Zero-rate of secondary NICs for Freeport employees

Who is likely to be affected
Employers operating in a Freeport tax site who employ Freeport employees.

General description of the measure
This measure will introduce a secondary Class 1 National Insurance contributions (NICs) relief for eligible employers on the earnings of eligible employees working in a Freeport tax site.

In Great Britain (GB), this measure will provide those employers with physical premises in a Freeport tax site (Freeport employers) with a zero rate of secondary Class 1 NICs on the earnings of new employees who spend 60% or more of their working time within Freeport tax site. This rate can be applied on the earnings of all new hires up to £25,000 per annum from April 2022 for 36 months per employee.

In Northern Ireland (NI), this measure provides for the introduction of a secondary Class 1 NICs relief in NI Freeports and provides the Treasury with the power to legislate for the details of policy design through regulations at a later date.

For this reason, this TIIN focuses on the impact of this measure in GB Freeports. The government will consider any particular impacts of this policy in NI ahead of legislating for the details of ER NICs relief in NI Freeports.

Policy objective
This employer NICs relief is designed to reduce the cost of hiring employees in a Freeport tax site.

Background to the measure
On 10 February 2020 the government published a consultation on Freeport policy in respect of its plans to introduce at least ten Freeports across the United Kingdom following departure from the European Union. Freeports are intended to support the government’s policy of levelling up the towns, cities and regions of the United Kingdom and was a commitment in the 2019 Conservative Party manifesto. The government published a consultation response on 7 October 2020, which provided initial confirmation of the tax reliefs it intended to offer to encourage investment in Freeports. This was followed by a Freeport bidding prospectus on 16 November 2020, which included plans for the introduction of the tax reliefs to be offered.

At Spring Budget 2021 the Chancellor reaffirmed the government’s commitment to delivering NICs relief for Freeport employers for April 2022.

Detailed proposal
Operative date
This relief will be available to Freeport employers on the earnings of new Freeport employees from 6 April 2022. This measure will be legislated for in the National Insurance contributions Bill 2021 and will have effect from 6 April 2022 onwards.
The government intends to make this relief available for up to nine years from 6 April 2022. The use and effectiveness of the relief will be monitored and reviewed to allow a decision on whether to continue the relief beyond its earliest end date of 5 April 2026. All new eligible hires on or before 5 April 2026 will be eligible for this relief for their full eligibility period (up to 36 months), regardless of the government’s decision on whether to extend access to the relief for new claims beyond this date. Subject to the findings of the review, the government intends to extend this relief for new hires up to a future five years to its latest end date of 5 April 2031, after which point employers will no longer be able to access this relief, including for those employees partway through their eligibility period.

Current law

Section 6(1)(B) of the Social Security Contributions and Benefits Act 1992 (SSCBA 1992) creates a secondary Class 1 liability on earnings paid to an employee. Section 9 explains how this liability is calculated – a 13.8% employer contribution on earnings above the Secondary Threshold. Sections 9A and 9B describe scenarios where a 0% rate can be applied and introduced the Upper Secondary Threshold (UST).

Proposed revisions

This measure will be legislated for in the NICs Bill 2021. The provisions in that Bill are free-standing and provide for a zero rate of secondary Class 1 NICs up to a new UST to Freeport employers who employ eligible Freeport employees for up to 36 months.

Summary of impacts

Exchequer impact (£m)

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This measure is expected to decrease receipts. The final costing will be subject to scrutiny by the Office for Budget Responsibility and will be set out at a future fiscal event.

Economic impact

This measure is not expected to have any significant macroeconomic impacts.

Impact on individuals, households and families

This measure is expected to have a positive impact on employees who work in or live near a Freeport tax site as it makes them more attractive to employers. This measure introduces a secondary Class 1 National Insurance contributions (NICs) relief on the earnings of eligible employees working in a Freeport tax site. There is expected to be no impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that there will be direct impacts on groups sharing protected characteristics.

In order to ensure the relief is effectively targeted at supporting economic activity in Freeport areas, and to limit the risks of abuse, the proposed measure will include a condition that requires employees to spend at least 60% of their working time in the Freeport tax site. There is the potential for individuals who are unable to work in the Freeport tax site for a sustained period, because of a protected characteristic, to not meet this condition, and that their employers will therefore be unable to claim this relief. Equalities law prevents
employers from discriminating against those with protected characteristic, even if it means foregoing this relief. The government expects the vast majority of employers to comply with employment law in their treatment of individuals who cannot fulfil this condition. To support employers of employees with certain protected characteristics the government will make regulations specifying circumstances in which this condition is treated as met. This will facilitate exemptions for individuals who would otherwise be located in a Freeport tax site for at least 60% of their working time, were this not made impossible over a sustained period due to a protected characteristic. The clearest examples of this, which the government intends to lay regulations for, are disability, pregnancy and maternity.

Regarding equalities impacts in Northern Ireland in relation to the Northern Ireland Act 1998, these will depend on the detail of the policy design of NICs relief in Northern Ireland Freeports which will be defined in regulations at a later date. The government will consider equalities impacts specific to Northern Ireland ahead of making these regulations.

**Impact on business including civil society organisations**

We are not currently able to determine whether the impact on business’ administrative burdens will be significant, or how many businesses will be affected. The scale of the impact on businesses will be assessed as the policy develops and the size and locations of Freeports are confirmed. All civil society organisations and non-public sector organisation will be eligible.

This measure is expected to impact employers operating in a Freeport tax site by introducing a secondary Class 1 NICs relief on the earnings of eligible employees working in a Freeport tax site.

One-off costs will include employers familiarising themselves with a new set of eligibility criteria. Continuing costs could include assessments and record keeping.

This measure is expected to deliver ongoing benefits for businesses through the reduction of the cost of employment.

Customer experience is expected to remain broadly the same as this measure does not affect how businesses interact with HMRC.

**Operational impact (£m) (HMRC or other)**

This measure will require changes to HMRC IT systems to allow for a new NICs Category letter. Additional resource will also be required to support safe delivery. These costs in the region of £2 million.

**Other impacts**

Other impacts have been considered and none have been identified.

**Monitoring and evaluation**

This measure will be monitored through information collected from tax receipts and engagement with stakeholders. Freeports governance bodies will also need to monitor and evaluate business activity in each Freeport.
Further advice

If you have any questions about this change, please contact HMRC at: nics.correspondence@hmrc.gov.uk.

Declaration

The Rt Hon Jesse Norman MP, Financial Secretary to the Treasury has read this tax information and impact note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.