PAYROLL BRIEFING

PAYROLL CHANGES - CURRENT AND FORTHCOMING

March 2025

Introduction

As a new tax year approaches, there are a number of payroll related changes, mostly coming into effect in April 2025. The main changes are highlighted below:

Changes to the National Living/Minimum Wage Rates

The table below shows the new rates for the National Living/Minimum Wage coming into effect from 1 April 2025.

Age	2025	2024
	£	£
21 and over	12.21	11.44
18 to 20	10.00	8.60
16 to 17	7.55	6.40
Apprentice rate	7.55	6.40

The National Living Wage applies to those aged 21 and over and the National Minimum Wage (NMW) to those of at least school leaving age and under the age of 21. The NMW for apprentices applies to all those aged under 19 employed on a Contract of Apprenticeship, and apprentices aged 19 or over in the first year of their Apprenticeship. After this first year, the apprentice must be paid the normal NMW for their age. Apprentices must be paid for all the time they spend working and training.

Employer National Insurance Changes

There are various changes to employer National Insurance coming into effect on 6 April 2025. These are set out in the recently published Briefing here.

Payrolling of Benefits

With effect from 6 April 2026, all benefits, excluding beneficial loans and employer provided living accommodation, must be processed through the payroll on a real time basis, removing

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the requirement for P11Ds to be prepared for employees. At present, there remains the requirement to prepare a P11D(b) to report the Class 1A National Insurance due on all benefits by 6 July and payable by 21 July. It seems likely that HMRC will introduce legislation to accelerate this payment and align it to when the benefits are taxed – however, this is highly unlikely to be before the mandatory payrolling of benefits.

It is recommended that employers adopt this approach of payrolling benefits from 6 April 2025 which will allow them to become familiar with the process and communicate the changes to their employees. This will give time to make sure all the necessary systems are in place, mainly in relation to collating the data on the same timescale as the payroll data; HMRC has indicated it will apply a soft touch approach initially, although this is only going to be the case where there has been a concerted effort to process the data correctly.

In order to process benefits this way for the tax year 2025/26, employers must apply online with HMRC before the 6 April 2025; HMRC has now made it possible for agents to apply on behalf of their clients, so if relevant, please do let your relevant payroller or main contact know that you would like to apply.

Neonatal Leave and Pay

With effect from 6 April 2025, a new right comes into effect that gives parents time, and potentially pay, to spend with their baby who is receiving medical care. This neonatal leave is in addition to maternity, paternity or shared parental leave.

Who is eligible?

Neonatal care leave is a day one right for employees whose baby is receiving, or has received, neonatal care. The employee must be one of the following:

1. The baby's parents
2. The baby's intended parents (in the situation of surrogacy)
3. The partner to the baby's mother (with the same definition as for other parental leave)
4. The parent or partner who is adopting a baby.

The baby must be born after 5 April 2025.

What is neonatal care?

Neonatal care is defined as:

1. Any medical care received in hospital; or
2. Medical care received elsewhere following discharge from hospital with such care being under the direction of a consultant; or
3. Palliative or end of life care.

This type of care must begin within twenty eight days after the date of the birth and the care must be for a period of at least seven continuous days.

How much leave?

The maximum neonatal leave is twelve weeks and this can be claimed for each week that the baby receives neonatal care without interruption. There is no increase to the maximum of twelve weeks if there are two or more babies involved.

When can the neonatal care be taken?

In summary, neonatal care can be taken within the first sixty eight weeks of the baby's birth. The rationale of this time frame is to ensure that time spent with the baby is not reduced by the time spent in hospital and typically will be added to the end of other parental leave. There are some complex rules surrounding when the leave is taken, its classification, whether it needs to be taken in week blocks etc and if an employee is in this situation, please let us know and we can discuss the specific circumstances and options available.

How much pay?

An employee must have a minimum of twenty six weeks' service before they are entitled to any payment, together with earnings of at least £123 per week. The pay, assuming it is not enhanced by the employer, will be the same as maternity and paternity pay, being the lower of £187.18 per week or 90% of the average weekly earnings.

As with all parental leave, there are various factors and rules to be followed, such as the notice period, the details contained in the notice etc and the above is an outline of the new leave available. Whilst the legislation has been introduced to give flexibility to an extremely difficult time for parents, it has also added a degree of complexity in its practical operation.

Holidays – leave and pay

Whilst there has not been a change in the rules governing both leave and pay, there have been some "clarifications". The main areas are summarised below, but holiday leave and pay remain an extremely complex area and further advice may be required in certain situations.

Leave

Whilst the concept of "use it or lose it" has long been accepted in respect of untaken leave at the end of a holiday year, assuming that the worker has not been on a statutory leave or off sick, in broad terms it is generally accepted that a worker can carry forward eight days, if your employer so permits, and loses the rest of any untaken leave. The eight days assumes a full entitlement to holiday of twenty eight days (made up of four weeks derived from EU law and eight days from UK law, historically representing bank holidays). However, it may be that a worker can carry forward up to four weeks' leave as a result of an employer's failure to:

1. Recognise a worker's right to annual leave (in the case of a worker's status being misclassified)
2. Give the worker a reasonable opportunity to take the leave or encourage them to do so
3. Inform the worker that any leave not taken at the end of the leave year, which cannot be carried forward, will be lost.

To minimise issues arising, employers should make it clear to their workers that they have a "use it or lose it" policy and also issue regular reminders to staff to use their holiday, otherwise it will be lost. The amount of encouragement required has not yet been tested in the courts.

Pay

Whilst the calculation of pay for irregular hours and part year workers has (possibly) been simplified, by reintroducing the 12.07% rule as one of the permitted methods, pay calculations for regular hours workers remain complex in many circumstances. The broad concept that an employee should not be worse off because they are on annual leave is logical and understandable. However, to apply this principle and arrive at its conclusion in various scenarios is not so straightforward. There are various considerations, starting with the two different pots of statutory leave, the four weeks and eight days, giving the twenty eight days minimum in total. Workers are entitled to "normal" pay for the four weeks and "basic" pay for the eight days. It should be noted here that many employers treat the two different pots of statutory leave as one, meaning that all the pay is calculated at the "normal" pay rate. "Normal" pay should include:

1. Basic pay
2. Commission that is intrinsically linked to the performance of tasks which a worker is obliged to carry out under the terms of their contract;
3. Payments for professional or personal status relating to length of service, seniority or professional qualifications, and
4. Other payments, such as overtime payments, which have been regularly paid to a worker in the fifty two weeks preceding the holiday pay calculation date.

The above interpretations of the Regulations have not really helped employers to determine what should be included and it is generally thought that it is only once some cases go before an Employment Tribunal that the definitions will

become clearer. Bonuses and commissions are both examples where it could be interpreted that they are regular payments and therefore should be included within the "normal" pay definition.

Proposed Reporting of Actual Employee Hours - Scrapped

In a move that has been welcomed, HMRC's previous announcement that employers would need to report the actual hours being worked by employees, as opposed to the contracted hours, has now been scrapped. It had previously been deferred, but the Government has now agreed that this would have imposed too great a potential administrative burden for employers.

There remains the requirement to report normal hours worked and HMRC use this information to ensure that employers are paying at least the National Living Wage (NLW) or National Minimum Wage as appropriate. Care needs to be taken where either the NLW or NMW is being paid, and a salary sacrifice arrangement is in place, to ensure that the NLW or NMW is being paid after the salary sacrifice deduction.

Conclusions

In addition to the above changes, there are several employment law changes in the pipeline, as announced in the Employment Rights Bill in October 2024, and updated in March 2025, and employers will need to be aware of changes and implementation dates when they are announced. Further briefings will be published as and when further details are known.

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