

National Insurance Contributions Holiday for new businesses

The Emergency Budget in June 2010 included an initial announcement of a scheme to help new businesses in targeted areas of the UK. The scheme known as the Regional National Insurance Contributions (NICs) Holiday involves a possible reduction in a key element of payroll cost, namely employer NICs. The scheme applies to new qualifying businesses which commence in the period 22 June 2010 until 5 September 2013 although the actual period for claims only starts from 6 September 2010.

Whilst the scheme is welcome, the law on which this relief is based is still progressing through Parliament so it may be advisable to defer claims under the scheme until the law becomes final. It is currently progressing through the House of Lords (February 2011).

What does the scheme offer?

Broadly, for businesses commencing within the qualifying period, employers will not have to pay the first £5,000 of Class 1 employers' NIC due in the first twelve months of employment. This will apply to the first ten employees (including directors) employed in the first year of the business and could therefore amount to a maximum Class 1 NIC saving of £50,000.

The relief can be given by way of a reduction in monthly/quarterly payments of employers' Class 1 NIC due or by refund.

Is your business eligible?

The scheme will generally be available to all forms of new business including sole traders, partnerships and companies. It includes trades (including charities which start to carry out a trade), professions or vocations, property and investment businesses.

Relief will not be available or may be restricted in certain specific situations. Examples include deemed employment payments in personal service (IR35 type) companies, managed service companies and industries where State Aid is capped such as agriculture. If you consider this may be relevant to your new venture please contact us for clarification.

Specific rules also prevent a business from ceasing and restarting as another business, or restructuring or transferring activities of an existing business to another person in order to take advantage of the scheme. An example of this would include the conversion of a sole trader business into a company.

Which regions qualify?

The scheme only applies if the principal place at which the business is carried on is within a qualifying designated area of the UK at the time the business starts up and does not move into an excluded region during any claim period.

The excluded regions are:

Greater London, the Eastern and South East Regions. If you are unsure whether your business falls within a qualifying region, you can check by using the Region Finder on the Government Office Network website at www.gos.gov.uk/

Principal place of business

There will be situations where a business does not have an obvious place of business, for example, if it is internet based. In such situations the place where equipment and/or business records are kept or administrative parts of the business are carried out may be considered to be the principal place of business. In other situations there may be more than one place of business. If so, the principal place of business will be where the greater part of the business is conducted.

Eligible periods for the scheme

The scheme will be available in relation to employees/directors (up to a maximum of 10) employed in the first year of a new business commencing in the period 22 June 2010 until 5 September 2013. For this purpose the first year is known as the 'initial period' and it starts on the earlier of:

- the date the new business starts or
- the date on which a person is first employed for the new business.

This means that the initial period needs to be accurately determined to maximise the relief, as it is only staff employed in this period whose pay may qualify for relief.

In addition, whilst the initial period may begin as early as 22 June 2010, the actual relief can only be claimed for pay periods commencing 6 September 2010.

Example

XYZ Catering Ltd was incorporated on 27 July 2010. Two directors were appointed at that time and preparatory work was undertaken. The trade then started on 1 December 2010 and a third person was employed on 1 June 2011.

The initial period here commences on 27 July 2010 being the earliest relevant date and will end on 26 July 2011. As both directors and the additional employee were employed in this period all three are eligible for the scheme.

Qualifying claim periods

The actual relief period for each eligible employee will generally run for 12 months and commences on the later of:

- 6 September 2010 or
- the date the individual was first employed.

Example continued

The claim for relief for the two directors above will apply to the 12 months commencing 6 September 2010 for all payments made until 5 September 2011 whereas the relevant period for the third employee will be 1 June 2011 to 31 May 2012.

The £5,000 maximum

The maximum relief in respect of an employee is £5,000 of Class 1 employer NICs. The maximum applies to the 12 month qualifying period whether or not it falls in different tax years. Unused elements are not transferrable to other employees nor does it apply to NICs on benefits in kind.

What to do now?

Eligible employers need to apply for the scheme. This means that it is first necessary to be registered as an employer with HMRC. Most businesses can then apply online but some (such as those in receipt of some other form of State Aid) will have to complete a paper application.

Further information on the scheme can be found on the business link website at www.businesslink.gov.uk

This includes more detailed information about who can apply and how to apply.

We can also provide assistance on applying for and claiming this relief in addition to other services in connection with new business start up, so please do not hesitate to contact us.