



## The Regional Employer NI Holiday

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In its first Budget in June 2010 the Coalition Government announced a three year regional National Insurance contributions (NICs) 'holiday' for new employers. New businesses would be entitled to deduct up to £5,000 from their employer NICs bill, for each of the first ten employees they took on in their first year of business. New businesses in Greater London, the South East Region and the Eastern Region were excluded from the scheme. The NI Holiday lasted from 22 June 2010 to 5 September 2013.<sup>1</sup>

Initially the Government forecast that the NI Holiday would cost £940m in total over its three year lifespan.<sup>2</sup> It was estimated that 400,000 new businesses would benefit from the scheme, and the average benefit per business would be about £2,000.<sup>3</sup> At the time some commentators raised doubts about whether the scheme might be too small financially and too complex administratively to be this successful. Statutory provision for the scheme was made in the *National Insurance Contributions Act 2011*. During the Bill's scrutiny, many Members raised the fact that the scheme would be geographically restricted, though the Government opposed extending the scheme on a UK-wide basis, on the grounds that the policy was designed to support new businesses in parts of the country that were most reliant on the public sector. HMRC have published statistics on the take-up of the NI Holiday up to December 2012. Over this period there have been 20,365 successful applications to join the scheme. In 2010/11 and 2011/12, NI rebates worth a total of £37m were paid.<sup>4</sup>

During its operation the Government did not consult on extending the life of the NI Holiday. However, in the 2013 Budget the Chancellor announced a new 'Employment Allowance': from April 2014 all businesses and charities would be eligible to reclaim up to £2,000 from their employer NICs bill. The cost of the allowance is projected to be £1.26 billion in 2014/15, rising to £1.73 billion by 2017/18.<sup>5</sup> Primary legislation to give effect to the new scheme was published in October 2013 and is before the House at present.<sup>6</sup>

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<sup>1</sup> Details on the rules of the scheme are collated on [HM Revenue & Customs site](#).

<sup>2</sup> *Budget 2010*, HC 61 June 2010 p40 (Table 2.1 – item 10)

<sup>3</sup> HMRC, *Impact Assessment of the Regional Employer National Insurance Contributions Holiday for New Businesses*, September 2010 p1

<sup>4</sup> HMRC, *Regional Employers National Insurance Contributions (NICs) Holiday for New Businesses Factsheet*, March 2013 (Tables 1.1, 2.3 & 3.3)

<sup>5</sup> HC Deb 20 March 2013 c944; *Budget 2013*, HC 1033, March 2013 p43, p64 (Table 2.1 – item 25)

<sup>6</sup> For more details see, *National Insurance Contributions Bill 2013-14*, Library Research paper 13/60, 1 November 2013

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## 1 The June 2010 Budget

Following the 2010 General Election and the establishment of the Coalition Government, the Chancellor, George Osborne, presented the Government's first Budget on 23 June 2010. In his speech, Mr Osborne announced a regional employer NICs holiday for new businesses, as one of a series of measures to rebalance the economy, and promote job creation "in all parts of the country, including Wales and Scotland":

We will shortly announce a new tax scheme to help create new businesses in those regions where the private sector is not nearly strong enough. For the next three years, anyone who sets up a new business outside London, the south-east and the eastern region will be exempt from up to £5,000 of employer national insurance payments for each of the first 10 employees hired. We aim to have the scheme up and running by September, but any qualifying new business set up from today will also receive help. The Treasury estimates that some 400,000 new businesses will benefit, ensuring all parts of our country contribute to a more balanced and sustainable economic future.<sup>7</sup>

Details of the scheme were given in the Budget report, which estimated that it would cost £940m in total over its three year lifespan:

The Government's strategy to support private sector enterprise in all parts of the UK aims:

- to encourage the creation of private sector jobs in regions reliant on public sector employment, through reducing the cost to new businesses of employing staff. **The Government will shortly announce details of a scheme to help new businesses in targeted areas of the UK that need it most. During a three year qualifying period, new businesses which start up in these areas will get a substantial reduction in their employer National Insurance Contributions (NICs).**

Within the qualifying period, these employers will not have to pay the first £5,000 of Class 1 employer NICs due in the first twelve months of employment. This will apply for each of the first 10 employees hired in the first year of business and operate in selected countries and regions.<sup>8</sup> Subject to meeting **the necessary legal requirements, the scheme is intended to start no later than September 2010. Any new business set up from 22 June**

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<sup>7</sup> HC Deb 22 June 2010 cc176-7

<sup>8</sup> The measure would apply in Scotland, Northern Ireland and Wales, and the following English regions: the North West, North East, Yorkshire and Humber, West Midlands, East Midlands and South West.

**2010 which meets the criteria set out in the forthcoming announcement will benefit from the scheme.<sup>9</sup>**

Alongside the Budget report the Government published details of how it had arrived at producing cost/yield estimates for its Budget measures. The process involves making a 'static costing' – the difference between applying the pre-Budget and Budget tax or benefit regimes to the relevant post-Budget base data – before estimating the direct behavioural effects of the change. This is the way in which individuals and businesses change their actions as a result of a policy change, and may involved changes to related taxes or benefits. In the case of the NI Holiday, the static Exchequer impact was estimated to be £900m. The department noted that it was 'difficult to quantify' the behavioural impact of the policy, but put it at an extra cost of £40m over the life of the scheme, bringing the total cost to £940m.<sup>10</sup>

Initial reactions to the Budget focused on other aspects of the Chancellor's speech, although the potential impact of the scheme was discussed when the Treasury Committee took evidence on the Budget. Alan Clarke at BNP Paribas observed that if successful, the scheme was a "good idea" while John Whiting at the Chartered Institute of Taxation commented it was a "worthwhile experiment"; by contrast Robert Chote at the IFS suggested it might be "a little too complicated to offer the best value for money."<sup>11</sup> At its next evidence session the Committee asked Edward Troup - Managing Director of Budget, Tax and Welfare at HM Treasury - whether the Holiday would be too complex to offer best value for money:

**Q135 ... Mr Troup:** ... Inevitably any measure which attempts to target has a degree of complexity about it. Although we have not published the details of these they are going to be designed in a light-touch way, it is going to be fairly straightforward, effectively self-certification, and it is going to operate quite simply by new businesses not having to pay the NICs for their first 10 employees for the first year. It is not as straightforward as a simple NICs cut but I think it will work quite smoothly.

**Q136 Chair [Andrew Tyrie]:** Do you think it is going to have any supply side impact?

**Mr Troup:** What is clear and if you look at what is said in the Budget is that it is going to encourage new businesses. It is £5,000. Talking in the billions that we normally talk about here it is easy to regard anything less than a few million as insignificant but for small new businesses it is a significant amount of money. We do hear from businesses going from the stage of being the self-employed individual to taking on employees that the burden of PAYE and NICs is a significant threshold, so we do expect businesses to be encouraged and respond.

**Q137 Chair:** Is this more than a gesture then?

**Mr Troup:** Definitely so ... I am not quite sure what the word "gesture" means. It is certainly something which gives effect to a commitment made in the coalition agreement and in the manifesto and it will benefit 400,000 businesses and about 800,000 employees ...

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<sup>9</sup> HC 61, June 2010 p30. The cost was projected to be £50 in 2010/11, £320m in 2011/12, £390m in 2012/13, and £180m in 2013/14 (Table 2.1 : item 10).

<sup>10</sup> *Budget 2010 policy costings*, June 2010 pp 21-22

<sup>11</sup> Treasury Committee, *First report: The June 2010 Budget*, 20 July 2010, HC 350 2010-11 Ev17-18

**Q140 Chair:** For those of us who have been on the circuit a while it sounds like another case of triumph of hope over experience if I may say so.

**Mr Troup:** I look forward to sitting here in a year or two's time and seeing how it has gone.<sup>12</sup>

## 2 Debate over the potential impact of the NI Holiday

### 2.1 Formal launch of scheme

On 27 August 2010 HM Revenue & Customs published further details, as well as draft legislation, in a technical note, which gave an overview of the NI Holiday:

The Regional Employer National Insurance contributions Holiday for New Businesses (the Holiday) ... will last from the date of the Emergency Budget on 22 June 2010 until 5 September 2013 ...

New businesses will be able to make National Insurance contributions (NICs) savings under the Holiday from earnings paid to employees on or after 6 September 2010. The Holiday will operate by allowing a deduction against the amount of Class 1 NICs that an employer is required to pay to HMRC each month or each quarter. With two main modifications, new businesses that were started between 22 June 2010 (the date of the Chancellor's Emergency Budget) and the 5 September 2010 will benefit to the same extent as a new businesses started on or after 6 September 2010 provided they satisfy the eligibility tests.

For the first ten qualifying employees that a new business employs in its first year of business, following start up, it will be entitled to an individual Holiday for each of those employees. The Holiday period for each employee will last for the shorter of the employee's first year of employment or the time left until the Holiday scheme ends on 5 September 2013.

The Holiday will apply to all relevant earnings paid to a qualifying employee during the first year of the employee's employment but there will be a maximum saving of £5,000 in employer NICs in respect of each employee. The Holiday will be administered as a de minimis State Aid. New businesses wishing to enjoy a Holiday will need to make an application to HMRC when they engage their first employee ...

The Holiday will be entirely voluntary and will enable qualifying new businesses that choose to participate to reduce the amount of secondary (employer) NICs liability that they would otherwise have to pay over to HMRC. If a new business does not wish to participate in the Holiday scheme it will be required to meet its employer NICs liabilities in full in the same way as any other employer.<sup>13</sup>

The note also gave more details of exactly which regions across the UK would be *excluded* from the scheme:

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<sup>12</sup> HC 350 2010-11 Ev20-21

<sup>13</sup> HMRC, *Regional employer National Insurance contributions Holiday for New Businesses - Technical Note, Draft Legislation and Explanatory Notes*, 27 August 2010 pp4-5.

The Holiday is not available to new businesses where the principal place at which the new business is carried on when it starts is in the excluded regions.

The three excluded regions are:

- **Greater London**

- **The Eastern Region** comprising:

(a) The counties of Bedford, Cambridgeshire, Central Bedfordshire, Essex, Hertfordshire, Norfolk and Suffolk.

(b) The non-metropolitan districts of Luton, Peterborough, Southend-on-Sea and Thurrock.

- **The South East Region** comprising:

(a) The counties of Buckinghamshire, East Sussex, Hampshire, the Isle of Wight, Kent, Oxfordshire, Surrey and West Sussex.

(b) The non-metropolitan districts of Bracknell Forest, Brighton and Hove, Medway, Milton Keynes, Portsmouth, Reading, Slough, Southampton, West Berkshire, Windsor and Maidenhead and Wokingham.

The decision to exclude certain areas of the UK from the scope of the NI Holiday proved to be quite controversial.<sup>14</sup> In its impact assessment of the Holiday, the Treasury noted that the choice of eligible regions had been based “on those that have the greatest reliance on public sector employment. ONS statistics show that the average of public sector employment in London, the South East and East is lower than all other UK regions and that labour productivity is also higher in these regions based on the most recent data.<sup>15</sup>” It went on to explain that a *nationwide* scheme had been considered and that this “would make around 300,000 extra new businesses eligible each year and increase the cost of the policy by around £600m.” However, “to ensure affordability and to meet the Governments goal of assisting private sector enterprise in regions most reliant on the public sector, this option is not favoured.” The decision to set a £5,000 cap on the maximum benefit per employee had been made to “to limit the incentive for abuse of the scheme and to control the cost of the policy. The cap level will only impact where a business engages new employees who earn more than £45,000 in a year, and the number of employees to whom this will apply is expected to be relatively small.”<sup>16</sup>

The Holiday was launched on 6 September 2010.<sup>17</sup> To operate the scheme the department has exercised its general statutory powers for the “collection and management” of revenue<sup>18</sup> – as the launch date was some weeks before the legislation for the scheme – the *National Insurance Contributions Bill 2010-11* – was presented to Parliament, on 14 October. The explanatory notes to the Bill gave an explanation of this decision:

The Commissioners [of HMRC] have satisfied themselves that this is an arrangement which will cost less (thus increasing net yield) than collecting employer NICs until Royal Assent of the Bill and then refunding them.

This is on the basis that:

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<sup>14</sup> For example, Gavin Shaker MP put down an EDM critical that the scheme excluded the Greater South East area (EDM 537 of 2010-11, 19 July 2010), and the Federation of Small Businesses argued the scheme should be UK-wide and include existing businesses (FSB press notice PR 2010/38, *Business confidence still fragile for small businesses, say FSB*, 20 July 2010).

<sup>15</sup> ONS ([http://www.statistics.gov.uk/downloads/theme\\_compendia/RegionalSnapshot/directory.pdf](http://www.statistics.gov.uk/downloads/theme_compendia/RegionalSnapshot/directory.pdf))

<sup>16</sup> HM Revenue & Customs, *Impact Assessment of the Regional Employer National Insurance Contributions Holiday for New Businesses*, 23 September 2010 p4

<sup>17</sup> HC Deb 6 September 2010 c1WS; HM Treasury press notice 40/10, 6 September 2010

<sup>18</sup> under sections 5 and 9 of the *Commissioners for Revenue and Customs Act 2005*

- Ministers made a statement of what the scheme entailed, specified which people could expect to benefit from the scheme, and stated the intention to legislate with retrospective effect back to the implementation date; and
- HMRC published draft provisions to accompany the statement.

The Budget notes included a statement that made it clear to those taking up the Holiday in advance of Royal Assent that it was subject to the successful passage of the legislation and that, if the Bill was not passed or the legislation relating to the Holiday was substantially altered, they would have to pay to HMRC any employer NICs withheld by 19 April 2011.<sup>19</sup>

Following the launch some commentators questioned whether the Holiday would be as effective as the Government hoped. In a piece on the TUC 'Touchstone' blog, Richard Exell suggested that the scheme had had insufficient publicity, and was likely to cover employees who would have been recruited anyway, a phenomenon known as 'deadweight':

With the abolition of the Future Jobs Fund and unemployment likely to start rising again soon we need all the positive employment measures available, and the NIC holiday will do some good. Unfortunately, I find it hard to believe it'll create 60,000 jobs or be taken up by 400,000 businesses ... It might be argued that the new scheme is going to be more effective because it isn't restricted to long-term unemployed people. Provided it's adequately advertised (which hasn't happened so far) more employers might get to hear about it this time. But reaching and influencing employers is much more difficult than the new government seems to imagine and this scheme will inevitably have a good deal of deadweight – a lot of the businesses that claim the holiday would have been recruiting in any case.<sup>20</sup>

Mr Exell also mentioned the limited success of an NI holiday scheme which operated in the late 1990s. Under the scheme, which was launched in April 1996, employers were able to claim a full National Insurance rebate on employer contributions for up to a year after taking on someone who had been unemployed for two years or more. It was originally expected that 130,000 people a year would be helped by the scheme but take-up was much lower than expected. Expenditure was rapidly reduced before the scheme was closed down completely from April 1999 except for holidays that were already in place.

In a survey of employers' attitudes to the scheme published by the Department for Social Security in 1998,<sup>21</sup> the author found that awareness of the HI holiday scheme was low. For those who knew of its existence, the tax benefit did not compensate for a number of disadvantages: such as the logistical problems of making a claim for the NI rebate, the strict eligibility requirements, and the difficulty of finding suitable recruits among the long-term unemployed:

This research found that responses to the scheme were very positive overall, and there was a strong feeling among employers that it was worth the effort to apply for the NIC Holiday if they recruited an eligible employee. The NIC Holiday encouraged employers to invite long-term applicants to job interviews when they might otherwise have been omitted from the recruitment process, and, for some employers, it tipped the balance in

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<sup>19</sup> *National Insurance Contributions Bill : Explanatory Notes Bill 79-EN*, October 2010 p4

<sup>20</sup> "National Insurance Contributions 'holiday' starts", *Touchstone blog*, 6 September 2010

<sup>21</sup> Dawn Snape, *Recruiting Long-Term Unemployed People : Department of Social Security Research Report No. 76*, 1998 p.ix

favour of the unemployed person (but only if the unemployed candidate was otherwise suitable for the job, in terms of skills, qualifications and experience).

Employers disagreed, however, with the idea of recruiting long-term unemployed people in order to claim the NIC Holiday – they felt that the NIC Holiday savings would not override the fact that they were not getting someone who was right for the job. For employers, the NIC Holiday appeared to be a bonus for recruiting a long-term unemployed person, rather than an incentive for so doing.

Employers also offered suggestions that they felt could improve the operation of the NIC Holiday. These included a sliding scale of NIC Holidays based on the length of the person's period of unemployment, reducing the two-year unemployment requirement to between six and 18 months, and making the scheme automatic for an employer who has recruited a long-term unemployed person rather than the employer having to apply for the Holiday.

Employers also suggested a number of new features, apart from the NIC Holiday, to make the recruitment of long-term unemployed people more attractive and involve less risk to them. The first was a 'work trial' period, so that the employer could get a better idea of what the potential employee is like in the job, and the second was to give long-term unemployed recruits customised training to raise their skills, rather than employers reducing their standards. In addition to these ideas, employers also suggested greater financial assistance, measures to help them tap into pools of long-term unemployed jobseekers, and improving the recruitment-related skills of long-term unemployed people.

Despite this favourable attitude, however, there was felt to be a lack of awareness of the NIC Holiday among large proportions of employers. Even when employers were aware of it, the information was often not shared with the relevant staff; for example, payroll staff may have heard of the NIC Holiday but not told the staff involved in recruitment. In addition, employers lacked a clear understanding of how the scheme operated, which precluded some from taking part. Thus employers also suggested increased and more effective marketing of the scheme, which would highlight its benefits and make it clear that participation is 'hassle-free'.<sup>22</sup>

David Heaton, deputy chairman of the Institute of Chartered Accountants' Tax Faculty, suggested that "some of the lessons" from the old NI scheme had been learned, but he remained doubtful that the new NI Holiday would be a success:

Under the new NIC holiday, the recruits need not be from among the long-term unemployed, who were sometimes in that position precisely because they would not ordinarily have the skills and attitudes that employers needed, so that is one hindrance removed. The new scheme is also unlikely to appeal to large businesses, as it is limited to the first 10 recruits in a new business, although it is not clear what will in fact count as a 'new' business, and large employers might be able to find a way to qualify for some of their business units by spinning them off. Anti-avoidance rules in this area are inevitable.

The savings have a headline cap of £50,000 spread over 10 employees at £5,000 each. £5,000 represents earnings of about £45,000 at current not contracted out rates, and about £43,000 next year, so it has to be questioned how many new businesses will be paying all of their first 10 recruits anywhere near the figures quoted (except

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<sup>22</sup> John Atkinson (Institute for Employment Studies), *Employer Perspectives on the Recruitment, Retention and Advancement of Low-pay, Low-status Employees*, Prime Minister's Strategy Unit, July 2003 pp 49-50

perhaps the spin-out businesses suggested above). Will it really be worthwhile to jump through all the inevitable hoops? Is that desirable or sensible? ...

The 'new' NIC holiday will clearly differ from the 'old' one, so my pessimism might be totally misplaced (I hope that is the case), but even if the idea is neat and simple in concept, it is unlikely ever to be worth £50,000 to any business. Once we factor in the inevitable pages of legislative paranoia that will accompany the new relief to ensure that it is not abused by employers, and the form-filling and double-checking that the qualification and audit criteria entail, and the internal cost at HMRC to publicise, manage and police the scheme, we may see the new going the same way as the old, maybe even to a similar timescale. Waking the dead is rarely a fruitful exercise.<sup>23</sup>

## **2.2 The National Insurance Contributions Act 2011**

As noted above, legislation to implement the scheme – as well as to increase the rates of NICs by 1% from April 2011 – was published in October 2010. Many Members raised questions about the scope of the NI Holiday, when the Bill was given a second reading in the House: such as whether it should not extend to the south-east, whether it should not cover existing micro businesses, and whether it should not apply to deprived areas within the excluded areas. The Exchequer Secretary, David Gauke, responded to these concerns by saying:

At a time when we cannot rely on massive public spending, and when the public sector will have to find economies, it is perfectly reasonable that we have adopted the approach of focusing on areas where there is high dependence on the public sector ... The focus of the policy has always been on start-up businesses. It is an attempt to encourage new businesses to be set up, given where we are in the economic cycle and the need to encourage private sector growth ... If we were to choose precisely where the policy applied on a much more closely defined geographical basis, we would have difficulties such as distortive behaviour, problems in enforcing the policy, the bureaucracy that may be involved, the need to establish where a company's principal place of business was, and the difficulty of policing the scheme. Also, labour markets tend to be somewhat larger than constituency or even local authority areas.<sup>24</sup>

The Minister went on to note that extending the scheme across the UK would increase its cost "by around 70% - in other words, £600 million over the course of three years." He also explained that to date HM Revenue & Customs had received around 1,000 applications from new businesses to join the scheme "but we expect more as awareness of the policy becomes greater and as businesses contact their professional advisers."<sup>25</sup>

Speaking for the Opposition on this occasion, David Hanson welcomed the principle of the NI holiday, but argued that it was not "being proposed fairly, honestly or openly" as it would not "help the poorest and most deprived areas of the UK, which in great part are excluded from the scheme":

The question that the Minister needs to reflect on, here or in Committee, is how we should split the national insurance holiday cake. There are many ways of doing that,

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<sup>23</sup> "Editorial: Waking the dead", *JCAEW TAXline*, August 2010 p5

<sup>24</sup> HC Deb 23 November 2010 c195

<sup>25</sup> HC Deb 23 November 2010 c196, c197. In answer to a PQ at this time the Minister broke down the £600 million estimate between: Greater London £250 million, the South East £250 million, and the East of England £160m (HC Deb 22 November 2010 c86W).

but his way is unfair to the areas of greatest need, to the areas with the highest public sector employment, and to areas that contain seas of prosperity as well as deprivation .... we will take every opportunity in Committee to try to persuade the Minister to look at more imaginative schemes, which might use the same amount of money in different ways, or extend the holiday to areas where it would be a valued resource and help reduce unemployment in the constituencies in the south-east, London and the east that most need that.<sup>26</sup>

The scope of the NI Holiday and its potential impact was explored in some detail when the Public Bill Committee held an evidence session on 2 December, at the beginning of the Bill's Committee stage.<sup>27</sup> On this occasion Members took evidence from the British Chambers of Commerce (BCC), the Federation of Small Business (FSB), the chief executive of Wenta (an enterprise agency), officials from the Treasury & HMRC, as well as the Exchequer Secretary David Gauke.

The Holiday was welcomed by both Steve Hughes, economic adviser at the BCC, and Priyen Patel, a policy adviser at the FSB. "For the time we are in, and with the fiscal constraints that the Treasury are working under, we think the Bill is very good. The principle of the idea is very good", said Mr Patel – to which Mr Hughes said, "there is not much to add to that."<sup>28</sup> On the geographical scope of the Holiday Mr Patel suggested that extending it UK-wide "would obviously be very beneficial ... in a perfect world", while Mr Hughes emphasised the cost of doing so, in the light of which "it seems natural that if any areas were to be excluded it would be [the ones chosen by the Government]."<sup>29</sup>

Both witnesses suggested that it would be hard to say whether the Holiday by itself would boost employment. Mr Patel cited a survey of FSB members before the election in which "60% said that a cut in employee costs would incentivise them to take on employees. However, it is important to remember that businesses will not employ someone for the sake of it; there has to be that demand [from its customers]."<sup>30</sup> The question of targeting the scheme to areas of deprivation was raised, and Mr Hughes argued this would be counterproductive: "the straightforward nature of the scheme in the regions where it exists far outweighs the complexity of implementing it at a very targeted sub-regional level."<sup>31</sup> Chris Pichion, chief executive of Wenta, raised doubts about the impact of the Holiday, suggesting businesses would find the bureaucracy of making a claim a "turn-off", but on the grounds of equity argued that "if you are going to run such a scheme, it should apply across the country; you either do it as a whole or not at all."<sup>32</sup>

The Exchequer Secretary reiterated the Government's case for restricting the Holiday to the regions: "as we accept the principle of regional policy, and we also accept that resources are constrained, we have taken the view that we should target the scheme at those regions excluding the three [specified in the Bill]." When challenged by David Hanson about the exclusion of London, Mr Gauke said:

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<sup>26</sup> HC Deb 23 November 2010 c198, c200, c202, c205

<sup>27</sup> Further detail on the Committee stage of the Bill is given in a Library Research paper (10/83, 14 December 2010), as a complement to the paper prepared for the Bill's second reading (10/76, 17 November 2010).

<sup>28</sup> PBC 2 December 2010 c3

<sup>29</sup> *op.cit.* c4

<sup>30</sup> *op.cit.* c9

<sup>31</sup> *op.cit.* c17

<sup>32</sup> *op.cit.* c19

If we were to include London within the scheme, it might help start-up businesses as a whole, but I am not sure that that is the most effective way to deal with such pockets of deprivation in London. I think that there may be other ways of doing that, whether that be through the regional growth fund or welfare reform, which are more likely to be effective in tackling deprivation in London.<sup>33</sup>

The Minister was also asked about whether the Holiday would boost employment, and he suggested that it would be “quite difficult” to make an assessment of the behavioural impact of the scheme at this point: “A common-sense approach would suggest that it will have an impact, but, of course, what we are looking at here is bringing through a dynamic impact of a tax cut. There is always a degree of uncertainty about that, so we have been relatively cautious.”<sup>34</sup> Stella Creasy asked a series of questions on the Bill’s impact assessment which had estimated the ‘behavioural impact’ of the new tax relief would add £40m to its total cost; to Ms Creasy this suggested the scheme would be subject to a considerable amount of dead weight.<sup>35</sup> David Owen, head of national insurance policy at HM Treasury, explained that this estimate referred to the scheme distorting incentives, resulting in “people taking up the scheme who were not really intended to do so” – rather than the scheme resulting in employers taking on more employees. The point was clarified in a memorandum the department submitted after the evidence session:

The type of effects which are classified as direct behavioural effects include (i) business fragmentation, for example new businesses with many staff setting up as multiple separate entities in order to avoid being affected by the limit of ten employees; (ii) existing businesses closing down and starting up again in order to qualify as new; (iii) businesses choosing to locate in targeted areas where they would not otherwise have done so. Our assessment is that our compliance plans, together with the limited duration of the holiday, will limit such effects. However, we cannot guarantee there will be no such effects. The scale of potential losses is hard to quantify, but our working assumption, which was scrutinised and certified by the Office for Budgetary Responsibility, was to allow for around £40m of costs associated with direct behavioural effects over the holiday period.

Additionally, there are indirect behavioural and dynamic effects. These include businesses setting up which would not otherwise have done so, or employing people where, bearing in mind supply and demand for labour, such jobs would not otherwise have been created. They also include effects from improved rates of business survival. Such effects are likely to be beneficial to the Exchequer overall, through an increase in tax revenues, even though such an increase will not include the employer National Insurance Contributions that would have been due in the absence of the holiday.<sup>36</sup>

Several Members raised concerns about the administration of the scheme, and its take-up.. In response Sam Mitha, assistant director at HM Revenue & Customs, made two interesting points: first, the application process for businesses was relatively simple as it had been designed in the light of the operation of the NI holiday scheme which operated in the period 1996 to 1999, mentioned in the previous section of this note:

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<sup>33</sup> *op.cit.* c33

<sup>34</sup> PBC 2 December 2010 cc 30-31

<sup>35</sup> *op.cit.* cc41-43 (Qs 139-148)

<sup>36</sup> Public Bill Committee, *National Insurance Contributions Bill Written Evidence NI 07: Additional evidence from HM Treasury*, 9 December 2010 para 3-5

Obviously, when the new Government came in and said that they wanted to introduce the NICs holiday, we looked very closely at the past experience of running a holiday. The present NICs holiday is quite different from the original scheme, which was confined to people who had been unemployed. It included a number of features which are obviously not replicated in the present arrangements, because they had had an impact on people's individual national insurance liabilities. ... .. in terms of simplicity, the new scheme is a completely different kettle of fish from the [earlier] scheme ... which ... had an unhappy record ...

We have a system whereby new businesses that want to take advantage of the holiday are invited to send in an online application form unless they are in receipt of state aid, in which case they need to fill in a manual application form. The application form simply requires them to provide some basic information such as their reference numbers, the name of the business, the date the business started, the business address, the postcode and the region or country in which the business is located, and to certify that they have read the guidance on Business Link.

The significance of asking for this information is that it enables us to tell very quickly whether the business qualifies. So, for example, if the business started before 22 June—the date of the emergency Budget—we could immediately notify them that they are not eligible. The intention is then to operate what we call a “process now, check later” system. We notify them as quickly as possible that they are eligible for the holiday, and that they can legitimately start withholding payment of NICs if they are eligible. More fundamentally, it gives them an incentive straight away in terms of their disbursements. One of the things that we took into account in the design of the scheme was that the lifeline for small businesses is cash flow.<sup>37</sup>

Members also raised concerns that only 1,100 businesses had made an application so far, even though the department had forecast that 400,000 businesses would do so over the Holiday's three year life. In response Mr Mitha said that this was not surprising, given the general experience of any new business:

To be absolutely honest, we had always worked on the assumption that we would not get very many applications to begin with, because anybody setting up a new business is obviously going to be focused on keeping their head above water and on their business. There is a cycle to how new businesses approach HMRC. They need to approach HMRC to set up their pay-as-you-earn schemes if they are planning to take on employees. They need to find out what their record-keeping obligations are. But the majority of small businesses rely on their professional advisers for information about what they need to do and when they need to do it ...

I reckon we will get a large number of applications when people come to make remittances, because employers have to make remittances on the pay-as-you-earn that they have deducted from payments to employees. At that time, their professional advisers will probably tell them that they need to make an application if they want to withhold part of the payment. Similarly, when they come to do their annual accounts they will be told that they need to think about the fact they are entitled to this relief. But that is not to say that they will not already have factored it into decisions about the number of employees they take on.<sup>38</sup>

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<sup>37</sup> PBC 2 December 2010 cc29-30, c35

<sup>38</sup> *op.cit.* cc43-44

### 3 Recent developments

Following the introduction of the NI Holiday, there were some calls for the scope of the scheme to be extended to existing businesses and/or those areas of the UK that had been excluded. For its part the Government argued consistently that the best use of public funds would be to keep the scheme unchanged: for example, in answer to these three linked PQs in September 2011:

**Tracey Crouch:** To ask the Chancellor of the Exchequer (1) whether he has considered extending the areas of eligibility for the national insurance contributions holiday scheme to include the South East; (2) what assessment he has made of the effects on new businesses in the South East of not being eligible for the national insurance contributions holiday scheme.

**Catherine McKinnell:** To ask the Chancellor of the Exchequer what assessment he has made of the merits of extending the national insurance contributions holiday for businesses currently under the scheme; and if he will make a statement.

**Mr Gauke:** The information is as follows:

(i) The policy is designed to support new businesses in parts of the country that are most reliant on the public sector. The Government have considered the case for extending the NICs holiday to all regions but believes the best use of public funds at this time is to keep the NICs holiday as a targeted scheme for those areas in most need of employment support.

(ii) An impact assessment for the policy has been carried out and published which included a competition assessment: <http://www.hmrc.gov.uk/budget-updates/reg-nic-holiday.pdf>. This concluded that there would not be any significant distortion to competition from the policy. This is a temporary scheme and the majority of businesses benefiting will be small and operating in local markets.

(iii) The Government have considered the case for extending the NICs holiday scheme further but believes the best use of public funds is to target the NICs holiday at the early and most vulnerable stage for a new business. The policy is designed to assist new businesses in their first year, reducing the costs of hiring staff and improving the likelihood of business survival.<sup>39</sup>

HM Revenue & Customs first published figures on the number of businesses applying for the NI Holiday around the time of the 2011 Budget, indicating that take-up in the first months had proved far lower than expected.<sup>40</sup> After the 2011 Budget the Treasury Committee took evidence from Edward Troup at the Treasury, who was asked about the reasons for this; on this occasion Mr Troup shared the results of some research being undertaken by HMRC:

What has come out of that research is that, first of all, there are a number of factors where things have turned out slightly differently than we expected. First of all, a smaller proportion of new businesses employ people in the first year than we had estimated. Secondly, the awareness of small businesses of this relief, which is about one third, 35% or something, is slightly lower than we would have liked ... For the businesses who were aware, they are extremely positive about it ...

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<sup>39</sup> HC Deb 6 September 2011 cc397-8W. see also, HC Deb 12 November 2012 c2W & HC Deb 9 January 2013 c 311W.

<sup>40</sup> HC Deb 14 March 2011 c94W & HC Deb 4 April 2011 c731W. In its answer to the second of these PQs, the Government stated that HMRC had received 2,892 successful applications.

So the focus of attention now is to do two things: one is to promote it to increase awareness directly; the other is by giving the tax agents the right to make the claims on behalf of businesses. So far, it has been the businesses themselves who have to make the claim. Actually, we think we can leverage out the greater awareness among tax agents and get them to promote take-up.<sup>41</sup>

In June 2011 HMRC published this research based on interviews with new businesses established in the period June to November 2010, as well as their accountants; this suggested that as, in many cases, it was the firm's accountant that had set up the new business' PAYE system, the decision to allow tax agents to make a claim for an NI rebate on their behalf should improve take-up:

The key conclusions that can be drawn from this study are that:

- Not all businesses potentially eligible for the scheme were aware of it;
- The survey results indicated that around 37% of businesses relating to PAYE schemes registered in eligible regions were potentially eligible for the Holiday. Once the Employer NICs Holiday has been established for a year, the proportion of businesses potentially eligible will increase slightly. Within the survey cohort, businesses had to have started trading within five months of setting up their PAYE scheme in order to be potentially eligible. This will become 12 months for any given cohort once the scheme has been operational for a year.
- A high proportion of eligible businesses used an agent for their PAYE tasks, therefore there is potential for agents to play a more important role in promoting the scheme;
- Raising agent awareness of the scheme through communication tailored to them could increase awareness among eligible businesses.<sup>42</sup>

In December 2011 HMRC published collated statistics on the NI Holiday: the number of applications, the number of businesses benefiting, the monetary value of NI rebates and the number of jobs supported. The report also provided a breakdown of these figures by region and constituency, where possible. Up to the end of November 2011 just over 10,000 applications had been made, and just over £6m claimed.<sup>43</sup>

More recently there has been less discussion of the NI Holiday, although HMRC published an updated report in March 2013 – giving figures up to December 2012.<sup>44</sup> Over this period there have been 20,365 successful applications to join the scheme; there have also been 576 unsuccessful applications.<sup>45</sup> The report notes that the key reasons for rejections included, the fact that the applicant had started trading before 22 June 2010, the business itself was not genuinely new, or forms had not been correctly completed. Tables showing the amounts claimed and the number of employees supported for 2010/11 & 2011/12 are reproduced below:

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<sup>41</sup> *Budget 2011*, HC 897 2010-12, 9 April 2011 Ev64

<sup>42</sup> IFF Research, *Regional Employer National Insurance Contributions (NICs) Holiday for New Businesses*, HMRC Research Report 141 June 2011 p5

<sup>43</sup> HC Deb 15 December 2011 c107WS; *Regional Employers NICs Holiday for New Businesses Factsheet*, [Commons Library Deposited Paper Dep2011-2086], December 2011

<sup>44</sup> HC Deb 25 March 2013 c995W

<sup>45</sup> *Regional Employers NICs Holiday Factsheet*, March 2013 (Tables 1.1 & 1.4).

**Table 2.3 : Amount claimed and number of employments supported in 2010-11, by region**

Region	Claimed NICs Holiday for 2010-11	Average amount claimed (£) in 2010-11	Total amount claimed (£) in 2010-11	Average no of employees for which NICs Hol was claimed in 2010-11	Total no of employees for which NICs Hol was claimed in 2010-11
East Midlands	430	1,900	815,000	4.0	1,707
North East	250	1,900	464,000	3.8	944
North West	830	1,900	1,564,000	4.0	3,309
Northern Ireland	225	1,600	348,000	3.6	809
Scotland	615	1,900	1,195,000	3.4	2,115
South West	655	1,500	1,004,000	3.4	2,190
Wales	275	1,700	454,000	3.9	1,058
West Midlands	585	2,000	1,158,000	3.7	2,157
Yorkshire and the Humber	560	1,600	914,000	3.6	2,010
<b>Grand Total</b>	<b>4,425</b>	<b>1,800</b>	<b>7,916,000</b>	<b>3.7</b>	<b>16,299</b>

**Table 3.3 : Amount claimed and number of employments supported in 2011-12, by region**

Region	Claimed NICs Holiday for 2011-12	Average amount claimed (£) in 2011-12	Total amount claimed (£) in 2011-12	Average no of employees for which NICs Hol was claimed in 2011-12	Total no of employees for which NICs Hol was claimed in 2011-12
East Midlands	1,110	2,400	2,715,000	3.9	4,327
North East	630	2,500	1,558,000	3.8	2,405
North West	1,975	2,800	5,431,000	4.2	8,324
Northern Ireland	510	2,700	1,373,000	4.0	2,056
Scotland	1,630	2,800	4,560,000	3.4	5,532
South West	1,585	2,400	3,837,000	3.6	5,672
Wales	700	2,900	2,044,000	4.2	2,931
West Midlands	1,390	2,800	3,855,000	4.0	5,550
Yorkshire and the Humber	1,335	2,600	3,470,000	3.8	5,093
<b>Grand Total</b>	<b>10,865</b>	<b>2,700</b>	<b>28,843,000</b>	<b>3.9</b>	<b>41,890</b>

**Notes**

1. Regional totals have been rounded to the nearest 5 employers. This is to avoid potential disclosure of individual businesses (e.g. where figures are broken down by constituency or local authority and there is only 1 constituency or local authority in the region with value of 5 or less).
2. Where figures have been rounded there may be an apparent discrepancy between the total and the sum of its constituent parts.
3. The tables show information on all employer's returns for the given tax year (2010-11 or 2011-12), therefore benefiting employments spanning multiple tax years will be represented in more than one year.
4. Figures on the number of employers claiming under the NICs Holiday scheme, amounts claimed and jobs supported are for the 2010-11 or 2011-12 financial year only, where applicable, and based on any successful claim of 1p or more.
5. These tables only includes businesses that are located in eligible regions based on the postcode provided by applicants.
6. Average amounts claimed are rounded to the nearest £100, total amounts claimed are rounded to the nearest £1000 and average no of employees is rounded to the nearest 0.1.

Further to this, the Government has stated recently in answer to a PQ that over the scheme's three years, a total of 26,000 applications were received:

**Chris Leslie:** To ask the Chancellor of the Exchequer (1) how many firms have (a) applied for and (b) taken up the regional employer national insurance contributions holiday; and what amount has been claimed by such firms in each month since December 2012; (2) how many firms have taken up the regional employer national insurance contributions holiday since that scheme's introduction; and how much has been claimed by each such firm.

**Mr Gauke:** The NICs Holiday attracted just over 26,000 applicants over a three year period. The latest available data shows that only around 600 have been unsuccessful. Further information about the NICs Holiday scheme is published in a factsheet available on: <http://www.hmrc.gov.uk/statistics/nics-hol.htm>

The factsheet only covers the period from the start of the scheme to December 2012.

Monthly breakdown of the amounts claimed by employers is not available. The claims are made on annual basis using end of year claim forms. The latest available data shows that around £60 million of NICs relief has been received by employers in total. The figure does not include claims for 2013-14 tax year.<sup>46</sup>

In his Budget on 20 March 2013 the Chancellor, Mr Osborne, did not mention this initiative, though he announced a new 'Employment Allowance' – to reduce employers' NIC costs:

The cost of employing people is a burden on small firms. It is a real barrier to taking an extra person on. To help create jobs and back small businesses in this country, I am today creating the employment allowance. The employment allowance will work by taking the first £2,000 off the employer national insurance bill of every company. It is a tax off jobs. It is worth up to £2,000 to every business in the country. It will mean that 450,000 small businesses—one third of all employers in the country—will pay no jobs tax at all.

For the person who has set up their own business and is thinking about taking on their first employee, a huge barrier will be removed. They can hire someone on £22,000, or four people on the minimum wage, and pay no jobs tax. Ninety-eight per cent. of the benefit of this employment allowance will go to small and medium-sized enterprises. It will become available in April next year, once the legislation has passed. We will also make it available to charities and community sports clubs. The previous Government's answer to Britain's economic problems was to propose a tax on jobs. We stopped that and today this Government are taking tax off jobs.<sup>47</sup>

The Budget report gave some details of how the allowance would work in practice:

#### **A new Employment Allowance for every business and charity**

From April 2014, all businesses and charities will be eligible for a new £2,000 Employment Allowance. This will reduce their employer NICs bill. Up to 1.25 million employers will benefit, with over 90 per cent of the benefit going to small businesses. The scale of the allowance means that 450,000 of the UK's small businesses will no longer pay any employer NICs. On average, employers with fewer than 10 employees over the course of the year will see their employer NICs bill reduced by 80 per cent.

The Employment Allowance will reduce the cost of taking on new staff for small businesses; supporting those with an ambition to grow by hiring their first employee or expanding their workforce. Every business will be able to employ one worker on a salary of £22,400, or four employees working full time on the adult National Minimum Wage, without paying any employer NICs at all.

The Employment Allowance will be introduced from April 2014, delivered through standard payroll software and HMRC's Real Time Information system. To ensure maximum take-up, it will be simple to administer: employers will only need to confirm their eligibility through their regular payroll processes. This confirmation will ensure that up to £2,000 will be deducted from their employer NICs liability over the course of the year's PAYE payments. The Government will engage with business representative

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<sup>46</sup> HC Deb 31 October 2013 c534W

<sup>47</sup> HC Deb 20 March 2013 c944

bodies on the details of the design and operation of the new allowance, in order to ensure the system is as simple and effective as possible.<sup>48</sup>

The cost of the allowance is projected to be £1.26 billion in 2014/15, rising to £1.73 billion by 2017/18.<sup>49</sup> Constituency-level estimates of those likely to benefit from the allowance are not available.<sup>50</sup>

When the Treasury Committee took evidence on the Budget, Paul Johnson, director of the IFS, suggested that it would be difficult to assess the impact of the new allowance:

There is some possibility that the national insurance change will have an effect on employment levels, particularly because they impact directly on the employer, and on smaller employers in particular, but I do not think that we have any way of estimating what that impact will be, and I fear the we will never know ... Clearly [the new allowance will] ease things for those employers who are affected. The structure of employers is such that there are an awful lot who have only one or two employees, and they will be affected. Of course, there is a whole range of other things that will affect small and other employers, including the introduction of real-time information within the next month or two, and other things that will move in the other direction on the income tax system.<sup>51</sup>

Other witnesses raised concerns about the administration of the allowance. Carl Emerson, deputy IFS director, noted that the Treasury had estimated that the take-up of the scheme would be high, reaching 90% by 2017/18,<sup>52</sup> though this raised the question, “why is it not 100%? Is it something about how you have to apply for it? There might be some additional burden on those who want to claim it, and have to jump through hoops to get it, but we have not seen that detail yet.”<sup>53</sup> For its part the Committee suggested that “The Government must ensure that the administrative structure of the scheme facilitates this, rather than resulting in additional administrative burden for employers.”<sup>54</sup> In their response to the Committee’s report, published in July, the Government stated that the “additional burden” to be placed on employers would be “minimised”:

Employers will be able to take the allowance all in one month or as soon as they can if their employer NICs liability in early months is less than the full £2,000, thereby helping improve their cash flow situation there and then. The Government will engage with representative bodies on the details of the new allowance, including the definition of an employer, to ensure the system is as simple and effective as possible.<sup>55</sup>

Primary legislation to give effect to the new scheme was published in October 2013, and is before the House at present.<sup>56</sup>

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<sup>48</sup> *Budget 2013*, HC 1033, March 2013 p43

<sup>49</sup> HC 1033, March 2013 p64 (Table 2.1 – item 25)

<sup>50</sup> HC Deb 15 May 2013 c275W

<sup>51</sup> Treasury Committee, *Budget 2013*, 20 April 2013, HC 1063 2012-13 para 118

<sup>52</sup> HMT, *Budget 2013 – Policy Costings*, March 2013 p8

<sup>53</sup> HC 1063, 20 April 2013 Q72, Ev11. The Committee also noted concerns about the administration of the new allowance by Andrew Goodwin, Senior Economist at Oxford Economics, and the Institute for Chartered Accountants (*op.cit.* p54).

<sup>54</sup> HC 1063, 20 April 2013 p55

<sup>55</sup> HC 370 2013-14, 11 July 2013 p6

<sup>56</sup> The text of the Bill, explanatory notes and details on the Bill's progress are collated on Parliament's site at: <http://services.parliament.uk/bills/2013-14/nationalinsurancecontributions.html>