Exemption from Class 4 and Class 2 National Insurance contributions for COVID-19 Test and Trace Support Payments

Who is likely to be affected
Self-employed individuals who are liable to pay Class 4 and/or Class 2 National Insurance contributions (NICs).

General description of the measure
This measure exempts the following payments from Class 4 and Class 2 NICs:

- Test and Trace Support Payment in England
- Self-Isolation Support Grant in Scotland
- Self-Isolation Support Payment in Wales

The schemes are designed to help people on low incomes who have been asked to self-isolate by the relevant authority (depending on where in Great Britain they are and the eligibility criteria of the relevant scheme), cannot work from home and will suffer financial consequences as a result. Individuals who qualify for assistance will receive a lump sum payment of £500 for the duration of their self-isolation. The payment aims to provide additional financial support to those on low incomes so they can self-isolate and help stop the spread of COVID-19.

Policy objective
While the schemes are funded by the UK government and the respective devolved administrations, they are administered by Local Authorities. Payments made under the schemes to employed people are earnings and liable to employee and employer Class 1 NICs. This means that Local Authorities would have to account for and potentially deduct the value of employee NICs from any payments made. Additionally, the employer would have to deduct Class 1 (employer) NICs on the gross value of the payment received by their employees under the schemes. This would result in administrative and cost burdens on Local Authorities and on employers.

In October 2020, the government introduced secondary legislation to ensure that payments under the English scheme are not subject to Class 1 (employee and employer) and Class 1A (employer) NICs to prevent these administrative costs arising. Further regulations came into force in January 2021 to exempt payments under the Scottish and Welsh schemes.

Payments made under the schemes are also classed as trading income in respect of the self-employed and liable to Class 4 and 2 NICs. This measure is being introduced to ensure equal treatment for the self-employed by exempting payments from Class 4 and 2 NICs.

Background to the measure
The Class 1 and (employer only) Class 1A NICs exemption was introduced as a consequence of payments made under both schemes. The law previously saw these
payments as earnings derived from employment and therefore subject to Class 1 NICs. The Class 1 and Class 1A exemption removed the need for employers or local authorities to report and deduct NICs on these payments.

The Class 4 and Class 2 NICs exemption is being introduced to ensure equal treatment for the self-employed. The law currently sees these payments as trading income in respect of the self-employed and therefore subject to Class 4 and Class 2 NICs. This measure sets out that these payments will not apply in computing profits liable to Class 4 and Class 2 NICs.

Like the Class 1 and Class 1A exemption, this measure has been prepared to support the implementation of the schemes. As they are urgent government responses to the COVID-19 outbreak, there has been no time to consult widely on the proposals.

**Detailed proposal**

**Operative date**

The measure is formally retrospective for the tax year 2020-21. This is when the English, Welsh and Scottish schemes were implemented.

**Current law**

There is currently no Class 4 or Class 2 NICs exemption for these payments, which generally fall to be taxed as trading income in respect of the self-employed under Chapter 2 of Part 2 of Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005).

Under section 15 of the Social Security Contributions and Benefits Act 1992 (SSCBA 92), Class 4 NICs are payable on all profits which are:

- immediately derived from carrying on or exercising one or more trades, professions or vocations
- profits chargeable to income tax under Chapter 2 of Part 2 of ITTOIA 2005; and
- not profits of a trade, profession or vocation carried on wholly outside the UK.

Under section 11 SSCBA 92, every self-employed earner who has reached age 16, has not reached State Pension age, has relevant profits at or above the Small Profits Threshold and satisfies the prescribed conditions of residence or presence in the UK is required to pay Class 2 NICs. “Relevant profits” are defined as profits in respect of which Class 4 NICs are payable under section 15 for the relevant tax year.

**Proposed revisions**

It is intended that primary legislation will be introduced to exempt COVID-19 Test and Trace Support Payments from Class 4 and Class 2 NICs. The schemes to be exempt are Test and Trace Support Payment in England, Self-Isolation Support Grant in Scotland and the Self-Isolation Support Payment in Wales. The exemption will apply to payments made from the start of the 2020-21 tax year and for subsequent tax years.

**Summary of impacts**

**Exchequer impact (£m)**

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 to 2021</td>
<td></td>
</tr>
<tr>
<td>2021 to 2022</td>
<td></td>
</tr>
<tr>
<td>2022 to 2023</td>
<td></td>
</tr>
<tr>
<td>2023 to 2024</td>
<td></td>
</tr>
<tr>
<td>2024 to 2025</td>
<td></td>
</tr>
<tr>
<td>2025 to 2026</td>
<td></td>
</tr>
</tbody>
</table>
This measure is not expected to have an Exchequer impact.

**Economic impact**
This measure is not expected to have any significant economic impacts.

**Impact on individuals, households and families**
This measure is expected to have a positive impact on individuals who have tested positive for COVID-19 or have been in contact with someone who has. From 28 September in England, 12 October in Scotland and 23 October in Wales, individuals eligible for these payments receive £500 for the duration of self-isolation. Self-employed individuals are also eligible for this payment. This measure is expected to have a positive impact on these individuals who receive payments under the schemes by removing the requirement to pay Class 4 and 2 NICs.

Customer experience is expected to remain broadly the same as it does not change how individuals interact with HMRC.

The measure is not expected to impact on family formation, stability or breakdown.

**Equalities impacts**
The measure is expected to have a positive impact on the individuals who receive payments under the schemes and for wider society generally. Individuals who qualify for payments will be incentivised to observe their period of self-isolation. This observance will, in turn, support the UK, Scottish and Welsh governments’ efforts to reduce the infection rates for the communities where they live and work.

It is not anticipated that there will be impacts on any particular protected characteristic group.

**Impact on business including civil society organisations**
This measure is not expected to have an impact on businesses and civil society organisations as it only affects eligible individuals who have tested positive for COVID-19 or have been in contact with someone who has.

**Operational impact (£m) (HMRC or other)**
The measure is expected to have negligible impact on HMRC operations.

**Other impacts**
Other impacts have been considered and none have been identified.

**Monitoring and evaluation**
The measure will be kept under review through communication with affected taxpayer groups.

**Further advice**
If you have any questions about this change, please contact 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.