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Essential Employer Update 2026

Guiding you through the latest issues in payroll, tax and employment law.

Minimum wage: get ready for new rates

The minimum wage is the lowest hourly rate of pay that most workers must be paid by law, and new rates apply from 1 April 2026 for the National Living Wage (NLW) and National Minimum Wage (NMW).

For convenience, we use the term 'minimum wage' to cover both of these.

Hourly rates from 1 April 2026

For those aged 21 and over (NLW)	£12.71
NMW: for those aged 18 to 20	£10.85
Those aged 16 to 17	£8.00
Apprentice rate	£8.00
Accommodation offset	£11.10

The biggest increase this year is for those aged 18 to 20: rates here increase by 8.5%. The government aims to have just one adult rate in future, and the increase for those in this age group is a step in this direction.

How it's enforced

HMRC continues to name and shame employers who make mistakes with minimum wage. This includes employers genuinely trying to comply, who make inadvertent mistakes. There is no minimum threshold for enforcement, and HMRC actively encourages workers to come forward if they think they have been underpaid.

Minimum wage compliance activity will pass from HMRC to the new Fair Work Agency (FWA) shortly. It was announced in Autumn Budget 2025 that the FWA will follow up directly with employers on all worker complaints.

Where employees are underpaid, employers have to make good the arrears. They can also face penalties of up to 200% of amounts owed to workers, with a maximum of £20,000 per worker. Arrears to workers are paid at the minimum wage rate in force at the time of settlement, and employer NICs at the rate current when the worker is paid the arrears.

In some circumstances, however, compliance officers have a degree of discretion over whether to issue a Notice of Underpayment, with the enforcement action, naming and financial penalty that follow. This can apply where employers self-correct before any investigation begins.

What to look out for

Problems paying apprentices: This was the biggest problem area identified in HMRC's latest naming round. More than a quarter of the employers named fell foul here. Errors included:

- continuing to pay the apprentice rate to apprentices over 19 years old, who had finished the first year of apprenticeship. The correct treatment for apprentices over 19, who have finished the first year of apprenticeship is to pay the appropriate age-related minimum wage. Using the rates effective from 1 April 2026, for example, an apprentice aged 21, who has finished the first year of apprenticeship should get £12.71 per hour.
- wrongly classifying someone as an apprentice
- not changing the hourly rate when an apprenticeship is completed. At the end of an apprenticeship, payment should default to the age-appropriate rate.

Other key areas of error

- Not paying uprated minimum wage: either when rates change across the board on 1 April, or when a worker qualifies for a new age-related rate after a birthday.
- Not paying correctly for working time. The danger here is that unpaid working time can take pay below minimum wage. Areas to watch include: additional work before or after a shift; rounding clock-in time to the nearest hour, half hour – or even five minutes; salaried hours

workers working over their basic hours; and unpaid travel time. This is a complex area, and we can advise further.

Avoiding risk

Keeping on the right side of the minimum wage rules is not easy. It's not just about making sure the headline hourly rate is right. Many of the errors HMRC spots are for workers who, on the face of it, are paid at least the right hourly rate. The problem is that there are other elements of the calculation that create underpayment. This may be anything from the interaction with salary sacrifice schemes to deductions from wages in connection with staff dress code.

We recommend reviewing systems and records on a regular basis, to highlight possible areas of risk and prevent problems mounting up. We should be pleased to assist you with any issues arising. Please talk to us to take this further.

The switch to mandatory payrolling of benefits in kind: where are we now?

The replacement of the annual P11D and P11D(b) process with a new requirement to report most benefits in kind under Real Time Information (RTI) takes effect from April 2027, and interim HMRC guidance has now been published.

In outline, the change means that for most benefits in kind and taxable expenses, Income Tax and Class 1A National Insurance contributions (NICs) will need to be reported through the RTI Full Payment Submission, and paid in real time from April 2027. It will also be possible to payroll employment-related loans and accommodation on a voluntary basis from this date.

The expenses to be reported on the FPS will be those currently reported on the P11D, and the number of fields for reporting benefits in kind and taxable employment expenses on the FPS will be increased to align with the P11D and P11D(b).

How to get ready

Check the guidance: The interim guidance can be found on gov.uk by searching 'Draft guidance and legislation to aid preparation for reporting benefits in kind in real time'. It will be continuously updated as further decisions are made, with final official guidance published from Autumn 2026. Employers are well advised to keep an eye on this guidance, while noting that legislation still has to come before parliament, and details could change meanwhile.

Try a dry run: Employers can try the system voluntarily beforehand, by registering with HMRC to payroll benefits from April 2026. Note that registration is needed by 5 April 2026 for the 2026/27 tax year.

Check systems and communicate with staff: In HMRC's own words, it shouldn't be underestimated how much time and input may be needed to make sure payroll processes are robust enough to handle real time reporting. The change will initially hit some employees quite hard, with payrolling taking effect in real time, whilst previous years' liabilities are still being coded out. Employers will need to make sure employees understand what to expect in terms of change to tax codes and take-home pay.

In all, this is a major change for employers to deal with, and we are on hand to help.

Budget announcement on salary sacrificed pension contributions

Autumn Budget 2025 announced change to the way that salary sacrifice for pension contributions will work. It involves capping the amount that is exempt from NICs, and is due to take effect from April 2029.

Currently, where a salary sacrifice scheme is set up for pension contributions, both employer and employee save NICs on the amount of salary sacrificed. This makes it a particularly valuable way to enhance remuneration, and many employers choose to pass on the NICs saved by making additional pension contributions into the employee's scheme.

Under the new rules, only the first £2,000 of employee pension contributions via salary sacrifice will be exempt from NICs. It will still be possible to make contributions above this amount under salary sacrifice: it is just the position as regards NICs that changes, with both employer and employee set to pay NICs on any amount above £2,000.

HMRC will expect employers to report the total amount sacrificed via their payroll software, and will publish guidance on this in due course.

Planning ahead

- Employers will want to consider how to cover any increase in their NICs bill.
- If change to existing salary sacrifice arrangements is felt to be necessary, there will need to be discussion with staff, and correct procedures put in place to alter employment contracts.
- The change is not immediate, and government plans may alter, especially given the Pension Commission's remit to review and boost pension saving. It should be noted that until 2029, the NICs exemption can still be used to advantage. Please don't hesitate to talk to us about how to implement a salary sacrifice arrangement to benefit your workforce if this isn't something you already offer.

Employment law: critical changes to expect in 2026

The Employment Rights Act 2025 has significant implications for employers. Key milestones expected for 2026 are outlined here:

Expected April 2026

- Paternity Leave and unpaid Parental Leave become day one rights, replacing current rules that require a particular length of service.
- Statutory Sick Pay changes, removing the lower earnings limit and waiting period.
- Whistleblowing protections.
- Change to collective redundancy protective award.
- Establishment of the Fair Work Agency (below).

Expected October 2026

- Further measures around tips and gratuities. These will require employers to consult with the workforce before creating a written policy about how tips are shared out.
- Requirement for employers to ensure 'all reasonable steps' are taken to prevent sexual harassment of employees; employers also become liable for harassment by third parties.
- Enhanced rights around worker representation, such as the requirement to notify workers of their right to join a trade union.
- Extension to Employment Tribunal time limits. This allows claims to be brought within six months, rather than three.
- Strengthening rules on fire and rehire. This is a route sometimes used to change terms and conditions of employment.
- Regulations to set up a new Fair Pay Agreement Adult Social Care Negotiating Body.

Other key changes to come: expected 2027

- The proposal for day one unfair dismissal rights will not go ahead. It will be replaced by a requirement to work for six months before such rights apply, rather than two years as at present.
- Change to rules on zero-hours contracts, and right to guaranteed hours.
- Greater rights around requesting flexible working.

Please contact us for further information in any of these areas.

Why the new Fair Work Agency matters

The new Fair Work Agency (FWA) is due to be set up in April 2026. This is important for employers because:

- the FWA will replace some existing enforcement bodies
- it will be given comprehensive powers of enforcement
- it effectively extends state enforcement to a wider range of employment issues.

The FWA will work within England, Wales and Scotland, but not Northern Ireland, which is currently involved in its own review of employment rights.

Tougher enforcement

Enforcement currently falls to different players with different remits. Some employment rights, such as minimum wage, are enforced by government bodies. But in other areas, like holiday pay, it's essentially left to the individual worker to take action at the Employment Tribunal in the event of dispute.

The FWA is expected to change all this, streamlining enforcement, and creating a 'strong, recognisable single brand' so that workers and employers both know where to go for help.

The FWA is expected to:

- replace existing bodies such as the Gangmasters and Labour Abuse Authority, and take over their work
- enforce minimum wage; labour exploitation, modern slavery; employment agency rules
- extend state enforcement functions to other areas for the first time, notably holiday pay and Statutory Sick Pay
- take other areas of employment law into its remit as considered necessary in future
- have powers including the right to inspect workplaces, and require employers to produce relevant documents and evidence
- have power to issue Notices of Underpayment where employers have underpaid workers. Based on the minimum wage regime, this can involve paying arrears and penalties
- be able to recover enforcement costs from non-compliant employers
- be able to bring proceedings at the Employment Tribunal on behalf of workers, where it seems that they are not going to do so.

What it means in practice

The change signals a shift towards more comprehensive compliance activity. This is likely to impact holiday pay, particularly. Holiday pay is a difficult area to get right, and employers can potentially expect to see it get the sort of in-depth attention currently reserved for minimum wage.

This could prove distinctly challenging. Statistics used by the government suggest that some 900,000 workers may not receive the right amount of holiday pay, and that 14% of the lowest-paid workers think they receive no holiday pay at all.

Tip: Avoiding risk

Anticipating future FWA compliance activity targeting cases like these, we recommend preparing now. Please contact us for help reviewing current holiday pay policies, or looking back for any historic inaccuracies.

New way to report PAYE dispute to HMRC

There is no longer the option for employers, or their agents, to use HMRC's Employer Helpline or webchat to notify HMRC if they think that the employer PAYE bill is wrong. A new online form replaces these channels, and is now the only way to raise PAYE billing issues. The form can be used to help find or correct an error.

What to do

Before making contact, HMRC expects you to check over your employer submissions and go through relevant guidance on gov.uk, such as the page 'Fix problems with running payroll'. If this self audit doesn't resolve the problem, the online form is the next step.

It's accessed through gov.uk, from the page 'Get help to correct an employer PAYE bill'. This asks you to sign in with a Government Gateway user ID and password: you can create sign in details from this page if needed.

You will need certain information before starting:

- the PAYE reference number
- Accounts Office reference, if you have one
- self assessment or Corporation Tax Unique Taxpayer Reference for the business
- the number of employees in the business

- details from your payroll software of Full Payment Submission (FPS) amounts for the tax year. This includes the total Income Tax; employer NICs; employee NICs; student loan deductions; and Class 1A NICs.

It's important to use the payroll software details, not the details from your HMRC business tax account to do this. If you are disputing more than one tax year, a separate request is needed for each.

Next step

Expect an email from HMRC with a reference number, once the form is submitted. HMRC should then contact you within 40 working days, either by phone or email, to discuss the FPS information and help you fix the payroll records.

Electric vehicles: getting the tax right

HMRC has recently changed tack on its Advisory Electric Rates (AER) for fully electric company cars, introducing separate rates for home and public charging for the first time. The AER and Advisory Fuel Rates (AFR) are used when reimbursing employees for business travel in a company car; or where employees have to repay the cost of fuel used for private travel.

The new move is seen as a step in the right direction in view of the difference in cost between home and public charging. There is therefore now an AER specifically for fully electric company cars charged at public charging points - slow or fast chargers under 50 kilowatts. If the cost per mile of a public charger is more than the AER, a higher rate can be used. To do this, however, you will need to be able to demonstrate the cost per mile was higher.

Where there's a journey that sees a company car charged at a public and a residential location, the mileage can be apportioned to reflect the amount of charging in each location. Apportionment must be on a just and reasonable basis.

Note that this only applies to fully electric vehicles. Hybrids are treated as either petrol or diesel cars for AFR purposes.

We can help

Compliance continues to make great demands of employers, but we are here to help. Please contact us for advice on any employment related area.