**Navigating the Latest Budget: A Survival Guide for Small to Medium Businesses**

The Budget announced on October 30th will bring substantial changes for many organisations, resulting in increased costs. So, how can we navigate these changes and still maintain profitable businesses?

**Your Payroll Numbers**

In the Budget, changes were announced to the Minimum National Wage and also employers’ National Insurance. You need to understand how these changes will directly impact your business before proceeding with anything else.

**Steps to Assess the Impact:**

**1. Review your payroll figures for the current financial year and use that to predict the numbers from April 2025 :**

* 1. If you already have an up-to-date forecast of your business’s numbers, this information should be included in it, but may need updating.
	2. If not, you’ll need to create a forecast for the period from April 2025 onwards. Use your payroll software to generate a list of employees:
		1. Name
		2. Age
		3. Basic pay
		4. Hours worked
		5. Deductions including employers’ National Insurance contributions
		6. Pension contributions etc
1. **Identify Employees affected by Minimum Wage changes:**
	1. From your employees list, determine who will be impacted by the new Minimum Wage legislation.
	2. Consider if any employees currently earning slightly above the Minimum Wage (e.g. 20p/hour more) will expect to maintain this differential. You may need to rework your numbers to include these potential increases too.
2. Re-calculate your payroll numbers using the new basic rates (due to the increased National Minimum Wage) and the employers National Insurance impact on these numbers. Ensure you include:
	1. The increased rate from 13.8% to 15%
	2. The lower threshold above which employers’ national insurance is charged from £9,100 p.a. to £5,000 p.a.
3. **Apply the Employment Allowance**:
	1. Deduct the Employment Allowance from your newly calculated payroll numbers.
	2. Note: In some cases, the increase in Employment Allowance may exceed the entire employers’ National Insurance liability for the year.
4. **Calculate the Net Impact:**
Subtract the Employment Allowance from the newly calculated payroll costs to assess the overall impact of the Budget changes on your payroll costs for the next year.

If you are unsure how to perform these calculations, I have provided explanations on how National Insurance is calculated manually, along with examples, in Appendix 1.

**Your Non-Payroll Numbers**

The impacts of the Budget are likely to be seen across most of the things you buy for your business. The payroll changes we calculated earlier will also impact nearly every other business, so we need to consider how our other costs might increase in the coming year.

**What does our Margin look like?**

Now that we have recalculated all our costs for the next financial year, we should update these figures into our Budget or Forecast for the year.

This will give us an initial view of how the Budget affects our margin.

**So, now that we know our numbers, what are our choices?**



**We can increase our Prices.**

Raising prices to maintain your margin is definitely an option to consider.

Using the impact of the Budget on your cost base as a justification is something many businesses will be doing, and you could too. Calculate the increase in your total cost base as a percentage, then simply add that percentage to your prices. Inform your clients about the change and see how they respond.

Alternatively, you could take this opportunity to conduct a pricing review.

**How to undertake a pricing review:**

1. **Routine price increases:**When was the last time I raised my prices? It’s my recommendation that you implement at least an annual increase to keep in line with any cost-of-living increases you are incurring. Include a note that you will do this in any proposals you raise.
2. **Analyse your products and services:**
Review each product or service (or groups of similar offerings) separately. This ensures that high-margin sales are not masking low or negative-margin products and services.
3. **Break down direct costs**:

Calculate the direct costs associated with your products and services to determine the gross margin for each.

1. **Allocate non-direct costs (if feasible**):

If you can allocate non-direct costs that’s great. However, this can often be arbitrary, and the effort to calculate it may outweigh the value derived from it.

1. **Conduct market research:** Investigate what your competitors are charging for similar products or services? It’s important to understand how your offerings differ from others in the market and how to articulate these differences effectively.
2. **Attend the Pricing Workshop**: Learn valuable strategies around pricing and how to use them to maximise your profit.

**We can review our costs**

Reducing costs can feel like the obvious solution in situations like this. However, when reviewing costs, we need to:

1. **Ensure we can maintain the quality of our supply so that our customers do not notice any changes we make**
	1. Lesser quality ingredients could lose us customers. We also need to consider potential supply issues.
		1. Do we need to buy in larger volumes less frequently to drive the cost down?
		2. Is the new supplier reliable?
	2. ****Lower cost suppliers, may not provide the full scope of services we need or may not deliver the level of service we are used to:
		1. Additional work may fall back on you, creating hidden added costs.
	3. Can we reduce the size of our offerings to meet the price point without compromising the perceived value? Those wagon wheel biscuits were definitely bigger when I was a kid!
	4. Can we bulk buy? Consider the implications for cash flow, storage and shelf life.
	5. Are there any costs we could cut that the customer wouldn’t notice?
2. **Consider make vs. buy options**
	1. This may involve investment in training or equipment and could require lead time. But this option cuts out someone else’s margin!
3. **Consider outsourcing tasks you currently handle in house**
	1. This could include hiring a VA (Virtual Assistant) or Bookkeeper instead of employing an in-house administrator.
	2. IT support
	3. Credit control and debt collection.
	4. Hiring temporary staff during busy periods rather than maintaining full-year staffing, especially if your business is seasonal.
4. **Check for unnecessary payments**
	1. Review online subscriptions and ensure you’re not paying for things you no longer need.
	2. Look out for auto-renewals, which may not always offer the best rate.
5. **Rent/Lease Considerations**
	1. Do you need to be in your current location? Could you work from home?
	2. Can you sub-let unused space? (Check your lease terms.)
	3. Could you move to a lower-cost location or smaller premises?
6. **Review current team.**
	1. Do you need everyone currently on your team?
	2. Can tasks be completed more efficiently?
	3. How will you manage pay rises?
	4. Are any employees receiving benefits they don’t need (e.g. mobile phones?)
7. **Entertaining/Gifting**

Evaluate whether these activities or gifts actually provide value to your business.

**We can explore new Opportunities or maximise current ones**

Are there ways you can increase your revenues?

1. Can you explore new routes to market?
2. Can you tap into new markets?
3. Can you offer new products or services?
4. Are there ways to increase the frequency of repeat purchases?
	1. Promotions.
	2. Referrals – introduce a “refer a friend” scheme.
	3. Loyalty schemes.
5. Are there ways to increase the average sale value, other than raising prices?
6. Can you leverage reviews to build trust and encourage more sales?

**Planning for Business Success**

Once you have thoroughly reviewed the changes you can make to maintain your margins, you need to quantify the impact of each strategy.

The changes you make need to be carefully planned, and their results need to be measured.

For each aspect of your business that you are considering changing, ask yourself:

1. What is the lead time for trialling the proposed new or changed activity?
2. What impact on sales or costs will there be, and from when?
3. Are there any risks associated with the change?
4. Will you trial the change first before rolling it out on a larger scale?
5. What will the overall impact on cash flow be?
* Will you need to explore access to additional finance?

**Appendix 1**

**For the 2024-2025 tax year**

The threshold for paying Employer's National Insurance is **£9,100 per year**, which is split into a monthly allowance of **£758 per month**. Employers will pay Employer’s National Insurance on any taxable pay above this amount. The rate is currently 13.8%.

Please see below an example of Employer National Contributions calculated based on an employee salary of £2,500 per month.

**£2,500** Basic pay

**£758** Monthly allowance above which Employers National Insurance is paid

**£1,742**  Amount subject to Employers National Insurance

**13.8%** Rate of Employers National Insurance

**£240.40** Employers National Insurance payable

**Employment Allowance**
As long as you have more than one person on your payroll, you will qualify for an **employment** **allowance of £5,000** for this payroll for the year.

**If you had six employees all earning £2,500 per month, then:**
- In month 1, the total calculated Employers National Insurance would be calculated at £1,442.40.
- However, you wouldn’t need to pay any Employers National Insurance until month 4, as your employment allowance would cover the liability until it is fully used up for the year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ERSNI Calc | ERSNI Calc Cum YTD | Employment Allowance used | ERSNI Payable to HMRC |
| Month 1 | £1,442.40 | £1,442.40 | £1,442.40 | £0.00 |
| Month 2 | £1,442.40 | £2,884.80 | £2,884.80 | £0.00 |
| Month 3 | £1,442.40 | £4,327.20 | £4,327.20 | £0.00 |
| Month 4 | £1,442.40 | £5,769.60 | £5,000.00 | £769.60 |
| Month 5 | £1,442.40 | £7,212.00 | £5,000.00 | £1,442.40 |
| Month 6 | £1,442.40 | £8,654.40 | £5,000.00 | £1,442.40 |
| Month 7 | £1,442.40 | £10,096.80 | £5,000.00 | £1,442.40 |
| Month 8 | £1,442.40 | £11,539.20 | £5,000.00 | £1,442.40 |
| Month 9 | £1,442.40 | £12,981.60 | £5,000.00 | £1,442.40 |
| Month 10 | £1,442.40 | £14,424.00 | £5,000.00 | £1,442.40 |
| Month 11 | £1,442.40 | £15,866.40 | £5,000.00 | £1,442.40 |
| Month12 | £1,442.40 | £17,308.80 | £5,000.00 | £1,442.40 |
|  |  |  |  | £12,308.80 |

**For the 2025-2026 tax year**

The threshold for paying Employer's National Insurance will decrease to **£5,000 per year** from 6th April 2025. This will be split into a monthly allowance of **£417 per month**. Employers will pay Employer’s National Insurance on pay over this amount. The new rate will be **15%.**

**Example of Employer National Insurance Contributions**
Based on an employee salary of £2,500 per month.

**£2,500** Basic pay

**£417** Monthly allowance above which Employers National Insurance is paid

**£2,083**  Amount subject to Employers National Insurance

**15%**  Rate of Employers National Insurance

**£312.45** Employers National Insurance payable

**Employment Allowance**

As long as you have more than one person on your payroll, you will qualify for an **employment allowance of £10,500** per year.

If you had six employees all earning £2,500 per month, then:

* In month 1, the total Employers National Insurance would be calculated at **£1,442.40.**
* However, you wouldn’t need to pay any Employers National Insurance until Month 6, as your employment allowance would cover the liability until it is fully used for the year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ERSNI Calc | ERSNI Calc Cum YTD | Employment Allowance used | ERSNI Payable to HMRC |
| Month 1 | £1,874.70 | £1,874.70 | £1,874.70 | £0.00 |
| Month 2 | £1,874.70 | £3,749.40 | £3,749.40 | £0.00 |
| Month 3 | £1,874.70 | £5,624.10 | £5,624.10 | £0.00 |
| Month 4 | £1,874.70 | £7,498.80 | £7,498.80 | £0.00 |
| Month 5 | £1,874.70 | £9,373.50 | £9,373.50 | £0.00 |
| Month 6 | £1,874.70 | £11,248.20 | £10,500.00 | £748.20 |
| Month 7 | £1,874.70 | £13,122.90 | £10,500.00 | £1,874.70 |
| Month 8 | £1,874.70 | £14,997.60 | £10,500.00 | £1,874.70 |
| Month 9 | £1,874.70 | £16,872.30 | £10,500.00 | £1,874.70 |
| Month 10 | £1,874.70 | £18,747.00 | £10,500.00 | £1,874.70 |
| Month 11 | £1,874.70 | £20,621.70 | £10,500.00 | £1,874.70 |
| Month12 | £1,874.70 | £22,496.40 | £10,500.00 | £1,874.70 |
|  |  |  |  | £11,996.40 |

**For the 2025-2026 tax year – example with 10 employees**

The threshold for paying Employer's National Insurance will decrease to **£5,000 per year** from **6th April 2025**. This will be split into a monthly allowance of **£417 per month**. Employers will pay Employer’s National Insurance on pay over this amount. The new rate will be **15%.**

**Example of Employer National Insurance Contributions**
Based on an employee salary of £2,500 per month.

**£2,500**  Basic pay

**£417** Monthly allowance above which Employers National Insurance is paid

**£2,083**  Amount subject to Employers National Insurance

**15%**  Rate of Employers National Insurance

**£312.45** Employers National Insurance payable

**Employment Allowance**

As long as you have more than one person on your payroll, you qualify for an **employment allowance of £10,500** per year.

If you had 10 employees all earning £2,500 per month, then:

* In month 1, the total Employers National Insurance would be **£3,124.50**,
* However, you wouldn’t need to pay any Employers National Insurance until Month 4, as your employment allowance would cover the liability until it is fully used for the year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ERSNI Calc | ERSNI Calc Cum YTD | Employment Allowance used | ERSNI Payable to HMRC |
| Month 1 | £3,124.50 | £3,124.50 | £3,124.50 | £0.00 |
| Month 2 | £3,124.50 | £6,249.00 | £6,249.00 | £0.00 |
| Month 3 | £3,124.50 | £9,373.50 | £9,373.50 | £0.00 |
| Month 4 | £3,124.50 | £12,498.00 | £10,500.00 | £1,998.00 |
| Month 5 | £3,124.50 | £15,622.50 | £10,500.00 | £3,124.50 |
| Month 6 | £3,124.50 | £18,747.00 | £10,500.00 | £3,124.50 |
| Month 7 | £3,124.50 | £21,871.50 | £10,500.00 | £3,124.50 |
| Month 8 | £3,124.50 | £24,996.00 | £10,500.00 | £3,124.50 |
| Month 9 | £3,124.50 | £28,120.50 | £10,500.00 | £3,124.50 |
| Month 10 | £3,124.50 | £31,245.00 | £10,500.00 | £3,124.50 |
| Month 11 | £3,124.50 | £34,369.50 | £10,500.00 | £3,124.50 |
| Month12 | £3,124.50 | £37,494.00 | £10,500.00 | £3,124.50 |
|  |  |  |  | £26,994.00 |