

# Top 5 Payroll Issues of 2017

This guide contains the top five payroll issues which we predict could affect businesses of all sizes the most during the course of 2017 and beyond.



# Introduction

We've put together the top 5 issues which we predict will affect payroll the most during the course of 2017. This handy 10-page guide looks further into these key issues and looks at how they could affect your business and what you can do to prepare.

The earlier businesses prepare for changes in legislation, the better chance they have of compliance. Over the course of this paper, you'll learn more about the 5 issues and the implications they could have on your business.



## The five issues covered are:

- 1. The National Living Wage
- 2. Zero-hour Contracts
- 3. The Apprenticeship Levy
- 4. Travelling time & Working time
- 5. Workplace Pension Reform

# 1. The National Living Wage

We'll begin with the introduction of the National Living Wage, which is now in effect, having become compulsory on April 1st 2016.

## What is the National Living Wage?

- The National Living Wage is mandatory for employees aged over 25
- Initially set at £7.20 an hour, this is due to rise to £8.45 outside of London, and £9.75 inside London soon
- The government estimates that the National Living Wage could rise to £9.00 by 2020
- The National Minimum Wage will still apply for those aged between 21 and 24
- Workers over 25 who were paid the National Minimum Wage they will see an average additional income of £910.00 per annum depending on hours worked

## Benefits of the National Living Wage

- Employers are 80% more likely to notice an enhanced quality of work from their employees
- 70% of employers felt that the National Living Wage increased consumer awareness of their ethical commitments
- Retention of staff may be easier for businesses

## Auto enrolment and the National Living Wage

Remember that for employees on the National Living Wage, they could be pushed into the eligibility band for auto enrolment as they receive their pay rise. It's important to assess each employee monthly to help ensure compliance.



## 2. Zero-hour contracts

It is now reported that there are now over 800,000 people on zero-hour contracts in the UK, whilst the controversial contracts have recently been banned, most recently in New Zealand, their use in the UK is still legal. But are they so bad?

### Zero-hour contracts, good or bad?

Zero hour contracts have been in the news a lot recently and 2017 is likely to be no different. More often than not, coverage is largely negative – is this fair? Business managers claim that they offer both their business and their employees flexibility to work at times which suit them, whereas trade unions and some employees explain how the contracts leave them without a guaranteed income and unsure of what the future holds for them and their job.

### Pros

- Increased working flexibility
- Potential for additional hours over contracted workers
- Job satisfaction actually tends to be higher than expected

### Cons

- Uncertainty with income
- Zero-hour contracts commonly come with 'exclusivity clauses'
- May not always be on same pay scale as traditional contracts

### Our recommendations

- Make sure employees are paid fairly and assessed for auto enrolment
- Ensure that zero-hour workers have the same employment rights as regular workers
- Remember that zero-hour workers are entitled to annual leave, and the National Minimum/Living Wage (depending on age)
- Pay for any work-related travel in the same way as regular workers



# 3. The Apprenticeship Levy

During the Autumn Statement in November 2015 the Chancellor confirmed that from April 2017, employers with a wage bill of more than £3 million will have to pay a new Apprenticeship Levy of 0.5%. The purpose of this is to fund three million

new 'high quality' apprenticeships by 2020.

Whilst this doesn't come into effect until 2017, it's your businesses actions beforehand which will determine how you will deal with the changes.

**98%**

The government states that around 98% of UK businesses will be exempt from the levy



**£3bn**

The 20,000-levy paying businesses will generate an estimated £3 billion a year

This can be reinvested back into the apprenticeship market

**£15,000**

Employers will also receive a £15,000 allowance to offset the payment of the levy, paid in vouchers



If your business will be eligible to pay the levy, then the earlier you prepare, the easier the transition will be. The government hopes the levy will soon become standard, as the workplace pension now is considered.

Remember that for the introduction of auto enrolment, The Pensions Regulator state that your business

should begin preparing for its implementation 12 months before your staging date. The same principle applies to the Apprenticeship Levy and indeed, all of the issues discusses in this guide – the earlier your business prepares, the easier things should be.

## 4. Travelling time & Working time

During the latter end of 2015, the European Court of Justice ruled that time spent by employees travelling to and from their first and last appointments should be regarded as working time. This would apply only to workers without a fixed office, but does pose a challenge for businesses as this time has not previously been considered as work by many employers.

The case had been brought forward by a group of technicians in Spain working for Tyco but will have implications in the UK. The Government has updated what UK law counts as work, and it now includes “time spent travelling if you travel as part of your job” – to fall in line with EU law. The ruling could affect pay, with employees being paid for working longer hours, as their commute would effectively be paid-for by their employer

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- It also does not currently deal directly with pay as it focuses more upon working hours and conditions

- It is possible that this could change and that businesses could soon have to pay their staff higher wages to compensate

This could also have implications for Holiday Pay due to the recent tribunal rulings of *Lock vs. British Gas* and *Fulton vs. Bear Scotland*, respectively. Potential changes to Holiday Pay due to recent court cases could mean that your employees’ holiday pay calculations are based on total earnings over a 12-week period, rather than basic salary and nothing else.

Your business would then have to accommodate aspects such as travelling time, overtime, and commission into your employee’s Holiday Pay calculations; the next few months could have a huge impact on your business, depending on which way the legal cases go

We’ve developed the [IRIS Holiday Pay Module](#) to help businesses get a head-start on Holiday Pay. The module integrates with your existing IRIS payroll software and automatically calculates the amount of Holiday Pay owed to your employees based from their total earnings over the previous 12-week period.

# 5. Workplace Pension Reform

Regular readers of our [daily blog](#) will know that auto enrolment is one of the key issues that we're really passionate about. The Government identified that the UK's population weren't saving enough for their retirement, and in October 2012, auto enrolment began. First the largest employers staged, and gradually businesses across the country reached their staged date.

As of November 2016, over 6.5 million employees, and 210,000 businesses have completed their requirements and auto enrolled. The Pensions Regulator predicts that in the 12 months from April 2017 and April 2018, there will be an incredible 1.2 million small businesses who will reach their staging date.

## Non-compliance

Recently, The Pensions Regulator announced that over 63% of all non-compliance fines given out since the workplace pension reforms began in October 2012, were given out between October-December 2015. This is interesting as this would indicate that businesses with fewer than 40 employees were

the recipients of the fines, possibly highlighting a lack of auto enrolment awareness amongst small and medium-sized businesses.

The Pension Regulator make it clear that they prefer to work with businesses who are in danger of missing their staging date, however in severe cases they do have the following powers:

**Statutory notice** – a warning letter which acts as a reminder

**Penalty notice** – a fixed penalty notice of **£400**, but this can escalate into a daily non-compliance fine of between **£50** to **£10,000** depending on the size of the business

**Court action** – in severe cases, non-complying businesses can be taken to court

Check out our [Auto Enrolment Insight Page](#) for all you need to know about the Workplace Pension Reforms and how IRIS can help your business.  
[iris.co.uk/aeinsight](http://iris.co.uk/aeinsight)

# So, what can you do?

## Preparation

Preparation is key. If you stay on top of new legislation you can plan in advance and understand how it will affect your business, and what you need to do to help ensure ongoing compliance. This sounds obvious, however as The Pension Regulator have reported, the majority of non-compliance fines towards the end of 2015 were from SMEs who had failed to prepare for auto enrolment.

## Information

Business owners should be getting as much information as possible from a wide range of sources. IRIS run a number of free webinar sessions each month on subjects ranging from auto enrolment and Holiday Pay, to accounting subjects such as P11D and starting a practice of your own.

## Compliance

Each point we've covered in this paper will affect your business at different times. For example, the National Living Wage will now be active and employees working for you who may be on the National

Minimum Wage and are aged 25 or over should be receiving an extra 50p an hour. Alternatively, points such as the Apprenticeship Levy do not become active until 2017, however it is the preparation your business does beforehand which will determine how it copes in the future.

Ultimately, compliance is key. For example, The Pensions Regulator recently announced that an unnamed UK business have been fined more than £10,000 for non-compliance with auto enrolment, make sure that your business prepares, gather as much information as possible, and then complies with legislative changes to avoid penalties and fines.



See what webinars we're running for each month. Be sure to check back regularly for new sessions we've added [iris.co.uk/webinars](http://iris.co.uk/webinars)

**IRIS Webinars**



# How IRIS can help

**The Pensions Regulator recommends that employers use payroll software that is fit for purpose.**

We have software which can help your business prepare and manage changes to legislation that we've discussed, including auto enrolment with the IRIS AE Suite™, and holiday pay with our new IRIS Holiday Pay Module.

## **IRIS AE Suite™**

IRIS are proud to offer the industry's leading auto enrolment solution, the IRIS AE Suite™. Developed through close relationships with both pensions providers and The Pensions Regulator, as well as customer feedback, the solution works within your payroll to perform the calculations for each pay period automatically.

## **IRIS Holiday Pay Module**

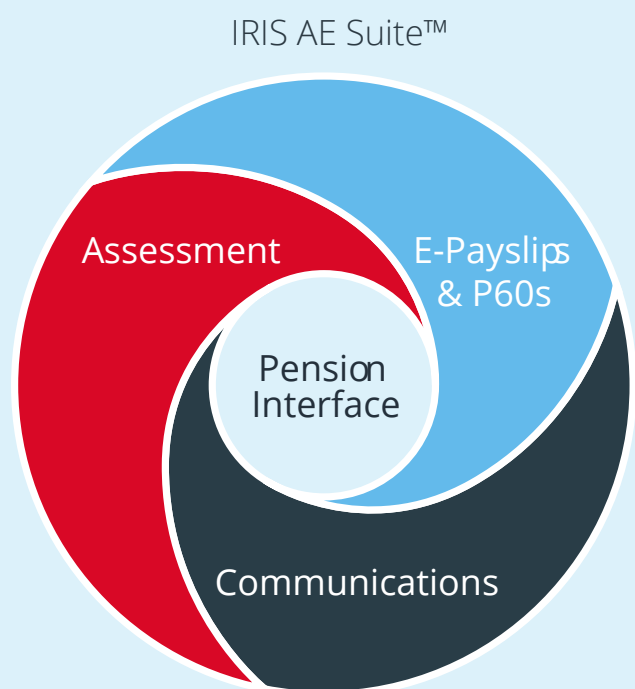
The IRIS Holiday Pay Module automatically calculates the amount of holiday pay owed to your employees based on their total earnings over a 12-week period, something which could become law very soon.

## **IRIS Managed Payroll Service**

The IRIS Managed Payroll Service is a fully BACS-accredited and RTI-compliant payroll outsourcing service, developed to take the time and hassle away from running your own payroll and managing legislation such as auto enrolment. Our handy Payroll Outsourcing Calculator shows how much your business could save by choosing IRIS to run your payroll.

## **Training & Support**

We offer a mix of online, classroom or on-site training courses to help you understand legislation and get the most out of your IRIS software.



# About IRIS

With over 37 years' experience, IRIS provides business critical software and services to the UK SME sector and accountants in practice. Over 90,000 small and medium-sized companies including 18,000 accountancy practices rely on IRIS every day to run their business and collaborate, with over 600,700 employees being assessed for auto enrolment each pay period using the [IRIS AE Suite™](#).

IRIS Software Group is a leading provider of auto enrolment software for businesses, accountants and GPs in the UK. IRIS software is used by 14% of UK businesses that operate under PAYE to pay their employees. All customers receive the greatest choice of payroll software and services managed under the brands IRIS, Earnie and KashFlow.

IRIS is renowned for ensuring that all software and services are completely up to date with the latest legislation which means that you in turn as a customer are also kept compliant. Our Human Capital Management (HCM) division aims to "be the employee engagement engine,

making the HR process flow, enabling our customers to focus on people not the process." The brand names IRIS, Cascade and KashFlow all come together under IRIS HCM.

**To see how IRIS can help your business thrive, get in touch today**

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IRIS **do not** make any personal recommendation or give advice to employers and their workers on how to make investment decisions. If you are seeking this kind of advice we would suggest speaking with a qualified financial adviser.