

A GUIDE TO THE NATIONAL LIVING WAGE

What is it and how will it
affect your business?



Introduction

On 1st April 2016, it became law for UK businesses to pay the National Living Wage to employees aged over 25 years.

Since that date, there have been steady rises in both the National Minimum and National Living wage rates.

Although surveys carried out prior to this change, indicated that businesses, in principal, supported the National Living Wage. The implementation of the new legislation caught many organisations off guard.

The continued rises have continued to put pressure on business overheads and also payroll processes as companies are required to keep track of when employees are eligible for the higher NMW or NLW rates.

Certain sectors have been affected more than others, with service industries such as retail, leisure and care, who rely on a low paid workforce, being hardest hit. For some it resulted in a rise in prices or a cutting back on staffing. The care sector is being particularly hard hit with caps on Local Authority funding hindering their ability to raise prices to offset the increased overheads of wage increases.

“ 72% of businesses reported an increase in costs due to the National Minimum Wage ”

British Chamber of Commerce Annual Workforce Survey 2019

“ Evidence shows that firms are more likely to cut hours worked than reduce employment in response to rising wage costs ”

Low Pay Commission Report 2020

This guide has been produced in response to many queries from our clients as to who is eligible, what they need to do and what is the impact on their payroll.

What is the National Living Wage?

Various groups campaigned a Living Wage over and above a Minimum Wage. In April 2016 this became a reality, not just for those businesses who opt in to the scheme, but for all UK businesses, no matter what their size or sector.

From 1st April employees aged over 25 had to be paid at least the National Living Wage rate.

This was the start of an aspiration by the Government to have a staged increase of the National Minimum Wage that will see a **rate of £9.50 per hour by 2022.**

From a National Minimum Wage to a National Living Wage



Who is entitled to receive it?

In simple terms the National Living Wage is an additional age-related band on the National Minimum Wage rates. The same criteria apply to eligibility of the National Living Wage as they do the National Minimum Wage except that age (over 23) kicks in the higher 'Living Wage' rate.

National Living & Minimum Wage Rates By Age Rates at April 2022

Over 23 (NLW)	21-22 (NMW)	Development Rate 18-20 (NMW)	Under 18 but over Compulsary School Age 16-17 (NMW)	Apprentice* (NMW)
£9.50	£9.18	£6.83	£4.81	£4.81

* This rate is for apprentices aged 16 - 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage for their age

Your employees are entitled to receive the National Living Wage if they are:

Aged 23 or over

and

are classed as a worker (this includes part-time, casual, agency workers etc)

and

are not in the first year of an apprenticeship

People are not entitled if they are -

- self-employed and running their own business
- company directors
- volunteers
- work placements / internships
- traineeships / schemes / government employment programmes

What does it mean for employers?

There was no staging or phased introduction of the National Living Wage. Employers faced an immediate 'hit' in April 2016 with yearly increases, the rate increases to £9.50 from April 2022.

As this is a legislative obligation, there are penalties for employers who do not comply, which have been strengthened along with the penalties of non-compliance to National Minimum Wage.

“ 191 employers were named and shamed for underpaying more than 34,000 minimum workers by £2.1m

March 2018 ”

The calculation of penalties on those who do not comply rose from 100% of arrears to 200%. This will be halved if employers pay within 14 days. The overall maximum penalty of £20,000 per worker remained unchanged. For the most serious cases of non-compliance, where companies seek to falsify records or refuse to comply with the investigation, there could even be criminal prosecution with an unlimited fine. This applies to both the National Living Wage and National Minimum Wage.

How can you stay compliant?

Your workforce is not static, with starters, leavers and employees moving through the age bands. Add into this mix the annual increases we have experienced since 2016, and it can make the process of managing NLW and NMW extremely complex.

So here are some tips on how you can stay compliant:

Step 1

You need to know who on your payroll is eligible for this rate.

You will need to assess your staff every payroll period to make sure they are being paid at least the relevant National Minimum and National Living wage band.

You will also need to assess their eligibility in light of their employment status (see previous section of this Guide).

One of the challenges with this is that not all employees are contracted on an hourly rate but rather an annual salary. This is something you will need to calculate based on their number of contracted hours.

The same criteria apply to the National Living Wage as the National Minimum Wage in regards to what is included in the calculation. For more detailed information, go to:

www.gov.uk/national-minimum-wage/employers-and-the-minimum-wage

If you are a Dataplan client, we have set up some specific reports on our ePaysafe online portal that allows you to run off reports to help you with this identification process.

Step 2

Amend your payroll

Once you have assessed who is entitled to the National Living Wage you will need to alter your payroll accordingly or notify your payroll provider in good time.

Don't forget you will have to do this process every pay period as employees may come into an eligible status (i.e. reach the age of 23) every period.

Step 3

Inform your staff

For staff who are eligible for the new rate, you will need to inform them of this change.

There is a lot of media coverage around this so it would be advisable to communicate to your whole workforce and explain what it is all about and who is eligible.

If you use Dataplan's ePayslips service you can communicate with your employees via this method.

Step 4

Check your staff under 23 are receiving National Minimum Wage

Now is the time to check all your staff are on the correct wage rate. For those employees under 23, they will fall into the National Minimum Wage bands. Any who are not on the correct rate should be amended immediately.

More information:

To find out more visit www.livingwage.gov.uk

If you are a Dataplan client and concerned about how this will affect your payroll, **contact us on 03331 123456.**