

**EXPLANATORY MEMORANDUM TO  
THE SOCIAL SECURITY (CONTRIBUTIONS) (AMENDMENT No. 7)  
REGULATIONS 2007**

**2007 No. 2401**

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs ("HMRC") and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

- 2. Description**

- 2.1 The purpose of this Statutory Instrument is to secure parity of treatment, between National Insurance and income tax, of payments made by employers to employees who attend full-time education courses at recognised educational establishments. Such payments, of up to £15,480 for the 2007-08 academic year, are exempted from income tax by virtue of HMRC's Statement of Practice 4/86, a revised version of which was published on 15 August 2007.

- 3. Matters of special interest to the Joint Committee on Statutory Instruments**

- 3.1 None

- 4. Legislative Background**

- 4.1 The instrument is being made to amend Part 7 of Schedule 3 of the 2001 regulations to substitute £15,480 for £15,000 in paragraph 12(6), as the financial limit above which earnings, paid to employees in relation to their attendance at full-time educational courses, do not qualify to be disregarded in calculating earnings for the purpose of earnings related contributions.
- 4.2 The amendment has effect in relation to payments of earnings made on or after 5 September 2007 in respect of the 2007-08 academic year (beginning on 1 September 2007) and subsequent years.

- 5. Territorial Extent and Application**

- 5.1 These Regulations apply throughout the United Kingdom.

- 6. European Convention on Human Rights**

- 6.1 This instrument is subject to the negative resolution procedure and does not amend primary legislation. And accordingly, no statement of compliance with the European Convention on Human Rights is required.

- 7. Policy background**

- 7.1 The Statement of Practice 4/86 concerns the tax treatment of payments by employers to employees for periods of attendance at full-time educational

courses. Such payments are within certain conditions treated as exempt from income tax.

7.2 The Statement of Practice was first published in August 1986 when the limit for tax-free payments was set at the higher of £5,000 or the amount that a public awarding body such as a Research Council might award to students with similar personal circumstances. This monetary amount was increased to £7,000 from April 1992 until the Statement of Practice was modernised in March 2005.

7.3 The 2005 changes, as well as modernising the language and layout to increase clarity, increased the monetary amount to £15,000 per academic year for the 2005-06 academic year and subsequent years, and broke the link to the amounts paid by public awarding bodies.

7.4 However, the Statement of Practice was silent on the National Insurance contributions (“NICs”) treatment in relation to these payments. This had meant that the NICs treatment was dependent upon whether the payments were made under a contract of employment or one of training. If payments were made under a contract of employment, Class 1 NICs were due, but not if payments were made under a training contract.

7.5 To ensure parity of treatment across tax and NICs for these payments the Social Security (Contributions) (Amendment No. 2) Regulations 2005 (S.I. 2005/728) amended the Social Security (Contributions) Regulations 2001 to add a new paragraph which corresponds, as near as possible, to the provisions in Statement of Practice 4/86.

7.6 To ensure continuing parity across the tax and NICs treatment, this instrument amends the 2001 regulations to reflect the amendment to Statement of Practice 4/86 to increase the monetary amount from £15,000 to £15,480 for the 2007-08 academic year and subsequent years. A revised version of Statement of Practice 4/86 was published on 15 August 2007.

## **8. Impact**

8.1 A regulatory impact assessment has not been prepared for this instrument as it does not impose any new costs on business.

## **9. Contact**

Pete Robinson at HM Revenue & Customs, Tel: 020 7147 2423 or e-mail: Peter.W.Robinson@hmrc.gsi.gov.uk can answer any queries regarding the instrument.