Salary advance schemes: employer considerations

General Features | Employment Tax | Personal tax

19 March 2024

HMRC published a technical consultation last year on proposed amendments in respect of salary advances. These changes were, in part, in response to a growing number of employers using salary advance schemes. In this article, we set out what employers and their advisers should know about these schemes.

Salary advance schemes provide employees with the option to receive a portion of their salary before their regular payday, to help manage their finances. The schemes involve employers using a third party provider, who make advances to employees for a fee. We look in detail at how salary advance schemes work in our blog (see tinyurl.com/3pjkcs9f).

Under current law, the advances are treated as payments on account of earnings and, as such, must be reported via the PAYE system on or before the payment date. However, they have been typically sold by the third party providers as requiring no additional real time information (RTI) payroll returns. Recently, HMRC indicated that they would update legislation around reporting salary advances to ease the administrative considerations (see tinyurl.com/bepx6j76). At the time of writing their response has not yet been published.

In our response to the consultation, we said we thought that schemes will grow in popularity as a result of the changes and more employers will likely consider them. This is because the changes would give certainty that no additional RTI payroll returns are required. However, there are both benefits and drawbacks to the schemes, not least that they are not regulated – although some of the providers in the market have now signed up to a code of practice (see tinyurl.com/y3e2z6h5). It is important to research the position thoroughly.

If you are advising or assisting an employer client on the introduction of such a scheme, it is worth bearing in mind that there may be alternative or additional options which may meet the needs of their employees. For example, tax breaks may be available to employers offering employees counselling with things like debt problems. Further information can be found in HMRC's Employment Income Manual at page EIM21845.

A cheap or interest free loan could be a tax (and universal credit) efficient alternative of helping employees to deal with a financial emergency. Offering weekly pay periods may better match work done with an employee's cash flow needs, although this may also have universal credit implications and increase exposure to RTI penalties for employers. There is further discussion around these and other possible employer cost of living interventions, in our previous *Tax Adviser* feature (see tinyurl.com/55vcsyc4).

The proposed RTI changes apply equally to employers providing advances directly. It may be an obvious point, but it is perfectly acceptable for employers to make salary advances themselves without using a salary advance scheme, which may save both employer and employee fees. Although the employee fee for each transaction is small, repeated drawdowns can lead to them mounting up. Even if employers do go ahead with a scheme, employers can usually choose to absorb this fee each time, making the advance entirely without cost for the employee.

Employers should be aware that any attempt to recoup the fee from the employee may have national minimum wage considerations (see tinyurl.com/tmrm69p7).

We would love to hear what you think and any experiences you have had with salary advance schemes.

Meredith McCammond *mmccammond@litrg.org.uk*