

Broadcast

FACTSHEET: REVIEWING MINIMUM WAGE PAYMENTS

SPECIAL ISSUE

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In this alert, NMW refers to the National Minimum Wage and NLW to the National Living Wage.

Hopefully, you will have seen our Budget update copy that included increases in the above rates from April 2025. This alert describes the consequences if you forget to update employee remuneration rates and includes a section for directors who have a contract of employment, and that have adopted the low salary, high dividend tax planning approach.

A reminder of increases in NMW and NLW from April 2025

The UK government has announced the following wage rates effective from 1 April 2025:

- National Living Wage (21 and over): £12.21 per hour
- 18-20 Year Old Rate: £10.00 per hour
- 16-17 Year Old Rate: £7.55 per hour
- Apprentice Rate: £7.55 per hour

These rates represent significant increases aimed at supporting workers and ensuring fair compensation, but of course there is a flip side, employers will have to consider the effects on their costs and revise budgets for 2025-26.

Penalties for non-compliance

Employers who fail to pay the correct NMW or NLW rates may face the following consequences:

- 1. Arrears Payment:** Employers are required to pay back the arrears to the affected workers, calculated from the date of underpayment to the date of repayment.
- 2. Financial Penalties:** In addition to repaying arrears, employers may be fined up to 200% of the total underpayment, capped at £20,000 per worker. This penalty is reduced by half if paid within 14 days.
- 3. Public Naming:** Employers who owe arrears of £500 or more may be publicly named by the government, which can damage the business's reputation.
- 4. Criminal Prosecution:** In severe cases, employers may face criminal charges, leading to unlimited fines and potential disqualification from being a company director for up to 15 years.

Complications for directors with service contracts

If you are a director and you have a service contract with your company, you are considered to be employees and must be paid at least the National Living Wage (NLW) or the appropriate National Minimum Wage (NMW) for your age.

This requirement can pose challenges for directors who have opted for the common "low salary, high dividend" remuneration strategy to optimise tax efficiency. Paying a low salary might fall below the NLW or NMW threshold, leading to a potential breach of wage regulations.

To comply with the law while maintaining their tax planning strategy, directors in this position may need to reassess their remuneration structures, ensuring their salary meets at least the minimum wage levels, particularly for the hours they are contracted to work.

We can help

If you have concerns about your company's compliance with NMW or NLW regulation, please call us on **01753 888 211** or email **info@nhllp.com**, we would be happy to help. This includes assistance to consider planning options to cope with these cost increases if you have a significant number of employees paid at NLW or NMW rates.