EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (AMENDMENT NO. 7) REGULATIONS 2025

2025 No. 1132

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 Dan Tomlinson MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Edmund Hair, 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 can be contacted by email at the following address with any queries regarding the instrument: nics.policy@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The Department for Business and Trade has recently established the Capture Redress Scheme (CRS), a compensation scheme designed to provide financial redress to postmasters who experienced losses due to errors in the Capture software used in the operation of their branches. This instrument disregards payments made under the CRS from earnings in order to exempt them from liability to Class 1 National Insurance contributions (NICs). It also disregards a relevant onward payment and CRS payments paid to nominated individuals from Class 1 NICs.

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.

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 The Department for Business and Trade has recently established the CRS to provide redress to postmasters who suffered financial shortfalls due to Capture software error.

5.2 The Capture IT software was used by postmasters prior to Horizon, between 1992 and 2000. In 2024, the Minister for Services, Small Business and Exports acknowledged the findings of an investigation which concluded that there was a reasonable likelihood the Capture software could have caused accounting shortfalls for

postmasters, leaving postmasters to pay back shortfalls to the Post Office and committed to providing redress to those impacted.

5.3 The Post Office Capture Redress Scheme (Tax Exemptions and Relief) Regulations 2025 that are being introduced alongside this instrument exempt a relevant onward payment of CRS from income tax and capital gains tax. This instrument mirrors that instrument and also exempts a relevant onward payment of CRS from Class 1 NICs.

5.4 CRS payments to nominated individuals relate to entities that would have been eligible to receive a CRS payment but have been dissolved. In these cases, the nominated individual (a person who was a shareholder or director of a company or partner in a partnership) will receive the payment.

5.5 Funding for CRS will be provided fully by central government. The Government wishes to clarify the NICs treatment of CRS payments by confirming that these payments are not required to be reported to HMRC. This exemption will reduce administrative burdens by ensuring that such payments are final, with no further action required.

What was the previous policy, how is this different?

5.6 Without this measure CRS payments made to postmasters would be liable to Class 1 NICs. This instrument ensures that such payments are exempt from Class 1 NICs.

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 Act (Northern Ireland) Act 1992 contain a regulation-making power to establish the basis on which the amount of earnings shall be calculated, and that the 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 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 Part 10 of Schedule 3 to the Social Security (Contributions) Regulations 2001 by the insertion of a new paragraph 33 – Post Office Capture Redress Payments.

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 covering this instrument will be published on the gov.uk website[1].

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 a small number of 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 as the measure impacts a small number of individuals. Previous statutory instrument to exempt payments under Horizon-related schemes have been positively received.

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 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").

[1] Tax information and Impact Note: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins