



Abolition of employers National Insurance contributions for the under 21s

Who is likely to be affected?

Employers with employees under the age of 21.

General description of the measure

From 6 April 2015 every employer with employees under the age of 21 will no longer be required to pay Class 1 secondary National Insurance contributions (NICs) on earnings up to the upper earning limit (UEL), for those employees.

Policy objective

The removal of the requirement for employers to pay Class 1 secondary NICs aims to encourage them to employ individuals under the age of 21.

Background to the measure

The abolition of employer Class 1 secondary NICs for employees under the age of 21 earning up to the UEL complements other government policies that seek to encourage youth employment and boost economic development.

Detailed proposal

Operative date

This measure will take effect from 6 April 2015.

Current law

Section 6(1) of the Social Security Contributions and Benefits Act and the Northern Ireland equivalent makes employers liable to Class 1 secondary NICs on all earnings paid to employees over the age of 16 provided the earnings exceed the secondary threshold which is currently £148 per week.

Proposed revisions

Under proposals and subject to earnings up to the UEL, employers who employ or engage employees under the age of 21 at or after 6 April 2015 will not be required to pay employer NICs on the earnings they pay to those employees. The UEL in 2015-16 is expected to be £813 per week (annual equivalent £42,285).

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	2018-19																					
	nil	nil	-465	-495	-520	-530																					
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement.																										
Economic impact	The measure will abolish employer NICs for employees under the age of 21 earning up to NICs UEL in any pay period. Reducing the fiscal burden of employer NICs will support youth employment. The overall economic impact of this measure will depend on aggregate labour demand and the performance of the wider economy.																										
Impact on individuals and households	The employer NICs liability for nearly 1.5 million employees aged between 16 and 20 will be eliminated. While there are no direct impacts on individuals and households, one of the goals of the measure is to support youth employment and thereby benefit individuals and households, especially those in lower income groups and areas particularly affected by youth unemployment.																										
Equalities impacts	The policy discriminates in favour of those aged under 21 in order to improve their prospects on the employment market. There is a strong policy rationale for focusing help on reducing youth unemployment, and this measure aims to help those at the youngest end of the employment scale where unemployment levels are at their most acute. Accordingly, the scope of the measure represents a proportionate response to the issue of youth unemployment.																										
Impact on business including civil society organisations	<p>There will be some additional burdens on employers to update their systems so the correct NIC letter is applied to employees who are under 21. The measure is expected to directly affect around 340,000 employers. In the majority of cases payroll software will be able to implement the exemption automatically. The ongoing administration costs relate to employers who may need to update their systems manually. The ongoing cost is estimated to average just under £5 per eligible employee (totalling £700,000 across affected businesses).</p> <p>Anticipated one-off costs relate to training and familiarisation, given this a relatively straightforward change it is assumed to require around 30 minutes of preparation per employer already employing under 21 year olds and a smaller time period for all other employers. In total, HMRC anticipates one-off costs across employers of around £7.5 million.</p> <p>Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value.</p> <table border="1"> <thead> <tr> <th></th> <th>Cost</th> <th>Time Period</th> </tr> </thead> <tbody> <tr> <td>Compliance Cost</td> <td></td> <td></td> </tr> <tr> <td>One-Off Costs</td> <td>£7.5m</td> <td>N/A</td> </tr> <tr> <td>Average Annual Costs</td> <td>£0.7m</td> <td>5</td> </tr> <tr> <td>Total Costs (PV)</td> <td>£11m</td> <td>N/A</td> </tr> <tr> <td>Compliance Benefits</td> <td>N/A</td> <td>N/A</td> </tr> <tr> <td>One-off Benefit</td> <td>N/A</td> <td>N/A</td> </tr> </tbody> </table>							Cost	Time Period	Compliance Cost			One-Off Costs	£7.5m	N/A	Average Annual Costs	£0.7m	5	Total Costs (PV)	£11m	N/A	Compliance Benefits	N/A	N/A	One-off Benefit	N/A	N/A
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Compliance Benefits	N/A	N/A																									
One-off Benefit	N/A	N/A																									

	Average Annual Benefit	N/A	N/A
	Total Benefit (PV)	N/A	N/A
	Net Compliance Benefit (NPV)	-£11m	5
	Impact on Administrative Burden (included in Net Compliance Benefit)		
	Increase	Decrease	Net Impact
	£0.7m	£0	£0.7m
Operational impact (£m) (HMRC or other)	The cost to HMRC of implementing this change is estimated to be in the region of £2 million. This is made up of £1.7 million IT costs and £300,000 staff costs for delivery.		
Other impacts	<p><u>Small and micro business assessment (SMBA)</u>: This measure is likely to have a positive impact on small and micro businesses as it will encourage them to recruit and retain employees under the age of 21. There will be some additional burdens placed on SMBAs to update their systems so the correct NIC letter is applied to employees who are under 21.</p> <p><u>Competition assessment</u>: this measure is not targeted at any specific sector. All employers are eligible, so its introduction is unlikely to affect competition.</p> <p>Other impacts have been considered and non have been identified</p>		

Monitoring and evaluation

This policy will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact David Woodhouse on 03000 586840 e-mail: david.woodhouse@hmrc.gsi.gov.uk and Ativie Edebiri on 03000 584748 e-mail: 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.