



# Employment Taxes Explained

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Tuesday 10 June 2025



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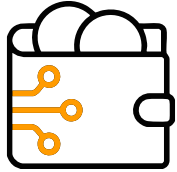


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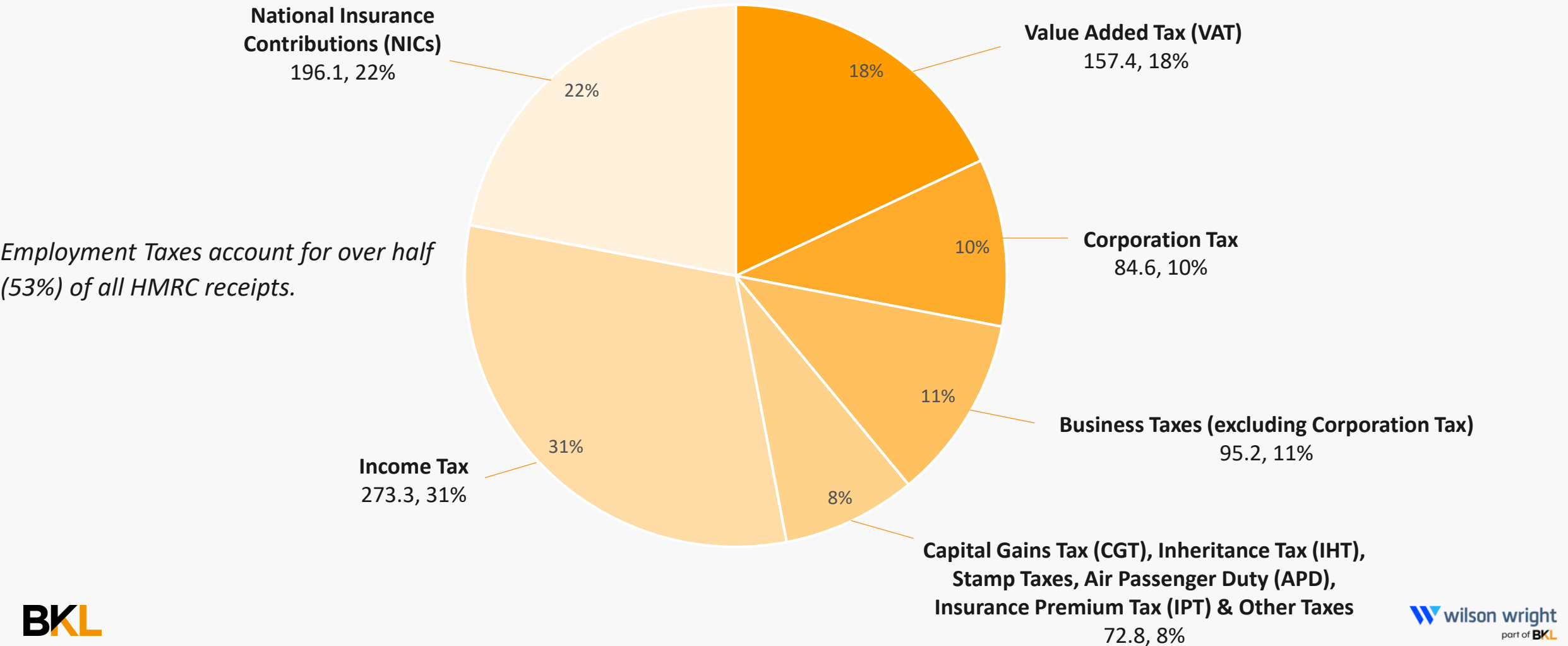
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# What we'll be covering

- 01 Introduction to Employment Taxes
- 02 Employment Taxes Landscape
- 03 End of Year Compliance
- 04 Employment Law Update – EMW Law
- 05 Salary sacrifice and Managing Costs
- 06 Q&A



# HMRC – Tax Revenue (£Billion) – 2022/23



# 1. Introduction to Employment Taxes

## Compliance

- Form P11D and P11D(b) completion
- PAYE Settlement Arrangement (PSA) calculations
- Employment Related Securities (ERS) returns
- Construction Industry Scheme (CIS) returns
- Taxed Award Scheme (TAS)
- Payroll and Payrolling of Benefits (PBIK)
- HMRC reviews and voluntary disclosures
- Apprenticeship Levy optimisation and reporting
- Senior Accounting Officer (SAO) reviews and certification



## Consulting

- Off-payroll workers and IR35 processes including labour supply chain
- Termination rules and payments (policy and PENP calculations)
- National Minimum Wage (NMW) and National Living Wage advice
- Total reward and remuneration planning
- Benefit and expense policies implementation and review
- Advice on people and staffing matters, including Holiday Pay
- PAYE Healthchecks and optimisation reviews



## Cross-border matters

- Cross-border and remote workers
- Short-Term Business Visitors (STBVs / Appendix 4 Returns)
- Global assignments and assignees
- Non-resident directors
- Overseas Workday Relief and s.690 directions
- Modified and shadow payrolls



## Cost savings

- Salary sacrifice arrangements including
  - Pension and AVCs
  - Holiday buybacks
  - Electric vehicles
  - Cycle to work
  - Childcare and workplace nurseries
- Salary vs dividend calculations
- Bonus waivers and deferrals
- Tax reclaim opportunities (PSAs, Laing O'Rourke)





# 2. Employment Taxes Landscape

## National Insurance Contributions (NIC) and NMW Changes

- From April 2025, the Employer Class 1 NICs rate rose from 13.8% to 15%, increasing the cost of employment for businesses
- The secondary threshold – the earnings level above which employers start paying NICs – will be reduced from £9,100 to £5,000 per year, further increasing NIC liabilities for employers
- The Employment Allowance increased from to £10,500 per year. This means eligible employers can reduce their annual employer National Insurance liability by up to £10,500
- Previously, only employers with a total employer NIC liability of £100,000 or less in the previous tax year could claim the allowance. This cap will be abolished, broadening eligibility to more businesses

### National Minimum & Living Wage - From 1 April 2025:

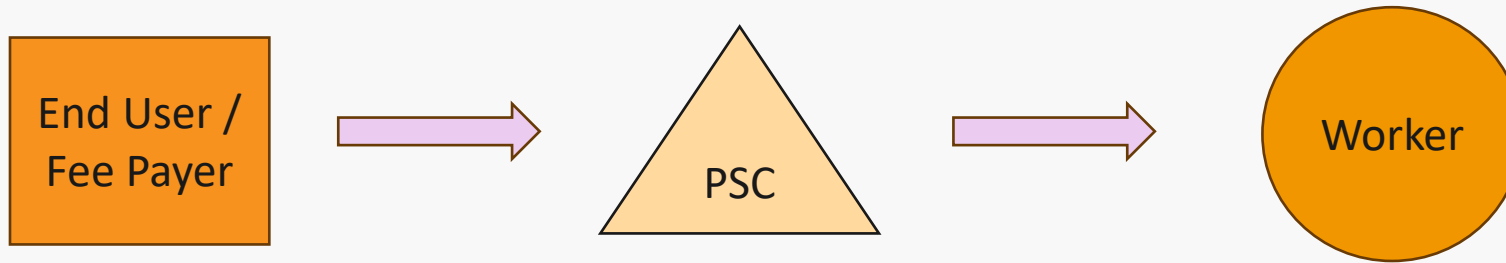
- Adults (21+) receive **£12.21** per hour (+6.7%)
- 18-20 = **£10** per hour (+16.3%)
- 16-17/Apprentices = **£7.55** per hour (+18%)
- As a result of the above rate changes, UK employers face **higher labour costs**, including increased National Insurance, though partially offset by the raised Employment Allowance
- ONS Jobs Survey published today (10 June) – 63,000 fewer vacancies in three months to May 2025



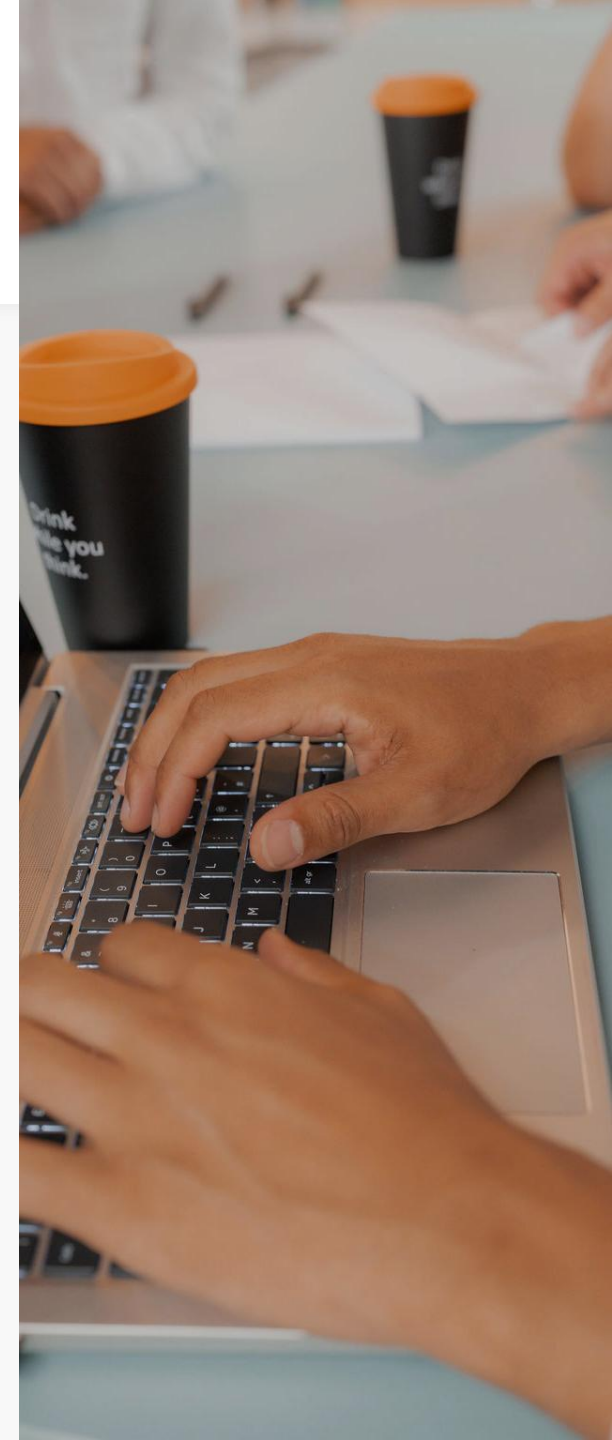


## 2. Employment Taxes Landscape

### IR35 and Off Payroll Working (OPW)



- IR35 is a set of longstanding rules to stop tax avoidance through “disguised employment”
- It applies when someone works like an employee but through their own limited company (often called a PSC)
- If the rules apply (e.g. Inside IR35), they must be taxed like a normal employee with PAYE withholding applied
- The End User must decide if each contractor is “inside” or “outside” IR35
- Issue a written status decision called a **Status Determination Statement (SDS)**
- Exercise “reasonable care” when making decisions, and ensure evidence is captured to demonstrate this
- **Inside IR35:** The worker acts like an employee for tax purposes → PAYE and NIC must be deducted by fee payer
- **Outside IR35:** The worker is running a self-employed business → No payroll taxes



## 2. Employment Taxes Landscape

### IR35 and Off Payroll Working (OPW)

- “HS2 investigating two firms supplying labour and construction staff” *BBC News* – 26 May 2025
- The “new” OPW rules have now been in effect for 4 years (April 2021). It remains one of the largest employment tax risk areas for employers during HMRC compliance reviews or a due diligence exercise
- The IR35 / OPW rules only apply to medium and large companies. The pre-April 2021 rules apply to small companies
- Company qualifies as “small” if it meets at least two of the following for two consecutive financial years beginning on or after 6 April 2025:
  - Turnover ≤ £15 million
  - Balance Sheet total ≤ £7.5 million
  - Employees ≤ 50

#### Key status tests & indicators:

- *Control*: Do you tell them how, when, and where to work? Can you move them from task to task?
- *Personal service / substitution*: Can someone else do the work instead of them?
- *Mutual obligation*: Are you obliged to give them work and they must accept it?
- HMRC’s CEST tool is a good first step for assessing and determining status, but it can sometimes produce inconsistent results with more complex or nuanced engagements – so proceed with caution!
- Do not consider IR35 in isolation as sits alongside agency legislation, overseas intermediary rules, MSC and CIS!



## 2. Employment Taxes Landscape

### Homeworking / Hybrid / Remote working

- We have seen significant changes to employee working patterns since COVID-19 and this can bring tax challenges if these arrangements are not managed correctly
- Where is workplace defined in your employment contracts? Is this consistent with the fact pattern?
- Where an employee attends a workplace regularly (e.g. more than 40% of their time), it may be deemed a permanent workplace, limiting tax relief on travel expenses
- Often there is no formal / documented homeworking arrangement; but when employees are asked where their base location is, they state that this is their home
- Hybrid working across borders can affect an employee's tax residency status, potentially triggering double taxation or reporting obligations in multiple jurisdictions. Employers may inadvertently create a permanent establishment or payroll obligations in another country if employees work remotely from abroad

### Section 690 / Overseas Workday Relief

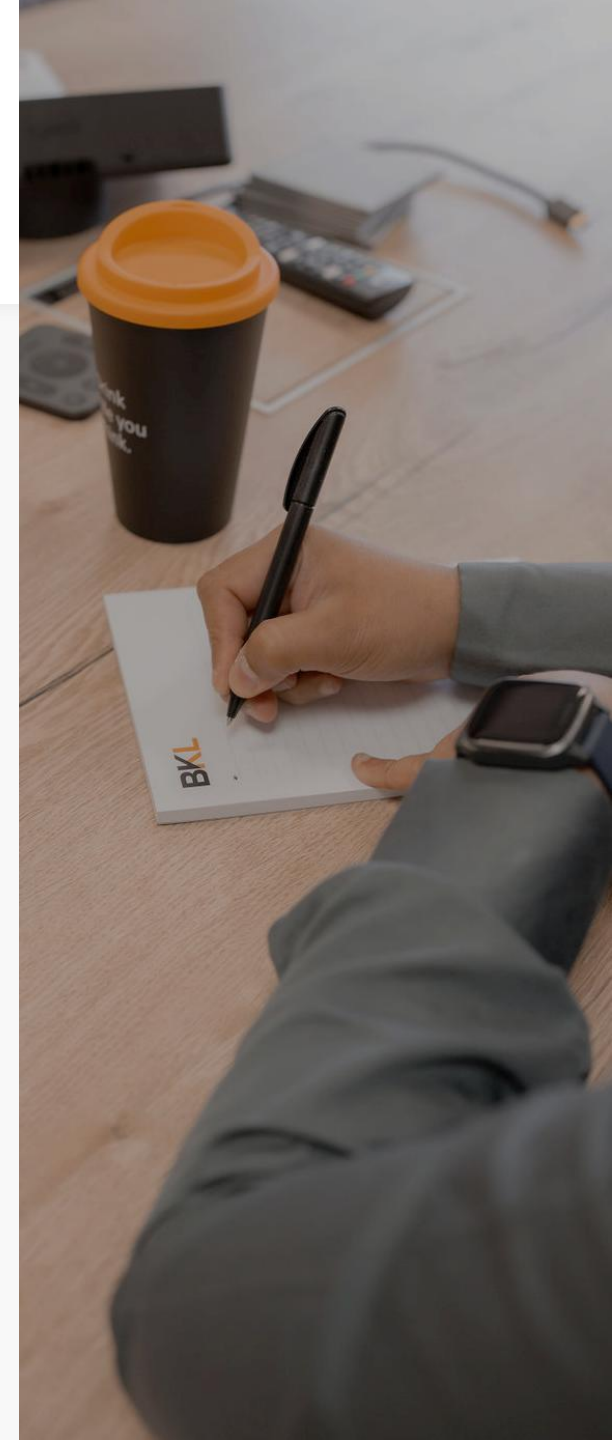
- The Section 690 process – which allows UK employers to apply PAYE only to the portion of an employee's income related to UK duties – underwent significant changes effective 6 April 2025
- Employers no longer need to wait for formal HMRC approval. Once they receive an auto-acknowledgement after submitting the online notification, they can immediately apply the PAYE adjustment
- The process has moved fully online. Employers must use HMRC's new digital service to notify them of the proportion of income subject to PAYE, based on UK workdays
- These changes aim to streamline administration and reduce delays for employers managing internationally mobile employees



# 3. End of Year Compliance

## Forms P11D and P11D(b)

- Form used by UK employers to report taxable expenses and Benefits in Kind (BIK) provided to employees and directors – such as company cars, private medical insurance, or interest-free loans over £10k – that are not processed through payroll
- Employers must submit a separate P11D for each relevant employee or director by **6 July** following the end of the tax year and also provide a copy to the individual concerned
- These reported benefits may be subject to Income Tax for the employee and Class 1A NICs for the employer
- Mandatory payrolling of all BiKs was due to be introduced from April 2026, but this has now been pushed back to April 2027

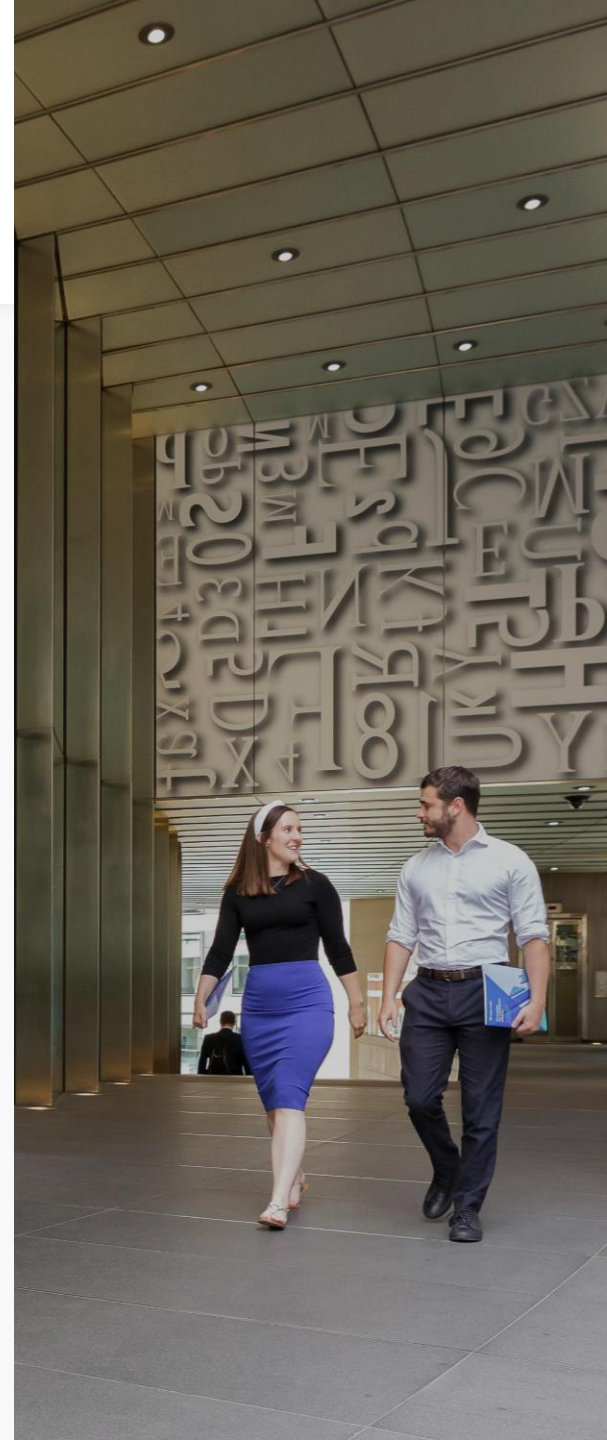




# 3. End of Year Compliance

## P11D Checklist & Common errors

- Are all company vehicles being reported correctly – including pool cars, vans and electric vehicles?
- Have you included the fuel scale charge for private use, if provided?
- Have you reported any second phones or tablets (only one work phone is exempt)?
- Have you reported non-trivial gifts / benefits over £50 per head?
- Are you applying the £50 trivial benefit rule correctly? Can't be cash or a reward / recognition for work
- Have you included staff entertaining costs **not** covered by the annual event exemption or on a **PSA**?
- Are client entertaining and qualifying subsistence costs correctly separated?
- Have you reported interest-free or low-interest loans over £10,000? (including study loans and DLAs)
- For PMI, are you including any reimbursed excess costs or emergency treatment / family cover?
- Are minor/irregular benefits that aren't reported on P11Ds covered by your PSA?
- Are you including benefits provided after someone has left?
- Do you have documents / evidence to back up what's been reported (or not reported)?
- Are your expense and benefit policies up to date? Do they reflect current practice?





# 3. End of Year Compliance

## PAYE Settlement Agreement (PSA)

- A PSA allows employers to make a single annual payment to cover the tax and National Insurance on certain minor, irregular or impractical-to-calculate benefits or expenses provided to employees (e.g. staff gifts, small events)
- Instead of including these items on individual employees' P11Ds, the employer settles the tax liability (grossed up) directly with HMRC, simplifying compliance and administration
- Employers must apply to HMRC for a PSA before **5 July** and enter into an ongoing agreement with HMRC to calculate the PSA liability and pay the resulting tax and NICs by **22 October**



# 3. End of Year Compliance

## Short-Term Business Visitor Agreement (STBV)

Allows UK employers to relax PAYE tax withholding obligations for overseas employees visiting the UK for short business trips, provided the visitors are from countries with which the UK has a Double Taxation Agreement

It applies to non-resident employees who remain on their home country payroll, do not have a formal UK employment contract, and whose visits do not exceed certain thresholds (typically under 60 days per tax year)

Employers must apply to HMRC for the agreement and submit annual reports detailing qualifying visitors by **31 May** following the end of the tax year



## Employment Related Securities (ERS)

An ERS return is an annual report submitted to HMRC by employers who have provided shares, share options, or other equity-based incentives to employees or directors

Employers must file a return for each registered ERS scheme – even if no reportable events occurred during the tax year (a “nil return”) – by **6 July** following the end of the tax year

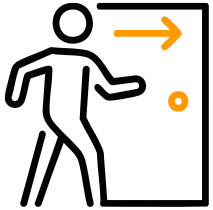
It applies to both tax-advantaged schemes (like SIP, SAYE, CSOP) and non-tax-advantaged arrangements, including one-off share awards or gifts



## 4. Employment Law Update from EMW Law



### Employment Rights Bill



Unfair dismissal



Statutory Sick Pay



Restrictions on fire  
and rehire



Family rights

### Case Law Update – *For Women Scotland v Scottish Ministers*

Supreme Court ruling – under the Equality Act, the definition of ‘man’, ‘woman’ and ‘sex’ refers to the person’s biological sex, and not a gender Recognition Certificate (GRC)

EHRC – new guidance on toilet, washing and changing facilities in the workplace

# 5. Salary sacrifice and managing costs

## Salary sacrifice arrangements

- Pensions & AVCs
- Holiday buy back
- Electric vehicles (EV)
- Cycle to Work (C2W)
- Childcare & workplace nurseries



## Compensation Planning

- Salary vs dividend planning
- Bonus waivers and deferrals
- Carry forward pension annual allowance claims



## Tax Reclaim Opportunities

- Laing O'Rourke NIC Reclaim
- PAYE Healthchecks
- Expenses Review



## Relief optimisation

- PAYE Settlement Agreements e.g. trivial benefit exemption
- Termination / PENP calculations



# Any Questions?

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# Thank You



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