

United Kingdom

Payroll & Employment Law Guide

2026 Edition · Last updated October 9, 2026

The post-Brexit immigration regime, the Scotland-rUK tax split and RTI/FPS mechanics

Overview —

A reference for employing in United Kingdom

Foreign investors most often set up a private company limited by shares (Ltd) in the UK; an overseas company that opens a physical place of business instead registers with Companies House as a UK establishment. Company registration and HMRC PAYE employer registration are SEPARATE steps; forming a company does not automatically create an employer record.

No EU	Scotland	8%	£10,500
NO FREE-MOVEMENT BASELINE; EVERYONE NEEDS IMMIGRATION PERMISSION	SEPARATE INCOME TAX BANDS FROM THE REST OF THE UK	MINIMUM AUTO-ENROLMENT PENSION CONTRIBUTION OF QUALIFYING EARNINGS	EMPLOYMENT ALLOWANCE AGAINST EMPLOYER CLASS 1 NIC

WHAT THIS GUIDE COVERS

I	Setting Up and Doing Business	Foreign investors most often set up a private company limited by shares (Ltd) in the UK; an overseas company that opens a physical place of business instead registers with...
II	Working Conditions and Leave Entitlements	Under the Working Time Regulations 1998, average weekly working time cannot exceed 48 hours; an employee may opt out of this limit in writing (the 48-hour opt-out) — the UK's...
III	Tax and Social Security	Income tax is personal and progressive; it is deducted at source under PAYE in every pay period.
IV	Payroll Operations	HMRC's mandatory digital reporting platform is Real Time Information (RTI); a Full Payment Submission (FPS) MUST be sent on or before payday in every pay period.
V	Hiring and Termination	The UK has NO single, centralised new-hire notification like France's DPAE; the employer's duties are scattered across several steps.
VI	Compensation and Benefits	The UK has NO sector-level collective-bargaining wage floor; the real floor is the National Living Wage (age 21+) and the age-banded National Minimum Wage tiers.
VII	Visas and Work Permits	The UK is NOT an EU/EEA member and has fully exited the EU free-movement regime since December 31, 2020.
VIII	Practical Notes and Common Pitfalls	The MOST common mistake a foreign employer makes on UK payroll is the Scotland-rUK income tax split.
IX	Incentives and Employer Support Schemes	Baseline for comparison: the standard employer NI (Class 1 secondary) rate is 15%, with a £5,000/year Secondary Threshold, and it is uncapped.

I

Setting Up and Doing Business

Foreign investors most often set up a private company limited by shares (Ltd) in the UK; an overseas company that opens a physical place of business instead registers with Companies House as a UK establishment. Company registration and HMRC PAYE employer registration are SEPARATE steps; forming a company does not automatically create an employer record.

LEGAL FORMS AND REGISTRATION STEPS

STRUCTURE OR STEP	RULE OR AMOUNT	AUTHORITY
Private Ltd	No minimum capital, typically £1 nominal, at least 1 shareholder	Companies House
PLC	Minimum £50,000 capital, at least 25% paid up	Companies House
LLP	No capital requirement, at least 2 designated members	Companies House
UK establishment (branch)	Not a separate legal entity, registered via OS IN01 within 1 month	Companies House
Confirmation statement	£50 annual fee, mandatory annual filing	Companies House
Employer PAYE registration	Before the first payday, via Government Gateway	HMRC
RTI/FPS submission	Mandatory on or before payday, every pay period	HMRC

Verify before payroll

Common pitfall at formation: Companies House fees rose on February 1, 2026; some secondary sources still show the old figures. Employing without setting up an entity is possible through an EOR or an umbrella company; EOR is not a separately regulated regime in the UK, it runs on general contract law.

II · WORKING CONDITIONS AND LEAVE ENTITLEMENTS

Under the Working Time Regulations 1998, average weekly working time cannot exceed 48 hours; an employee may opt out of this limit in writing (the 48-hour opt-out) — the UK's best-known departure from the EU Working Time Directive. Annual leave, public holidays and SSP carry regional variation.

II

Working Conditions and Leave Entitlements

WORKING TIME, LEAVE AND SICK PAY

TOPIC	RULE	NOTE
Maximum weekly hours	48-hour average over a 17-week reference period	Opt-out available in writing
Rest	11 hours daily, 24 hours weekly	20-minute break after 6 hours
Annual leave	5.6 weeks, i.e. 28 days (full time)	Public holidays can be included
Public holiday count	England/Wales 8, Scotland 9, NI 10 days	Dates also differ by region
SSP weekly rate	£123.25 (2026/27)	Waiting period removed April 6, 2026
SSP duration	Maximum 28 weeks	Low earners receive a pro-rated amount
Statutory Maternity Pay	39 weeks, first 6 weeks at 90%	Remainder £194.32 or 90%, whichever lower

Verify before payroll

Overlooked leave difference: Paid leave on a public holiday is NOT a statutory right; it is entirely a matter of contract. If a contract says "20 days leave plus bank holidays," the regional holiday-count difference directly changes total leave. Paternity leave is 2 weeks, paid at the same £194.32 flat rate or 90%. Parents can also split the unused part of maternity leave through Shared Parental Leave, and each parent has a separate right to 18 weeks of unpaid leave per child.

III · TAX AND SOCIAL SECURITY

Income tax is personal and progressive; it is deducted at source under PAYE in every pay period. England, Wales and Northern Ireland (rUK) share one band structure; employees RESIDENT in Scotland MUST have the Scottish Parliament's own 6-band structure applied — residence, not workplace, is what governs.

III

Tax and Social Security

INCOME TAX BANDS AND NI RATES (2026/27)

ITEM	RUK VALUE	SCOTLAND VALUE
Personal Allowance	£0-12,570 at 0%	£0-12,570 at 0%
Basic/Starter band	£12,571-50,270 at 20%	£12,571-16,537 at 19%, £16,538-29,526 at 20%
Higher band	£50,271-125,140 at 40%	£43,663-75,000 at 42%
Top band	Over £125,140 at 45%	Over £125,140 at 48%
NI Primary Threshold	£12,570/year, above it 8%	Same across the whole UK
NI Secondary Threshold	£5,000/year, employer rate 15%	Same across the whole UK, uncapped
Employment Allowance	Up to £10,500 NI offset	Same across the whole UK

Verify before payroll

Verify before payroll: Scotland's 2026/27 thresholds were PROPOSED in the January 13, 2026 budget; the Scottish Rate Resolution approval must be confirmed before publication. The Apprenticeship Levy applies at 0.5% to employers with an annual pay bill over £3 million; a £15,000 allowance applies, and unused funds revert to the government after 24 months. PAYE liability is generally paid monthly, by the 22nd of the following month for electronic payment.

IV · PAYROLL OPERATIONS

H MRC's mandatory digital reporting platform is Real Time Information (RTI); a Full Payment Submission (FPS) MUST be sent on or before payday in every pay period. There is NO monthly or quarterly bulk filing option — RTI is entirely payment-event based.

IV — Payroll Operations

PAYROLL AND REPORTING OBLIGATIONS

TOPIC	RULE	NOTE
Currency and cycle	GBP, monthly most common; weekly/4-weekly possible	No mandatory minimum frequency
FPS	Sent to HMRC on or before payday	Late filing carries tiered administrative penalty risk
EPS	Due by the 19th of the following month if no pay was made	Complements FPS, does not replace it
Payslip (pay statement)	Written, given at or before payment, every worker	Gross, deductions and net are mandatory fields
P60	Given by May 31 at tax year end	Annual total earnings summary
P45	Given immediately on leaving	Critical for the new employer's correct tax code
Record retention	PAYE records at least 3 years, NMW records at least 6 years	Counted from the end of the tax year

Verify before payroll

Note for foreign employees on payroll: An employee with immigration permission is subject to the normal PAYE/Ni regime; there is no separate regime. The visa-linked minimum salary threshold must be tracked by payroll in EVERY pay period from April 8, 2026 onward. Some double taxation treaties can give PAYE relief on a temporary assignment, but this requires prior HMRC approval of an NT code.

V · HIRING AND TERMINATION

The UK has NO single, centralised new-hire notification like France's DPAE; the employer's duties are scattered across several steps. There is no statutory cap on the probationary period; it is entirely a matter of contract, typically 3-6 months in market practice.

V

Hiring and Termination

NOTICE PERIODS AND REDUNDANCY PAY

TOPIC	RULE	NOTE
Employer's notice	1 month-2 years: 1 week, then +1 week per year	Caps at 12 weeks after 12 years
Employee's notice	Fixed 1 week, regardless of tenure	Requires at least 1 month's service
Unfair dismissal qualifying period	CURRENTLY 2 years' continuous service	Reduction to 6 months is planned, not yet in force
Redundancy pay formula	0.5/1/1.5 weeks per year of service by age band	Maximum 20 years of service counted
Weekly pay cap (GB)	£751 (from April 6, 2026)	£783 in Northern Ireland
Tax exemption	First £30,000 of a redundancy/termination payment	Above it, income tax and employer NI apply
Collective redundancy consultation	30 days for 20-99 staff, 45 days for 100+ staff	HR1 notification to the RPS is mandatory

Verify before payroll

CRITICAL — live legislation risk: The Employment Rights Act 2025 commits to cutting the unfair dismissal qualifying period from 2 years to 6 months; the announced date is January 1, 2027, BUT the commencement regulations needed to trigger it had NOT been published at the time of writing. If this guide is read before that date, the current rule is still 2 years.

VI · COMPENSATION AND BENEFITS

The UK has NO sector-level collective-bargaining wage floor; the real floor is the National Living Wage (age 21+) and the age-banded National Minimum Wage tiers. Automatic enrolment into a workplace pension is mandatory for every eligible employee.

VI —

Compensation and Benefits

MINIMUM WAGE AND AUTOMATIC ENROLMENT (2026/27)

BAND	HOURLY RATE	NOTE
Age 21 and over (NLW)	£12.71	Up 4.1% from April 2025
Age 18-20	£10.85	Up 8.5%
Age 16-17 and apprentice	£8.00	Up 6.0%
Automatic enrolment total	8% of qualifying earnings	At least 3% from the employer
Qualifying earnings band	£6,240-50,270/year	Earnings trigger £10,000/year
Trivial benefits exemption	Up to £50 per gift, tax/NI free	If non-cash, no annual aggregate cap
13th-month pay custom	NO statutory or customary obligation	A bonus is entirely discretionary

Verify before payroll

Benefits note: The NHS is funded from general tax and NI revenue; there is no separate mandatory health-insurance deduction. The Scotland-rUK difference appears only in income tax rates; NMW/NLW, NI and pension rates are the same across the whole UK. Mileage is tax/NI free up to 45 pence/mile for the first 10,000 miles and 25 pence/mile after; NEST is the most common pension provider but not the only option.

VII · VISAS AND WORK PERMITS

The UK is NOT an EU/EEA member and has fully exited the EU free-movement regime since December 31, 2020. EVERY foreign national, INCLUDING EU/EEA citizens (except Irish citizens), MUST obtain a points-based immigration permission to work.

VII

Visas and Work Permits

SKILLED WORKER VISA AND SPONSORSHIP

PARAMETER	VALUE (2026)	NOTE
General minimum salary threshold	£41,700/year	In force since July 22, 2025
Skill threshold	RQF Level 6	Raised from the previous RQF Level 3
English requirement	Level B2	Raised from B1 on January 8, 2026
Sponsor licence (small employer)	£574	£1,579 for medium/large employers
Certificate of Sponsorship	£525 per certificate	Doubled on April 9, 2025
Immigration Skills Charge	£480 or £1,320/year	Varies by sponsor size
Global Business Mobility threshold	£48,500/year	Does not on its own lead to settlement (ILR)

Verify before payroll

Verify before payroll: Going-rate figures differ between secondary sources by SOC code; each application must be checked against gov.uk's live table. The right-to-work check must happen BEFORE the start date; done correctly it gives the employer a statutory excuse. Intra-group temporary transfers use the Global Business Mobility route; earners between £48,500-73,899 cannot stay more than 5 years in any 6-year period.

VIII · PRACTICAL NOTES AND COMMON PITFALLS

The MOST common mistake a foreign employer makes on UK payroll is the Scotland-rUK income tax split. Payroll software must assign the tax code by the employee's RESIDENCE, not their workplace; getting this wrong makes the deduction incorrect.

VIII

Practical Notes and Common Pitfalls

THE MOST COMMON PAYROLL MISTAKES

ERROR AREA	PROBLEM	CORRECT PRACTICE
Residence-based tax code	rUK band applied to a Scotland-resident employee	An "S"-prefixed tax code is mandatory
FPS timing	Filed AFTER payday	Must be filed on or before payday
IR35/off-payroll	Status determination left to the contractor	Medium/large clients must issue an SDS
Public holiday count	Assumed identical across the whole UK	Differs regionally at 8/9/10 days
Freeport NI relief	Workplace postcode omitted from FPS	Mandatory field since April 2025
P45/Starter Checklist	Mishandled for a new starter	Critical document for the correct tax code
Right-to-work records	Check evidence not retained	Must be kept for employment plus 2 years

Verify before payroll

IR35 cost note: If an engagement is found "inside IR35," the fee-payer (usually the client or agency) must deduct income tax and employee NI at source and pay employer NI on top — a critical cost point for a Turkish employer using contractors in the UK.

IX · INCENTIVES AND EMPLOYER SUPPORT SCHEMES

Baseline for comparison: the standard employer NI (Class 1 secondary) rate is 15%, with a £5,000/year Secondary Threshold, and it is uncapped. The UK has NO single, general, permanent mechanism matching Turkey's SGK incentive catalogue; existing support sits across three layers: national NI/levy relief, regional/zone tax relief, and the devolved bodies' own apprenticeship funding programmes. These three RARELY combine, and each carries its own condition, duration and application authority.

IX

Incentives and Employer Support Schemes

AVAILABLE SUPPORT MECHANISMS

SCHEME	SCOPE	HOW TO CLAIM
Employment Allowance	Reduces NI liability by up to £10,500	A box ticked in the EPS, no separate filing
Apprenticeship Levy transfer	Up to 25% of funds transferable to another employer	Via the apprenticeship service account
Freeport/Investment Zone NI relief	0% employer NI between £5,000-25,000	Postcode plus category letter in the FPS
Scotland FWDF	Skills Development Scotland apprenticeship fund	Applied through the body's own portal
Wales Employer Incentive Scheme	Includes disabled apprentice support	Separate application via Medr
NI JobStart	Covers NLW plus NI for up to 25 hours/week	Applied through Department for Communities
R&D tax relief	A corporate tax incentive, not NI/PAYE	Does not directly reduce payroll cost

Verify before payroll

What does NOT exist: There is no general "NI exemption for hiring your first employee" — the Employment Allowance applies to all eligible employers and carries no first-hire condition. The UK also has no Gulf-style national employment quota; the existing schemes are time- and budget-limited programmes run by devolved bodies. R&D tax relief is processed through corporate tax and does NOT directly reduce payroll/NI cost; it is a separate corporate tax advisory matter, out of scope here.

**EOR & PAYROLL, HANDLED**

Manage your Turkey & Europe payroll & employment from one centre with Datassist.

UK payroll runs on PAYE Real Time Information, staged National Insurance thresholds, pension auto-enrolment and a sponsor licence regime that applies to every foreign hire, not a single EU free-movement baseline. Datassist runs your UK payroll with the right tax code, accurate RTI submissions and sponsor duty compliance.

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