# NATIONAL INSURANCE CONTRIBUTIONS (REDUCTION IN RATES) (NO.2) BILL

# EXPLANATORY NOTES

## What these notes do

These Explanatory Notes relate to the National Insurance Contributions (Reduction in Rates) (No.2) Bill as brought from the House of Commons on 13 March 2024 (HL Bill 54).

- These Explanatory Notes have been prepared by HM Revenue and Customs (HMRC) to assist the reader of the Bill and to help inform debate on it. They do not form part of the Bill and have not been endorsed by Parliament.
- These Explanatory Notes explain what each part of the Bill will mean in practice; provide background information on the development of policy; and provide additional information on how the Bill will affect existing legislation in this area.
- These Explanatory Notes might best be read alongside the Bill. They are not, and are not intended to be, a comprehensive description of the Bill.

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# Overview of the Bill

1 This Bill introduces a cut in the main rate of primary (employee) Class 1 National Insurance contributions (NICs) from 10% to 8% and a cut in the main rate of self-employed Class 4 NICs from the previously announced rate of 8% to 6%. The reduction in rates to 8% was legislated in the National Insurance Contributions (Reduction in Rates) Act 2023. The further rate cuts take effect from 6 April 2024.

# Policy background

2 The Bill is intended to provide a further cut in the amount of NICs paid for 29 million working people, worth over £450 to the average employee earning £35,400 per annum and £310 to the average self-employed person with profits of £28,000 per annum.

# Legal background

3 Legislation relating to the existing system of NICs and social security benefits is set out in a combination of primary and subordinate legislation. The most relevant provisions are:

a. Social Security Contributions and Benefits Act 1992 (SSCBA 1992).

b. Social Security Contributions and Benefits (Northern Ireland) Act 1992 (SSCB(NI)A 1992).

c. National Insurance Contributions (Reduction in Rates) Act 2023.

d. Social Security (Contributions) Regulations 2001 (S.I. 2001/1004).

4 These provisions will continue to be the main legislation dealing with NICs.

# Territorial extent and application

5 The Bill extends to, that is forms part of, the law of England and Wales, Scotland and Northern Ireland. Amendments the Bill makes to the legislation of Great Britain and Northern Ireland have the same extent as the enactments they amend. The Bill applies in England, Wales, Scotland and Northern Ireland.

6 There is a convention that Westminster will not normally legislate with regard to matters that are within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly without consent of the legislature concerned.

7 The matters to which the provisions of the Bill relate are not within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly, and no legislative consent motion is being sought in relation to any provision of the Bill. If there are amendments relating to matters within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly, the consent of the relevant devolved legislatures will be sought for the amendments.

8 See the table in Annex A for a summary of the position regarding territorial extent and application in the United Kingdom. The table also summarises the position regarding Legislative Consent Motions.

# Fast-track legislation

9 The Government has asked Parliament to expedite the parliamentary progress of this Bill. In their report on Fast-track Legislation: *Constitutional Implications and Safeguards*[1], the House of Lords Select Committee on the Constitution recommended that the Government "should provide more information as to why a piece of legislation should be fast-tracked[2]". The justification for fast-tracking the Bill is explained below.

## Why is fast-tracking necessary?

10 The changes to primary Class 1 rates are to occur on 6 April 2024. Accordingly, the legislation must be passed before then. Further, as the reduction in NICs rates requires changes to be made to the payroll systems of all employers, the legislation needs to be passed as soon as possible to ensure individuals do not overpay. The Government has asked Parliament to expedite the parliamentary progress of this Bill with the intention of providing those employers with as much time as possible to implement the changes to their payroll software ahead of the rate reduction. The Government believes this is particularly important given all workers in the UK who are required to pay NICs will be affected.

## What is the justification for fast-tracking each element of the bill?

11 The reduction in the rate of primary Class 1 NICs is intended to take effect from 6 April 2024 therefore it is necessary that the Bill receive Royal Assent before Parliamentary recess for Easter, starting on 26 March 2024, to give as much certainty and notice to employers and payroll software developers. The fast-tracking procedure is also appropriate for the changes in the Bill relating to Class 4 NICs to give certainty and notice to the self-employed, with the changes intended to take effect from 6 April 2024.

## What efforts have been made to ensure the amount of time made available for parliamentary scrutiny has been maximised?

12 No formal consultation has taken place in relation to the Bill due to the need to legislate for the measure as soon as possible after announcement to give employers and HMRC as much time as possible to implement the changes.

## To what extent have interested parties and outside groups been given an opportunity to influence the policy proposal?

13 Due the need to deliver the cuts in time for the start of the next tax year, it was not possible to discuss the policy with stakeholders between its announcement at Budget and its introduction.

## Does the Bill include a sunset clause (as well as any appropriate renewal procedure)? If not, why does the Government judge that their inclusion is not appropriate?

14 No, this Bill does not include a sunset clause given that it contains a reduction in NICs rates that is intended to remain in place.

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[1] House of Lords' Constitution Committee, 15th report of session 2008/09, HL paper 116-I, https://publications.parliament.uk/pa/ld200809/ldselect/ldconst/116/116.pdf

[2] https://publications.parliament.uk/pa/ld200809/ldselect/ldconst/116/116.pdf para. 186

**Are mechanisms for effective post-legislative scrutiny and review in place? If not, why does the Government judge that their inclusion is not appropriate?**

15 As is the case for tax policy, these changes will be continuously kept under review using information collected from HMRC's internal systems and National Insurance receipts.

**Has an assessment been made as to whether existing legislation is sufficient to deal with any or all of the issues in question?**

16 New primary legislation is required to give effect to the reduction in primary Class 1 NICs and Class 4 NICs main rates from 6 April 2024.

**Have relevant parliamentary committees been given the opportunity to scrutinise the legislation?**

17 A European Convention on Human Rights analysis is included in these Explanatory Notes for the Joint Committee on Human Rights. A Delegated Powers Memorandum has not been prepared for the Delegated Powers and Regulatory Reform Committee as the Bill contains no new regulation making powers.

# Commentary on provisions of Bill

## Clause 1: Reduction in rates

18 Clause 1(1)(a) amends section 8(2)(a) SSCBA 1992 to reduce the main primary percentage of Class 1 NICs paid by employees from 10% to 8%. Clause 1(1)(b) makes equivalent provisions for Northern Ireland by amending SSCB(NI)A 1992.

19 Clause 1(3)(a) amends section 15(3ZA)(a) SSCBA 1992 to reduce the main Class 4 percentage paid by the self-employed to 6%. Clause 1(3)(b) makes equivalent provisions for Northern Ireland by amending SSCB(NI)A 1992.

20 Clause 1(2) reduces the reduced rate that applies in relation to a historic class of married women and widows.

21 Clause 1(4) provides that section 2 of the National Insurance Contributions (Reduction in Rates) Act 2023 is superseded by clause 1(3) and accordingly is to be treated as never having had effect. The current main Class 4 percentage is 9%. Section 2 of the National Insurance Contributions (Reduction in Rates) Act 2023 would have set the Class 4 NIC rate at 8% for the start of the 2024-25 tax year (if that section had not been superseded by clause 1(3) of this Bill).

22 The amendments made by clause 1 take effect from 6 April 2024.

## Clause 2: Annual maximum contributions

23 Clause 2 amends S.I. 2001/1004. Clause 2 amends the calculation of the annual maximum for the start of the 2024-25 tax year, as set out in regulations 21 and 100 of S.I. 2001/1004 to reflect the reduced main rates of primary Class 1 NICs and Class 4 NICs.

24 Clause 2(4) provides that paragraph 3 of the Schedule to the National Insurance Contributions (Reduction in Rates) Act 2023 is superseded by this section and accordingly is to be treated as never having had effect. Paragraph 3 of the National Insurance Contributions (Reduction in Rates) Act 2023 would have set the annual maximum specified in regulations 21 and 100 of S.I. 2001/1004 for the start of the 2024-25 tax year based on the rate reductions in that Act.

### Clause 3: Commencement and short title

25 Clause 3(1) provides that the Act comes into force on 6 April 2024.

26 Clause 3(2) gives the short title of the Bill as the National Insurance Contributions (Reduction in Rates) Act 2024.

# Commencement

27 All the provisions in the Act come into force on 6 April 2024.

# Financial implications of the Bill

28 The exchequer impact for the measures in the Bill are set out in a Tax Information and Impact Note published at the Spring Budget.

29 HMRC anticipates a small increase in call volumes and customer contact as a result of the reduction of NICs rates. The initial assessment does not suggest there will be significant delivery costs in implementing this policy. HMRC will continue to undertake and refine its operational impacting. It is anticipated that further IT changes may be identified and required to be delivered at additional cost to HMRC, to support delivery of this policy.

30 There may also be impacts on other government departments, including the Department for Work and Pensions, whose systems may need updating to reflect changed NICs rates. Further engagement with departments is planned immediately following announcement of this policy.

# Parliamentary approval for financial costs or for charges imposed

31 The result of the reduction of rates is to reduce the level of the National Insurance Fund. This is turn increases the likelihood of money provided by Parliament being used to increase the level of the National Insurance Fund under the Social Security Act 1993. Accordingly, the Bill requires a money resolution.

# Compatibility with the European Convention on Human Rights

32 The Baroness Vere of Norbiton has made the following statement under section 19(1)(a) of the Human Rights Act 1998:

“In my view the provisions of the National Insurance Contributions (Reduction in Rates) (No. 2) Bill are compatible with the Convention Rights”.

33 The effect of the Bill is to reduce NICs rates. Therefore, the amount of NICs that employees and the self-employed pay will decrease. The provisions of the Bill are therefore wholly relieving.

# Duty under section 20 of the Environment Act 2021

34 The Baroness Vere of Norbiton is of the view that the Bill as brought from the House of Commons does not contain provision which, if enacted, would be environmental law for the purposes of section 20 of the Environment Act 2021. Accordingly, no statement under that section has been made.

# Duty under section 13C of the European Union (Withdrawal) Act 2018

35 The Baroness Vere of Norbiton is of the view that the Bill as brought from the House of Commons does not contain provision which, if enacted, would affect trade between Northern Ireland and the rest of the United Kingdom. Accordingly, no statement under that section has been made.

# Related documents

36 The following documents are relevant to the Bill and can be read at the stated locations:

- A Tax Information and Impact Note has been published by HM Revenue and Customs.[3]

[3] https://www.gov.uk/government/publications/changes-to-national-insurance-contributions-from-6-april-2024/reduction-to-the-main-rates-of-primary-class-1-and-class-4-national-insurance-contributions

Cabinet Office

# Annex A – Territorial extent and application in the United Kingdom

| Provision | England | Wales | | Scotland | | Northern Ireland | |
|---|---|---|---|---|---|---|---|
| | Extends to E & W and applies to England? | Extends to E & W and applies to Wales? | Legislative Consent Motion process engaged? | Extends and applies to Scotland? | Legislative Consent Motion process engaged? | Extends and applies to Northern Ireland? | Legislative Consent Motion process engaged? |
| Clause 1 | Yes | Yes | No | Yes | No | Yes | No |
| Clause 2 | Yes | Yes | No | Yes | No | Yes | No |
| Clause 3 | Yes | Yes | No | Yes | No | Yes | No |

## Subject matter and legislative competence of devolved legislatures

37 There is no matter in the Bill that is within the legislative competence of the devolved legislatures.

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