WHAT DO THE BUDGET CHANGES MEAN FOR EMPLOYERS?

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Employer NICs Rate Increase to 15% from 6 April 2025

This rise will increase the cost of hiring employees, affecting budgeting and financial planning for businesses. Employers may need to reassess their compensation strategies in light of increased payroll costs.

Reduction of Secondary Threshold for Class 1 (Employer) NICs

This reduces annual threshold from which employers must pay employer NICs, from £9,100 to £5,000 per employee. This marks a significant shift which, when combined with the rate increase, could significantly increase employer NIC bills.

Employment Allowance Increase to £10,500

This increases the credit employers receive against their employer NIC bill from the prior rate of £5,000 and removes the restriction that this only applies to businesses with employer NICs liabilities above £100,000. However, as this is a global reduction and not assessed per employee, the overall impact is limited.

Income Tax and employee NICs freeze will not be extended

Freezing the threshold at which income tax starts being charged and higher rates apply effectively increases tax on employees once inflation is taken into account. Not extending the freeze and allowing these thresholds to rise with inflation from April 2028 will eventually reduce the tax burden on employees.

Corporation Tax Rate Lock

The main rate of corporation tax will remain at 25% until 2028, and the small companies rate will be maintained. This measure should ensure a degree of stability for businesses in their long-term planning.

Clampdown on Umbrella Companies

From April 2026 new legislation will shift the responsibility for accounting for PAYE on workers supplied through umbrella companies to agencies or end client businesses. This is intended to clamp down on the growth of umbrella companies in the light of prior IR35 changes, but further details are yet to be published.

Employee Incentive Schemes

The main rate of CGT increases from 20 to 24% and the BADR rate increases from 10 to 14% and eventually 18%. This reduces the gap between income tax and CGT, which is the main driver for many equity-based incentives. However we expect these incentives to remain popular with employers.

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