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UK PAYROLL GUIDANCE

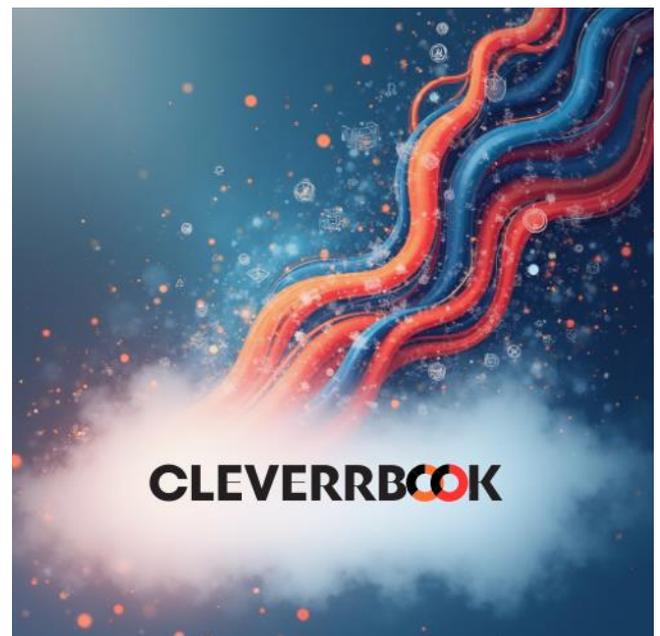
This guide summarises the major changes affecting employers and helps you stay informed and compliant.

For payroll professionals, HR teams, finance leaders and compliance focused managers.

The Bird's Eye

The 2026 payroll landscape is shaped by important but steady changes. Rather than major tax shocks, employers will see a series of practical reforms that require preparation, adaptation and clear communication. The most significant development for this year is the reform of Statutory Sick Pay (SSP).

By 6th April 2026, your payroll systems, absence processes and employee communications should be ready. Early preparation reduces the risk of errors, queries and the need for mid-year corrections.



Key Legislative Developments for 2026

Statutory Sick Pay (SSP) Reforms - the key focus for 2026

SSP is changing from 6th April 2026 and the impact for employers is considerable.

What do employers need to know for 2026

- The earnings threshold (Lower Earnings Limit) for SSP eligibility is being removed. All employees will qualify for SSP regardless of weekly earnings.
- A new calculation approach will apply. SSP will be the lower of:
 - 80 per cent of the employee's average weekly earnings, or the standard SSP rate.
- The confirmed SSP weekly rate for 2026 to 2027 is £123.25.

What do payroll and HR teams need to do

- Remove all LEL checks from SSP eligibility logic in payroll systems.
- Update calculation rules to support the new 80 per cent average earnings model with the capped rate.
- Run test scenarios for full time, part time, variable hours and low hours workers.
- Update sickness absence policies, handbooks, intranet content and payslip messaging.
- Communicate early with employees. Many who previously did not qualify for SSP will now be eligible.

These changes will be the most operationally significant payroll reform for many UK employers in 2026.

Payrolling of Benefits in Kind (PBIK)

Mandatory payrolling of benefits in kind will now begin in April 2027. Employers can choose to opt in early during the April 2026 registration window.

What do employers need to know for 2026

- The mandatory requirement is one year later than originally planned.
- Voluntary registration remains available and early adoption can significantly reduce pressure in 2027.
- Class 1A NIC still needs to be reported on P11DB.

What payroll teams need to do

- Review your organisation's benefits portfolio and identify which benefits will be payrolled.
- Ensure payroll and benefits systems can process monthly tax and Class 1A NIC calculations.
- Update processes for benefit capture, calculation, payrolling and RTI reporting.
- Begin employee communications to explain how monthly taxation of benefits will appear on payslips.

Preparing during 2026 will allow employers to transition smoothly into the mandatory regime in 2027.



Student Loan Repayment Thresholds Confirmed for 2026 to 2027

Updated student loan thresholds have been confirmed. Employers must ensure the correct plan type and threshold are applied for each employee.

Loan Type	2025/2026		2026/2027	
	Annual Threshold	Rate	Annual Threshold	Rate
Plan 1	£ 26,065	9%	£ 26,900	9%
Plan 2	£ 28,470	9%	£ 29,385	9%
Postgraduate	£ 21,000	6%	£ 21,000	6%
Plan 4 (Scotland)	£ 32,745	9%	£ 33,795	9%
Plan 5 (England) From April 2026	£ 25,000	0%	£ 25,000	9%

Payroll implications

- Ensure the correct plan type is recorded for each employee.
- Load and implement the correct thresholds from the first pay period of 2026 to 2027.
- Test calculations across weekly and monthly payrolls.

PAYE, NICs and Other Thresholds

Most headline thresholds remain frozen for 2026 to 2027.

- Personal Allowance: £12,570
- Basic, higher and additional tax bands: unchanged
- Class 1 NIC rates: frozen until 2031
- Lower Earnings Limit: Increased to £129 per week
- Upper Earnings Limit: unchanged
- Class 1A and Class 1B NIC rates: unchanged

This stability means fewer annual changes but increases the importance of getting SSP and PBIK preparation right.

April 2026 National Minimum and Living Wage

The Chancellor of the Exchequer Rachel Reeves announced the acceptance of the Low Pay Commission recommendations on increases to the National Minimum Wage and National Living Wage.

These uplifts are predicted in benefit 2.7 million U.K. workers with a significant increase in pay.

National Minimum Wage (NMW) and National Living Wage (NLW)	For pay periods starting 1st April 2025	For pay periods starting 1st April 2026
National Living Wage (ages 21 and over)	£ 12.21	£ 12.71 (+4.1%)
18-20 year old rate	£ 10.00	£ 10.85 (+8.5%)
16-17 year old rate	£ 7.55	£ 8.00 (+6.0%)
Apprentice rate (1 st year only)	£ 7.55	£ 8.00 (+6.0%)
Accommodation Offset	£ 10.66	£ 11.10 (+4.1%)

What about the predicted age reduction for National Living Wage

As part of the governments early days announcements, they desire to reduce the qualifying age for National Living Wage to commence at 18 years of age.

However, instead of reducing the NLW effective age, the increase to the 18-20 year olds is the highest increase at +8.5% to the new £10.85 per hour rate.

What about the younger workers and apprentices?

Those aged 16-17 who have reached school leaving age and apprentices also received a higher increase of 6% to the new £8 per worked hour rate as a statutory minimum.



Employer Considerations

SSP risks

- Increased budget impact where a high proportion of employees were previously below the LEL.
- Errors when calculating average earnings for variable hours staff.
- System mismatches between HR absence tools and payroll.

PBIK risks

- Late preparation ahead of the April 2027 deadline.
- Incorrect or incomplete monthly Class 1A NIC calculations.
- High employee query volume without clear communication.

Minimum wage compliance risks

- Potential underpayments if hourly rates or contracts are not reviewed promptly.
- Risk of non-compliance for shift based or irregular hours roles.

General risks

- Differences in devolved administration rules.
- Missing audit documentation for HMRC reviews.
- Fiscal drag effects caused by frozen tax thresholds.

What to watch out for next?

- Final DWP guidance for the new SSP rules.
- Further refinements to RTI and benefits reporting.
- Payroll software updates marketed as PBIK ready for 2027.
- Potential long-term reform of student loan schemes.

Practical Payroll Checklist for April 2026

SSP preparation

- Update SSP eligibility logic.
- Update calculation rules for the new 80 per cent model.
- Test SSP for different worker types.
- Refresh all related policies and employee communications.

PBIK preparation for 2027

- Confirm which benefits will be payrolled.
- Test payroll system capability for early adoption.
- Prepare employee communication plans.

Student Loans

- Operate the confirmed 2026 to 2027 thresholds.
- Validate plan types for all employees.

Tax, NICs and thresholds

- Confirm frozen thresholds are correctly applied.
- Ensure your software provider delivers all relevant updates by March 2026.

Cross-team coordination

- Align payroll, HR, finance and legal teams where contracts, policies or benefit arrangements may change.
- Run off cycle or test payrolls in advance to detect anomalies early.

National Minimum Wage

- Ensure employees are paid at or above the National Minimum or Living Wage from 1st April 2026.
- Coordinate payroll, HR and finance teams on any contractual or pay scale changes.



Compliance Matters!

The 2026 payroll year brings significant statutory changes, particularly to SSP, alongside essential updates to minimum wage rates and student loans.

Early preparation, thorough testing and clear communication will help protect your organisation from compliance issues, payroll errors and employee disputes. A proactive approach will ensure accuracy and confidence throughout the year ahead.

Want to stay updated?

Join us at our free monthly webinar Payroll Question Time, where Simon and our expert panel will be on hand to answer any questions about preparing for 2026 and other payroll compliance and legislation hot topics. It's your chance to get your burning questions answered on a live webinar.

The logo for Cleverrbook, featuring the word "CLEVERRBOOK" in a bold, black, sans-serif font. The letter "O" is stylized with a red and orange gradient. The background of the entire page is a scenic landscape with rolling hills and a tree silhouette on the left, under a soft, hazy sky.

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