

The Employment Allowance

Employers are able to claim the Employment Allowance which reduces their employer Class 1 National Insurance contributions (NICs) by up to £5,000 per year for 2024/25. The Employment Allowance is increasing to £10,500 per year from 2025/26.

The Employment Allowance is available to businesses and charities (including Community Amateur Sports Clubs) that pay employer NICs on earnings of employees or directors.

The allowance can be claimed against only one PAYE scheme, even if the business runs multiple schemes. Connected businesses such as companies under the control of the same person or persons are only entitled to one Employment Allowance between them. However, if a business controls a charity, they are not considered to be connected and the Employment Allowance can be claimed for both the business and the charity.

How to claim

Claims will normally be made using payroll software, either commercial or HM Revenue & Customs' (HMRC's) Basic PAYE Tools. The employer Class 1 NIC liability is reduced to nil until such time as the cumulative reduction reaches £5,000 in the tax year. For example if the employer's NICs are £900 each month, the Employment Allowance used will be £900 in April, £900 in May, £900 in June, £900 in July, £900 in August and £500 in September.

Once an initial claim has been made, HMRC will automatically carry it forward to the next tax year, regardless of any changes in payroll software. Therefore it is important to check at the beginning of each year that there have been no other changes in relevant circumstances.

Employers who are exempt from filing, or unable to file online, can make a claim at the beginning of the tax year using the paper Employer Payments Summary (EPS).

Excluded Employers and employees

Not all employers can claim the Employment Allowance. Such employers include:

- public authorities
- functions either wholly or mainly (over 50%) of a public nature (unless charities)
- companies where the only employee paid above the Class 1 National insurance secondary threshold is a director of the company
- companies or groups where the employers' National insurance liability was £100,000 or more in the previous tax year. This exclusion is being removed from 6 April 2025.

Certain employees cannot be included in the claim:

- deemed payments of employment income for personal and managed service companies.
- someone employed for personal, household or domestic work.