



Employer National Insurance contributions (NICs) reliefs for apprentices under 25 and employees under 21

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Executive Summary

From April 2015 employers were no longer required to pay Class 1 secondary National Insurance contributions (NICs)¹ on earnings up to a certain limit² for employees under the age of 21. In April 2016, an additional relief was introduced, abolishing NICs for employers of apprentices under the age of 25. The policy was designed to support and encourage youth employment.

This research gathers feedback from businesses that have claimed NICs reliefs, and a small number of those eligible but not claiming, to:

- Understand the **impact of the reliefs**, specifically whether they have encouraged hiring of young people and/or apprentices;
- Assess the **levels of understanding** among employers of how the reliefs work;
- Understand **employer experiences** of applying the reliefs³; and
- Explore **barriers to claiming the reliefs**, among those that do not currently do so.

The research comprised of three components:

- 1) **Qualitative interviews among 'non-claimants'**: This phase comprised 10 interviews, conducted by telephone, with 'non-claimants' - businesses with eligible employees for whom they do not currently claim NICs relief. Participants were sampled to include a range of business size and sector.
- 2) **Quantitative survey of claimants**: The quantitative element of the project consisted of a nationally representative telephone survey of businesses in the UK, sampled from HMRC administrative data. All businesses in scope had claimed NICs relief for employees under the age of 21 and/or apprentices under the age of 25 in the 2017/18 tax year.⁴ A total of 907 interviews were conducted.
- 3) **Qualitative follow up interviews among claimants**: The second qualitative phase comprised of 25 interviews in total, with 20 telephone and 5 face-to-face paired depth interviews. This qualitative research followed up with respondents from the quantitative telephone survey to explore their responses in depth, particularly the impact of the reliefs on their business.

Profile of claimants

There was little difference in the firmographic profiles of businesses claiming the relief for employees under 21 only (U21) compared with the profiles of businesses claiming relief for apprentices under 25 only (U25). Those claiming both reliefs tended to be larger⁵ than those claiming one relief only (either the U21 or the U25

¹ Employers pay Class 1 National Insurance Contributions of 13.8% on all employees earnings above the secondary threshold.

² The upper earnings limit, which is £892 per week (equivalent to £46,350 p.a.) for 2018-19

³ Throughout this report, 'applying the relief' is used to refer to those businesses that benefit from the NICs relief. This reflects the fact that the relief is claimed by 'applying' the correct NI code to payroll

⁴ Available data at the time showed those businesses that had claimed relief between April 2017 and September 2017.

⁵ Throughout this report, business size is determined by number of employees

apprentice relief). Businesses claiming relief (either for U21, U25s or both) commonly operated within the manufacturing and retail sectors, two of the sectors that employ the largest numbers of people in the UK.⁶

Engagement with NICs reliefs

Businesses reported finding the process of claiming reliefs simple and straightforward, just 2% of businesses had experienced any problem claiming the reliefs.

Levels of understanding of the claiming process varied from business to business, and within businesses, between individuals. Overall, individuals with direct finance or payroll responsibilities were more likely to be aware of the reliefs, and to understand the process in greater detail.

Respondents recognised that the need for businesses to engage with NICs reliefs is limited. This was seen as a consequence of the simplicity of the claims process, the gap between payroll/finance and other parts of a business, and the nature of the reliefs as a saving 'received' incrementally. This means that awareness of the reliefs overall, as well as the process for claiming, tended to be restricted to those with responsibility for payroll.

Significance of NICs reliefs

In terms of their significance to businesses, the two reliefs were viewed similarly. For both reliefs, approximately a third of claimants said they viewed the savings as very or fairly significant.

The proportion of the workforce made up of eligible employees had a far greater impact on the perceived significance of the relief than the total value. Smaller businesses were more likely than larger businesses to view the savings from NICs reliefs as significant, and it was also found that they were more likely to claim the reliefs for a greater proportion of their workforce. Larger businesses, whose employees eligible for the relief were found to make up a smaller proportion of their total workforce, were less likely to view the relief as significant.

Turnover was also a factor: smaller⁷ businesses perceived the relief they received to be of greater significance than larger businesses despite the disparity in the value of relief received. To an extent this can be explained by the difference in the value of the reliefs in relation to turnover. While the value of the relief for larger businesses was greater, the turnover for larger businesses also tended to be much higher than that of small businesses meaning savings made up a smaller proportion of total turnover.

Reported impact of NICs reliefs

In isolation neither relief has had a significant impact on workforce planning or decisions about hiring. Few employers identified financial incentives as important considerations when making hiring decisions or planning for the future. Instead, when asked about their motivations in general for hiring young people and taking on apprentices, a quarter of employers pointed to a desire to help young people to enter the job market. During the qualitative interviews, employers also pointed to more practical reasons for hiring young people, including characteristics or needs of their business.

The majority (80%) of employers said they absorb the savings they make through NICs relief into the general revenues of their business.

⁶ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentbyindustryemp13>

⁷ In this report business size is defined by number of employees: 'micro' businesses are those with 1-9 employees, 'small' those with 10-49 employees, 'medium' those with 50-249 employees, and large businesses are those with over 250 employees. 'Smaller' here refers to micro and small businesses, so those with less than 50 employees.

Non-claimants

For the small number of non-claimants included in the first qualitative stage of the study, the initial barrier to claiming was awareness of the reliefs. For those that were aware, in some cases confusion about eligibility had led businesses to believe they were not entitled to reliefs. Other non-claiming businesses had made assumptions about the effort required to claim the reliefs and the relative value of the reliefs and concluded that claiming would not be worth it. This was particularly the case for businesses where the value of the reliefs would likely be small.

National Insurance Contributions relief for the employment of young people is viewed as an important source of savings by some businesses, especially micro, small and medium enterprises. However, there is limited evidence that this relief has a significant impact on business hiring decisions.

1. Introduction and Background

1.1 Background and context

Youth unemployment steadily rose in the lead up to the financial crisis of 2007-2008, then increased more dramatically during the subsequent recession. In 2011, the UK Commission for Employment and Skills published 'Youth Inquiry'⁸, the first in a series of reports that aimed to address the economic and social concerns of rising youth unemployment. In it, the report recognised the role of employers in creating opportunities for young people, but also acknowledged the role of government, and the need for departments to work in a joined-up way to tackle the problem. Since then, several government departments have implemented a variety of schemes to help young people get into sustained employment.

To further support and encourage youth employment, the government introduced two new National Insurance contributions (NICs) reliefs, which HMRC is required to administer. From April 2015, employers were no longer required to pay Class 1 secondary NICs⁹ on earnings up to the upper earnings limit¹⁰, for employees under the age of 21. In April 2016, a similar NICs relief was introduced for apprentices under the age of 25.

These NICs reliefs are 'claimed' through the normal payroll process, where amounts are deducted depending on the employee's National Insurance category letter and how much they earn. The thresholds mean that an employer can save approximately £1,000 annually on a qualifying employee earning £16,000. No evidence is required to support a claim for relief for employees under 21, beyond date of birth. To claim the apprentice relief the apprentice must be under 25 years old and following an approved UK government statutory apprenticeship framework. If these conditions are met, evidence is required to support the claim. This can either be a written agreement between the employer, the apprentice and a training provider, or (in England and Wales only) evidence that the apprenticeship receives government funding.¹¹ The reliefs are claimed separately, where an apprentice is under 21 the apprentice relief should take priority.

1.2 Research aims and objectives

This research aimed to gather feedback from businesses about the NICs reliefs for employees under 21 and apprentices under 25. There were four key objectives to be addressed:

- 1) To understand the **impact of the reliefs**, specifically whether they have encouraged hiring of young people and/or apprentices, or changed the hours, contracts and wages employers are able to offer them. The research sought to understand how significant the reliefs had been to different businesses who claim them, how they have benefited from a reduction in their costs and what the savings have been used for.

⁸ <https://www.gov.uk/government/publications/ukces-youth-inquiry>

⁹ Employers pay Class 1 National Insurance Contributions of 13.8% on all employees earnings above the secondary threshold.

¹⁰ £892 per week (equivalent to £46,350 p.a.) for 2018-19

¹¹ <https://www.gov.uk/government/publications/national-insurance-contributions-for-under-25s-employer-guide/paying-employer-national-insurance-contributions-for-apprentices-under-25>

- 2) To assess the **levels of understanding** among employers of how the reliefs work, who is eligible and the process for applying the reliefs¹². It also sought to investigate whether there are any differences between the relief for apprentices under 25 and the relief for employees under 21 in terms of businesses' awareness and understanding of the process for claiming them.
- 3) To understand **employer experiences** of applying the reliefs, and whether they had encountered any difficulties.
- 4) To explore **barriers to claiming the reliefs**, investigating why some businesses with eligible employees did not claim the reliefs, or only claimed for a proportion of their eligible employees.

1.3 Methodology

1.3.1 Stage 1 qualitative research

Stage 1 of the qualitative research comprised of 10 in-depth telephone interviews with businesses that had eligible employees but did not claim the NICs reliefs, referred to in this report as 'non-claimants'. This stage of the research was undertaken to understand the barriers to claiming the NICs reliefs. It used projective techniques¹³ to understand non-claimants' perceptions of the reliefs and its value to businesses like theirs. Interviews lasted approximately one hour. Participants were sampled to include a range of businesses sizes and sectors (see Appendix B for detailed sample table).

1.3.2 Quantitative research

The quantitative stage comprised of a nationally representative survey of businesses in the UK. All businesses in scope were employers that had claimed NICs relief for employees under the age of 21 and/or apprentices under the age of 25 between April 2017 and September 2017.

Sampling

The sample frame for this study was compiled from HMRC administrative data. These records contained demographic information about the businesses including names and addresses, as well as information about sector, number of employees, type of relief(s) claimed and size of relief(s). Kantar Public conducted automatic and manual telephone-matching to append telephone numbers to the records. The sample for the main survey was designed to allow analysis of key sub-groups, business size and type of relief claimed. Further information on sampling can be found in Appendix A.

Within the businesses sampled, the target interviewee was a financial decision maker responsible for tax affairs, financial planning or workforce planning and recruitment, such as the Finance Director or manager in charge of recruitment.

Questionnaire development

The questionnaire was developed jointly by Kantar Public and HMRC. Following the initial questionnaire development phase, an iteration of the questionnaire was taken forward for cognitive testing¹⁴. Updates were made to the questionnaire following cognitive interviewing, predominantly to match the language businesses used regarding the reliefs.

¹² Throughout this report, 'applying the relief' is used to refer to those businesses that benefit from the NICs relief. This reflects the fact that the relief is claimed by 'applying' the correct NI code to payroll

¹³ Because the interviews were conducted with non-claimants projective techniques were used to help participants 'imagine' the impact or barriers, this may include projecting who and how the claims might be used by another company.

¹⁴ Between 10 May 2018 and 16 May 2018, respondents from 10 businesses participated in an in-depth telephone interview. Questions were tested for suitability, clarity and comprehension.

The revised questionnaire was then tested in a pilot¹⁵. Following pilot fieldwork, the questionnaire was shortened to reduce the average length of the telephone interview. In addition, prompts were added to the script to probe respondents who may have been initially unaware of NICs reliefs, for example details from the sample regarding number of employees the business has claimed the relief(s) for and the NICs category letter these employees would be on. This was to address an issue uncovered during cognitive testing and pilot fieldwork that a number of businesses were initially unclear that they were 'claiming NICs relief(s)', for instance where the reliefs were claimed automatically via payroll software, where agents claimed the reliefs on behalf of the businesses and / or where the financial decision maker interviewed had limited responsibility for or oversight of payroll tasks.

Fieldwork

Businesses were initially contacted by a letter, dispatched on 31 May 2018. This letter explained the purpose of the survey and gave businesses a chance to opt-out of the research before fieldwork began. Mainstage quantitative fieldwork ran from 19 June 2018 to 20 July 2018 and was carried out exclusively using computer-assisted telephone interviewing (CATI). In total 907 interviews were conducted. This represents a 37% response rate from an issued sample of 2,628 (once invalid telephone numbers and ineligible cases are taken into account).

Weighting

The data in this report have been weighted to the population profile of all businesses claiming the reliefs according to HMRC records. Further information on weighting can be found in Appendix A.

1.3.3 Stage 2 qualitative research

Stage 2 of the qualitative research comprised 25 interviews: 20 telephone and 5 face-to-face paired in-depth interviews. This stage followed up with respondents from the quantitative telephone survey to explore their responses in depth, particularly around the impact of the reliefs on their business. Conducting paired depths allowed for the exploration of experiences with and impact of the NICs reliefs where multiple staff are likely to hold relevant views (for example, combining a finance director, HR director and/or payroll manager). Interviews lasted approximately one hour.

Participants were sampled to get a spread of characteristics across type of reliefs claimed, reported significance of the reliefs, and use of the savings. A detailed sample table can be found in Appendix B.

1.4 Analysis

1.4.1 Quantitative analysis

The results for businesses claiming relief for employees under 21 and apprentices under 25 are described separately throughout this report to identify differences between the two; most importantly differences in how the two reliefs are perceived by businesses, and how the savings are used. When the two reliefs are compared, businesses that claim both reliefs are included in both sets of results. Where types of claimants are compared, the results for three groups are compared; those claiming the under 21 relief only, those claiming the relief for apprentices under 25 only and those claiming both reliefs.

Additional subgroup analysis has been carried out including: business size (number of employees), value of the reliefs, proportion of employees the business claims NICs reliefs for and whether the money saved by reliefs is used for a specific purpose. Differences between subgroups are reported only when they are both statistically significant and relevant to the survey objectives. Additional analytical conventions include:

- Statistical significance judged at the 95% confidence interval.

¹⁵ Pilot fieldwork took place from 24 May 2018 to 30 May 2018 and 23 interviews were achieved.

- Results with a base size of fewer than 50 respondents are not generally included. Where they are, they should be interpreted with caution - the finding should be viewed as only indicative.
- Percentages for single-response questions may not always add up to exactly 100% because of rounding.
- Where respondents have given multiple responses to a question, the sum of the individual responses may be greater than 100%.
- Where there was not an option in the questionnaire for respondents to refuse to answer a question, these respondents have been coded as “Don’t know”.
- Where reported findings (e.g. graphs) are split by all businesses claiming relief for employees under 21 and all businesses claiming relief for apprentices under 25, businesses who claim both reliefs will be counted in both sets.
- Business size is defined in this report by number of employees. ‘Micro’ businesses are those with 1-9 employees, ‘small’ those with 10-49 employees, ‘medium’ those with 50-249 employees, and large businesses are those with over 250 employees

1.4.2 Qualitative analysis

Interviews were digitally recorded, with participant consent. The data was thematically organised and analysed using a ‘Matrix Mapping’ approach. This involved summarising all the recorded material into an analytical framework, allowing for systematic thematic analysis. This robust analytical method allows researchers to draw out the diversity of opinions expressed by individual participants, as well as identifying common themes across interviews. Qualitative research is not, nor does it aim to be, representative but rather explore the details through methods such as in-depth interviews to understand the why’s and how’s of a process or system. For this research, the qualitative findings accompany representative quantitative data to bring to life and unpack the themes that emerged.

1.5 Reporting notes

1.5.1 Reading this report

A few points to keep in mind when reading this report. In the interest of concision, abbreviations are used throughout the report, notably:

- NICs refers to National Insurance Contributions
- U21 refers to ‘under the age of 21’
- U25 refers to ‘under the age of 25’

In addition, the term ‘claimants’ refers to businesses that claimed either the U21, U25, or both reliefs, while ‘non-claimants’ refers to eligible businesses that claim neither of the reliefs.

Finally, throughout the report, verbatim respondent quotes are used to illustrate particular findings. In order to provide additional detail, respondent quotes are labelled with business sector, business size, and type of NICs reliefs claimed. For example: “Quote.” (Accommodation and Food Service, Large Business, Claims U21 relief).

2. NICs reliefs in context

Key Findings:

There was little difference in the firmographic profiles of businesses claiming the relief for employees under 21 only compared with the profiles of businesses claiming relief for apprentices under 25 only. Those claiming both reliefs tended to be larger.

Businesses claiming the NICs reliefs commonly operated within the manufacturing and retail sectors, reflecting overall UK employment trends – manufacturing and retail are two of the largest sectors in the UK by number of employments. Some differences by type of relief applied were identified, likely to reflect employment patterns of under 21s and apprentices.

Awareness of the reliefs overall as well as the process for claiming tended to be restricted to those with responsibility for payroll: the need for those targeted for this research (financial or workforce planning decision makers) to engage with NICs relief is limited, a consequence of the simplicity of the claims process, the gap between payroll/finance and other parts of a business, and the nature of the reliefs as savings 'received' incrementally.

Businesses reported finding the process of claiming simple and straightforward, just 2% of businesses had experienced any problem claiming the reliefs.

It is important to recognise that the significance of NICs reliefs, and impact the savings have on businesses, is highly dependent on context. In terms of financial value, larger businesses, with greater numbers of employees, save much more than smaller businesses. However, given their number of employees (fewer than 49), even a small number of staff under 21s or apprentices comprise a significant proportion of the workforce for small and micro businesses.

This chapter explores the profile of the businesses that claim reliefs and the process of claiming them. It also examines businesses' awareness and understanding of the reliefs and the extent to which employers engage with the reliefs and the savings earned. The context set out here underpins the findings on significance, impact and awareness laid out in the subsequent chapters.

2.1 Profile of businesses claiming reliefs

To profile businesses that claim reliefs, data collected via the survey was matched against information held by HMRC. This included, relief(s) claimed, total number of employees¹⁶ and sector. Further information, on turnover and years trading was collected via the survey. To identify differences between the businesses claiming each of the reliefs, they have been split into three categories; those claiming for employees under 21 only, those claiming for apprentices under 25 only and those claiming reliefs for both employee groups. The characteristics of these groups are examined in the sections below.

¹⁶ For businesses size and reliefs applied survey data, rather than that provided by HMRC, has been used

2.1.1 Business size, turnover and years trading

As Figure 1 shows, the results suggest that **overall the profile of businesses that only claim the U21 relief is similar to the profile of businesses that only claim the U25 relief**. Reflecting the profile of businesses in the UK overall, of those surveyed more than half of the businesses that only claim the U21 relief or only claim the U25 relief were micro (with between 1 and 9 employees) or small (with between 10 and 49 employees).

Those claiming both reliefs tended to be larger, 23% had over 250 employees. Turnover among those claiming both reliefs is also higher, 18% have a turnover over £10 million or more, compared with 7% of those that claim either the relief for under 21s or apprentices under 25 only.

The majority of businesses that claim the NICs reliefs have been trading for 10 years or more.

Figure 1: Profile of the businesses surveyed

	Claim U21 relief only	Claim apprentice U25 relief only	Claim both reliefs
BUSINESS SIZE			
Micro (1-9)	33%	48%	14%
Small (10-49)	41%	30%	34%
Medium (50-249)	20%	15%	28%
Large (250+)	6%	7%	23%
YEARS TRADING			
Less than a year	1%	0%	0%
More than 1 up to 5 years	6%	6%	3%
More than 5 up to 10 years	14%	7%	6%
More than 10 years	78%	87%	91%
TURNOVER			
Up to £250k	14%	14%	6%
£250K-£1m	24%	25%	15%
£1m-£3m	18%	12%	13%
£3m-£10m	14%	11%	27%
£10m+	7%	7%	18%
Don't know	20%	26%	21%
Refused	4%	5%	1%
Base	405	305	197

Note (1): All data in this table are based on survey responses

Note (2): Figures in green are significantly higher, figures in red are significantly lower than average.

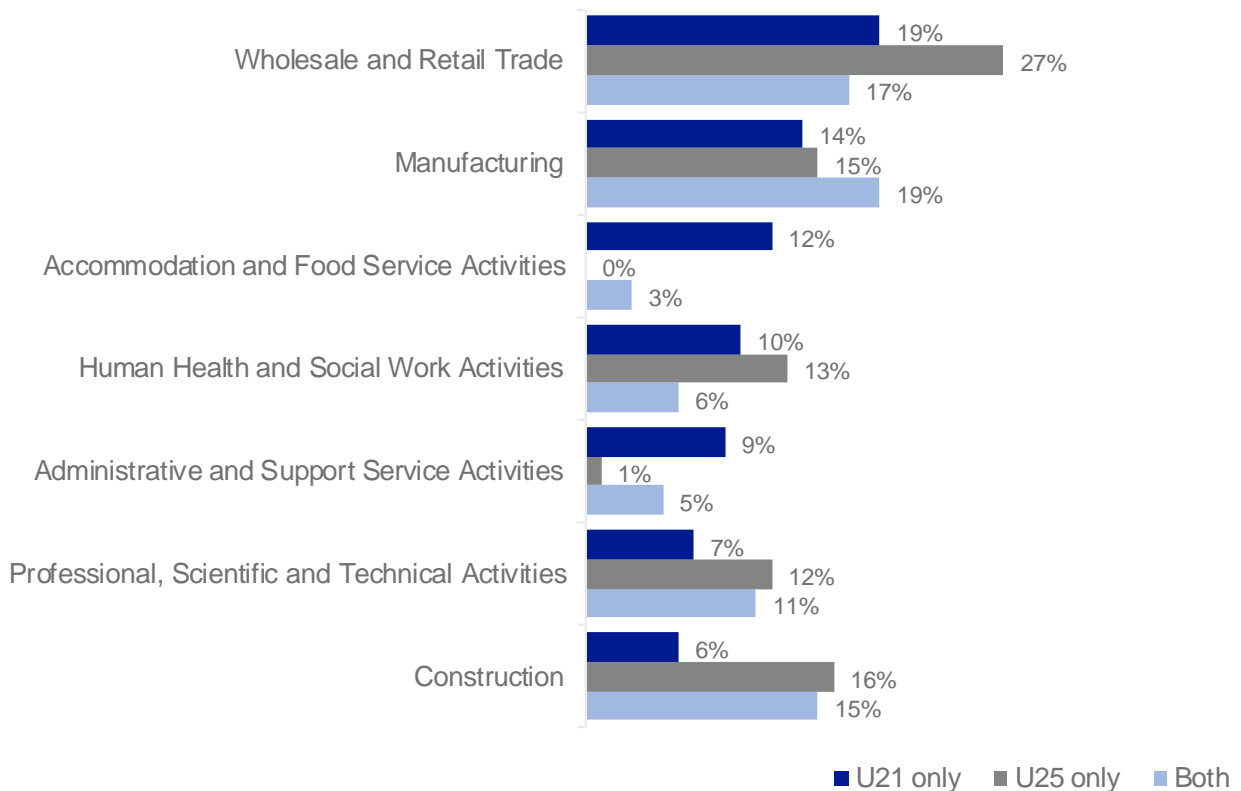
Base: Businesses who claim U21 relief only (405); Businesses who claim U25 only (305), Businesses who claim both reliefs (197)

2.1.2 Sector

Businesses claiming the NICs reliefs largely **operated in those sectors which currently employ the largest number of people in the UK**; wholesale and retail trade, human health and social work activities, education, manufacturing and construction¹⁷. Figure 2 shows how the businesses claiming NICs reliefs fell out across sectors.

It also shows **some differences by type of reliefs applied. This is likely to reflect employment trends of apprentices and people under 21 across the different sectors**. Among those surveyed, businesses claiming the U25 apprentice relief were particularly concentrated in the wholesale and retail sector¹⁸ (27%), as well as in construction (16%) and manufacturing (15%). Wholesale and retail, and manufacturing were also common sectors for businesses claiming the relief for employees under 21. However, claimants of the relief for employees under 21 were more likely to be operating in the accommodation and food service sector (12%) or in Administrative and Support Services (9%) than those claiming the apprentice relief.

Figure 2 – Reliefs claimed by Standard Industrial Classification (SIC) codes (Largest 7 sectors among those surveyed)*



Base: Businesses who claim U21 relief only (405); Businesses who claim U25 only (305), Businesses who claim both reliefs (197)

Showing top 7 sectors among those surveyed (all sectors where more than 40 respondents)

¹⁷ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentbyindustryemp13>

¹⁸ Data includes all businesses with Section G SIC codes – including repair of motor vehicles and motorcycles

2.2 Awareness of NICs reliefs and the process for claiming it

2.2.1 Process of claiming

Businesses described the process of claiming the NICs reliefs as easy and straightforward. Less than 2% of those surveyed had experienced problems claiming NICs reliefs.

Overall just under a third (29%) of all businesses surveyed said that their agent is responsible for claiming the reliefs on their businesses behalf, while the majority (63%) claimed NICs reliefs via payroll software, which in many cases is updated automatically:

“It was really straightforward. It was all done through our finance software, Xero, so once we'd set it up, it automatically makes the deduction off the liability that we pay every month so it was really easy to do.”

(Public Administration and Defence, Medium Business, Claims U21 relief)

“It's very easy because it's automatically been put into place and is done automatically.”

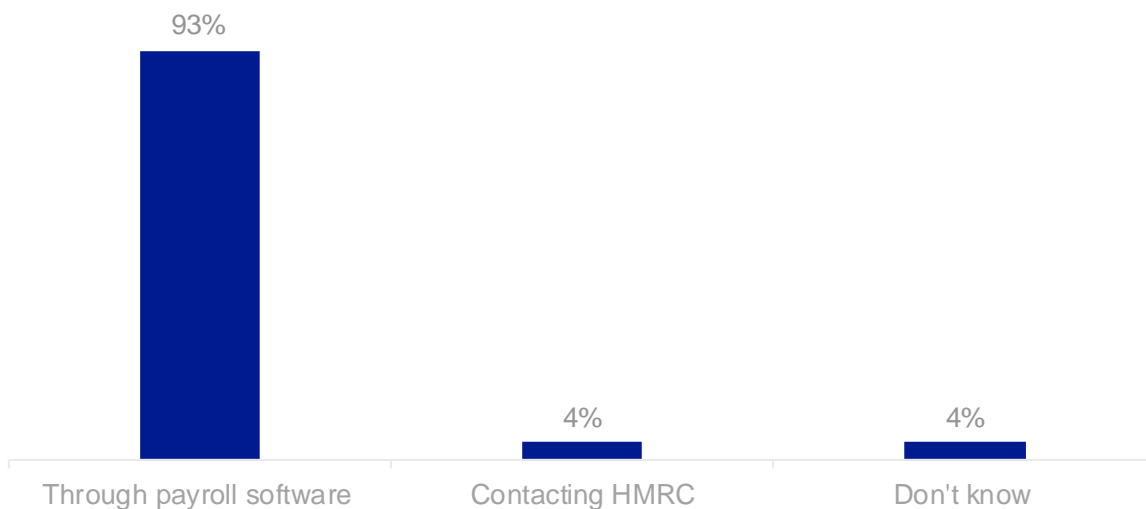
(Manufacturing, Large Business, Claims both reliefs)

Micro businesses were the most likely to use someone outside of the business to deal with some, or all, of their PAYE and National Insurance tasks. Half (50%) of micro businesses outsourced all their National Insurance tasks compared with 38% of small businesses, 18% of medium-sized and 13% of large businesses. Correspondingly, large businesses were more likely (81%) than micro, small or medium (45%, 53% and 74% respectively) to deal with all National Insurance tasks in-house.

As demonstrated in Figure 3, the vast majority (93%) of all businesses who dealt with their National Insurance tasks in-house used their Payroll software to apply the NICs reliefs.

Figure 3 – How NICs relief is applied among those that deal with PAYE and NI tasks in-house

Q: How do you apply the NICs relief?



Base: Businesses deal with PAYE and NI tasks in-house (606)

Note: figures do not total to 100% due to rounding

There are some small differences between the process for claiming the U21 and the U25 reliefs. The process to apply the U21 relief is generally automated; typically, the NICs category letter is automatically changed in payroll software after a birthdate has been entered.

*"The software flags to us when a person is under 21 years and that they should be on category M."
(Accommodation and Food Service, Large Business, Claims both reliefs)*

In comparison, businesses need to actively intervene in the payroll process to apply the U25 apprentice relief. To apply the U25 relief, businesses must indicate that an employee is an apprentice in an 'approved' or 'accredited' scheme, and actively change the employee's NICs category letter. While straightforward for most, in some cases this additional step was a barrier to businesses claiming the U25 apprentice relief, this is explored in further detail in chapter 5.

*"Every week when I do the payroll, because he's under 25 it comes up in red on the software, anyone under 25 doing an apprenticeship, change their tax code to H, so it's very easy and that was it."
(Accommodation and Food Service, Small Business, Claims U25 relief)*

2.2.2 Awareness of the NICs reliefs

During the qualitative interviews, businesses **revealed a range of ways in which they had become aware of NICs reliefs**. Agents (accountants or payroll providers) were cited as key sources of information, as well as professional associations and HMRC updates and tools.

In addition, businesses reported using their **payroll software** to keep up-to-date on changes and opportunities, via annual updates about changes to tax codes and legislation. Employers noted that prompts from their software to change the NICs category letter for employees under 21 had informed them about the available NICs relief. The claims process is explored in more detail in the next section.

*"With SAGE payroll they are very good at saying these are all the changes, these are all the legislation that are going to affect your new year; so along with tax codes etc, they are also very good at explaining codes - NI codes and anything else."
(Accommodation and Food Service, Large Business, Claims U21 relief)*

Businesses that employed apprentices had commonly found out about the U25 relief via the **training provider of eligible apprentices**.

*"They said 'you'll be able to get tax relief on him because he's doing an apprenticeship'."
(Accommodation and Food Service, Small Business, Claims U25 relief)*

For those businesses that actively sought out information, professional associations, HMRC updates, and being prompted by HMRC PAYE tools were highlighted as key sources.

*"[Chartered Institute of Payroll Professionals] did highlight it in their HMRC employer bulletins."
(Manufacturing, Large Business, Claims both reliefs)*

*"It [HMRC PAYE tool] asks 'Is this employee employed under the apprenticeship scheme - if yes it puts them on H', which I then looked up as I wasn't familiar with it. I only knew about it at that point."
(Administrative and Support Services, Micro Business, Claims U25 relief)*

2.3 Knowledge of and engagement with reliefs

Knowledge of the reliefs varied from business to business, and within businesses between individuals. Overall, individuals with direct finance or payroll responsibilities were more likely to be aware of

the reliefs, and to understand the process in greater detail. Where this was not part of their day to day role, individuals were less likely to be aware of the NICs reliefs in general and especially the process for claiming them. The interviews revealed that the automation of payroll software can hinder deeper understanding of the reliefs as little action or understanding is required by the person responsible for making the claim.

"I didn't understand it, but the payroll software worked it out. I didn't question it as I was always told by my previous employer that SAGE is usually right; just trust it."

(Manufacturing, Small Business, Claims U21 relief)

"I've never been online and looked at the ins and outs of it all. I can see I paid them and thought hmmm, no employer's national insurance so happy days really, I've never gone any deeper than that."

(Wholesale and Retail Trade, Small Business, Claims both reliefs)

In some cases **responsibility for claiming sat separately from business decision-makers and management**, creating a knowledge gap between the person making the claim and the wider business. For example, because some businesses employ outside accountants or payroll providers, the person responsible for making the claim for the eligible employees did not sit within the business.

"The only reason I found out about it was when [the accountant] gave me the payment amount I thought she made a mistake, but she said don't worry about that we get a bit of contribution relief."

(Education, Micro Business, Claims U21 relief)

While there were some differences between the types of businesses claiming each relief, our findings suggest that overall **neither NICs relief is a salient issue for businesses**. This was a challenge during the research, as some businesses (recruited from a sample of claimants) were not initially aware that they are claiming NICs reliefs.

In addition to the simplicity of the process, and the fact that responsibility for claiming the reliefs sits largely within the payroll function of a business, the qualitative interviews also revealed that **the way the NICs reliefs are administered also impacts on levels of engagement with the reliefs**. The reliefs are savings that are received incrementally (monthly) rather than as a lump sum. Money is never physically received by a business, rather outgoings are reduced. As a result, businesses were less likely to engage with and make a decision on how to allocate the savings from the NICs reliefs. This is explored further in Chapter 3.

"I don't think it is discussed or even known about. It is very much a payroll scheme it doesn't affect our business massively. I doubt it is even known about outside payroll."

(Accommodation and Food Service, Large Business, Claims U21 relief)

3. Significance of NICs reliefs

Key Findings:

The research indicates that the perceived significance of the two NICs reliefs is similar, approximately a third of claimants said they viewed the savings as very or fairly significant.

Perceptions of significance were found to be heavily dependent on context;

- The proportion of a workforce made up of eligible employees was found to have had a far greater impact on the perceived significance of the reliefs than the total value of the saving. Smaller businesses were found to claim reliefs for a larger proportion of their employees and were most likely to view the savings they make by claiming NICs reliefs as significant.
- Business turnover was also found to be influential; businesses saving a smaller amount (small businesses) were most likely to view the savings as significant, however the largest savings were made by larger businesses that in turn tended to have higher turnovers.

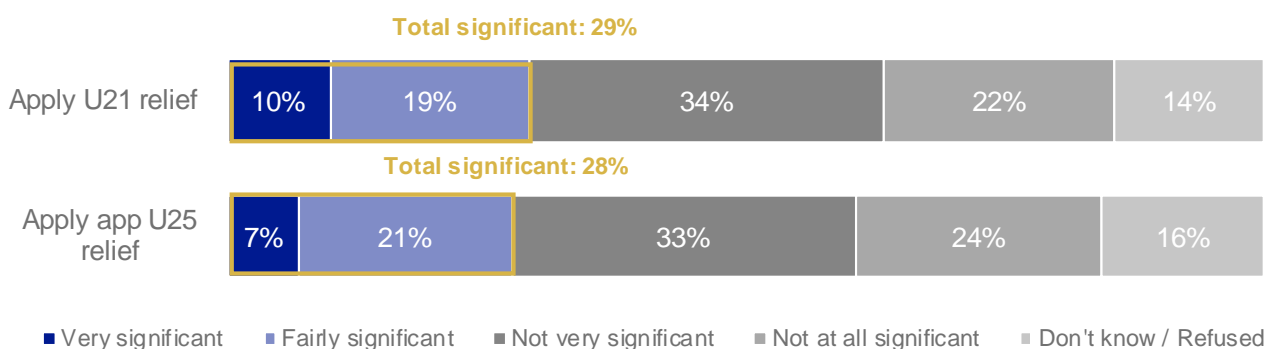
Both the quantitative survey and qualitative interviews were used to examine how significant employers believe the savings they make by claiming NICs reliefs are to their business. In the quantitative survey businesses were asked to rate the significance of the savings, while the qualitative follow up interviews focused on understanding the meaning of significance in this context. The findings from both are outlined in the following chapter.

3.1 Significance of reliefs by relief applied

Figure 4 shows the perceived significance of the relief for employees under 21 compared with the perceived significance of the relief for apprentices under 25: there is little difference between the two. Overall, just under a third (29%) of businesses that claim relief for employees under 21 said they view the saving they make as 'very' or 'fairly' significant. Twenty-two per cent rated it as not significant at all. Similarly, 28% of businesses that claim the relief for apprentices under the age of 25 viewed it as 'very' or 'fairly' significant and 24% said the saving is not significant at all.

Figure 4 – Perceived significance by relief applied

Q: Thinking about the total amount of employer National Insurance Contributions your business pays, in your view how significant is the amount of tax relief you receive for employees under 21 / apprentices?



Base: All who apply U21 relief (602); All who apply apprentices under 25 relief (502)

The qualitative research found that businesses viewed the U25 apprentice relief as part of a broader ‘apprentice package.’ When the NICs relief was grouped together with the other benefits associated with taking on an apprentice, a greater level of significance was acknowledged:

“To get managers on board when we say an apprentice. If we also say they get NIC relief, it’s part of the argument for going for someone younger and for using the apprentice scheme...a scheme that will get new blood in but is also a benefit you for your team’s budgets.”

(Public Administration and Defence, Large Business, Claim U25 relief)

Notably, 16% of employers that claim the relief for apprentices under 25 and 14% of those that claim relief for employees under 21 said they did not know how significant the saving is to their business. However, as outlined in Section 2.3 above, NICs reliefs are a low salience issue for business decision makers and the high ‘don’t know’ response to this question could be a consequence of this. As discussed previously, limited intervention is required to administer the savings and savings are made incrementally, meaning that employers may not necessarily be aware of the total amount they save by claiming NICs reliefs.

“I’ve never calculated how much that amounts to, but obviously any saving is quite good really.”
(Engineering, Small Business, Claims U25 relief)

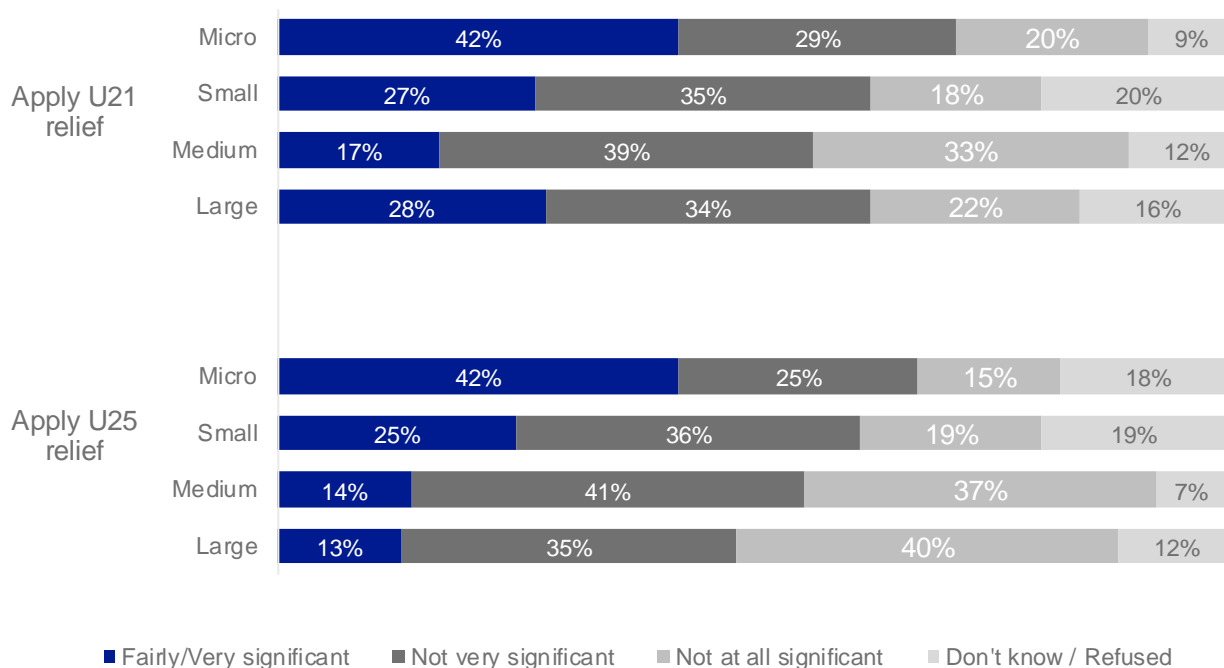
While perceptions of significance were similar for both reliefs, those applying both reliefs were less likely to rate them as ‘very’ or ‘fairly’ significant compared with those just applying one relief, and were more likely to rate them as ‘not very significant’. As discussed in the following section, this is likely to be related to the size of businesses that claim the reliefs.

3.2 Significance of reliefs by business size

Smaller businesses were more likely than larger businesses to view the savings as significant. This is shown in Figure 5. This finding was also echoed in the qualitative interviews, with small businesses more likely to see any saving as significant.

Figure 5 – Perceived significance by business size

Q: Thinking about the total amount of employer National Insurance Contributions your business pays, in your view how significant is the amount of tax relief you receive for employees under 21 / apprentices?



Base: Apply U21 relief; micro (123), small (170), medium (140), large (166)

Base: Apply U25 relief; micro (150), small (130), medium (98), large (122)

Note small base size - results should be treated as indicative

Micro businesses (those with fewer than 10 employees) were most likely to view the savings as significant. Forty-two per cent of micro businesses viewed the savings from NICs relief for under 21s as ‘very’ or ‘fairly’ significant compared with just 17% of medium (50-249 employees) and 28% of large (250+ employees) businesses. This pattern was even more pronounced for businesses that claim relief for apprentices: the larger the business the less likely they were to view the savings as significant. Forty-two per cent of micro businesses rated the relief saving as ‘very’ or ‘fairly’ significant compared with just 13% of large businesses. Only 15% of micro businesses and 19% of small (10-49 employees) businesses rated the apprentice U25 relief as ‘not at all significant’ compared with 37% of medium sized businesses and 40% of large businesses. This could help explain why businesses claiming both reliefs tended to see them as less significant than those claiming either relief, as claimants of both reliefs were more concentrated among larger businesses.

3.3 Significance of reliefs by value of reliefs

Employers that receive reliefs of a lower financial value tended to view the saving as more significant than those that receive reliefs worth more. Thirty-two per cent of businesses saving under £500 rated the U21 relief as very or fairly significant compared to just 17% of those saving over £5,000. This is similar for those applying the U25 relief – those saving under £500 were the most likely to rate the savings as fairly or very significant (34% vs 23% of businesses saving between £500 and £5,000 and 10% of businesses saving more than £5,000). While this could seem counter intuitive, it is likely to be related to the size, and turnover, of the business. While the value of the reliefs claimed by micro and small businesses is not as high as for medium and large businesses, the research found that the reliefs are viewed as more significant for these businesses than for larger employers.

Findings from both the quantitative and qualitative research emphasise that **views on significance are driven by the business context rather than the amount of savings**. An amount that is significant to one business is not necessarily significant to another. With the total value of the reliefs received dependent on the number of qualifying employees, large businesses with more qualifying employees see greater financial savings from the NICs reliefs. Of the large businesses surveyed, 38% claim NICs reliefs worth more than £5,000. At the other end of the scale, 80% of the micro businesses surveyed claim reliefs worth less than £500¹⁹. However, the value of reliefs must be considered in the context of the overall business turnover. The turnover of large businesses is generally much higher than small and micro businesses, 32% of the large businesses surveyed have a turnover of over £10 million compared to just 2% of small businesses.

"Our overall payroll costs are in excess of fifteen million pounds a year. [The NICs relief] is like a few thousand maybe."

(Manufacturing, Large Business, Claims U21 relief)

Relatedly, the qualitative research found that perceptions of significance are also influenced by the financial health of the business. Struggling businesses were more likely to see the NICs reliefs as significant.

"Some months are lower than others, sometimes it helps with that, it helps kind of bridge a little bit of a gap."

(Public Administration and Defence, Medium Business, Claims U21 Relief)

3.4 Significance of reliefs by proportion of eligible employees

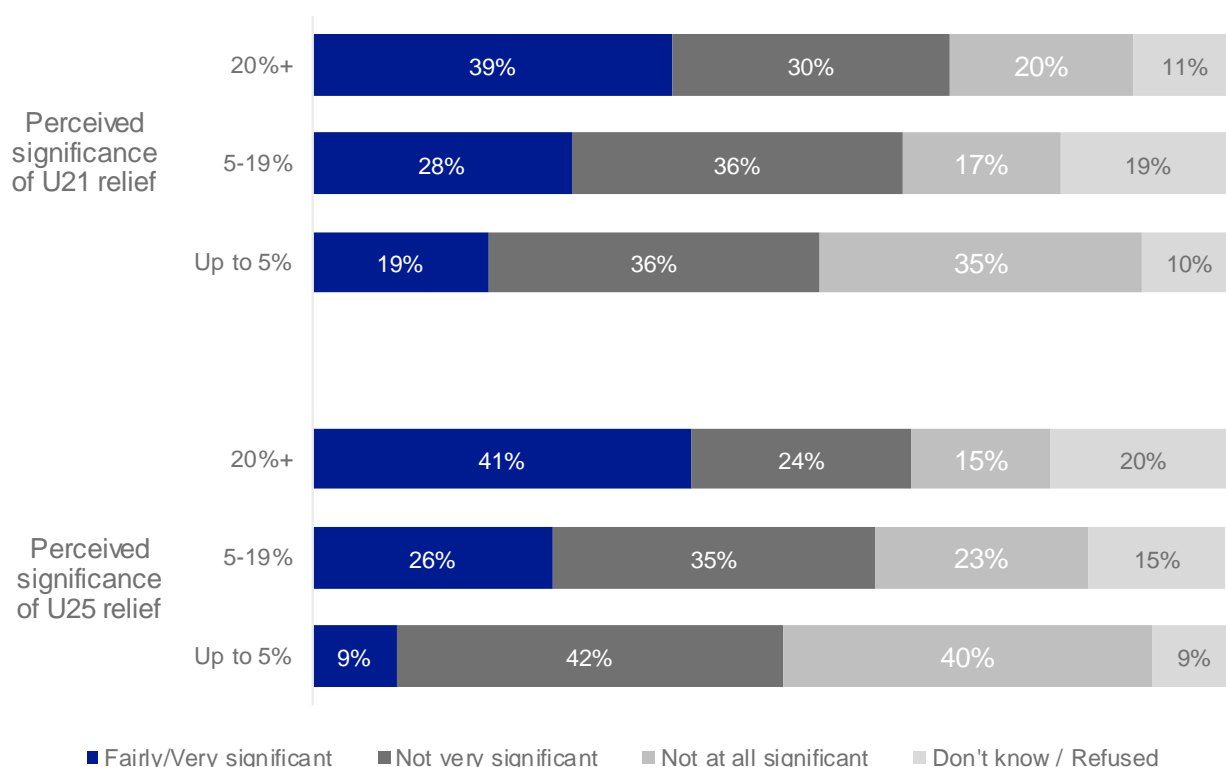
The proportion of the workforce made up of eligible employees has a far greater impact on the perceived significance of the reliefs than the total value. Perhaps unsurprisingly, businesses with a larger *proportion* of eligible apprentices or employees under the age of 21 within their workforce were more likely to view the savings from NICs reliefs as fairly or very significant, regardless of the total value of the reliefs. As can be seen in Figure 6 businesses that claim NICs reliefs²⁰ for more than 20% of their workforce were more likely to rate the relief as fairly or very significant. Thirty-nine per cent of these businesses rated the U21 relief as fairly or very significant and 41% rated the NICs relief for apprentices as fairly or very significant. Businesses where less than 5% of the workforce is eligible for the reliefs were significantly less likely to rate the reliefs as fairly or very significant. Only 9% of these businesses rated the apprentice U25 relief as very or fairly significant and 40% stated the relief is 'not significant at all'.

¹⁹ Value of relief matched from HMRC records

²⁰ Either U21 or apprentices under 25 relief

Figure 6 – Perceived significance by proportion of overall workforce business claims relief for

Q: Thinking about the total amount of employer National Insurance Contributions your business pays, in your view how significant is the amount of tax relief you receive for employees under 21 / apprentices?



Base: Apply U21 relief for 20%+ (134), 5-19% (257), up to 5% (211)

Base: Apply U25 relief for 20%+ (135), 5-19% (223), up to 5% (144)

All of this suggests that the **reliefs are most significant to businesses with younger workforces, where a higher proportion of the employees are under the age of 21 or apprentices under the age of 25**. This is also closely linked to business size. For smaller businesses, just one or two employees under the age of 21 (or apprentices) amounts to a significant proportion of their workforce eligible for NICs relief. Sixty-seven per cent of the micro businesses claimed the reliefs for more than 20% of their workforce, in contrast, 71% of large businesses had claimed for less than 5% of their total workforce. This may explain why smaller businesses are more likely to acknowledge the significance and impact of the reliefs. For these businesses, the NICs saving has a more noticeable impact on the total amount of National Insurance contributions the business pays.

3.5 Contextualising significance

As discussed in Section 2.3, the research found that the process for claiming, and the form the relief takes (an incremental saving rather than money received as a lump sum) as well as the simplicity of the claims process means engagement with NICs reliefs is limited, particularly among those that are not responsible for payroll.

These factors also impact on how the savings are perceived by businesses decision makers. During the qualitative interviews, it emerged that the nature of tax relief, that NICs reliefs are a saving rather than credit

received or returned, influences views on significance. Due to the form it takes, businesses did not necessarily see the relief as something they claim back, it is simply a cost they did not have to pay.

"We don't claim it as such. It's just that the tool tells us that we don't owe it."

(Administration and Support Services, Micro Business, Claims U25 reliefs)

Furthermore, the savings from the reliefs come through incrementally, as employees are paid, rather than appearing as a lump sum. When talking about significance during qualitative interviews, some employers drew comparisons between NICs relief and the Employment Allowance, where no employer NICs are paid in the tax year until the threshold of £3,000 is reached, meaning the amount saved was more immediately obvious to employers.

"When you see they do a grant and they give you £1200 if you keep them for a year, something like then you'd look at it because it's four figures, but if they say you'd save £40 a month in tax {shrugs shoulders}."

(Manufacturing, Micro Business, Claims U21 relief)

"That [The Employment Allowance] helps quite a lot with cash flow and that so that's very helpful. Three thousand to our type of business is quite a bit of money, quite a lot really."

(Construction, Micro Business, Claims U25 relief)

In addition to the reliefs coming through incrementally, which reduces the understanding of how much is saved and the perception that it is significant, business decision makers do not always have close sight of the payroll. This lack of detailed knowledge of the payroll and the amount saved through NICs relief further confounds some perceptions that the amount saved is small and therefore not significant.

"It would have to be a large figure to be significant."

(Wholesale and Retail Trade, Medium Business, Claim U25 relief)

Perhaps because the savings come through incrementally, and highlighting the lack of engagement with NICs reliefs, many businesses interviewed during the qualitative phase of the research were not aware of the total amount they had saved through the reliefs they claimed. This is also likely to have driven views of significance, with some businesses reflecting that if they had calculated the amount of savings they might view the reliefs differently. To varying degrees, these factors, along with business characteristics and circumstances, influence how the NICs reliefs are perceived by businesses and the extent to which savings are viewed as significant.

4. Reported impact of NICs reliefs

Key Findings:

The majority of employers said they absorb the savings they make through NICs reliefs into the general revenues of their business – although this does not mean the savings are not regarded as significant.

In isolation, neither relief has had a significant impact on workforce planning or decisions about hiring. Few employers identified financial incentives as important considerations when making hiring decisions or planning for the future.

The apprentice relief is viewed as part of a package of benefits associated with apprenticeships. While the package overall was seen to have an impact on the decision to take on an apprentice, the NICs relief in isolation was not.

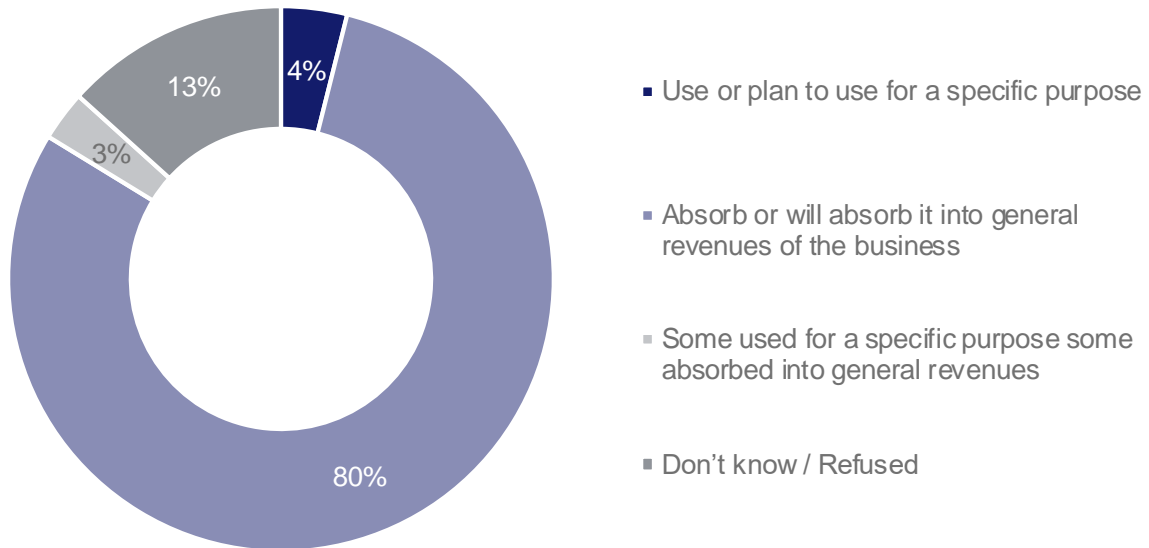
A key objective of this research was to understand the impact of NICs reliefs on businesses: how the savings are used and if they influence employers' decisions on hiring young people and apprentices. Employers were asked how they use the savings from NICs reliefs, their motivations for taking on apprentices and employing young people as well as their expectations for the future. The qualitative interviews were used to explore these topics in greater depth. The first part of this chapter focuses on the use of the savings, and the second examines the extent to which NICs relief can drive hiring decisions.

4.1 Use of reliefs

The research found that the majority (80%) of those claiming NICs reliefs absorb the savings into their general revenues; just 4% reported using them for a specific purpose. Thirteen per cent said they did not know how the savings would be used.

Figure 7 – Whether savings are used for a specific purpose

Q. Thinking now about the savings you made, have or do you plan to use this money for a specific purpose or absorb it back into the business?



Base: All respondents (907)

The majority absorb savings into general revenues, regardless of whether the business claimed the under 21 relief, the apprentice relief or both reliefs: 77% of those that claim the under 21 relief said they absorb the savings compared with 86% of those that claim the U25 apprentice relief and 87% of those that claim both reliefs. The difference between those that claim the under 21 relief only and the other two categories is because a larger proportion (16%) of those claiming the under 21 relief gave 'don't know' as a response to this question compared with 8% of those claiming the apprentice relief and 5% of those claiming both reliefs. The proportion of employers that use the savings for a specific purpose was consistent: 3% among those claiming relief for employees under 21, 4% among those claiming the under 25 apprentice relief and 7% among those claiming both reliefs.

4.2 Use of reliefs and perceptions of significance

The finding that savings from **NICs relief are absorbed into general revenues, rather than ring-fenced for a specific purpose, can be explained at least in part because of the form the reliefs take**. As outlined in section 3.5 above, the reliefs take the form of an incremental (monthly) saving, rather than arriving as a lump sum. As a result, the saving tended to be viewed as a reduction in outgoing costs, rather than as a specific pot of money that would be ring fenced or allocated to a specific purpose. The way the saving is used is also linked to the value of the savings businesses make through claiming the relief:

“I can't imagine that amount of money would be held aside for a specific purpose, it would just make my life very complicated if we did that with all the cost savings/income sources that we have.”

(Entertainment Industry, Medium Business, Claims U21 relief)

However, it **is not the case that because savings are absorbed they are viewed as insignificant**. During the qualitative interviews, businesses that absorb the reliefs into general revenues highlighted the benefits of doing so. Savings are used to reduce overhead costs and help with cash flow.

"It's a help to the business, it's an overhead you're cutting down on."

(Construction, Micro Business, Claims U25 relief)

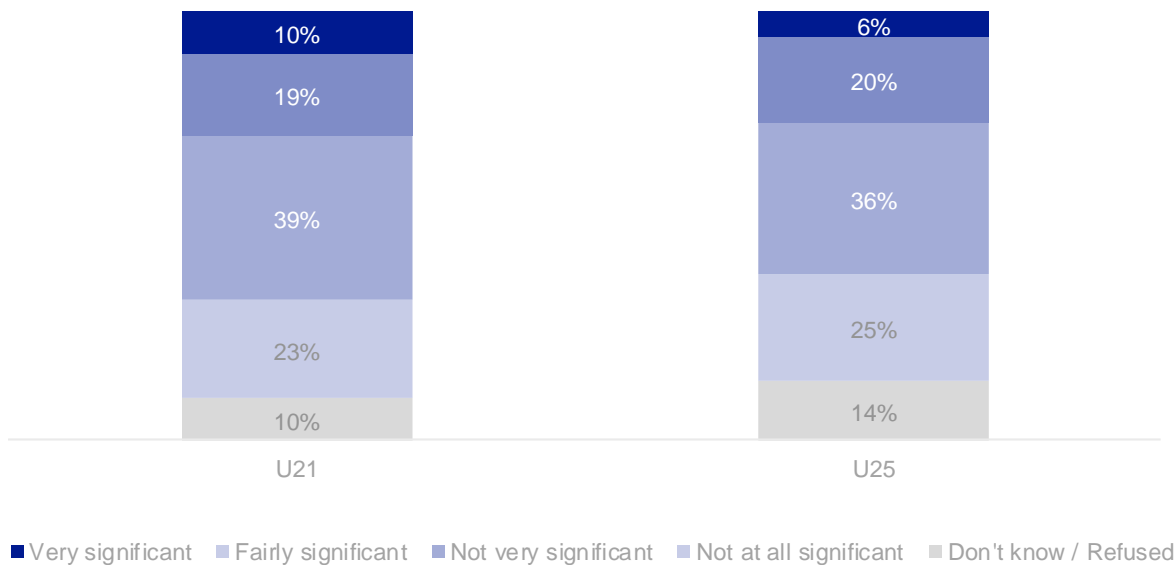
"Anything that I can add into my cash flow and project forward and show the trustees, I'm going to grab."

(Health and Social Care, Small Business, Claims U25 relief)

Figure 8 shows perceived significance among the 80% of businesses, highlighted in Figure 7, that absorb all savings from the reliefs into their general revenues: 29% of those that claim the U21 relief and 26% of those that claim the U25 relief viewed the savings as (very or fairly) significant. A further 39% of those that claim the U21 relief and 36% of those that claim the U25 relief viewed the savings as 'not very significant'. Overall, just 23% of those that claim the U21 relief and absorb the savings viewed it as 'not at all significant'. This was similar among those that said they absorb the savings from the U25 apprentice relief (25%).

Figure 8 – Perceptions of significance among those that absorb all savings from reliefs

Q. Thinking about the total amount of employer National Insurance Contributions your business pays, in your view how significant is the amount of tax relief you receive for employees under 21 / apprentices under 25?



Base: those that absorb any savings from reliefs – U21 (454), U25 (404)

4.3 Use of reliefs for a specific purpose

Less than 10% of businesses claiming either the U21 or the U25 NICs relief said they used it for a specific purpose²¹. Four percent said they would use all of the savings for a specific purpose and 3% said they would use some of the savings for a specific purpose. Those that used the savings for a specific purpose reported having allocated the money to a range of different areas. Over a third (37%) had used the money for non-capital investment (including training) and 17% had taken on additional staff of any age. In addition, 15% said that the savings were allocated to costs associated with apprentices (including covering costs related to their training and recruiting additional apprentices). Further highlighting the low levels of engagement with

²¹ As only 70 respondents answered this question findings should be treated as indicative only

the savings from NICs reliefs outlined above, 15% of those that believed their business allocated the savings to a specific purpose were unable to then outline what that purpose was.

Figure 9 – Use of reliefs among those that use it for a specific purpose

Q: What have or are you planning on using the monies for? [multiple responses permitted]



Base: Businesses who use all or some of relief money for a specific purpose (70) - note small base size, findings should be treated as indicative only

4.4 Impact of reliefs on hiring

4.4.1 Motivations for hiring young people and apprentices

Both the quantitative and qualitative stages of the research examined employers hiring decisions with a view to understand if, and how, NICs reliefs impacted on decisions to employ young people and/or take on apprentices. The results of the quantitative survey were echoed by the findings from the qualitative interviews.

When asked generally about motivations for employing young people, very few employers identified financial incentives as important considerations when making hiring decisions²². Of those that employ people under the age of 21, 5% pointed to 'lower pay expectations' as a motivator for hiring them. No employers made reference to NICs relief. Similarly, 5% of employers with apprentices cited lower pay expectations of apprentices as a reason for taking them on, and 1% referred to NICs relief as a reason for employing apprentices under 25.

Instead, when asked about their motivations in general for hiring young people and taking on apprentices, employers pointed to a desire to help young people to enter the job market (26%) and the work ethic and

²² All respondents were asked an unprompted question about their reasons for hiring young people and or apprentices. Responses were then coded to a code frame. This is distinct from the question presented above, where those that reported using the savings from NICs relief for a specific purpose were asked what that purpose was.

motivation of young people (11%). The qualitative research echoed these findings, with employers reflecting on young peoples' drive and determination.

"Graduates just coming out of uni, wanting to make something of themselves with a high level of drive"
(Administration and Support Services, Micro Business, Claims U25 relief)

During the qualitative interviews, employers also pointed to more practical reasons for hiring young people, including particular characteristics or needs of their business. For example, greater flexibility in working patterns making young people more suitable for work in the hospitality sector. Others, working in specialist or particularly technical companies or sectors, pointed to the need to be able to bring young people into the business and train them to meet their needs.

"What we've always done in the business, since I joined 25 years ago, we've always taken on school leavers, usually 2, sometimes more, and take them on the bottom rung and they work their way up. We train them up and we've always done that."

(Manufacturing, Large Business, Claims U21 relief)

"We decided we needed to home grow because we're so niche and we needed to have somebody in the business, growing and evolving and doing their training."

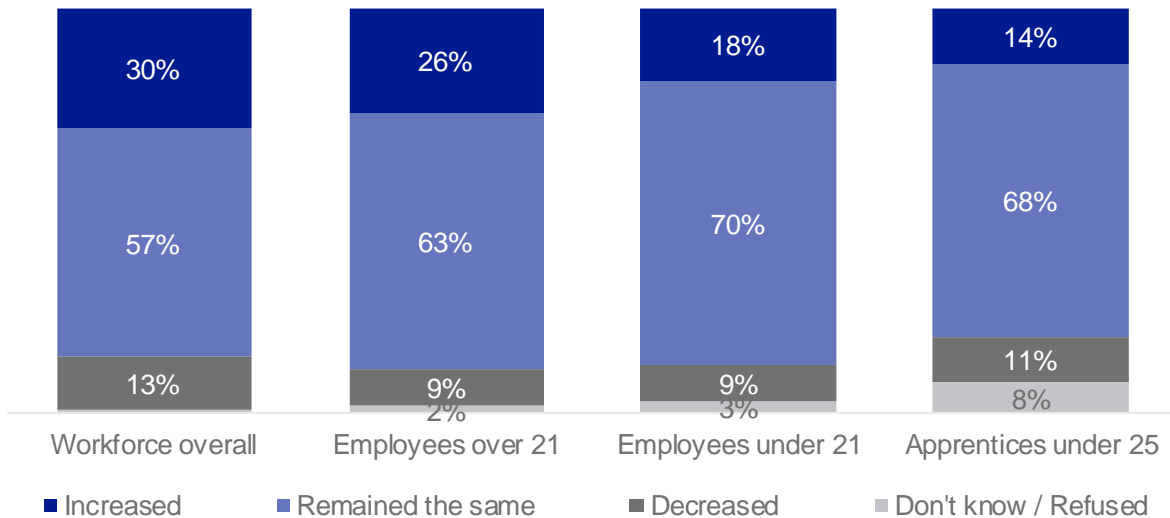
(Engineering, Small Business, Claims U25 relief)

4.4.2 Workforce changes

Over half (57%) of NICs relief claimants surveyed said that their overall workforce had remained stable over the last three years, 30% had seen their workforce increase while 13% said their workforce had decreased. As the Figure 10 shows, the pattern for the different employee groups is similar, however numbers of those in NICs relief qualifying categories (under 21s and apprentices under 25) were more likely to have remained stable and less likely to have increased than general employees over the age of 21.

Figure 10 – How number of employees has changed

Q: Has the total number of employees this business employs increased, decreased or remained the same over the last 3 years? / Has the number of people that fall in to the following categories increased, decreased or remained stable over the last 3 years? (Among all)



Base: All respondents (907)

Medium and large businesses were most likely to report that their workforce overall had expanded over the last three years, 48% of medium and 45% of large businesses said the number of people they employ has increased, compared with 24% of small businesses and 21% of micro businesses. Micro and small businesses were significantly more likely than medium and large businesses to say that their workforce has remained the same size (62% and 61% among micro and small businesses respectively, compared with 46% of medium businesses and 42% of large businesses). **Smaller businesses were also most likely to say their workforce has reduced:** 15% of micro and 15% of small businesses reported that their number of employees has decreased over the last three years compared with 5% of medium sized businesses and 9% of large businesses.

Large businesses were by far the most likely to have increased the numbers of apprentices in their workforce, a quarter (24%) said they currently employ more apprentices than they have in the past while just 5% said the number of apprentices they employ has reduced. In contrast, while 15% of micro businesses said they now have more apprentices in their workforce, 13% had reduced their numbers of apprentices.

The results suggest that, in isolation, NICs reliefs have not had a significant impact on hiring decisions. Reflecting the findings on motivations for hiring in the section above, **most employers do not attribute changes in their workforce to financial incentives.**

"The non-financial factors would take precedence...business need, roster of releases over the next year, how busy everybody is, that sort of thing, rather than if it was going to be cheaper"

(Entertainment, Medium Business, Claims U21 relief)

Instead, broader workforce trends had the greatest impact on the numbers of relief qualifying employees that are employed. This is particularly the case for employees under 21. As Figure 11 shows,

the most common reason employers gave for having taken on more under 21s in the last three years is overall workforce expansion (18%). Employers also referred to finding it easier to recruit young people to the positions available (14%) as well as the fact that they received more applications from this age group (14%). Just 2% referred to savings from NICs reliefs.

“I don’t believe we target young people, but it is quite a young company and it is quite vibrant in that way and that’s the type of person that tends to come.”

(Biotechnology, Small Business, Claims both reliefs)

Figure 11 – Reasons for increased numbers of U21s

Q: Why do you currently employ more people under the age of 21 than you have in previous years?

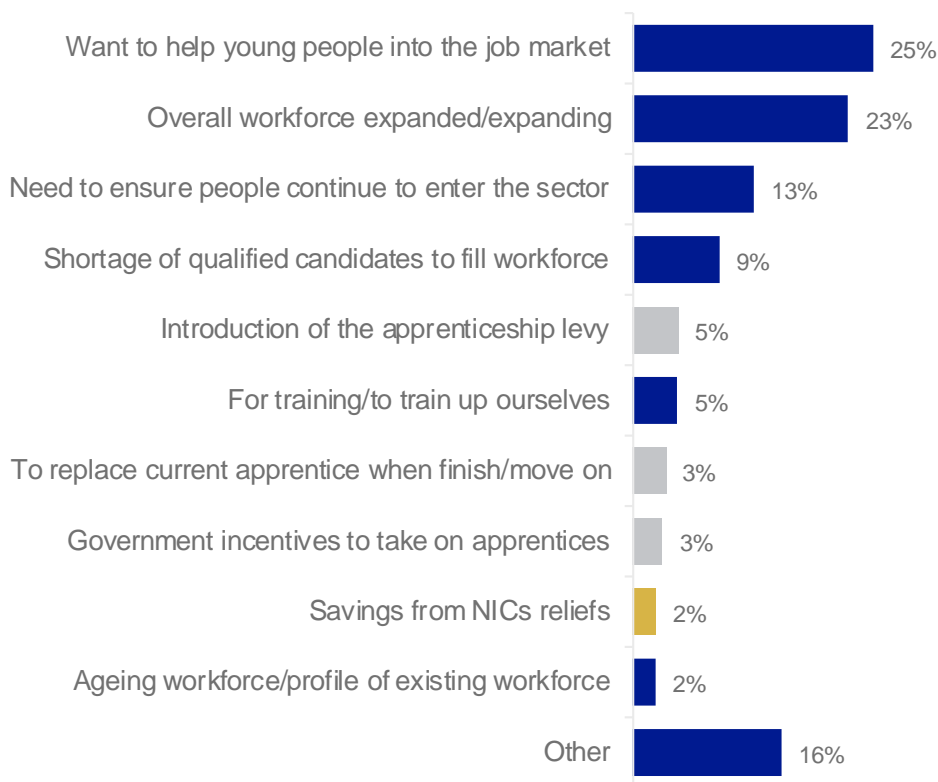


Base: All that employ more under 21s than in previous years (157)

As shown in Figure 12, employers cited many of the same reasons for taking on greater numbers of apprentices, a quarter (25%) said they have taken on more apprentices over the last three years because they want to help young people into the job market, and a similar proportion linked the increase to overall workplace expansion (23%). However, those that have taken on greater numbers of apprentices in recent years also pointed to the government incentives linked to apprenticeships (3%) as well as the introduction of the apprenticeship levy (5%). Two per cent mentioned savings from NICs relief. Over a quarter (27%) of large businesses attributed the increase in the number of apprentices in their workforce to the introduction of the apprenticeship levy. This corresponds with the finding outlined in section 3.1 that businesses see the U25 apprentice relief as part of an overall package of incentives for taking on apprentices.

Figure 12 – Reasons for increased numbers of apprentices under 25

Q: Why has your business taken on more apprentices?



Base: All that employ more apprentices than in previous years (186)
 Grey bars denote reasons linked to the broader hiring of apprentices

Employers also attributed decreases in numbers of employees qualifying for NICs reliefs to broader workforce issues. Twenty-six per cent of businesses that have taken on fewer under 21s in recent years and 31% of those that have taken on fewer apprentices said this was a consequence of a reduction in their workforce overall. In addition, employers made reference to issues specific to the employee categories; 19% of those with reduced numbers of under 21s said this is because they have experienced problems with existing or previous employees in this age group, while 16% said they have struggled to find qualified under 21s for the positions available. Similarly, 18% of those who have reduced their numbers of apprentices said they have found it too difficult to find suitable candidates, and 14% attributed the decline to problems with existing or previous apprentices.

While the qualitative interviews did not explore decreases in employees qualifying for NICs reliefs, the findings also suggest NICs reliefs do not influence hiring decisions. Instead, businesses prioritise suitability for the role over financial savings.

*"In the overall situation the saving that we're making is not anywhere enough to sway decisions."
 (Manufacturing, Large Business, Claims U21 relief)*

*"I don't think we would choose the under 25 as opposed to someone who was 26 just for the tax benefit, it would be if the 26 year old is a better fit, we'd go with that."
 (Health and Social Care, Small Business, Claims U25 relief)*

4.4.3 Expectations for the future

Employers were also asked about their expectations for the near future regarding the employment of apprentices under 25 and people under the age of 21. Echoing the findings outlined above, for most employers, **expectations about the workforce overall underpinned their assumptions about the numbers of under 21s and apprentices they will take on in the future.**

Among those that expect to take on more employees under 21, 44% attributed this to their expectation that their overall workforce will expand. Likewise, 53% of those that expect to take on more apprentices said they do so because their workforce will expand. Similarly, for those that expect to reduce the numbers of apprentices or under 21s in their workforce, the most commonly given reason for this expectation was a reduction in the workforce overall.

The results suggest that, in isolation, the incentive of NICs reliefs has little impact on employers' workforce planning. None of the employers surveyed that expect to increase the numbers of under 21s in their workforce over the next three years stated that savings from NICs relief was a reason for expecting to do so. Those employers that anticipated taking on more apprentices were slightly more likely to consider NICs relief a factor, 2% listed it among the reasons they expect to do so, a further 3% listed 'other government / HMRC incentives.' Echoing the findings outlined above, the apprenticeship levy was also listed by employers as a reason for intending to boost the numbers of apprentices in their workforce in the future. Nine per cent of employers that expect to take on more apprentices next year indicated that the introduction of the apprenticeship levy was a reason for this.

For the majority of employers, that apprentices under 25 and employees under 21 that qualify for NICs relief, it is not a central consideration. **Financial incentives in general, were not listed as strong motivators for hiring.** In the case of NICs reliefs, this is compounded by the low salience of the reliefs themselves, particularly among those without direct responsibility for administering payroll. As will be presented in the next chapter, those making decisions about hiring strategy and who to bring into the business may not even be aware of the NICs reliefs and the savings these bring.

5. Barriers to claiming reliefs

Key Findings:

The process is straightforward so there are few barriers to businesses once claiming, with the exception that some confusion was identified about eligibility for and the process of claiming the U25 apprentice relief.

In some cases, non-claimants were simply unaware of the available reliefs, in others a belief that claiming would be too difficult or not worth the effort had prevented businesses from claiming.

Business characteristics, such as wages paid to eligible employees and amount of relief available also impacted on decisions not to claim.

The research sought to establish why businesses with eligible employees do not claim NICs reliefs at all, or whether they may claim the wrong relief. In addition to the quantitative research among claimants, this section of the report draws on qualitative interviews among businesses that employ under 21s or apprentices under 25, but do not claim the relief. These businesses are referred to as 'non-claimants'. In total 10 non-claimants were interviewed, representing a range of business sizes and covering a spread of sectors including construction and hospitality.

Several barriers to claiming the NICs reliefs were identified, including: awareness and understanding of the reliefs, assumptions about the reliefs, and characteristics of the business which made the reliefs inapplicable or less appealing. These barriers are explored below.

5.1 Awareness of the reliefs

The initial barrier to claiming among non-claimants is awareness of the reliefs. For those that were aware, in some cases confusion about eligibility had led businesses to believe they were not entitled to the reliefs. Other non-claiming businesses had made assumptions about the effort required to claim the reliefs, and the relative value of the saving, and concluded that claiming would not be worth it. This was particularly the case for businesses where the value of the reliefs would be particularly small.

Some non-claimants were **simply not aware of the reliefs** or had not been informed that they are eligible for the reliefs by those they identified as the relevant parties.

“The training providers never mentioned it or gave us any information or leaflets. I think the training providers who give you the apprentice and are the training providers for these people I suppose they should do it, give you information.”

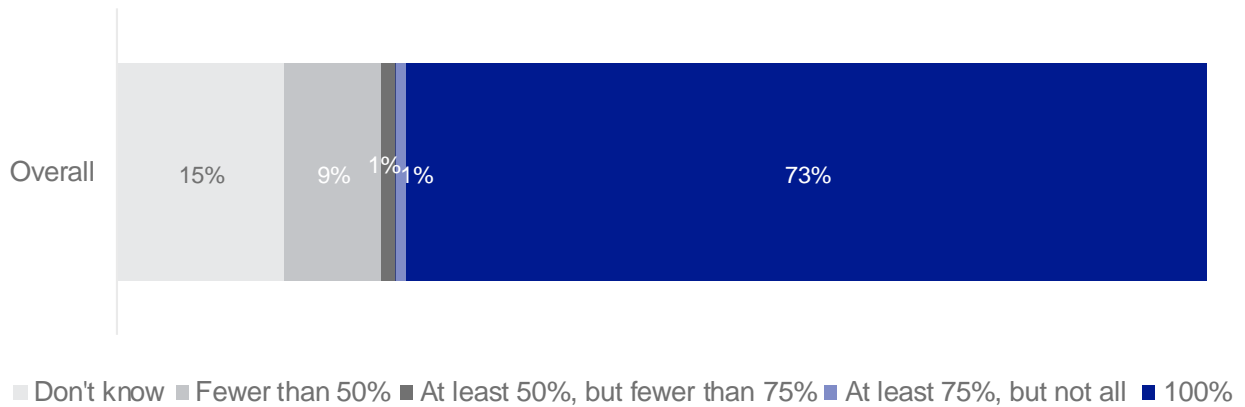
(Manufacturing, Small Business, Non-claimant)

Claimants interviewed in the qualitative phase were clear about the eligibility criteria for U21s, but there was **less clarity and awareness around the relief for apprentices**. This was reflected in the quantitative results: nine percent of those that employ apprentices under 25 and claim NICs relief reported that they

claim the relevant relief for fewer than half of their apprentices aged under 25, a further 15% said they did not know if they claimed the relief or not.

Figure 13 – Proportion of apprentices under 25 business claims relief for

Q: For roughly what proportion of apprentices that are under 25 do you claim NICs relief?
(Among those employing apprentices)



Base: all who employ apprentices U25 - (577)

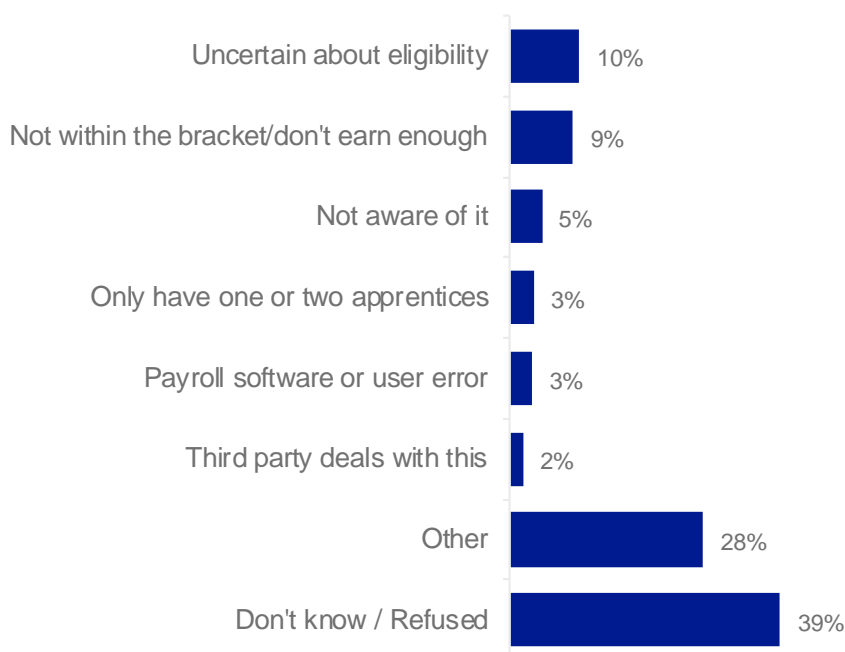
Among those claimants that do not apply the relief for all apprentices, 10% said they did not claim because they were uncertain about eligibility. Nine per cent said that they did not claim because they believed that their apprentices did not earn enough. Five percent were unaware of the U25 apprentice relief.²³

²³ As only 100 respondents answered this question findings should be treated as indicative only.

Figure 14 – Why businesses do not claim for all apprentices under 25

Q: You said that your business has apprentices but that you do not claim the relief specifically for apprentices under 25. Why is that?

(Among those not claiming relief for all apprentices)



Base: Businesses who do not claim relief for all apprentices or do not know proportion they claim relief for (100)
 Note small base size - results should be treated as indicative

Furthermore, over a quarter (29%) of employers with apprentices under 25 in their workforce said they apply the U21 relief for apprentices below 21 years of age. When asked why they claim the U21 relief rather than the specific under 25 relief, a quarter (24%) said they were not aware of the separate relief.

During the qualitative interviews, businesses said they felt training providers for apprentices should sign-post that employers are eligible to claim NICs relief on apprentices, as this is seen as part of the larger apprenticeship package.

5.2 Assumptions

A common assumption among non-claimants was that **claiming NICs reliefs would be a difficult or time-consuming process**, and further, that the amount saved would be insufficient to warrant the effort required to gain the relief. This assumption tended to stem from perceptions of HMRC processes generally, rather than knowledge of the process for claiming NICs reliefs. This view directly contrasts with the experience of claimants who reported finding the process to be simple and straightforward (see Section 2.2.1 for more detail).

"I can just imagine you get a book to fill in and then you end up saving a fairly minimum amount. Just the process, procedure. I think anything with HMRC or a government department is quite longwinded and challenging."

(Administrative and Support Services, Small Business, Non-claimant)

5.3 Business context

Decisions to claim the reliefs, or not, are also **driven by characteristics and context of the business**. The research among non-claimants found that businesses had often made a cost benefit judgement about the

effort required to claim the reliefs and the perceived significance of the saving to be made. Those that had made a considered decision not to claim, pointed to factors such as the **low wages** (and consequently minimal NICs), of their eligible employees as a reason that the reliefs would be of little value to the businesses. **Businesses in a strong financial position** were also among those that had decided not to claim, again particularly if the amount to be saved was small.

"It could help us with the wages but I can't see how it can because they are on such low wages and pay very low national insurance. It is possibly for bigger companies that can afford to pay higher wages."

(Childcare, Small Business, Non-claimant)

"We're talking £20 a week...in the scheme of things it's not material, it's not going to make a difference to me...we don't need it."

(Administrative and Support Services, Small Business, Non-claimant)

5.4 Understanding of the process

As discussed in section 2.2, in contrast to the simple automated process of applying the U21 relief, businesses must actively change the employee's NICs category letter in their payroll software in order to claim the U25 apprentice relief. Despite being a simple requirement, this additional step poses a barrier to claiming the U25 relief in some cases.

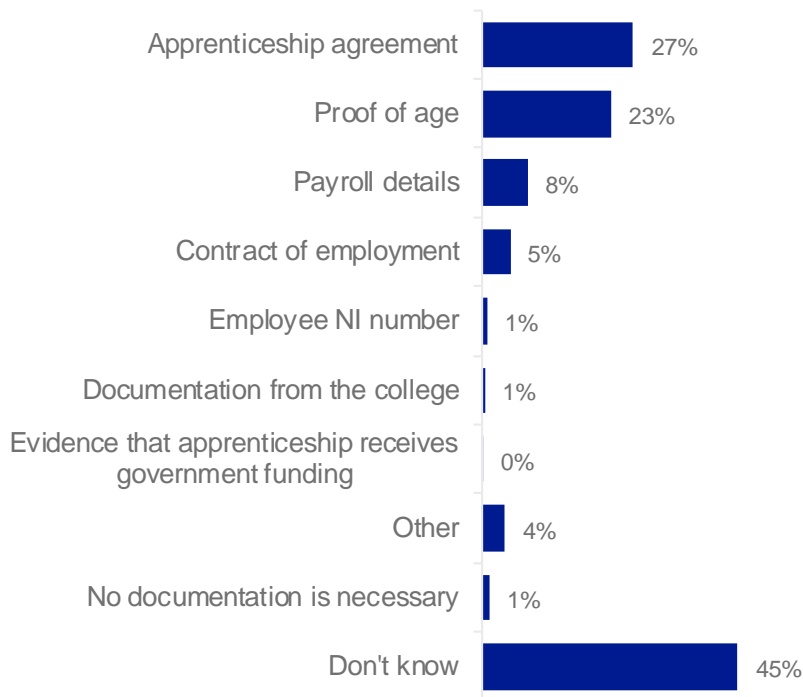
This additional step also partly explain why some businesses apply the U21 relief for apprentices under the age of 21. Some participants explained that their payroll software automatically applies the U21 relief for a younger apprentice. For some, the automation of claiming this relief discourages them from actively updating the record to apply the U25 relief instead. For others, there is an assumption the software is choosing the correct options and there is a hesitancy to override this.

Among businesses claiming the U25 relief, there was also a lack of understanding about the documentation required to support their claim. Only a quarter (27%) of businesses claiming the relief were aware that they need to hold a written apprenticeship agreement in order to claim. Almost half (45%) said that they do not know what documentation they need to support their claim.

Micro and small businesses (54% and 43% respectively) were more likely than medium and large businesses (36% and 38% respectively) to say they did not know what documentation was needed to support a claim for the U25 apprentice relief. This may be because, as outlined above, a relatively large proportion of micro businesses subcontract responsibility for claiming NICs reliefs to an agent and are less likely to be involved in the day to administration of the claim.

Figure 15 – Knowledge of documentation required for U25 apprentice relief

Q: As far as you know, what documentation do you need to hold to support your claim for the NICs relief for apprentices under 25? (among all claiming U25 relief)



Base: All businesses claiming U25 NICs relief (502)

Of all businesses claiming NICs reliefs that were interviewed, one third (33%) said they did not know what they should do when their employees no longer qualify for NICs reliefs. Again, micro businesses (47%) were less likely than small (31%), medium (19%) or large businesses (22%) to say they knew what to do. This is also likely to reflect lower levels of engagement in the process of claiming due to higher proportions of micro businesses using agents.

The ease and simplicity of the claims process means that overall engagement with NICs reliefs is low. This impacts on understanding of specific details within the process, particularly among those without direct responsibility for payroll tasks. However, businesses were clear about the sources of information available to them, and those that required further information had been able to find it.

Non-claimants who were aware of the reliefs encountered barriers at the information-gathering stage. Like claimants, non-claimants reported some **confusion about eligibility requirements and difficulty determining whether their business was eligible for the reliefs.**

"Do they have to be called apprentices or are they simply called that because they are under age?"

(Food Service, Small Business, Non-claimant)

6. Conclusions

National Insurance contributions relief for the employment of young people is viewed as an important source of savings by some businesses, especially micro, small and medium enterprises. However, there is limited evidence that this relief has a significant impact on business hiring decisions.

The relief for under 21s and the relief for apprentices under 25 were viewed similarly both in terms of the significance of the saving made and their effect on hiring and workforce planning decisions. For both reliefs, approximately a third of claimants said they viewed the savings as very or fairly significant.

Smaller businesses were more likely than larger businesses to view the savings from NICs reliefs as significant, largely because of the greater proportion of their workforce made up of employees eligible for reliefs. Similarly, turnover is also a factor: smaller businesses with a lower turnover perceive the reliefs they receive to be of greater significance than larger businesses despite the disparity in the value of reliefs received, because of the relative proportion to their turnover.

The research found that neither the NICs relief for employees under 21, nor the relief for apprentices under 25, have had a significant impact on business decisions to employ young people. Few employers referred to financial incentives as underpinning their hiring decisions and instead pointed to broader workforce trends as having had the greatest impact on the numbers of under 21s and apprentices employed.

The central difference between the two reliefs is that the relief for apprentices under 25 years of age is viewed as part of a package of benefits associated with apprenticeships. However, while the overall package available for taking on apprentices was acknowledged as having impacted on hiring decisions, NICs relief in isolation was not. It is important that the government continue to monitor and review the relevance and effectiveness of Employer NICs relief for apprentices under 25 in light of any changes to apprenticeships policy.

The process for claiming NICs reliefs is very simple and requires very little action or engagement from decision makers within the business. For many, claiming the reliefs is a matter handled exclusively within payroll departments or by external agents. On top of this the reliefs take the form of a saving made incrementally (each month), it is not received as a lump sum. Consequently, employers were not necessarily aware of the amount they had saved by claiming NICs reliefs, which may also underpin perceptions of significance of the relief.

The majority of businesses reported finding the process for claiming the reliefs to be simple and straightforward, only a small proportion of employers had experienced any problems. In contrast, one of the key barriers to claiming for those that do not currently do so was the expectation that the process will be difficult, driven by wider perceptions of HMRC processes. While some confusion around the relief for apprentices under 25 was identified, particularly in relation to the supporting documentation required, this was predominantly among the respondents with less direct involvement in payroll tasks and therefore for administering the relief.

Appendix A: Quantitative methodology

Sample design

The survey aimed to achieve approximately 1,000 interviews. The sampling frame was compiled from HMRC administrative data²⁴. Population counts informed the sample design; it balanced the need to ensure robust results at the overall level while ensuring that different subgroups were represented and that analysis could be conducted between main sub-groups.

The sample was drawn in the following stages:

1. First, HMRC selected companies applying NICs reliefs according to the strata detailed in Table A.1. HMRC provided the names and addresses of selected companies, as well as information about sector, number of employees, type of relief(s) claimed and size of relief(s).
2. This initial list of companies did not include telephone numbers. Kantar Public therefore conducted automatic and manual telephone-matching to append telephone numbers to the records. Companies which were not matched to a telephone number were excluded from the subsequent stages of sampling.
3. We then drew samples to be used for (i) cognitive testing, (ii) qualitative depth interviews, and (iii) piloting of the main survey. For each of these stages, companies were selected at random, covering different business sizes and types of relief claimed (U21 only, U25 only, or both U21 and U25). Large companies applying only U25 relief were excluded from these stages because of the small number of these companies available.
4. Finally, we selected the sample for the main survey, as shown in Table A.1.

The sample for the main survey was designed to allow analysis of key sub-groups. Strata were defined by a combination of business size and type of relief claimed. We assigned a higher probability of selection for certain strata to ensure sufficiently large base sizes for analysis of key groups, especially larger companies and companies claiming U25 relief. Prior to drawing the sample, we sorted the frame of companies by sector and amount of relief claimed. We then made a systematic selection of companies within each stratum.

Table A.1 Final sample design

Stratum	Population size	No. companies selected by HMRC	No. cases selected for main survey	Main survey interviews achieved
U21 relief only				
Micro businesses	110,842	3,058	390	104
Small businesses	102,576	1,988	360	102
Medium businesses	31,236	1,296	346	97
Large businesses	7,721	1,743	376	116
U25 relief only				
Micro businesses	3,296	2,673	360	117

²⁴ 2017/18 Real time Information (RTI) data

Small businesses	1,463	696	196	59
Medium businesses	231	229	120	34
Large businesses	17	17	16	5
Both U21 and U25 relief				
Micro businesses	1,590	841	120	42
Small businesses	4,425	949	210	75
Medium businesses	2,925	600	226	80
Large businesses	2,767	597	286	76
Total	269,089	14,687	3,006	907

Under Data Protection Act requirements, an opt-out stage was included for the drawn sample. This meant sending a letter to all selected businesses and inviting them to call a free phone number, write or email if they did not want to take part in the survey. Two weeks was allowed between mail out of the letter and the start of fieldwork, but respondents were able to opt out at any point during fieldwork, including when they were contacted for interview. Participation in the research was voluntary and respondents could refuse to take part for any reason. We sent out 3,358 advance letters in total²⁵, and received 211 opt outs.

Interviews were conducted with the financial decision maker responsible for tax affairs or financial planning or workforce planning and recruitment, such as the Finance Director or manager in charge of recruitment. Before fieldwork began, an electronic look-up was conducted to find the names of individuals within the business who would be most appropriate to speak to, to improve the efficiency of the interviewing process. However, names were not available in all cases, and, additionally, interviewers were allowed to accept referrals if it was not possible to speak to this individual.

Questionnaire

Once agreed, the first draft of the questionnaire was subject to cognitive testing by the research team. A small-scale pilot was conducted immediately after the cognitive testing phase. The topics and questions included in the final version of the questionnaire are detailed in the order they were asked in Table A.2.

Table A.2 Questionnaire structure

Topic	Question
Nature of workforce	<ul style="list-style-type: none"> • Can I just check, how many employees does your organisation have including yourself? • In the last tax year from April 2017 to April 2018, did you employ any apprentices under 25? • How many of these apprentices were aged 20 or under? • How many of these apprentices were aged between 21 and 24? • How many employees in your workforce were under the age of 21 in the last tax year?
Relief claimed	<ul style="list-style-type: none"> • Thinking about the apprentices under 25 that your business employs, do you benefit from the relief on employers' National Insurance Contributions for any of these employees? • For roughly what proportion of apprentices that are under 25 do you claim National Insurance contributions relief?

²⁵ This covered all stages of the research including cognitively testing the questionnaire, the pilot survey, the qualitative research and main stage survey fieldwork.

- Why don't you apply the NICs relief for all eligible apprentices you employ?
- Does your business benefit from the relief on employers' National Insurance Contributions for any employees under 21?

Claiming process

- Do you deal with PAYE and National Insurance tasks totally in house, or do you use someone outside of your business, such as an accountant or payroll bureau to deal with some or all of the work involved?
- Do you personally have responsibility for carrying out or overseeing PAYE and National Insurance tasks?
- How do you apply the NICs relief?
- As far as you know, what documentation do you need to hold to support your claim for the NICs relief for employees under 21?
- As far as you know, what documentation do you need to hold to support your claim for the NICs relief for apprentices under 25?
- To the best of your knowledge, what, if anything does your business need to do when an employee no longer qualifies for the NICs relief?
- You said that your business has apprentices but that you do not claim the relief specifically for apprentices under 25. Why is that?
- What, if anything, would make you more likely to claim the relief for apprentices under 25?
- Have you encountered any problems related to the process of applying the NICs reliefs?
- What problems did you encounter applying the NIC reliefs?

Hiring practices

- Thinking now about your workforce as a whole, what type of contract are the majority of your employees on?
- And, what type of contract are the majority of your employees aged under 21 on?
- Thinking about all of the different reasons you might have for deciding to employ young people...what would you say is the most important reason for employing someone under 21?
- Thinking about all of the different reasons you might have for deciding to employ young people...what would you say is the most important reason for employing an apprentice under 25?
- Thinking about the total amount of employer National Insurance Contributions your business pays, in your view how significant is the amount of tax relief you receive for employees under 21?
- Thinking about the total amount of employer National Insurance Contributions your business pays, in your view how significant is the amount of tax relief you receive for apprentices under 25?

Impact of relief on hiring

- Thinking now about the savings you made, have or do you plan to use this money for a specific purpose or absorb it back into the business?
- What have or are you planning on using the monies for?
- And is this increasing the hours of ...?
- And is this increasing the wages of...?
- Were or are any of these additional staff members likely to be...?
- Would you have taken on as many additional staff without the NICs relief for apprentices under 25?
- Would you have taken on as many additional staff without the NICs relief for people under 21?
- Has the number of employees this business employs increased, decreased or remained stable over the last 3 years?

- And has the number of people you employ that fall into the following categories increased, decreased or remained stable over the last 3 years? Apprentices under the age of 25
- And has the number of people you employ that fall into the following categories increased, decreased or remained stable over the last 3 years? People under the age of 21
- And has the number of people you employ that fall into the following categories increased, decreased or remained stable over the last 3 years? People over the age of 21
- Why do you currently employ more people under the age of 21 than you have in previous years?
- Why do you currently employ fewer people under the age of 21 than you have in previous years?
- Over the next 3 years, do you expect the number of employees aged 21 or younger to increase, decrease or stay the same?
- Why do you expect the number of employees in your workforce aged 21 or younger to increase?
- Why do you expect the number of employees in your workforce aged 21 or younger to decrease?
- Why has your business taken on more apprentices?
- Why has your business taken on fewer apprentices?
- Next year do you expect to take on more, fewer or the same number of apprentices than you have this year?
- Why do you expect to take on more apprentices next year?
- Why do you expect to take on fewer apprentices next year?

Firmographics

- For how long has this business been trading?
- What is your annual turnover?
- Would you be happy for Kantar Public to contact you for any further research related to this topic?

Data collection

The quantitative interviews were carried out with the aid of Computer Assisted Telephone Interviewing (CATI), meaning the questionnaire was displayed to the interviewer and responses captured on-screen. Interviewing was carried out in the controlled environment of the research agency's dedicated telephone interviewing centres. Rigorous interview quality control procedures prescribed in ISO 20252 were followed, including a supervisor listening into interviews remotely on a systematic basis.

Interviews were conducted between 19 June and 20 July 2018 and took an average of 11½ minutes. The final achieved sample comprised 907 employers. Overall, the estimated response rate was 37%. Table A.3 summarises the fieldwork outcomes.

Table A.3 Fieldwork outcomes

Outcome	n
Sample issued (S)	3,006
Interviews (I)	907
Unknown respondent eligibility (UO)	1,721
Resolved sample	1,031
Unresolved sample	690

Not eligible – removed from eligible base (NE)	117
Non-working numbers – removed from eligible base (DW)	261
Estimated eligibility – EI	89%
Estimated response rate – RR	37%
Usable sample % - US	87%

- Estimated eligibility - EI = number eligible divided by number for whom eligibility is known, among working numbers = $I / (I + NE)$
- Estimated response rate - RR = interviews divided by estimated number of eligible records = $I / (I + EI * UO)$
- Usable sample % - US = $1 - ((NE + DW) / S)$

Data weighting

Weighting was required to make the final achieved sample representative of the population of businesses applying NICS reliefs. The weights account for (i) differential selection probabilities and (ii) differential non-response.

We first calculated a design weight: the inverse of the overall probability of selection for the main survey. The design weight is calculated as:

$$\frac{1}{p_{stage1} * (1 - p_{stage2}) * (1 - p_{stage3}) * (1 - p_{stage4})}$$

Where:

- p_{stage1} is the probability of being initially selected by HMRC
- p_{stage2} is the probability of being selected for cognitive testing
- p_{stage3} is the probability of being selected for the qualitative stage
- p_{stage4} is the probability of being selected for the pilot

To account for differential non-response, we adjusted the design weights so that the final weighted profile matched the population profile according to stratum as well as geographic region of the UK.

The first column of table A.4 shows the actual number of interviews conducted by sub-group i.e. before weighting was applied. The second column shows the number after corrective weighting was applied.

Table A.4 Unweighted and weighted number of interviews

Profile variable	Interviews completed (unweighted)	Weighted number of interviews
U21 relief only		
Micro businesses	104	303
Small businesses	102	297
Medium businesses	97	171
Large businesses	116	45
U25 relief only		
Micro businesses	117	16
Small businesses	59	7

Medium businesses	34	1
Large businesses	5	0
Both U21 and U25 relief		
Micro businesses	42	9
Small businesses	75	24
Medium businesses	80	17
Large businesses	76	16

Appendix B: Qualitative sampling

Stage 1 of the qualitative research comprised 10 interviews in total, and participants were recruited free-find by the Kantar Public specialist in-house recruitment team. Businesses were sampled to include a range of businesses sizes and sector. See sample breakdown by business size and sector in Table B.1.

Table B.1 Stage 1 qualitative sample

Quota	Achieved
Business Size²⁶	
Small (10-49 employees)	5
Midsize (50-249 employees)	4
Large (250+ employees)	1
Sector	
Construction	1
Food	1
Hospitality	1
Law	1
Professional Services	2
Health and Social Care	2
Retail	1
Security	1
Total	10

Stage 2 of the qualitative research comprised 26 interviews in total²⁷, with 20 telephone and 6 face-to-face paired depth interviews. The sample consisted of telephone survey respondents who had agreed to be re-contacted by Kantar Public. Respondents were recruited by the Kantar Public specialist in-house recruitment team and contacted via telephone. Businesses were sampled to include a range of views on the significance and use of the NICs reliefs. See sample breakdown in Tables B.2 and B.3 below.

Table B.2 Stage 2 qualitative sample

Quota	Achieved
Interview method	
Face-to-face in-depth interviews	6

²⁶ Micro businesses were not included in stage 1

²⁷ As discussed in Section 2.2, overall participant engagement with the NICs reliefs was low. Due to initial issues with participant recall, we recruited an additional face-to-face paired depth to ensure issues with recall were not a result of the recruitment approach.

	Telephone in-depth interviews	20
Business Size		
	Micro (1-9 employees)	7
	Small (10-49 employees)	4
	Medium (50-249 employees)	7
	Large (250+ employees)	8
Reliefs claimed		
	U21 relief	10
	U25 apprentice relief	11
	Both reliefs	5
Total		26

Table B.3 Stage 2 qualitative sample – significance and use of reliefs

Quota	All / some used for specific purpose	Absorbed into general revenues	Total
Very / fairly significant	3	8	11
Not very / not at all significant	2	12	14
Don't know / refused	-	-	1
		Total	26