FREE PRACTITIONER GUIDE · TAX YEAR 2026/27

UK payroll compliance guide

What has changed for 6 April 2026 to 5 April 2027 — every rate, threshold and rule change, with the payroll action beside it.

TCW Accounting Solutions

Version 2 · August 2026 · for the tax year 6 April 2026 to 5 April 2027

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What is in this guide

At a glance — the six numbers that move

£129
NIC LOWER EARNINGS LIMIT, PER WEEK
(WAS £125)

£123.25
SSP PER WEEK FROM 6 APRIL 2026
(WAS £118.75)

£194.32
SMP, SAP, SPP, SHPP, SPBP, SNCP PER WEEK FROM 5 APRIL 2026 (WAS £187.18)

£12.71
NATIONAL LIVING WAGE PER HOUR FROM 1 APRIL 2026
(WAS £12.21)

£25,000
NEW PLAN 5 STUDENT LOAN REPAYMENT THRESHOLD

£751
STATUTORY CAP ON A WEEK'S PAY FROM 6 APRIL 2026 (WAS £719)

TWO CHANGES THAT ALTER PROCESS, NOT JUST FIGURES

Statutory Sick Pay: the minimum earnings requirement is removed, and SSP is payable from day one of sickness. **Umbrella chains:** from 6 April 2026, joint and several PAYE liability applies to agencies and, in some cases, end-clients.

General information for payroll practitioners, not advice on any particular set of facts. Verify final figures with HMRC and The Pensions Regulator before finalising payroll settings.

SECTION 1

Scope of this guide

This guide is for payroll practitioners preparing UK payrolls for the tax year 6 April 2026 to 5 April 2027. It focuses on what has changed compared with 2025/26.

What is covered

- PAYE, income tax and student loans
- National Insurance contributions (NIC)
- Statutory payments — SSP, SMP, SAP, SPP, ShPP, SPBP and SNCP
- National Minimum Wage and National Living Wage
- Holiday pay
- Benefits in kind and P11D reporting
- Off-payroll working, IR35 and umbrella companies
- Auto-enrolment pensions
- Employment law changes with a direct payroll impact

Territorial scope

This guide covers UK-wide regimes. Where rules differ between England, Wales, Scotland and Northern Ireland, that is noted explicitly in the relevant section.

How to use it

Each section sets out the 2025/26 position, the 2026/27 rule, and the payroll actions that follow. Sections 12 and 13 pull everything into a single summary table and an implementation list you can work through before your first 2026/27 payroll run.

SECTION 2

The 2026/27 compliance landscape

Many tax and NIC thresholds are frozen for 2026/27, but the ones that move matter, and two changes alter how payroll is processed rather than simply what it costs.

Overall picture

- **Most NIC thresholds are frozen, but the lower earnings limit rises.** Class 1 NIC rates are unchanged and most NIC thresholds are frozen to 5 April 2031. The Class 1 lower earnings limit (LEL) rises, and student loan thresholds change.
- **Statutory payment rates and minimum earnings thresholds increase.** The LEL for statutory payments rises, and the flat-rate amounts for SSP and statutory family payments increase from April 2026.
- **NMW and NLW increase from 1 April 2026.** Regulations confirm higher hourly rates across all age bands and apprentices, UK-wide.
- **Student loan thresholds are updated for 2026/27**, including Plan 5 entering repayment. New annual thresholds apply across Plans 1 to 5.
- **Off-payroll and umbrella company rules tighten from April 2026.** New joint and several PAYE liability rules apply to umbrella-company labour chains.
- **The Employment Rights Act 2025 starts to phase in from 2026.** This includes changes around umbrella regulation, tipping policies, and some caps relevant to payroll cost planning.

> **WHERE THIS GUIDE IS SILENT**
>
> Where no change is stated — for example detailed PAYE income tax rates or auto-enrolment thresholds — confirm the position against HMRC or The Pensions Regulator before finalising payroll settings.

SECTION 3

PAYE, income tax and student loans

3.1 PAYE — general operation

PAYE continues to apply to employment income. Employers remain responsible for operating PAYE on cash earnings and certain taxable benefits, and for state-imposed deductions such as student loans.

The 2026/27 income tax bands and personal allowance are not changed by any source reviewed for this guide. Confirm current HMRC rates and update your tax tables.

3.2 Student loan and postgraduate loan deductions

Annual earnings thresholds from which repayments begin:

Plan	2025/26	2026/27	Note
Plan 1	£26,065	£26,900	Increase
Plan 2	£28,470	£29,385	Increase
Plan 3 (Postgraduate)	£21,000	£21,000	Unchanged
Plan 4	£32,745	£33,795	Increase
Plan 5	Not yet in repayment	£25,000	NEW Courses starting on or after 1 August 2023; 40-year repayment term

Income counted and collection method

- Income for threshold purposes includes earnings from all employments, self-employment, property income and unearned income above £2,000 a year.
- Employees with variable earnings are liable whenever pay in a period exceeds the weekly or monthly threshold.
- Earnings are measured on the same basis as for Class 1 NIC, excluding Class 1A payrolled benefits.
- Where off-payroll working rules apply, student loan repayments are made through self assessment rather than via PAYE.

Payroll actions — student loans

Update payroll software with 2026/27 thresholds for Plans 1 to 5 and make Plan 5 selectable. Check starter processes so the plan type on the student loan start notice is captured and applied. For workers caught by off-payroll rules, take no student loan deduction via PAYE where HMRC requires collection through self assessment.

SECTION 4

National Insurance contributions

4.1 Employees — primary Class 1 NIC

The 2025/26 position

Employee primary Class 1 NIC is 8% on earnings between the primary threshold and the upper earnings limit, and 2% on earnings above the upper limit.

Earnings band (2025/26)	Weekly	Monthly	Employee NIC
Up to the primary threshold	Up to £242	Up to £1,048	0%
Primary threshold to upper earnings limit	£242 – £967	£1,048 – £4,189	8%
Above the upper earnings limit	Over £967	Over £4,189	2%

The lower earnings limit (LEL) was £125 per week (£542 per month). Earnings between the LEL and the primary threshold attract no NIC but protect benefit entitlement.

The 2026/27 rule

- No change to NIC rates and most thresholds for 2026/27.
- **Exception: the LEL increases to £129 per week.**
- The primary threshold and upper earnings limit remain frozen until 5 April 2031.

Payroll actions — employees

Keep the primary threshold and upper earnings limit unchanged for 2026/27, but increase the LEL to £129 per week. Ensure payroll still records earnings in three bands — up to the LEL; LEL to the earnings threshold; and above the earnings threshold to the upper limit — to support benefits records and reporting.

4.2 Employers — secondary Class 1 NIC

Secondary Class 1 NIC for employers is 15% on earnings above the secondary threshold, with special upper secondary thresholds for under-21s, apprentices under 25, and freeport or investment zone employees. Employer thresholds are frozen until 5 April 2031.

Employer threshold (2025/26, carried into 2026/27)	Weekly	Monthly
Secondary threshold (ST)	£96	£417
Upper secondary threshold (UST) / apprentice UST	£967	£4,189
Freeport / investment zone UST	£481	£2,083

Reliefs and time-limited rules

- **Veterans relief.** Employers are exempt from secondary NIC on veterans' salaries, up to the UST, for the first year of civilian employment since leaving the armed forces. This relief is extended to 5 April 2028.
- **Freeport and investment zone.** No secondary NIC on earnings up to the relevant UST for the first three years of eligible employment, subject to conditions.

Payroll actions — employers

Retain the 15% secondary NIC rate and the 2025/26 thresholds for 2026/27; the LEL change does not affect secondary NIC thresholds. Continue to apply NIC category V for qualifying veterans within the first year of relevant civilian employment, and plan for the relief's scheduled end on 5 April 2028. Ensure correct application of UST, AUST, FUST and IZUST for under-21s, apprentices and freeport or investment-zone staff.

SECTION 5

Statutory payments

SSP, SMP, SAP, SPP, ShPP, SPBP and SNCP — rates rise, and the SSP earnings test disappears.

5.1 Eligibility and the lower earnings limit

In 2025/26, to be eligible for statutory parental payments (SMP, SAP, SPP and ShPP), an employee had to have average weekly earnings of at least the Class 1 NIC lower earnings limit — £125 per week. Average weekly earnings are based on the eight-week relevant period up to the qualifying week, calculated on a Class 1 NIC basis.

For 2026/27 the lower earnings limit is **£129 per week**, and that threshold applies for SMP, SAP, SPP, ShPP, SPBP and SNCP.

IMPORTANT CHANGE — STATUTORY SICK PAY

For SSP only, the minimum earnings requirement is **removed** from 2026/27. SSP is payable from the first day of sickness.

5.2 Statutory rates from April 2026

Payment	2025/26	2026/27	Effective from
SSP — up to 28 weeks	£118.75 pw	£123.25 pw	6 April 2026
SMP, SAP, SPP, ShPP, SPBP, SNCP	£187.18 pw	£194.32 pw	5 April 2026

In 2025/26 the flat rate of £187.18 per week applied to SPP, SPBP and ShPP (or 90% of average weekly earnings if lower).

- Where 90% of average weekly earnings is lower than £194.32, that lower amount is paid instead.
- The first six weeks of SMP and SAP remain payable at 90% of average weekly earnings — the earnings-related rate.

Payroll actions — statutory payments

Update payroll software to use £129 as the LEL; reflect SSP at £123.25 per week from 6 April 2026; and reflect SMP, SAP, SPP, ShPP, SPBP and SNCP at £194.32 per week from 5 April 2026. Adjust SSP eligibility so that no minimum earnings test is applied from 2026/27 and SSP is payable from day one of sickness. Ensure small employers' relief calculations for SMP, SAP and similar still use the £45,000 annual Class 1 NIC threshold from the previous tax year.

SECTION 6

National Minimum Wage and National Living Wage

6.1 New hourly rates from 1 April 2026

Worker type	1 Apr 2025 – 31 Mar 2026	From 1 April 2026	Coverage
NLW — 21 and over	£12.21	£12.71	UK-wide
Age 18–20	£10.00	£10.85	UK-wide
Youth — 16–17, above compulsory school age	£7.55	£8.00	UK-wide
Apprentices — first year or under 19	£7.55	£8.00	UK-wide
Older apprentices — 19+, not in first year	Age-related standard rates	Age-related standard rates	UK-wide
Accommodation offset	£10.66 per day	£11.10 per day	UK-wide

The government plans to remove adult age bands so that all adult workers receive the NLW. This is a future reform and is not yet in force for April 2026.

6.2 What counts as pay for NMW

Included

Basic pay, bonuses, incentive payments, commissions and certain performance-related allowances.

Excluded

Overtime and shift premiums; tips, service charges and gratuities; non-performance-related allowances; benefits in kind; accommodation benefit above the permitted daily offset (£11.10 per day from 1 April 2026); vouchers and similar; compulsory training repayments and deductions for goods or services required to be bought.

Payroll actions — NMW and NLW

Update hourly rates for all workers from the first pay reference period starting on or after 1 April 2026. Review salary sacrifice, uniform costs and training-cost deductions to ensure net pay for NMW purposes does not fall below the new rates. Adjust accommodation offset calculations to use £11.10 per day from 1 April 2026.

SECTION 7

Holiday pay

No new 2026/27 holiday-pay-specific rules have been introduced — for example regarding rolled-up holiday pay or new calculation methods. Holiday pay remains governed by the Working Time Regulations and case law.

The indirect effect

Increases in NMW, NLW and statutory rates automatically raise minimum holiday pay costs where holiday pay is calculated by reference to current pay. Review and update your calculations accordingly.

SECTION 8

Benefits in kind and reporting

No new numerical benefit-in-kind thresholds or specific P11D changes for 2026/27 have been set out. Employers must:

- Continue to identify all taxable benefits in kind, deciding whether to payroll them or report them via P11D, and pay Class 1A NIC accordingly.
- Exclude Class 1A-only payrolled benefits from Class 1 NIC and student loan earnings calculations.

Payroll actions — benefits

Check that payrolled benefits are correctly excluded from NICable earnings but included in taxable pay where appropriate. Confirm any new payrolling registrations with HMRC and ensure systems capture benefit values in real time for 2026/27.

SECTION 9

Off-payroll working, IR35 and umbrella companies

9.1 PSC, IR35 and off-payroll rules

- IR35 counteracts arrangements that convert employment income into investment income via personal service companies (PSCs) or similar intermediaries.
- Since 6 April 2021, for non-small private-sector and all public-sector clients, responsibility for determining status and operating PAYE and NIC on deemed employment income rests with the client or another fee-payer in the chain, not the PSC.
- For small private-sector clients the traditional IR35 rules still apply: the PSC assesses status and accounts for tax and NIC.

9.2 New umbrella company rules from 6 April 2026

NEW RULE — JOINT AND SEVERAL PAYE LIABILITY

From 6 April 2026, new joint and several liability rules apply to PAYE on payments to workers employed by a third-party labour supplier (an umbrella) in which the worker has no material interest.

- In most cases **the agency contracting with the end-client** becomes jointly and severally liable for the umbrella's PAYE — income tax, NIC, student loan deductions and apprenticeship levy — whatever its level of due diligence.
- Exceptionally **the end-client** is liable instead, where the umbrella contracts directly with the end-client, the agency is non-UK resident, or the umbrella and agency are connected.
- Umbrellas remain primarily responsible for operating PAYE, but unpaid PAYE can be recovered from the agency or end-client under these rules.

Looking further ahead, the Employment Rights Act 2025 will bring umbrella companies within the definition of an ‘employment business’ for Employment Agencies Act 1973 purposes, expected in 2027 following consultation.

9.3 Off-payroll working and student loans

Where off-payroll rules apply, student loan repayments must be made through self assessment rather than via PAYE, even though PAYE is operated on deemed employment income.

Payroll actions — IR35 and umbrellas

Map labour supply chains involving PSCs and umbrellas, identifying where you are the end-client or an agency. For PSC engagements with non-small private or public-sector clients, ensure status determinations are made and communicated and PAYE and NIC operated on deemed payments. For umbrella arrangements from 6 April 2026, implement enhanced due diligence and contractual protections. Ensure payroll does not deduct student loan repayments on deemed employment income where off-payroll rules apply.

SECTION 10

Auto-enrolment pensions

The 2026/27 auto-enrolment earnings thresholds and minimum contribution percentages have not been updated in any source reviewed for this guide. The statutory framework under the Pensions Act 2008 continues to require:

- Automatic enrolment of eligible jobholders, employer minimum contributions and re-enrolment duties at prescribed intervals.
- Payroll to assess workers each pay period against current qualifying earnings thresholds; calculate and deduct contributions; manage opt-ins and opt-outs; and re-enrol qualifying workers on schedule.

ACTION REQUIRED

Confirm 2026/27 auto-enrolment thresholds directly with The Pensions Regulator and update payroll settings before the first 2026/27 payroll run.

SECTION 11

Employment law changes with payroll impact

11.1 Statutory week's pay and compensation caps from 6 April 2026

Limit	To 5 April 2026	From 6 April 2026
Statutory cap on a week's pay	£719	£751
Maximum statutory redundancy pay	£21,570	£22,530

Various other tribunal awards and caps increase in line with RPI — for example the unfair dismissal compensatory award cap, trade-union related awards, and the award for failure to provide a written statement of terms. These increases apply where the event giving rise to the entitlement occurs on or after 6 April 2026.

Payroll and HR system impact

Update redundancy and award calculators to use the £751 weekly cap for dismissals where the relevant date is on or after 6 April 2026. Adjust budgeting and settlement parameters to reflect the higher caps.

11.2 Tipping and gratuities

Existing obligations

- Employers must ensure qualifying tips, gratuities and service charges are allocated and paid no later than the end of the month following the month they were paid by customers. Smoothing of tips across periods is not permitted.
- Distribution must be fair and transparent, covering permanent staff, agency workers and zero-hours workers.
- Employers must have a written tipping policy where tips are paid more than occasionally, and must keep records of qualifying tips and allocations for three years.

New ERA 2025 duties — expected October 2026

- Consult recognised trade unions or worker representatives before producing a written tipping policy.
- Produce an anonymised written summary of the consultation.
- Review the written tipping policy at least once every three years.

Where tips are paid through payroll, ensure no non-statutory deductions breach NMW rules, and that records support both NMW compliance and tipping-law obligations. HR and payroll should prepare to integrate consultation outcomes and any revised policies into payroll processes by late 2026.

11.3 Umbrella companies as employment businesses

ERA 2025 will bring umbrella companies within the scope of the Employment Agencies Act 1973 and associated regulations, expected to take effect in 2027. This will extend the Employment Agency Standards Inspectorate's remit, and later the Fair Work Agency's remit, to umbrella companies. Payroll teams should anticipate closer regulatory scrutiny of umbrella arrangements and ensure worker pay is correctly processed under PAYE.

11.4 Working time, family leave and flexible working

The Employment Rights Act 2025 has received Royal Assent, and an implementation timeline is being rolled out through 2026. Monitor for new rights to family leave, carer's leave or flexible working. Related changes may alter entitlement to statutory payments, paid leave or record-keeping obligations.

SECTION 12

Summary — key 2026/27 payroll changes

Area	2025/26 position	2026/27 rule	Payroll actions
Student loans	Plan 1 £26,065; Plan 2 £28,470; Plan 3 £21,000; Plan 4 £32,745; Plan 5 not yet in repayment	Plan 1 £26,900; Plan 2 £29,385; Plan 3 £21,000; Plan 4 £33,795; Plan 5 £25,000, 40-year term	Update thresholds and introduce Plan 5; ensure off-payroll cases pay via self assessment
Employee NIC	8% between £242 and £967 pw, 2% above; LEL £125 pw	Rates and thresholds unchanged except LEL rises to £129 pw; others frozen to 2031	Update LEL; keep other thresholds unchanged; maintain three NIC bands
Employer NIC	15% above ST £96 pw; veteran relief to at least April 2026	Same thresholds and rate; veteran relief extended to 5 April 2028	Maintain thresholds and reliefs; plan for the veteran relief end date
Statutory LEL	£125 pw for parental pay; SSP has an earnings test	£129 pw for SMP, SAP, SPP, ShPP, SPBP, SNCP; SSP earnings test removed — payable from day one	Update LEL; remove the SSP earnings test and waiting days in systems
SSP rate	£118.75 pw	£123.25 pw from 6 April 2026	Update the SSP rate from the first 2026/27 SSP day
SMP, SAP, SPP, ShPP, SPBP, SNCP rate	£187.18 pw flat rate	£194.32 pw from 5 April 2026; first six weeks of SMP and SAP still 90% AWE	Update statutory family-pay rates; keep the 90% AWE rule for the first six weeks of SMP and SAP
NMW and NLW	NLW £12.21 (21+); 18–20 £10.00; 16–17 £7.55; apprentice £7.55; accommodation offset £10.66/day	NLW £12.71 (21+); 18–20 £10.85; 16–17 £8.00; apprentice £8.00; accommodation offset £11.10/day	Update rates from 1 April 2026; adjust the accommodation offset; review salary sacrifice against NMW
Off-payroll, IR35 and umbrellas	Client-side responsibility for non-small private and public sector; umbrellas largely unregulated	From 6 April 2026, joint and several PAYE liability for umbrellas; ERA 2025 brings umbrellas into the agency framework from 2027	Map labour chains; strengthen due diligence and contracts; use self assessment for off-payroll student loans
Tipping	Duty to allocate qualifying tips fairly; written policy and records required	ERA 2025 adds a duty to consult workers before the policy; review it every three years (expected October 2026)	Prepare for consultation; ensure payroll handling of tips complies with NMW and tipping rules
Redundancy and tribunal limits	Week's pay capped at £719; SRP cap £21,570	Week's pay cap £751; SRP £22,530; other awards uprated	Update redundancy and award calculators; adjust budgeting and settlement parameters

SECTION 13

Applying the changes to your 2026/27 payroll

The primary adjustments

- Uprating of student loan thresholds, including the introduction of Plan 5
- Increase in the NIC lower earnings limit to £129 per week
- Higher NMW and NLW rates, and a higher accommodation offset, from 1 April 2026
- Higher statutory payment rates — SSP to £123.25 pw; SMP, SPP and others to £194.32 pw
- Implementation of joint and several PAYE liability for umbrella labour chains from 6 April 2026
- Removal of SSP's minimum earnings requirement — payable from day one of sickness

What stays the same

- Class 1 NIC rates and main thresholds are frozen
- The off-payroll framework continues as before
- Existing auto-enrolment duties are maintained — verify 2026/27 pension thresholds with the regulator

To stay compliant

1. Systematically update all monetary parameters in payroll software for 2026/27.
2. Review policies and contracts, particularly for tips, redundancy, umbrella labour and statutory pay.
3. Strengthen processes around worker status, NMW compliance and statutory leave and pay calculations.
4. Monitor forthcoming ERA 2025 measures during the year.

Need help with your 2026/27 payroll?

TCW provides innovative, sustainable accounting and payroll support for businesses of all sizes. If you would rather hand the rate changes to someone else, or want your settings checked before the first run, talk to us.

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