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EMPLOYMENT LAW

Budget 2024: what are the key points for employers to note?

On 30 October 2024, the Chancellor Rachel Reeves, delivered the Labour Government's first Budget, which promised to raise over £40 billion of revenue for public spending initiatives. Here, we round up some of the key measures of interest for employers.

Increase to the national minimum wage rates

From 1 April 2025, the national minimum wage rates will increase as follows:

- the National Living Wage rate, payable to those aged 21 and over, will rise from £11.44 per hour to £12.21 per hour, representing a 6.7% increase;
- the 18 to 21 year old rate will rise from £8.60 per hour to £10.00 per hour, representing a 16.3% increase; and
- the 16 to 17 year old and Apprentice rates will both rise from £6.40 per hour to £7.55 per hour, representing an 18% increase.

This change implements the Government's manifesto commitment to increase national minimum wage rates in line with the cost of living and begin a move towards a single adult rate. The plan is for the 18 to 21 year old rate to grow incrementally until it equals the National Living Wage rate (hence the scale of the increase to the 18 to 21 year old rate).

National Insurance Contributions (NICs) for employers

From 6 April 2025, the rate of employers' NICs will rise from 13.8% to 15% (for both class 1A and class 1B NICs). Further, the secondary threshold at which employers' NICs becomes payable will drop from £9,100 to £5,000. To help combat the increase in employers' NICs, the Chancellor announced a corresponding increase to the credit that employers receive against their NICs bill. The Employment Allowance will increase from £5,000 to £10,500 and the eligibility restriction which limits it to businesses with NICs liabilities above £100,000 will also be removed. It is estimated that this change will exempt 865,000 small businesses from paying employers' NICs altogether.

Whilst these changes will raise an estimated £25 billion in revenue for the Government, they will increase payroll costs for the vast majority of employers which, in turn, may impact pay and hiring decisions. Indeed, the Chancellor said she recognised that the measures would have consequences and that "…it is likely to mean that wage increases might be slightly less than they otherwise would have been". Employers may wish to introduce or expand arrangements under which employees sacrifice a portion of salary before it is paid to them in exchange for an enhanced employer pension contribution. Such arrangements reduce the amount of income tax and employee and employer NICs payable. However, such arrangements must not reduce an employee's earnings below the applicable national minimum wage rate.

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Payroll: income tax, employee NICs and benefits

The Labour Government will not extend the previous Government's freeze on income tax and NICs thresholds beyond April 2028. Freezing thresholds in this way effectively increases the amount of income tax and NICs paid by employees because they can move into a higher tax bracket as a result of inflation. Instead, the thresholds will be uprated in line with inflation from April 2028, which will lessen the tax burden on employees. From 6 April 2026, it will become mandatory for employers to report and pay income tax and class 1A NICs via payroll for most benefits in kind. The exceptions are employment-related loans and accommodation.

Taxation of carried interest

Carried interest is a form of performance-related reward received by fund managers from the profits of the fund. It is generally taxed at capital gains tax (CGT) rates of 18% or 28%, rather than at income tax rates. For carried interest arising on or after 6 April 2025, the CGT rate will increase to 32% for all taxpayers. However, this is merely an interim measure. From April 2026, a new tax regime for carried interest will be introduced under which all carried interest will be subject to income tax rates of up to 45% and class 4 NICs as the profits of a deemed trade. The regime will apply where carried interest arises in respect of arrangements under which an individual performs investment management services. Computational provisions will apply to determine the amounts of "carried interest" and "qualifying carried interest", the latter of which will be adjusted by a 72.5% multiplier resulting in a lower rate of taxation.

Share incentive plans (SIP) and statutory neonatal care pay

SIP legislation requires employers to notify employees of the possible effect of deductions from salary on entitlements to social security benefits and certain statutory pay entitlements. The right to statutory neonatal leave and pay is expected to come into force in April 2025. From 6 April 2025, the SIP legislation will be amended to include statutory neonatal care pay in the list of statutory payments that must be included in relevant notices to employees.

Umbrella companies

An umbrella company is one which acts as an employer to an individual (typically working through a recruitment agency) which serves as a single employer to them through multiple contracts, and which pays the individual as an employee via the PAYE system. Following concerns about tax avoidance in such arrangements, from 6 April 2026, responsibility for accounting for income tax and NICs through PAYE will move from the umbrella company to the agencies that supply the individuals to the end user clients. Where there is no agency in the supply chain, then responsibility will move to the end user client, resulting in an increased admin burden for that client.

BDBF is a law firm based at Bank in the City of London specialising in employment law. If you would like to discuss any issues relating to the content of this article, please contact Principal Knowledge Lawyer Amanda Steadman (amandasteadman@bdbf.co.uk) or your usual BDBF contact.

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