

## **National Insurance - £2,000 employment allowance**

From 6 April 2014 the Government will introduce an allowance of up to £2,000 per year for many employers to be offset against their employer Class 1 NIC liability. The legislation confirming the introduction of this allowance is contained in the National Insurance Contributions Bill 2013.

The £2,000 allowance is sufficient to cover the employer Class 1 liability of one employee earning approximately £22,000 or four employees paid the National Minimum Wage.

### **Are there any exceptions?**

There will be some exceptions for employer Class 1 liabilities which can be offset by the allowance. These include liabilities arising from:

- a person who is employed (wholly or partly) for purposes connected with the employer's personal, family or household affairs. This would include nannies, gardeners and care support workers;
- employer contributions deemed to arise under IR35 for personal service companies.

### **Can all employers claim the allowance?**

There are rules to limit the employment allowance to a total of £2,000 where there are 'connected' employers. For example two companies are connected with each other if one company controls the other company.

### **What if the employer Class 1 NIC liability is less than £2,000?**

The allowance is limited to the employer Class 1 NIC liability if that is less than £2,000. It is not deductible against PAYE liabilities or the NIC the employer has deducted from the employee.

### **How is the allowance claimed?**

Draft arrangements have recently been published detailing how an employer can claim and receive the allowance:

- Before making any deduction of the employment allowance, notice must be given to HMRC of the PAYE scheme from which deductions will be made. Notice will continue to apply for that tax year and subsequent tax years.
- For the majority of employers who use software that supports the Employer Payment Summary (EPS), notice should be given by selecting 'yes' against the employment allowance indicator on the EPS.
- **If your payroll software does not support the EPS, then the HMRC Basic PAYE Tools package may be used.**
- Once notice has been given deductions for the employment allowance must be made from qualifying payments as they occur in the tax year. The employer's payment of PAYE and NIC will be reduced each month to the extent it includes an employer Class 1 NIC liability until the £2,000 limit has been reached.
- Where there are two or more PAYE schemes (for example where there are two companies which are connected), only one of the schemes can give notice and thus make deductions.

**If we deal with the administration of your payroll we will confirm with you that your business is eligible for the allowance and ensure that the allowance is claimed from April 2014.**

Please contact us if you require any further information or advice.