

NATIONAL INSURANCE CONTRIBUTIONS (SECONDARY CLASS 1 CONTRIBUTIONS) BILL

EXPLANATORY NOTES

What these notes do

These Explanatory Notes relate to the National Insurance Contributions (Secondary Class 1 Contributions) Bill as brought from the House of Commons on 18 December 2024 (HL Bill 56).

- 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 deals with the following matters:
 - An increase in the rate of secondary Class 1 contributions
 - A reduction in the secondary threshold for Class 1 contributions
 - An increase in the Employment Allowance and removal of the eligibility threshold of secondary Class 1 NICs liabilities of less than £100,000 in the previous tax year

Policy background

- 2 The bill is intended to deliver part of the Government's long-term plan to repair the public finances and increase investment in public services and the economy in order to unlock growth. To achieve this, the government is asking employers to contribute more. This means, from April 2025, the rate of Employer NICs will increase to 15%, and the per-employee threshold at which employers become liable to pay NICs on employees' earnings will be reduced to £5,000.
- 3 The government will protect many of the smallest businesses by increasing the Employment Allowance to £10,500. More than half of employers will see no change overall from these measures in the next tax year. Eligibility for the Employment Allowance will also be expanded to allow more businesses to claim, with the removal of the threshold of £100,000 of employer NICs bills in the previous tax year.

Legal background

- 4 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 Act 2014 (NICA 2014)
 - d. Social Security (Contributions) Regulations 2001 (S.I. 2001/1004).
- 5 These provisions will continue to be the main legislation dealing with NICs.

Territorial extent and application

- 6 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.
- 7 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.

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- 8 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.
- 9 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.

Commentary on provisions of Bill

Clause 1: Rate of secondary Class 1 contributions

- 10 Clause 1(1) amends section 9(2) SSCBA 1992 to increase the main secondary percentage of Class 1 NICs paid by employers from 13.8% to 15%.
- 11 Clause 1(2) makes equivalent provisions for Northern Ireland by amending SSCB(NI)A 1992.
- 12 Clause 1(3) specifies that the amendments that would be made by clause 1 would take effect from 6 April 2025.

Clause 2: Secondary threshold for secondary Class 1 contributions etc

- 13 Clause 2(1) introduces amendments to S.I. 2001/1004.
- 14 Clause 2(2) amends regulation 10(d) of S.I. 2001/1004 by changing the weekly secondary threshold for secondary Class 1 NICs from £175 to £96.
- 15 Prescribed equivalents ensure the threshold is reflective of an employment pay period. Clause 2(3) amends regulation 11(3A) of S.I. 2001/1004 by replacing the monthly and annual prescribed equivalents of the secondary threshold as follows:
 - a. In sub-paragraph (a), the monthly prescribed equivalent of £758, is replaced with £417.
 - b. In sub-paragraph (b), the yearly prescribed equivalent of £9,100, is replaced with £5,000.
- 16 Clause 2(4) specifies the changes that would be made by this clause would apply for the tax year 2025-2026 only.

Clause 3: Increase of employment allowance and removal of £100,000 threshold

- 17 Clause 3(1) introduces amendments to the National Insurance Contributions Act 2014.
- 18 Clause 3(2) amends section 1(2)(a) NICA 2014 to increase the amount of employment allowance from £5,000 to £10,500.
- 19 Clause 3(3)(a) removes subsections (4B) to (4G) of section 2 of NICA 2014 which relates to the exclusion of persons of claiming the employment allowance where their secondary Class 1 NICs liability in the previous tax year is £100,000 or more. This also removes the associated state aid restrictions.
- 20 Clause 3(3)(b) removes the italicised heading which precedes sub-section 2(4B) NICA 2014.
- 21 Clause 3(4) specifies that the amendments that would be made by clause 3 would come into force on 6 April 2025.

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Clause 4: Short title

- 22 Clause 4 gives the short title as the National Insurance Contributions (Secondary Class 1 Contributions) Act 2025

Commencement

- 23 All the provisions in the Act come into force on 6 April 2025.

Financial implications of the Bill

- 24 The exchequer impacts for the measures in the Bill are set out in a Tax Information and Impact Note.
- 25 HMRC will need to make IT changes to support implementation of this measure. These changes are expected to cost in the region of £900,000.
- 26 No impacts are anticipated on other government departments.

Parliamentary approval for financial costs or for charges imposed

- 27 Clause 3 would increase the employment allowance to £10,500 and remove restrictions so as to make the allowance available to employers paying more than £100,000 in secondary Class 1 contributions. This would operate to reduce the amount of money payable into the National Insurance Fund and, in doing so, increase the likelihood of payments out of the Consolidated Fund being used to top up the National Insurance Fund under section 2 of the Social Security Act 1993. The Bill accordingly requires a money resolution to cover the increased likelihood of payments out of the Consolidated Fund.

Compatibility with the European Convention on Human Rights

- 28 Lord Livermore 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 (Secondary Class 1 Contributions) Bill are compatible with the Convention Rights”.

Duty under section 20 of the Environment Act 2021

- 29 Lord Livermore is of the view that the Bill as introduced into the House of Lords 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

30 Lord Livermore is of the view that the Bill as introduced into the House of Lords 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

31 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.¹

¹ <https://www.gov.uk/government/publications/changes-to-the-class-1-national-insurance-contributions-secondary-threshold-the-secondary-class-1-national-insurance-contributions-rate-and-the-empl>

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
Clause 4	Yes	Yes	No	Yes	No	Yes	No

Subject matter and legislative competence of devolved legislatures

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

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