



National Insurance Contributions (Termination Awards and Sporting Testimonials) Bill

- The government is bringing the National Insurance Contributions (NICs) treatment of termination awards and sporting testimonials into closer alignment with the current income tax treatment. This will involve introducing a 13.8% Class 1A Employer NICs charge to income derived from a termination award (over £30,000) or sporting testimonial (over £100,000).
- This is an important simplification of the tax system that helps to more closely align the income tax and NICs treatment of termination awards and sporting testimonials.
- The changes were announced at Summer Budget 2015, consulted on over summer 2015, re-affirmed at Budget 2016 and draft legislation was published in December 2016.
- The income tax treatment was legislated for in Finance Acts 2016 and (No.2) 2017. At Budget 2018 it was confirmed that the measures included in this Bill that legislate for the corresponding NICs treatment of sporting testimonials and termination awards will take effect from 6 April 2020.
- Generous thresholds mean that only around 20% of termination awards and a very small number of sporting testimonials will be affected each year.

What is a Termination award?

1. A termination award is a payment received in connection with the termination of a person's employment. This Bill will affect any termination award that is paid voluntarily by the employer to the employee to cover the costs that finding a new job will incur. This Bill does not affect the NICs treatment of other types of termination award such as earnings, compensation payments or redundancy payments.

How is it taxed

2. Any part of a termination award exceeding a £30,000 threshold is currently subject to income tax but not NICs.

How is this changing?

3. This Bill will more closely align the NICs treatment of termination awards with the income tax treatment by introducing a **new Class 1A Employer NICs charge of 13.8% on any part of a termination award that is already income tax liable.**
4. This will deliver an important simplification of the UK tax system. Currently, the fact that termination awards are subject to different income tax and NICs treatments creates confusion.

5. These changes will also close a loophole in the tax system. The current misalignment incentivises well advised employers to disguise final payments as compensatory termination payments that benefit from a NICs exemption.
6. This change was originally announced at Budget 2016, and confirmed at Budget 2018.

How will this work in Practice?

7. From 6 April 2020, employers will need to report and pay class 1A NICs on liable termination awards made to their employees. They already pay income tax on these payments and so the process for paying NICs will be broadly similar.

What is a Sporting Testimonial?

8. Sporting testimonials are a practice where a club establishes a testimonial committee to organise a sporting event to honour a player for their service upon retirement. The primary purpose of a sporting testimonial is to support sportspeople who may not have had time to build up retirement savings before they stop playing.

How is it taxed

9. Sporting testimonials to which a player has a contractual or customary right have always been treated as earnings, and subject to income tax and NICs in full.
10. Non-contractual or non-customary sporting testimonials are subject to income tax, but only beyond a new £100,000 threshold. Any part of a non-contractual or non-customary testimonial payment that exceeds this threshold is treated as taxable income and the testimonial committee will need to deduct income tax under PAYE.

How is this changing?

11. Sporting testimonials to which a player has a contractual or customary right have always been treated as earnings, and subject to income tax and NICs in full. However, due to developments to the tax system, the correct tax treatment of income derived from non-contractual or non-customary sporting testimonials had become unclear and there was a risk of abuse.
12. Finance Act 2016 clarified the income tax treatment of non-contractual or non-customary sporting testimonials. This Bill will align the relevant NICs legislation to that of income tax by introducing a **new Class 1A Employer NICs charge of 13.8%** on any part of a non-contractual or non-customary testimonial payment that exceeds the £100,000 threshold or falls outside of the testimonial year.
13. This will affect a very small number of sporting testimonials. Around 220 sporting testimonials are held annually; a small number of these individuals may now pay NICs on some of the income from their sporting testimonial where this is in excess of the £100,000 exemption

How will this work in Practice?

14. From 6 April 2020, independent testimonial committees will need to report and pay class 1A NICs on liable sporting testimonials made to the relevant sportsperson. They already pay income tax on these payments and so the process for paying NICs will be broadly similar.