Zero-rate of secondary Class 1 contributions for armed forces veterans - Measure Number 8528

Who is likely to be affected
Employers who employ veterans.

General description of the measure
Secondary Class 1 National Insurance contributions (NICs) are paid by employers on the earnings of their employees above the Secondary Threshold. This measure provides employers of Her Majesty (HM) Armed Forces veterans with a 12-month NICs relief on earnings up to the Upper Secondary Threshold. This relief will be available for 12 months starting with the veteran’s first day of civilian employment after leaving HM Armed Forces and ending 12 months later. Subsequent and concurrent employers will be able to claim this relief during this period.

Policy objective
The government wants to support those who have served in HM Armed Forces in their transition to civilian life by helping veterans secure stable and fulfilling employment, and to encourage businesses to utilise the valuable skillset veterans have to offer.

The government intends to achieve this by reducing the cost of employing a veteran with a 12-month secondary Class 1 NICs relief. This will provide an added incentive for employers to hire more veterans and to benefit from the exceptional, and often unique, experiences and skills that a veteran can bring to the workplace.

Background to the measure
At Spring Budget 2020, the Chancellor confirmed that the government would honour the Conservative Party manifesto commitment to reduce employer NICs for every new employee who has left the HM Armed Forces and started a civilian employment.

The government held a policy consultation on this relief between 21 July 2020 and 5 October 2020. A response was published on 11 January 2021. This included an outline of the final policy design.

On 11 January 2021, the government also published draft clauses for a technical consultation. This consultation closed on 8 March 2021.

Detailed proposal
Operative date
Transitional arrangements will ensure that this relief is available to employers from April 2021. For the 2021-22 tax year, employers will need to verify the eligibility of veterans they employ and keep appropriate records. From April 2022, employers will be able to retrospectively claim the relief against eligible earnings over the 2021-22 tax year. From April
2022, employers will be able to claim this relief in real time by submitting Real Time Information (RTI) returns.


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. Section 9A and 9B describe scenarios where a 0% rate can be applied, and introduced an Upper Secondary Threshold.

There is no current legislation which provides a NICs relief to veterans or employers of veterans.

Proposed revisions

This measure will be legislated for in the NICs Bill 2021. The provisions in that Bill are freestanding and will provide for a 0% rate of secondary Class 1 NICs to employers of veterans for the first 12 months of the veteran’s civilian employment.

Summary of impacts

Exchequer impact (£m)

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These figures are set out in Table 2.2 of Budget 2021. More details can be found in the policy costings document published alongside Budget 2020.

Economic impact

This measure is not expected to have any significant macroeconomic impacts. The measure accounts for a behavioural response including take-up and employment impacts.

Impact on individuals, households and families

This measure is expected to have a positive impact on veterans by making them more attractive as employees through a 12-month employer secondary Class 1 NICs relief. This will reduce costs for employers who employ veterans as new employees. Customer experience is expected to remain broadly the same as this measure does not alter how veterans will interact with HMRC. This measure is not expected to impact on family formation, stability or breakdown.

Equalities impacts

It is not anticipated that there will be direct impacts on groups sharing protected characteristics. At an individual level, this policy does not directly discriminate on a basis that is directly linked to any protected characteristics: the HM Armed Forces is open to all individuals and, in respect of this relief, employers are required to comply with equalities law in the usual way.
However, the UK Armed Forces personnel (and veterans thereof) are disproportionately white (93%) and male (92%). In Northern Ireland, whilst there is no formal data, it is also generally acknowledged that Armed Forces personnel are disproportionately from protestant/unionist backgrounds. Therefore, individuals with these characteristics may disproportionately benefit from any increased employment opportunities that result from this policy.

Veterans face a number of challenges when they transition into civilian life. Securing civilian employment after a veteran has left HM Armed Forces is a key tenant of that transition. The government believes that the objective of this relief, to provide additional support for veterans, is therefore justified in this context.

**Impact on business including civil society organisations**

This measure will have a significant impact on around 10,000 employers who are estimated to be the main employers of recent veterans. In order to give employers access to this relief as early as possible, transitional arrangements are in place for employers to be eligible for this relief on the earnings of veterans from 6 April 2021. Employers will need to maintain records during the 2021 to 2022 tax year and claim this relief from April 2022. From April 2022 onwards, this relief can be claimed in real time. For those employers who are unable to update their software, they have the option to use the Basic Payroll Software through HMRC or they can manually contact HMRC to claim the relief.

One-off costs will include familiarisation with the legislative changes to determine eligibility. Continuing costs could include determining eligibility and claiming the relief.

In total, HMRC anticipates one-off costs across 10,000 employers to be negligible, and additional administrative burdens of around £0.1 million per annum. The costs are set out in the table below.

### Estimated one-off impact on administrative burden (£m)

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<th>One-off impact (£m)</th>
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<td>Costs</td>
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### Estimated continuing impact on administrative burden (£m)

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<th>Continuing average annual impact (£m)</th>
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<td>Costs</td>
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<td>Savings</td>
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<td>Net impact on annual administrative burden</td>
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This measure is not expected to impact civil society organisations.

Customer experience could be negatively impacted as the change requires additional tax administrative tasks to be completed. To support affected employers, we will ensure the
process to claim this relief fits within existing processes, provide clear and targeted guidance and ensure that this relief remains voluntary.

**Operational impact (£m) (HMRC or other)**
Changes will be required to HMRC’s Information Technology systems to support implementation of the veteran’s measure. Early high-level estimates suggest costs in the region of £1.5 million and these will be refined as delivery progresses.

**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. This measure has a sunset provision at which point the government will make a decision on extending this relief.

**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.