EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (AMENDMENT NO. 6) REGULATIONS 2025

2025 No. 865

1. Introduction

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

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Gareth Cooper, Deputy Director for National Insurance Policy, International and Student Finance at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Ativie Edebiri at HMRC email: ativie.edebiri@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The purpose of this instrument is to disregard from Class 1 National Insurance contributions (NICs) payments made by the Department for Business and Trade (DBT) to eligible postmasters under the Horizon Convictions Redress Scheme (HCRS) in the following new categories:

- Postmasters who have had their convictions overturned by a court
- Postmasters who were prosecuted for alleged offences committed while the Horizon system was in use by the Post Office but did not face criminal convictions
- Postmasters who received a caution of any kind whether validly given or not, for an offence involving the Horizon system, or
- In Scotland, received an alternative to prosecution, whether validly given or not, or received a purported alternative to prosecution from Post Office Limited[1].

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

[1] The relevant definition of alternative to prosecution is given in section 4(5) of the Post Office (Horizon System) Offences (Scotland) Act 2024.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 DBT is merging the Overturned Convictions (OC) scheme with the HCRS and will administer the payments. HCRS will be broadened to include OC claimants who had their convictions overturned by a court, or who received a caution of any kind, whether validly given or not, for an offence involving the Horizon system, or in Scotland received an alternative to prosecution, whether validly given or not, or received a purported alternative to prosecution from Post Office Limited, or who were prosecuted for alleged offences committed while the Horizon system was in use by the Post Office but did not face criminal convictions.

5.2 Payments under HCRS were already disregarded from Class 1 NICs by Statutory Instrument (SI) 2024/822. This SI ensures the scope of the exemption is broadened to capture payments to the new categories of claimants being brought into HCRS.

5.3 Funding for HCRS is provided by central government and the Government has already clarified the disregard for Class 1 NICs for payments made under HCRS. The amendment to the existing Statutory Instrument will reduce the administrative burden for postmasters who have had their convictions overturned by a court, received a caution of any kind whether validly given or not, or in Scotland received an alternative to prosecution whether validly given or not, or received a purported alternative to prosecution from Post Office Limited or postmasters prosecuted for alleged offences committed while the Horizon system was in use by the Post Office but did not face criminal convictions.

5.4 Amending the Social Security (Contributions) Regulations 2001 ensures these postmasters receive a full and final settlement. It also ensures that the Government's wish to disregard HCRS payments from Class 1 NICs is achieved.

What was the previous policy, how is this different?

5.5 Without this measure HCRS payments made to the categories of postmasters now being brought into HCRS would be liable to Class 1 NICs. HCRS payments will for that reason be made exempt from Class 1 NICs through this instrument.

6. Legislative and Legal Context

How has the law changed?

6.1 Section 3(2) and (3) of the Social Security Contributions and Benefits Act 1992, and section 3(2) and (3) of the Social Security Contributions and Benefits (Northern Ireland) Act 1992 contain a regulation-making power to establish the basis on which the amount of earnings shall be calculated, and that payments of a particular class or description can be disregarded from that calculation. This instrument is made under these powers and with the concurrence of the Secretary of State and the Department for Communities (Northern Ireland).

6.2 Schedule 3 to the Social Security (Contributions) Regulations 2001 (S.I. 2001/1004) specifies the payments which are to be disregarded in the calculation of earnings from employed earner's employment for the purpose of establishing liability to pay Class 1 NICs.

6.3 This instrument amends paragraph 31(1) of Part 10 of Schedule 3 to the Social Security (Contributions) Regulations 2001 by substituting paragraph 31(1) for "A payment of compensation made by the Department for Business and Trade to a person eligible under the Horizon Convictions Redress Scheme announced by His Majesty's Government on 13th March 2024 who— (a) has a conviction involving the Horizon system quashed by legislation or by a court, (b) received a caution of any kind for an offence involving the Horizon system, (c) in Scotland received an alternative to prosecution within the definition given in section 4(5) of the Post Office (Horizon System) Offences (Scotland) Act 2024, or received a purported alternative to prosecution from Post Office Limited, or (d) was the subject of a criminal prosecution involving the Horizon system but was not convicted."

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 No formal consultation exercise has been held as the changes are wholly relieving to the taxpayer.

8. Applicable Guidance

8.1 Guidance will be provided via the bodies administering the scheme.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note has not been prepared for this instrument because it contains no substantive changes to NICs policy.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because these compensation payments are made to individuals.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because these compensation payments are made to a small number of individuals.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 There are no plans to monitor or review the instrument.

10.2 The instrument does not include a statutory review clause because it does not make or amend regulatory provisions that relate to business activity.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).