pension contribution | £2,800 (employee + tax relief + employer) | £2,800 (employee + employer) |

And for a higher tax rate, an example on £55,000 per annum, on all earnings.

| 25/26 | Relief at source | Salary sacrifice |
|---|---|---|
| Gross pay | £55,000 | £52,250 |
| Tax | (£9,432) | (£8,332) |
| NIC | (£3,111) | (£3,056) |
| Pension | (£2,200) 4% | £2,750 5%* |
| Net pay for employee | £40,257 | £40,862 |
| Employee saving | | £605 |
| ERS NIC | £7,500 | £7,088 |
| ERS pension | £1,650 | £1,650 |
| Cost to employer | £9,150 | £8,738 |
| Employer saving | | £412 |
| Total pension contribution | £4,400 (employee + tax relief + employer) | £4,400 (employee + employer) |

**This would be submitted as an employer contribution as per salary sacrifice arrangements.*
These examples do not consider any adjustments which may occur through self-assessment tax returns.

Employers can also opt to pay their National Insurance savings into an employee's pension as an additional benefit for their employees. This can be a percentage of the savings, and commonly seen amounts are 50% or 100%, but there is no requirement for this to be done.

Salary sacrifice pension can be set up with most pension providers and they will also be able to help you with the required change of contractual terms agreements, or we can put you in contact with someone who can.

## Cycle to work scheme

The cycle to work scheme allows employees to 'hire' a bike from their employer through a salary sacrifice arrangement. This reduces their taxable pay, enabling them to save on income tax. To comply with HMRC rules, at least 50% of the bike's use must be for commuting to and from work during the hire period.

**Example:** Hiring a £500 bike could save an employee £140 over the agreement term, while the employer could save £75 (based on a standard-rate taxpayer).

At the end of the hire period, the employee can often 'purchase' the bike for a nominal amount.

## Holiday exchange

Employers can offer employees the option to purchase additional holiday entitlement through a salary sacrifice arrangement. This means the employee agrees to reduce their salary in exchange for extra annual leave. The cost is then deducted in equal monthly instalments over 12 months, making it more manageable compared to taking unpaid leave. Additionally, both the employee and employer benefit from National Insurance Contribution (NIC) savings.

## Holiday pay

From April 2024, employers were able to use the 12.07% holiday pay calculation to pay casual workers, where their holiday year fell in line with the changes (April 24 – March 25). Now that we've reached the end of the calendar year, these changes apply to all employers, no matter what your holiday year is.

## Electric vehicles

An electric vehicle (EV) salary sacrifice allows the employee to lease an EV (an electric car) through the employer by sacrificing salary.

## Why should employees and employers consider salary sacrifice for EVs?

**Employees**

- The purchasing power of employers is greater than employees so the EV should be cheaper to acquire through the employer.
- Most EV salary sacrifice schemes focus on new cars, but some schemes also offer second-hand cars.
- The cost of an EV depends on the terms, including the EV chosen, the lease and the employer contributions.
- EVs cost less to run. Charging an EV is significantly cheaper than refuelling a petrol or diesel car and, with fewer moving parts, maintenance costs are lower.
- EV packages can vary but usually include insurance, servicing and maintenance, breakdown cover, and some include free home charging.
- Switching from a petrol or diesel car to an EV reduces the benefit in kind and means lower income tax for employees and NICs for employers.
- Implementing a salary sacrifice reduces taxable salary so the income tax and NICs for employees and NICs for employers are less.
- Employees need to be aware of all issues surrounding salary sacrifice, including any legal and other financial implications, the impact on their pension and benefits entitlements and their ability to borrow.

**Employers**

- Promoting EVs aligns with corporate sustainability goals and enhances their reputation as environmentally responsible employers.
- Offering EVs helps employers attract and retain talent.
- An EV salary sacrifice scheme is cost neutral because the employees pay for the cars through their salary sacrifice.
- Employers save on NICs. Some employers choose to pass these savings back to their employees, lowering the cost of their car.

## Examples

**Savings on switching from a petrol/diesel car to an electric car for the tax year 25/26**

Vehicle list price £50,000, diesel/petrol emissions >170g/km, electric emissions 0g/km

| Vehicle | Vehicle and fuel benefits | Tax at 40% NICs at 15% |
|---|---|---|
| Diesel/petrol car | £28,934 | £15,914 |
| Electric car | £1,500 | £825 |

**Employee savings with salary sacrifice for an electric car for the tax year 25/26**

Employee salary £50,000pa, leasing costs of car £500pm/£6,000pa, benefit in kind where employer provides car £1,500pa

| | No salary sacrifice | Salary sacrifice |
|---|---|---|
| | Employee pays for car | Company pays for car |
| Gross salary | £50,000 | £50,000 |
| Salary sacrifice | (£0) | (£6,000) |
| Tax/NICs | (£10,480) | (£9,100) |
| Net | £39,520 | £34,900 |
| Car leasing | (£6,000) | (£0) |
| Cash available | £33,520 | £34,900 |

## Double cab pickups

Thanks to their ability to carry both passengers and goods, double cab pickups have historically had their own set of rules when it comes to determining whether they are a car or van, for benefit in kind (BIK) purposes.

Double cab pickups were previously classified as light commercial vehicles where their payload capacity exceeded one tonne, a rule that nicely aligned with VAT legislation. This classification allowed those that used them to enjoy lower BIK rates.

However, these rules change from 6 April 2025.

**Reclassification as cars**

From 6 April 2025, regardless of payload, double cab pickups will be reclassified as cars due to their high passenger capacity and comfort. Therefore, employees using these vehicles for both work and personal purposes will face higher BIK rates, aligning them with traditional cars.

**Transitional arrangements**

Important transitional arrangements are in place. Employers who have ordered, purchased, or leased a double cab pickup before 6 April 2025 can continue to follow the previous tax treatment until the vehicle is either sold, the lease expires, or 5 April 2029—whichever comes first. These transitional rules will be key to those with existing fleets of double cab pickups, but businesses should be mindful of the rules if new purchases cause inequity between the treatment for their employee base.

## Other points to consider with salary sacrifice

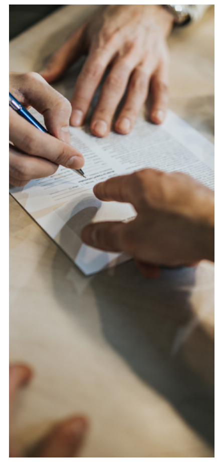
A signed written agreement of variation of contract must be received by the employer in advance of processing any salary sacrifice arrangements.

As the agreement must be made in advance of receiving funds, salary sacrifice deductions cannot be backdated.

Salary sacrifice can't reduce workers' pay below the appropriate National Minimum/Living Wage (NMW/NLW). Therefore careful consideration needs to be given to lower paid earners and people who are already in sacrifice arrangements, who may be about to move into a new age banding for NMW/NLW.

Entering a salary sacrifice arrangement must be done voluntarily and fully considered as it impacts gross pay, which, in turn, can impact entitlement to statutory payments and other earnings-related benefits.

A salary sacrifice arrangement should be for a period of at least 12 months and should not be capable of being varied at will. The only instance where changes are allowed within the 12-month period are if the employee's lifestyle changes significantly, such as becoming a parent.



## National Minimum Wage and National Living Wage

Effective from 1 April 2025, the National Living Wage will have a further increase to the rates. Below are the current and new rates, including the increase percentage rate.

| | 21 years and over | 18-20 | Under 18 | Apprentice |
|---|---|---|---|---|
| April 2025 new rates | £12.21 (6.8%) | £10.00 (16.2%) | £7.55 (18%) | £7.55 (18%) |
| April 2024 current rates | £11.44 | £8.60 | £6.40 | £6.40 |

## Approaching deadlines

- **5 April 2025:** If you wish to register for payrolling benefits for the 25/26 tax year.
- **31 May 2025:** Employees should receive form P60 from their employers.
- **5 July 2025:** Application must be received by HMRC for a PAYE Settlement Agreement (PSA) for 24/25.
- **6 July 2025:** Expenses and benefits forms P11D and P11D(b) and Employment Related Securities (ERS) returns for 24/25 should be filed and information given to employees.

## Employment Related Securities

As an employer, you may have offered Employment Related Securities (ERS), such as shares in your company, to reward, retain or provide incentives to your employees.

If this is the case, it's likely that the details will need to be reported to HMRC on an annual ERS return. The ERS return is an online return, filed annually by 6 July following the end of the tax year, detailing all transactions in securities between employer and employee.

**Reportable transactions for ERS include:**

- Acquisition of securities (including shares, loan notes, or interests in them) by an employee (including a director). This acquisition could include an issue of new shares or a transfer of existing shares.
- Grant of options to an employee.
- Exercise of share options by an employee.
- Receipt of a benefit in money or money's worth in relation to an employee share option.
- Assignment or release for consideration of an employee share option.
- The falling away of restrictions attaching to shares held by an employee.
- The disposal for consideration of restricted securities by an employee.
- Other events which give rise to a tax charge in relation to Employment Related Securities.

**Examples of the sort of events which are often mistakenly overlooked include:**

- A share-for-share exchange where the exchange is up into an existing company.
- A bonus issue of shares to the existing shareholders without any transfer of value between the parties.
- A management buy-out situation where the shares newly issued are not the initial subscriber shares.

In addition, if you have an open scheme, even if there are no reportable events, you are still required to submit a nil return.

If you think you may have a reportable transaction, and need help to register a scheme or submit a return, please contact us.

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# Payrolling benefits in kind (PBIKs)

From **April 2026**, HMRC will require all employers to payroll benefits in kind, replacing the current mechanism for reporting, which is P11D for most benefits.

## What this means for your business

If you currently offer, or plan to offer, benefits in kind to your employees, these must be processed through payroll, starting April 2026. This change aims to bring the collection of tax on these benefits into real time, eradicating the need for annual P11Ds and making the costs of benefits clearer to employees by showing these on each payslip. HMRC have confirmed that, initially, the reporting of benefits in respect of beneficial loans and living accommodation will be exempt from payrolling of benefits in kind. Therefore, it may be that you still need to complete Forms P11D for these benefits.

## Early adoption

If you're planning to start offering, or will be continuing to offer, benefits in kind to your employees, we recommend preparing early for a smooth transition. You can opt for early adoption of payrolling benefits in kind from April 2025, allowing you to streamline processes ahead of the mandatory 2026 deadline. If you would like to opt in early, you must register to do so with HMRC by 5 April 2025 for this to be effective for the 25/26 tax year (6 April 25 – 5 April 26). This is because PBIKS requires a commitment to use the same process for the whole tax year.

Alternatively, you can prepare for the changes in April 2026.

## Taxation overlap

As P11Ds are currently processed for the tax year in arrears and payrolling benefits in kind brings this into the current tax year, there may be an overlap in tax being paid on benefits by your employees.

| Benefit period | Report type | Process date |
|---|---|---|
| April 24 - March 25 | P11D | July 25 |
| April 25 - March 26 | P11D | July 26 |
| April 26 - March 27 | Payrolling BIK | April 26 - March 27 |

The employee will be due to pay PAYE on their benefits on their April 26 – March 27 payslips, with the tax liability arising on the benefits submitted on the P11Ds adjusting their tax code from July 26 onwards.

## Example

As an example, let us consider an employee on a salary of £50,000 that had a P11D value of £400 in 24/25 and assumed PBIK value of £400 in 25/26 and 26/27.

With no other adjustments, the employees tax code for 25/26 is going to be 1217L, being £12,570 (standard tax code of 1257L) less the £400 tax owed for the previous year.

The following tax year 26/27, the adjustment from the P11D will have been removed as HMRC will be aware you are already payrolling benefits in kind.

| Year | Tax code | Monthly taxable salary | Additional taxable benefit | Tax deducted | Net pay change |
|---|---|---|---|---|---|
| 25/26 (Not adopted) | 1217L | £4,166.67 | £0 | £633 | N/A |
| 25/26 (Early adopt) | 1217L | £4,166.67 | £33.33 | £646 | (£13 per month) |
| 26/27 | 1257L | £4,166.67 | £33.33 | £633 | N/A |

## How we can help

Payroll processing continues to become more and more complex. As part of the change, HMRC will expect you to make sure your payrolling of benefits in kind is administered correctly.

At Larking Gowen, we're here to help reduce the stress. Our team of payroll professionals are well-equipped to manage these changes, ensuring compliance and accuracy. If you would like to discuss outsourcing your payroll, please get in touch.

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## Statutory Neonatal Care Leave and Pay

From 6 April 2025 HMRC will begin to administer a new statutory allowance — Statutory Neonatal Care Leave and Pay which is designed to help parents who face the challenges of having a baby requiring neonatal care. It allows eligible employees to take extra leave and receive statutory pay.

### Neonatal Care Leave requirements

- No minimum service required (day 1 right).
- Must be responsible for the child (biological, adoptive or intended parents in surrogacy arrangements).
- The leave can be taken in addition to any other parental leave entitlements (maternity/adoption/shared parental/ paternity/bereavement) and eligible parents can take up to 12 weeks of leave.

### Neonatal Care Pay requirements

- Must earn at least the Lower Earning Limit (£125 per week 25/26).
- Must have at least 26 weeks of continuous employment with the same employer at the 15th week before the baby is due.
- Pay is provided at the statutory rate (£187.18 per week 25/26 or 90% of average weekly pay if lower).

Employees must meet a caring test and relationship test to be eligible for the leave and pay, and neonatal care covers both medical care in hospital and outreach care.

### Statutory Parental Leave and Pay

Effective from 6 April 2025 (the first Sunday of the new tax year), the rates for Statutory Parental Payments will increase to £187.18 (previously £184.03 per week).

The earnings threshold for these payments will increase to £125 per week (previously £123), except for Maternity Pay which remains at £123 per week.

Parental Leave includes Statutory Maternity Leave, Shared Parental Leave, Statutory Paternity Leave and Statutory Adoption Leave.

The rules around taking Statutory Paternity Leave changed in the last tax year and now allows the two weeks' pay and leave to be taken in separate week blocks. Previously the two weeks' leave had to be taken consecutively. Employees have 52 weeks from the birth/adoption date to take their leave (as long as appropriate notice is given).

### RTI hours reporting requirement

The Government has announced that the proposed change to real time information (RTI) reporting to include worked hours for all employees, which was due to come in April 2026, has been scrapped. This would have been a highly administrative task to complete. The Government has listened to feedback on this and removed the requirement.

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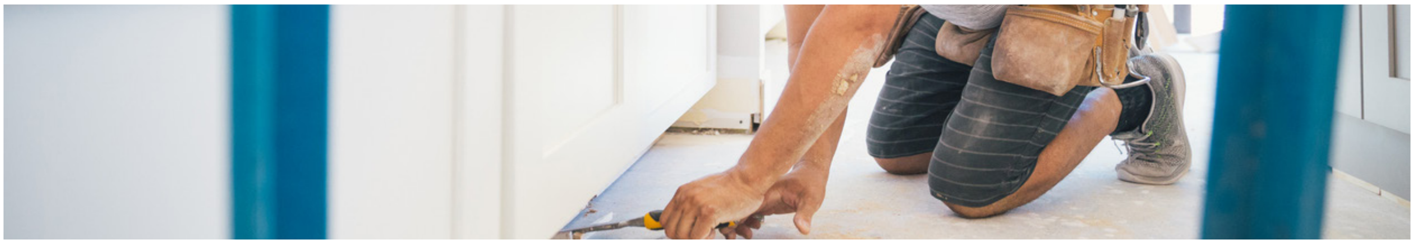

## Avoid falling within the scope of the Construction Industry Scheme

Navigating the Construction Industry Scheme (CIS) can be complex, especially when it comes to understanding the risks of inadvertently falling within the scope of the legislation when your day-to-day trade doesn't ordinarily include construction activities. As a business, it's crucial to be aware of these risks to ensure compliance and avoid potential penalties.

**Deemed contractors**

A deemed contractor is an entity that does not primarily operate in the construction industry but spends a significant amount on construction operations. If your business spends more than £3 million on construction within a 12-month period, you may be classified as a deemed contractor under CIS. This means you must register with HMRC, verify subcontractors and deduct CIS tax from payments to them. However, there are exemptions where the construction activities are taking place on buildings for use in the business.

**Property developers**

It can also be quite easy to fall within the scope of the CIS regime by being classified as a mainstream property developer. If this is the case, there's no annual de minimis to apply. While it might seem obvious to identify a property developer, such a business could be a large farm with surplus land that decides to build two properties, one of which it intends to sell for a profit. Alternatively, there could be a group scenario with a single company chosen to manage construction projects and receive payments for these services, which would then mean the activities fall within the scope of CIS due to the intent to develop property for profit. Hopefully these two examples highlight how easy it is to fall within the scope of CIS when construction isn't your main trade.

**Mitigating risks**

CIS can be complex so, when entering into any contract for construction activities, assess whether your activities qualify as construction operations under CIS to determine your obligations for both CIS and any corresponding VAT impact. Regular reviews, accurate record-keeping and consulting with us can help you navigate these complexities and make sure you're compliant.

## The Employment (Allocation of Tips) Act 2023

The Employment (Allocation of Tips) Act 2023 came into force on 1 October 2024, introducing new legal obligations for employers in industries where tips are common. The Act aims to ensure gratuities and service charges are distributed to workers without deductions and mandates fair distribution among workers.

Employers must have a written policy on tip allocation if tips are received more than occasionally. This policy must adhere to a statutory code of practice published by the Department for Business & Trade. Employers are also required to disclose the amount of tips received and the basis of allocation, upon request by a worker. Additionally, tips must be allocated promptly.

The Act applies when employers receive tips directly or control their distribution, such as tips paid by card or discretionary service charges.

Given the complexity of the new legislation, we recommend consulting legal advisers to ensure full compliance. We also have a series of blogs on our website covering frequently asked questions and risk areas, that you may find helpful.

It's important to note that the taxation position currently remains unchanged. Employees must report cash tips to HMRC directly, while employers must consider PAYE obligations for other forms of tips. If you have recently changed your working practices to facilitate this new legislation and would like to make sure that the tax position is correct, please get in touch.

## New evidence requirements for expenses

Employers can choose to reimburse expenses incurred by an employee. However, if they do not, there are some expenses that the employee can claim income tax relief for directly from HMRC, via Form P87.

Due to a rise in claims for ineligible expenses, from October 2024, supporting evidence must be provided for each claim. For mileage claims, this includes a detailed log specifying the reason for each journey and the start and finish postcodes.