



NATIONAL INSURANCE HOLIDAY FOR NEW JOBS IN SMALL BUSINESSES

Introduction

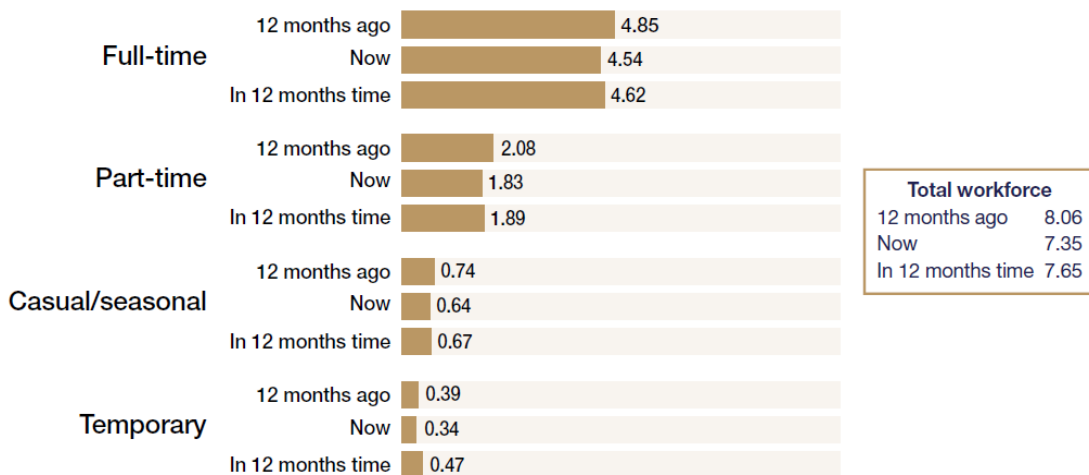
The Federation of Small Businesses (FSB) recognises that employment and job creation is paramount to help the economy grow. Joblessness should not be allowed to take hold in the UK; this would prove disastrous for the UK economy but also for the deficit reduction plans.

With unemployment running at 7.9 per cent (2.5 million) and the likelihood that this number will not decrease by a significant amount in the first two quarters of 2011, it is imperative that Government moves to help businesses create job opportunities.

The FSB now suggests to Government that their flagship job creation policy – the NICs Holiday scheme – is amended to help existing small businesses create much-needed jobs.

The FSB believes we should aim to drive up the average size (in full-time employee numbers) of a small firm. FSB research shows that an average small business in the UK employs 4.54 full time staff members, which we believe can be pushed to 6 in the future. Now is the time to be bold and think big, so the FSB would like the Government to state an ambition to increase the size of the average UK business.

Mean number of staff employed

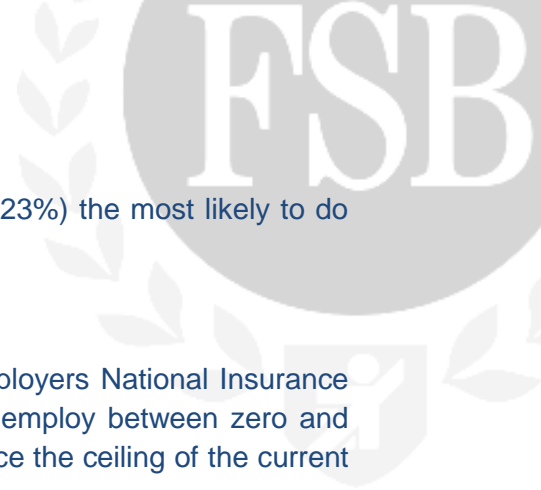


FSB – ICM 'Voice of Small Business Annual Survey 2010

Data from a survey of more than 2,000 businesses by the FSB found that cutting Employers National Insurance was the policy most likely to lead to more job creation.

The survey found that 44.1 per cent of businesses would take on more employees if the government cut Employer National Insurance (1). Another 19 per cent of small businesses would take on new staff over the next 12 months in order to achieve business objectives,

1 <http://www.fsb.org.uk/policy/assets/fsb%20report%20-%20reform%20the%20job%20centre.pdf>



with London (27%), Northern Ireland (25%) and the North East (23%) the most likely to do so (2).

FSB Amendment

The FSB urges the Government to remove the need to pay Employers National Insurance for one to three staff employed by all businesses that currently employ between zero and four staff, for the period of one year. The Government could reduce the ceiling of the current policy to five new staff rather than 10 new staff to help fund the move.

While the current scheme excludes existing businesses and those operating in the greater south east of the UK, it does not go far enough in targeting those businesses who have experience in hiring and growing.

Under the Government's current scheme, new businesses may qualify for a deduction of up to £5,000 from the employer NICs that would normally be due - for each of the first 10 employees they take on. Under this scheme, businesses of can take advantage of the scheme if they fall into the following categories:

- A sole trader, company or partnership that begins to carry on a trade, profession or vocation
- New businesses that started up during 22 June 2010 to 5 September 2013. The NICs holiday will run for 12 months after the date your business started
- New businesses outside of London, the South East and East of England

Why open the scheme to existing small businesses?

In December 2008, the Westminster Business School produced a report on 'Small Businesses in the UK' (3), which outlined the social and economic importance of small businesses and how the regulatory environment affected their employment practices and growth.

The report found that small businesses are more likely than big businesses to take on people who have been unemployed in the last twelve months. This could prove vital for those in the public sector who are laid off during the next few months (especially in local government where budgets are being finalised). Other crucial findings include:

- Small businesses employ more people with lower levels of formal education than big business - 10 per cent of the employees in micro businesses have no qualifications, compared to 5.6 per cent in the largest organisations.
- Small business owners have a positive attitude towards older workers. Older workers make up a larger proportion of the workforce in smaller firms, which value their skills and experience. Less than a quarter of small businesses use the default retirement age.

2 <http://www.fsb.org.uk/FSB-ICM-annual-survey>

3 [http://www.fsb.org.uk/policy/images/fsbwestminster01%2012%20\(3\).pdf](http://www.fsb.org.uk/policy/images/fsbwestminster01%2012%20(3).pdf)

Tax and Revenues

Employers pay tax (Employers National Insurance) at 12.8 per cent on the salaries of any employees.

Under the FSB's plans, businesses that have between zero and four staff will pay no Employers National Insurance on the first, or next three employees it hires for the period of one year.

The relief will apply up to the Upper Earnings Limit of £844 a week per employee, or about £44,000 a year.

Three new employees, on an average weekly salary of £489 (ONS Annual Survey of Hours and Earnings 2009(4)) would save a small business £7,567.86 in one financial year under this proposal. This is an individual saving per employee of £2,522.62 in one financial year to the business.

As the table below shows, the Treasury will continue to receive over £5,000 per new employee on a average weekly salary of £489. These figures are based on 2010/2011 tax thresholds and figures for those under 65 year of age, and do not include student loan repayments, other tax deductions or allowances. The figures in the table are also true for unmarried or married individuals following the above criteria.

Wage	Week	Monthly	Yearly
Gross pay	£489.00	£2,119.00	£25,428.00
Tax free allowance	£124.52	£538.58	£6,475.00
Taxable amount	£364.48	£1,579.42	£18,953.00
Tax Due	£72.90	£315.88	£3,790.60
Employees NICs	£41.69	£180.66	£2,167.88
Total deductions	£114.59	£496.54	£5,958.48
Net wage	£374.41	£1,622.46	£19,469.52
Employers NICs	£48.51	£210.22	£2,522.62

The Treasury would continue to benefit from the creation of new jobs through income tax and employees national insurance contribution. For example, one employee at an average weekly salary of £489 would still contribute £5,958.48 per annum to the Treasury. This, for three employees would generate £17,875.41.

⁴ <http://www.statistics.gov.uk/pdffdir/ashe1109.pdf>



Security from abuse

Clear and simple rules will ensure that the jobs created are genuinely new, using definitions that already exist in the tax code:

- The relief would be limited to trading businesses
- The relief will not apply to any employee who is participating in or connected to the owner of the business (within the meaning of Part XI of the Income and Corporation Taxes Act 1988). It would also only apply where the business is for commercial purposes. Together these measures would prevent people taking advantage of the scheme to employ e.g. relatives or domestic staff
- The relief would exclude associated businesses in order to prevent people setting up new businesses simply to provide goods and services to existing businesses

Working the scheme

The relief could be operated through the PAYE system or through a rebate system in order to minimise any administrative burdens. This should be considered by HMRC and through consultation.

Every business that employs staff has a unique PAYE reference number. To employ someone you have to set up an account with HMRC and pay any National Insurance and income tax owed from yourself or your employee quarterly.

At the end of every tax year, the employer makes an Annual return, filling in a P35 and P14 forms. These summarise all the payroll figures for the year, and show the number of employees employed during the previous year.

When an employer takes on a new employee they must send HMRC either a P45 part two (this is if the employee has previously been employed) or a P46 (for an employee who is a new entrant to the job market, or who has lost their p46.) This is sent to HMRC and creates a new record for that employee, determining their tax status.

When an employee leaves, the employer creates a p45 for that employee and sends part one to HMRC. These processes will give HMRC an up to date picture of the number of people employed by an employer at any one time.

This will allow HMRC to have an up-to-date record of all businesses and pass the relief on straight away.