

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT EMPLOYMENT ALLOWANCE (EXCLUDED
PERSONS) REGULATIONS 2020

Monday 2 March 2020

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Friday 6 March 2020

© Parliamentary Copyright House of Commons 2020

This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

The Committee consisted of the following Members:

Chair: MS KAREN BUCK

† Callaghan, Amy (*East Dunbartonshire*) (SNP)
 Cartlidge, James (*South Suffolk*) (Con)
 † Doughty, Stephen (*Cardiff South and Penarth*) (Lab/
 Co-op)
 Harman, Ms Harriet (*Camberwell and Peckham*)
 (Lab)
 † Hart, Sally-Ann (*Hastings and Rye*) (Con)
 † Holden, Mr Richard (*North West Durham*) (Con)
 † Hudson, Dr Neil (*Penrith and The Border*) (Con)
 † Jenkinson, Mark (*Workington*) (Con)
 † Jones, Fay (*Brecon and Radnorshire*) (Con)
 † Lewell-Buck, Mrs Emma (*South Shields*) (Lab)

† Longhi, Marco (*Dudley North*) (Con)
 † Lynch, Holly (*Halifax*) (Lab)
 † Norman, Jesse (*Financial Secretary to the Treasury*)
 † Reynolds, Jonathan (*Stalybridge and Hyde*) (Lab/
 Co-op)
 † Rutley, David (*Lord Commissioner of Her Majesty's*
Treasury)
 † Smith, Jeff (*Manchester, Withington*) (Lab)
 † Williams, Craig (*Montgomeryshire*) (Con)

Jonathan Whiffing, *Committee Clerk*

† **attended the Committee**

First Delegated Legislation Committee

Monday 2 March 2020

[Ms KAREN BUCK *in the Chair*]

Draft Employment Allowance (Excluded Persons) Regulations 2020

4.30 pm

The Financial Secretary to the Treasury (Jesse Norman): I beg to move,

That the Committee has considered the draft Employment Allowance (Excluded Persons) Regulations 2020.

It is a delight to see you in the Chair, Ms Buck. This draft legislation allows the Government to target the national insurance employment allowance to businesses that need it most. Employers pay class 1 national insurance contributions on employee earnings above the secondary threshold, which is set at £8,632 this year. Those contributions are charged at 13.8% and constitute the largest business tax by revenue in the UK.

The employment allowance was introduced in 2014 to help businesses with the cost of employment and to encourage them to grow and to hire more staff. More than 1 million employers claim the employment allowance to reduce their employer NICs bill by up to £3,000 and, since its introduction, it has taken 590,000 businesses out of paying national insurance contributions altogether.

The employment rate is at an all-time high of 76.2%. Since 2010, youth unemployment has been halved and 3.7 million more people are in employment. That is a nationwide phenomenon; in the last year, three quarters of employment growth was outside London and the south-east.

All businesses—from greengrocers to Goldman Sachs; from butchers to Barclays; from pubs to Primark—are currently eligible for Government relief of up to £3,000 of their total employer NICs bill. Big businesses get the same benefit as small ones, but for larger businesses, that £3,000 is a small—perhaps tiny—amount relative to their total employment costs, so it is unlikely to encourage them to take on more staff, contrary to the purpose of the policy. It is right therefore to target the support at smaller businesses, for which the £3,000 relief makes a real difference to the cost of doing business.

That is why the Government decided to restrict the employment allowance to smaller businesses in the 2018 Budget. As a result, from April 2020, only businesses with an employer national insurance contributions bill below £100,000 will be eligible for the employment allowance. More than 99% of microbusinesses with fewer than 10 employees and 93% of small businesses with fewer than 50 employees will remain eligible for the employment allowance. Of the businesses that currently receive the employment allowance, around 8%—all of which will have a pay bill above £700,000 per year—will lose the allowance.

Targeting the employment allowance at smaller businesses means that it falls under EU de minimis state aid regulations. De minimis state aid refers to small

amounts of aid that can be given without notifying the European Commission. Most businesses can receive up to €200,000 of de minimis state aid cumulatively in a three-year period. Under the de minimis regime, to claim the employment allowance, businesses need to notify Her Majesty's Revenue and Customs annually as part of the existing claims process and confirm that they can receive the employment allowance without exceeding their cap. After consulting widely, the Government have removed the requirement to specify exactly how much state aid businesses have received, to make it easier for them to claim the reformed employment allowance.

As the Prime Minister announced, the Government will develop a separate independent UK policy on subsidies, for use when the transition period has ended. That will be a modern system designed to support businesses in a way that fulfils British interests. Although the employment allowance supports small businesses, I hope that the Committee agrees that giving every large business with a wage bill of £700,000 or more £3,000 off its national insurance contribution bill is not good value for money. The Government are committed to furthering their support for small businesses as we look to level up opportunity and growth across the country.

Over the course of this Parliament, this reform is projected to raise more than £1 billion that can be used to fund important public services and to target support for small and medium-sized businesses.

4.34 pm

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is always a pleasure to see you in the Chair, Ms Buck, and I thank you for the opportunity to respond to the Minister.

I thank the Minister for his explanation of this measure. I am aware that it has been in the pipeline for some time and I can understand the Government's desire to focus the allowance on smaller businesses. However, I would like to ask the Minister several questions to aid the Committee's understanding of its likely impact.

First, the Minister said that he believed that this would raise £1 billion a year. Will he share with us some of the Government's analysis as to how many businesses, which were previously able to claim this allowance above the £100,000 threshold, will be affected from 6 April 2020? I ask that, with reference to the revenue, because this seems to be a significant undertaking in terms of the administration being asked of the recipients. Will the Minister explain who is affected and how those savings justify the change that is being proposed? As we often discuss in debates on Finance Bills, constant tinkering with allowances can be unhelpful, as it creates confusion among businesses as to what they are entitled to and when.

Secondly, I would like to ask about the reclassification of this payment as state aid under EU rules. Given that we have left the European Union—although we are still in the transition period—why is this reclassification necessary and what relevance does the Minister anticipate this will have in the future under UK law?

Finally, I am aware that an administrative change is associated with this amendment to the allowance, in that companies will no longer have an ongoing rolling entitlement, but will instead fill out a new claim each

year. I want to ask the Minister to address the unnecessary bureaucracy and paperwork that might, therefore, be put on to all business owners, on top of the implementation of Making Tax Digital and the likely increase in bureaucracy as a result of Brexit. How will this change be communicated to all those it will affect? How are the Government communicating this to small business owners, so that they understand that they will not be affected, in a timely manner and with adequate support?

I hope the Minister can respond now to those points, but if not, he can respond in writing.

4.37 pm

Amy Callaghan (East Dunbartonshire) (SNP): Thank you, Ms Buck, for the opportunity to ask the Minister questions on this matter. The Scottish National party supports a reduction in employers' national insurance to boost jobs. That was clearly outlined in our manifesto, on which won 80% of seats in Scotland.

Although Scotland has a strong labour market, crippling Brexit uncertainty is putting jobs at risk. How can these savings be justified? Does the Minister understand the adverse effect that they could have on businesses in Scotland, given the uncertainty already occurring in this sector due to Brexit?

4.37 pm

Jesse Norman: I am delighted to answer the questions put to me. In response to the hon. Member for East Dunbartonshire, I think I am right in saying that SNP policy was to double the employment allowance, rather than to restrict it. I think that would have had the effect of continuing the mis-targeting, which we have identified, on the largest companies. Therefore, we do not think that would be a good policy and we think it is much better to have the support targeted where it will have an effect on increasing the marginal appetite to retain or hire employees.

In relation to the questions from the hon. Member for Stalybridge and Hyde, I mentioned in my speech that some 8% of current businesses—about 80,000 businesses—would not be eligible for the employment allowance, as it is now proposed to be targeted. He will appreciate that it is designed in such a way that there should be a reduction in paperwork, because we have managed to avoid the situation that would have been mandated otherwise under EU rules, in which the specific amount of state aid received would have to be indicated. There was feedback in the consultation on the question of paperwork. The decision was taken that the application would be put through payroll software and should be as light touch and straightforward as possible.

The hon. Gentleman also asked about state aid. The trouble is that by restricting the scope of the allowance and by targeting a group, it automatically engages in EU state aid rules, and looks like preferential treatment. The Government have no option if they wish to introduce it. I do not detect any difference in the policy goal between us and the Opposition. It is a necessary part of doing that. I hope he can take some comfort from the fact that at the end of the transition period we expect to at least assess the scope for redesign of the policy if there is serious evidence of any adverse impact on those it is meant to support.

I have indicated that the allowance will be paid through payroll and will be communicated through the usual channels online, through public media support, and with the active collaboration of stakeholders, small business groups and other relevant organisations to make sure that it has the widest possible take-up. Since this is a universally understood allowance already, I expect take-up to be high from the beginning.

Question put and agreed to.

4.41 pm

Committee rose.

