



Important payroll tax changes commencing from 6 April 2021



Now, for tomorrow

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

From April 2021 the following hourly rates will apply:

- £8.91 (> 23)
- £8.36 (21 - 22)
- £6.56 (18 – 20)
- £4.62 (16-17)
- £4.30 (Apprentices)

HMRC's enforcement activity has increased significantly over the last few years and not only can non-compliant employers face repaying arrears to current and former employees, but businesses can also face 200% penalties (this could be up to £20,000 per employee) and the prospect of their reputation also being damaged from being named in the media.

We will amend payroll records where they are based on an hourly rate. In all other cases please contact your payroll administrator as soon as possible to discuss your employee's rate of pay if an increase is required.

Please note if your payroll period is split over two months, for example 25 March to 24 April, we will require your changes earlier than the normal processing time as it could be potentially very time-consuming splitting the individual rates. We may need to agree a one-off fee for this calculation split depending on how many employees are affected.

If you do discover that you have underpaid an employee, please contact your payroll administrator as soon as possible. Self-correction of any errors will minimise the risk of penalties prior to HMRC identifying them.

Tax codes

From 6 April 2021 the personal allowance for tax will increase from £12,500 per annum to £12,570 regardless of an individual's date of birth.

UK Rate of Income Tax

From 6 April 2021, the UK tax rates and bandwidths will increase to:

UK Rate	%	Bandwidth
Basic Rate	20	£1 to £37,700
Higher Rate	40	£37,700.01 to £150,000
Additional Rate	45	£150,001 and above

Scottish Rate of Income Tax

The Scottish rates from 6 April 2021 will increase to:

Scottish Rate	%	Bandwidth
Starter Rate	19	£1 to £2,097
Basic Rate	20	£2,097.01 to £12,726
Intermediate Rate	21	£12,726.01 to £31,092
Higher Rate	41	£31,092 to £150,000
Top Rate	46	£150,001 and above

Welsh Rate of Income Tax

The Welsh rates from 6 April 2021 will increase to:

Welsh Rate	%	Bandwidth
Basic Rate	20	£1 to £37,700
Higher Rate	40	£37,700.01 to £150,000
Additional Rate	45	£150,001 and above

Please note it is important that employers track their Scottish and Welsh employees to ensure that they are taxed under the correct legislation.

Therefore, it would be appreciated if you could also continue to encourage your employees to advise you and HMRC of any changes in address to ensure all records are kept up to date. This also means HMRC can also ensure employees are taxed at the applicable tax rate.

National Insurance Contributions (NIC)

From 6 April 2021, the monthly salary that can be paid without incurring tax or national insurance will increase from £792 per month to £797.

This year there continues to be a difference between the primary threshold for employees NIC and secondary threshold for NIC. The difference is £60.00 therefore the secondary threshold is set at £737.

Please note, National Insurance contributions are unaffected by the Scottish and Welsh rate of income tax. **(i.e. NIC bands in Scotland and Wales are the same as in the rest of the UK).**

We recommend that directors who are paid at the threshold ensure they secure the qualifying year for state benefits without paying NIC (bearing in mind the impact of the off-payroll working rules). If we process your payroll, we will increase your monthly amount based on the above rate from 6 April 2021 unless instructed otherwise.

If you fall within the off-payroll working rules ("IR35")

Please note if your services fall within the scope of the off-payroll working rules that came into force from 6 April 2021 and you have been advised that you will be included within your end-client's payroll, this will mean you will have at least two employments for tax purposes; one with your personal service company and the other with the end-client. As they will not be connected, you will be entitled to the NIC threshold for each employment in the same way that any other employee with two unconnected employments would be.

You will also need to advise the payroll administrator whether any salary you draw down from your personal service company has already been subject to PAYE and NIC deductions by your end-client. If we do not have this confirmation, we will subject all salary payments to PAYE and NIC in the normal way. Where you confirm that amounts have already been subject to tax by an end-client, we will process the payment via the payroll without any additional PAYE withholdings. This will also be detailed on your payslip to ensure a clear audit trail.

Please note if your payroll has been processed as a director only payroll and additional payments are going to be required under IR35, we will need to review your current payroll fee.

Paying NIC for employees under 21

Employers are not currently required to pay employers Class 1 NIC on earnings up to the upper earnings limit for employees who are under the age of 21. We will continue to amend your employees NI category where applicable to M to ensure the correct rate is applied. However, you must ensure that we are provided with the correct dates of birth to enable us to do this.

Paying NIC for apprentices under 25

You can continue to employ an apprentice where you may not be required to pay employer Class 1 NIC on their earnings below £967 a week (£50,270 per annum) if your apprentice is both:

- Under 25 years old
- Following an approved UK government statutory apprenticeship framework

If you have apprentices that satisfy the above conditions you must hold strong evidence to apply the relief and retain the supporting information in case of an HMRC inspection. The below link provides further details. We will not be responsible for assessing whether the criteria is satisfied.

<https://www.gov.uk/government/publications/national-insurance-contributions-for-under-25s-employer-guide/paying-employer-national-insurance-contributions-for-apprentices-under-25>

Employment Allowance (EA)

Eligible employers can continue to claim the EA against their employer's secondary national insurance (NI) bill. The maximum claim available is £4,000 per tax year.

The EA is claimed via the payroll and reported to HMRC via the Employer Payment Submission (FPS) as the liability arises. It is claimed until either the £4,000 allowance has been utilised or the tax year comes to an end.

However, if you have claimed any employers NI via the Coronavirus Job Retention Scheme (CJRS) you must advise your payroll administrator of the amounts and the applicable period this has been claimed to ensure that the £4,000 EA is not allocated against the same payroll period.

Eligibility Check

- The EA will only be available to smaller businesses who had an employer NI bill of £100,000 or less in the previous tax year.
- The EA will not automatically be carried forward and applied to 6 April 2021. It will have to be specifically claimed via payroll software and a declaration confirming the state sector the business falls within will be required.
- The EA will be classed as de minimus state aid and there is a ceiling on how much aid a business can receive under the de minimus rules (for most businesses this ceiling will be €200,000 over a three-year rolling period). Therefore, if your business has received other tax reliefs/grants etc. you may be affected.

Please note your payroll administrator will not claim the EA from 6 April 2021 unless you confirm in writing that you have completed all the relevant checks. Please see the following link for further guidance: <https://www.gov.uk/guidance/changes-to-employment-allowance#before-you-make-a-new-claim>

Apprenticeship Levy

There are no changes to the Apprenticeship Levy which is part of the Government's plan to increase the quantity and quality of apprenticeships.

Unless you have previously confirmed the connected companies and how the allowance should be allocated between connected companies, we will assume that the £15k allowance should be applied to each payroll based on how we have dealt with this for the previous tax year.

Statutory rates

Statutory Maternity Pay, Sick Pay and Parental Bereavement leave

The standard rate for Statutory Maternity, Paternity, Adoption Pay and Parental Bereavement leave will increase to £151.97 per week.

The rate of Statutory Sick Pay will increase to £96.35 per week.

To be entitled to these statutory payments, your employee's average earnings must at least be equal to the lower earnings limit which remains at £120.00 per week.

Student Loan Recovery

An employee's annual earnings threshold at which repayment of student loan begins are:

Plan Type	Annual Threshold	Rate
Plan Type 1	£19,895	9%
Plan Type 2	£27,295	9%
Plan Type 4	£25,000	9%
Postgraduate Loan	£21,000	6%

Automatic Enrolment Statutory Contributions

There are no changes to the contribution levels. They will remain the same as 2020/2021.

IR35 – Off-Payroll Workers

MHA Tait Walker has hosted numerous webinars in relation to IR35 and how off-payroll workers should be treated via the payroll. Recordings can be found via the below links:

[IR35 / Off-Payroll Working Rules webinar 1](#)

[IR35 / Off-Payroll Working Rules webinar 2](#)

If you do have workers to add to your payroll, please contact your payroll administrator as soon as possible so that they can agree how the information should be reported to us to process and to agree any additional charges.

Please note that MHA Tait Walker is happy to answer your queries, however there may be additional charges for advice. We cannot advise on employment law related queries as this is not our area of expertise. We will always recommend that you seek advice from an employment lawyer where relevant.

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