



National Insurance contributions: abolition of employer contributions for apprentices under 25

Who is likely to be affected?

Employers of apprentices under the age of 25.

General description of the measure

From April 2016 employers of apprentices under the age of 25 will no longer be required to pay secondary Class 1 (employer) National Insurance contributions (NICs) on earnings up to the Upper Earnings Limit (UEL), for those employees.

Policy objective

The Government is committed to ensuring more people can access high quality apprenticeships. Apprenticeships offer young people an alternative to university as a path into skilled employment. This measure is intended to support employers who provide apprenticeships to young people by removing the requirement that they pay secondary Class 1 NICs on earnings up to the UEL, for those employees. This should also support youth employment.

Background to the measure

The measure was announced at Autumn Statement 2014.

Detailed proposal

Operative date

This measure will have effect from 6 April 2016.

This measure will be legislated for through the National Insurance Contributions (NICs) Bill, which is currently before Parliament. The measure will be introduced as an amendment to the Bill. The measure is expected to require a change to payroll software. HM Revenue & Customs (HMRC) will discuss implementation with external stakeholders in the New Year to understand how best to deliver this measure.

Current law

Section 6(1) of the Social Security Contributions and Benefits Act 1992, and the Northern Ireland equivalent makes employers liable to pay Class 1 secondary (employer) NICs on earnings paid to employees over the age of 16, provided the earnings exceed the Secondary Threshold which is currently £153 per week. Secondary Class 1 NICs are payable at a single percentage rate, currently set at 13.8 per cent, though the rate can be varied in certain circumstances. These will include a zero percentage rate for earners under 21 years of age from 6 April 2015.

Proposed revisions

Legislation will be introduced in the NICs Bill which will remove from employers who employ apprentices under the age of 25 the need to pay secondary Class 1 (employer) NICs on the

earnings they pay to those apprentices which are below the UEL. The legislation will provide a power to alter the age at which the zero rate of secondary Class 1 NICs applies for employed earners engaged in apprenticeships, by reference to that earner's age, and a power to define "apprentice" for the purpose of applying the zero rate. HM Treasury and HMRC will discuss the definition of apprenticeships with external stakeholders in the New Year to understand how best to deliver this measure.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-	-105	-110	-120	-125
	These figures are set out in Table 2.1 of the Autumn Statement 2014 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 2014.					
Economic impact	Reducing employer NICs should have a positive effect on the number of apprentices employed, improve skills in the workforce and support youth employment.					
Impact on individuals, households and families	While there are no direct impacts on individuals, households and families 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 measure targets apprentices under the age of 25 in order to improve their prospects in 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 younger end of the employment scale where unemployment levels are at their most acute. It builds on a previous announcement that from April 2015 employers are exempt from employer NICs on all earnings up to the Upper Earnings Limit (UEL) paid to employees under the age of 21					
Impact on business including civil society organisations	<p>There will be some additional cost to employers to update their systems to take advantage of the abolition of employer NICs for apprentices aged between 21 and 25. There are estimated to be around 180,000 employers offering apprenticeships in the UK. The ongoing administration costs relate to employers who may need to monitor their payroll returns to ensure they are claiming the exemption where applicable. This is expected to have an ongoing estimated cost of £0.6m per year. We assume for employers who outsource their payroll that their payroll provider will absorb the cost of this change.</p> <p>Anticipated one-off costs relate to training and familiarisation: In total, HMRC anticipates one-off costs across employers of around £3.6 million.</p>					

		Cost	Time Period (yrs)
Compliance Costs			
One-off Costs		£3.6m	N/A
Average Annual Costs		£0.6m	5
Total Costs (PV)		£6.6m	N/A
Compliance Benefits			
One-off Benefit		N/A	N/A
Average Annual Benefit		N/A	N/A
Total Benefit (PV)		N/A	N/A
Net Benefit (NPV)		-£0.6m	N/A
Impact on Administrative Burden (included in Net Benefit)			
	Increase	Decrease	Net Impact
	£0.6m	£0m	£0.6m
Operational impact (£m) (HMRC or other)	The additional costs for HMRC for implementing this change are estimated to be in the region of £2.5 million for IT changes and £2.5 million over 5 years for staff resources and customer information and support.		
Other impacts	<p><u>Small and micro business assessment</u>: the benefit for smaller businesses will significantly outweigh any costs.</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 none have been identified.</p>		

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Joanne Collings on 03000 575869 (email: joanne.collings@hmrc.gsi.gov.uk).