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Payroll - changes for 2016

With changes to payroll legislation introducing new rules, employers should pay attention to five key areas, including Employment Allowance increases, an end to COSR pension schemes, and the introduction of the National Living Wage.

Each year sees a change in payroll legislation and 2016 is no exception. While April sees new rules brought in, and others updated, there are five areas in which new policies have come into force that we are highlighting.

Employment allowance increased

Introduced in the 2014 Budget, the NICs Employment Allowance (EA) allows qualifying companies to reduce their employer's national insurance. From 6 April, this amount increases to £3,000, so eligible businesses and charities can get a greater reduction on the employment costs. Those organisations which have already been claiming Employment Allowance will not need to do anything, as the update will be carried out automatically – usually through payroll software.

Introduction of a National Living Wage

From 1 April 2016, a new National Living Wage is being rolled out and is designed to provide a pay boost to workers over the age of 25. The rate will be £7.20 per hour, which is an increase of 50p per hour over the current Minimum Wage (which itself is set to increase to £6.70 per hour).

Employers should pay attention to their pay reference period – for example, if workers are paid monthly and the pay reference period runs from 20th of each month, the living wage should be paid on 20 April.

Contracted out NI letter and COSR pension scheme changes

With contracted out NI letters and Contracted Out Salary Related (COSR) pension schemes set to cease from April 2016, any employees within these schemes will need to be migrated from 'D' rate NIC to 'A' rate. The result will bring additional costs to employers as 'A' rate NIC is less favourable and, accordingly, their Employers National Insurance contributions will increase.

Scottish tax code prefixes

While there is currently no difference in tax rates between Scotland and the rest of the UK, this may change in the future. This means, from 6 April anybody living in Scotland will pay the Scottish rate of tax, and tax codes will carry an 'S' prefix where HMRC considers the employee should be paying Scottish Tax.

New student loan repayment plans

There is to be a new student loan threshold of £21,000 introduced from 6 April 2016, which will be known as Plan 2. This is for loans taken out post-September 2012. Therefore, anyone already paying through an existing scheme will be unaffected by this change and their (Plan 1) threshold will remain at £17,495.

Any new employees should advise which plan type they are currently on by completing a 'New Starter Checklist' as HMRC has stated there will be no changes to the P45 form.

How we can help

Buzzacott's **Business Services team** can guide you in making decisions that work in both the short- and long-term, while avoiding pitfalls and unexpected consequences.

For further guidance and advice tailored to your situation, please reach out to your usual Buzzacott contact or get in touch via the details below:

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