

National Insurance: £2000 Employment Allowance

Who is likely to be affected?

All businesses, charities and Community Amateur Sports Clubs (CASCs)

General description of the measure

From April 2014, every business, charity and CASC will be entitled to an annual “employment allowance” of £2,000 to reduce their liability for Class 1 secondary National Insurance Contributions (NICs).

Policy objective

The allowance aims to reduce the barriers faced by small businesses, charities and CASCs which wish to grow by supporting them with the costs of employment. The measure is expected to have a positive impact on businesses and civil society organisations by reducing their employer NICs bill. Up to 1.25 million employers will benefit, with over 90 per cent of the benefit going to small businesses with fewer than 250 employees. As a result 450,000 small employers will no longer pay Class 1 secondary NICs in 2014-15 and, on average, employers with fewer than ten employees over the course of the year will see their employer NICs bill reduced by 80 per cent.

Background to the measure

In the March 2013 Budget, as part of its strategy to encourage business growth, the Government announced that it will introduce an employment allowance of £2,000 a year for all businesses, charities and CASCs to offset against their liability for Class 1 secondary NICs.

To keep the process as simple as possible for employers, the employment allowance will be delivered through standard payroll software and HMRC’s Real Time Information (RTI) system. HMRC will add a facility to the RTI Employer Payment Summary (EPS) referring to the employment allowance in the form of a “yes/no” indicator and payroll software providers will do the same. HMRC will amend its basic PAYE tools to have an EPS facility to help those employers who do not have such a facility on their software.

To claim the allowance, the employer will have to signify his intention to claim by completing the yes/no indicator just once. The employer will then offset the allowance against each monthly Class 1 secondary NICs payment that is due to be made to HMRC until the allowance is fully claimed or the tax year ends. The following tax year, the allowance will be available as an offset against a Class 1 secondary NICs liability as it arises during the tax year.

For those employers who still submit their returns to HMRC on paper, there will be a paper process which will mirror the IT procedures.

The employment allowance will apply per employer, regardless of how many PAYE schemes that employer chooses to operate, so each employer can only claim for one allowance. It will be up to the employer which PAYE scheme to claim it against.

HMRC held informal consultation on the details of the allowance with representative bodies over the summer.

Detailed proposal

Operative date

This measure will have effect from 6 April 2014.

Summary of impacts

This table represents the Government's current understanding of the impact of this measure.

| Exchequer impact (£m) | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|--|---------|---------|---------|---------|
| | 0 | -1,255 | -1,370 | -1,595 | -1,725 |
| | These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget. | | | | |
| Economic impact | The measure will help small businesses by reducing the fiscal burden of employer NICs and thus supporting employment. The costs of employment are one of the biggest costs for small business and, as outlined in the above box, this measure will relieve those costs. | | | | |
| Impact on individuals and households | While there are no direct impacts on individuals and households one of the goals of the measure is to support employment and growth and thereby benefit individuals and households, especially those in lower income groups. | | | | |
| Equalities impacts | There are no direct equality impacts and domestic employers are excluded from the allowance as the purpose is to focus support on businesses and charities rather than personal service. The groups sharing protected characteristics that will benefit indirectly from improved employment prospects are mainly those represented in lower income groups, such as the young, women, ethnic minorities, older workers and disabled people. | | | | |
| Impact on business including civil society organisations | The measure is not expected to lead to increase in administration or general costs. The allowance will be simple to claim as it will be delivered through standard payroll software and HMRC's Real-Time Information Systems. Employers will be able to claim their eligibility through their regular payroll process. | | | | |
| Operational impact (£m) (HMRC or other) | The operational impact on HMRC will not be significant. At present, the cost to HMRC of introducing the employment allowance is estimated to be around £3 million, including some staffing and administrative costs. This figure may be subject to change as the project progresses. Given that the allowance will be claimed through HMRC's RTI system and standard payroll software, the operational impact outside HMRC is expected to be negligible. | | | | |
| Other impacts | Other impacts have been considered and none have been identified. | | | | |

Monitoring and evaluation

This measure may be kept under review through communication with taxpayers groups affected by the measure.

Further advice

If you have any questions about this change, please contact David Woodhouse on 0207 147 2477 e-mail: david.woodhouse@hmrc.gsi.gov.uk or Ativie Edebiri on 0207 147 0235 email: ativie.edebiri@hmrc.gsi.gov.uk

Declaration

David Gauke MP, Exchequer Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.