

United Kingdom Knowledgebase

Payroll, compensation and benefits

Salary structure

Base salary refers to the fixed amount of money an employee earns before any additional benefits, bonuses, or deductions (such as income tax, National Insurance contributions, and pension contributions).

Minimum wage -

In 2025, the UK's minimum hourly rate will be set at 12.21 GBP or 2,116.40 GBP/month. Detailed information is available on this link:

National Living Wage (for workers aged 23 and over): £11.44 per hour

Aged 21-22: £10.18 per hour

Aged 18-20: £7.49 per hour

Aged under 18: £5.28 per hour

Apprentices (under 19 or in their first year): £5.28 per hour

There are no fixed allowances in the UK but the employers must comply with the statutory benefits and protections.

Tax free allowances

Meal allowance - must be in line with the 2024 HMRC Benchmark Scale Rates for meal allowances during business travel

Mileage allowance - must fall under the approved mileage rates by HMRC

Total Employment Cost (TEC) in the UK refers to the overall cost an employer incurs for employing a worker. It includes not only the employee's gross salary but also other mandatory and optional contributions made by the employer.

TEC = Gross pay + employer contributions

Salary and wages

In the UK, salaries must be contracted in the local currency, Great Britain Pound (GBP). Salaries are paid exclusively in GBP, and the payment deadline is usually set until the end of the month.

While there are thresholds for employee National Insurance and pension contributions, there are ceiling fees associated with these contributions.

Salary calculations are based on the actual working days within the month, and employees are typically paid over a period of 12 months. There are no provisions for a 13th or 14th salary payment.

Allowances and deductions

In the UK, there are no fixed mandatory allowances; however, employers must comply with statutory benefits and protections required by law. These mandatory employee benefits include contributions to social security through the National Insurance Contribution, which funds government benefits for unemployment, illness, retirement, and parental leave.

Bonus and incentives

In the UK, performance bonuses are treated similarly to regular salary payments for tax purposes. The category of the bonus does not affect payroll calculations; instead, bonuses are taxed at the same rate as salary income.

Employer contributions

In the UK, employer contributions primarily consist of National Insurance Contributions (NIC) and pension contributions. Employers are required to pay NIC based on their employees' earnings, which helps fund state benefits.

There are no additional employer contributions beyond NIC and pension obligations.

Regarding business expenses, employers can reimburse employees for legitimate business expenses, provided they are supported by actual receipts. The reimbursed amounts are considered net, meaning they do not incur any tax deductions for the employee.

Benefits packages

In the UK, health insurance operates within a framework primarily dominated by the National Health Service (NHS). While the NHS provides comprehensive healthcare services to UK residents, many individuals opt for private health insurance to enhance their options and access.

Retirement benefits consist of the State Pension, which requires National Insurance contributions and pays up to £203.85 per week for those with 35 qualifying years. Employers must also provide a workplace pension under the auto-enrolment scheme, with contributions from both employer and employee. Additionally, individuals can have personal pensions to supplement these. At retirement, people can take up to 25% of their pension pot tax-free, with the remainder subject to income tax. Pension Credit is available for low-income retirees.

Other possible employee benefits

In the UK, employees are entitled to statutory benefits such as:

- Paid annual leave
- Statutory sick pay
- Maternity/paternity leave
- Workplace pensions
- Redundancy pay

The NICs (National insurance contributions) and employer contributions we as an employer remit to HMRC (His Majesty's Revenue & Customs) are pooled together to fund various social security benefits.

Taxation and compliance

Employee and employer tax obligations

Income tax is a tax levied on an individual's earnings, which includes salary, wages, bonuses, and other forms of compensation.

Reference: Rates and thresholds for employers 2024 to 2025

The tax code is used by employers to determine how much income tax to deduct from an employee's salary. It reflects an employee's personal allowance and any additional income or tax liabilities.

Reference: Tax codes

When a new employee joins a company in the UK, their income tax is calculated and deducted through the Pay As You Earn (PAYE) system, which ensures taxes are automatically withheld from their wages but still the same rates apply.

Native Teams

Employers must collect income tax and National Insurance contributions (NICs) from employee wages through a PAYE system, reporting payroll information to HMRC.

Payroll declarations and reporting

In the UK, payroll declarations are categorized into monthly, quarterly, and annual submissions.

Monthly Declarations: Employers are required to submit Real Time Information (RTI) to HM Revenue and Customs (HMRC) each time they pay their employees. This ensures that tax and National Insurance contributions are reported accurately and on time.

Quarterly Declarations: If a business is registered for Value Added Tax (VAT), it must submit VAT returns quarterly. These returns detail the amount of VAT charged on sales and the VAT paid on purchases.

Annual Declarations: At the end of the tax year, employers must provide employees with a P60 form, which summarizes their total pay and deductions for the year. Additionally, companies need to file an End of Year Declaration with HMRC and submit their Corporation Tax return, detailing their profits and tax liabilities.

Termination and severance

In the UK, there is no specific date mandated for paying a terminated employee; however, they should receive their final pay on their regular payday.

This final payment includes any additional termination pay, such as compensation for unused annual leave days, which must be paid to the employee upon termination. Although there is no statutory deadline for making these payments, it is expected that the final salary is disbursed on the date the employee would normally be paid.