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Research Briefing

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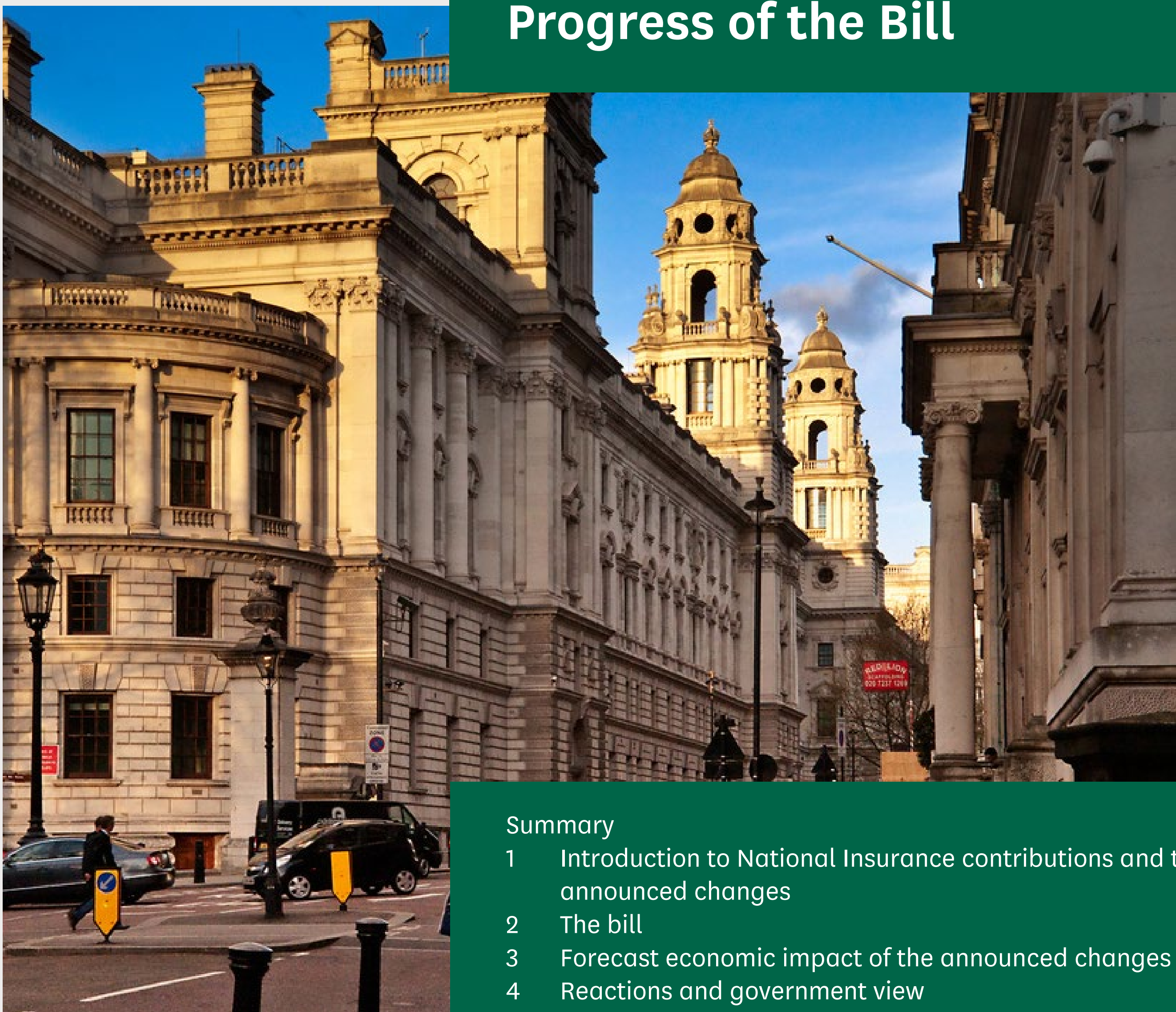
National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25: Progress of the Bill



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Contents

Summary

At the Autumn 2024 Budget, the Chancellor, Rachel Reeves, announced several changes to employer National Insurance contributions which would come into force from April 2025. These changes are set out in the National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25.

The bill was introduced on 6 November 2024. The bill, with its explanatory notes, is published on a dedicated webpage on parliament.uk. The page also details the bill's parliamentary progress.

A reasoned amendment in the name of the Shadow Chancellor was selected for debate and was negatived on division (186 ayes to 330 noes). The bill passed its second reading on division on 3 December 2024 (332 ayes to 189 noes). The committee of the whole house and remaining stages of the bill are scheduled to take place on 17 December.

The bill would make changes to National Insurance contributions (NICs) paid by employers. It would not make changes to NICs paid by employees.

Overview of employer National Insurance contributions

Employers pay HM Revenue and Customs (HMRC) secondary Class 1 National Insurance contributions (NICs, known as 'employer NICs') on their employees' earnings. Currently, employer NICs are charged at a rate of 13.8% after an employee's earnings exceeds the secondary threshold, set at £758 per month. Eligible employers can get a £5,000 discount on their NICs bill. This is known as the employment allowance. This discount is subject to a cap: employers are not eligible for the employment allowance if their employer NICs liability (the amount of employer NICs they pay) exceeds £100,000 a year.

In 2023/24, NICs raised £179 billion, 60.5% of which came from employer NICs.

Money raised from NICs is mostly spent on contributory benefits. The Social Security Administration Act 1992 requires HM Revenue and Customs (HMRC) to transfer a majority of this money to a separate pot of money: the National Insurance Fund (PDF). HMRC transfers a portion of this money (estimated to be £33.5 billion in 2023/24) to the National Health Service (NHS). The NHS allocation is a specified percentage per type of NICs. For example, each year, 1.9% of secondary Class 1 NICs are allocated to the NHS.

NIC rates are set out in the Social Security Contributions and Benefits Act 1992, sections 8(2), 9(2), and 15(3ZA). NIC thresholds are set out in secondary legislation, the Social Security (Contributions) Regulations 2001.

The Library briefing National Insurance contributions: An introduction has more details on the operation of the tax.

What would the bill do?

The bill would implement the following changes to employer NICs from 6 April 2025:

- an increase in the rate of NICs paid by employers on their employees' earnings, from 13.8% to 15%
- a decrease in the secondary threshold (the threshold after which employers start paying NICs on their employees' earnings) from £758 a month to £417
- an increase in the employment allowance from £5,000 to £10,500, and a removal of the £100,000 eligibility cap

This means the bill would increase the NICs rate that employers pay on an employee's earnings. The level at which employers start paying employer NICs would decrease, meaning employers would pay employer NICs on the wages of employees on lower salaries (when they previously did not have to).

Employers would also be able to offset a higher amount of their employer NICs liability due to the increase in the employment allowance. The discount available would increase to £10,500. Any employer (subject to eligibility criteria) would be able to use the allowance, regardless of their NICs liability, due to the removal of the £100,000 cap.

What effects would the bill have?

The direct impact of the measure makes it the biggest tax increase in the Budget: it is estimated measures in the bill would raise £23.8 billion in 2025/26, rising to £25.7 billion in 2029/30 (PDF). The Office for Budget Responsibility (OBR), which has analysed the proposal, forecasts that the actual revenue generated by the measures in the bill would be £16.1 billion in 2029/30 (PDF). This lower estimate is primarily due to expected behavioural responses from businesses and a reduction in wage growth resulting from the increase in employer NICs.

Announcing the government's proposals to increase employer NICs at the 2024 Autumn Budget, the Chancellor, Rachel Reeves, said that the proposals would mean "working people will not see higher taxes in their payslips as a result [...]".

The potential effects of the bill were also analysed by the Treasury Select Committee in its oral evidence sessions following the Budget.

What were the reactions to the bill?

The announcement that employer NICs would be increased was received negatively by opposition MPs, who voiced their concerns in their response to the Budget. Media outlets reported that the measure could have a detrimental effect on some sectors (such as hospitality and social care). Think tanks, such as the Institute for Fiscal Studies (IFS), pointed out that the proposals would have a direct effect on working people, noting the OBR projection that a majority of the cost would be passed from businesses to their employees through lower wages.

The Chancellor did not dispute the OBR's forecast, but said that wages and household disposable income would be higher by the end of the forecast period as a result of the measures presented in the Budget.

1 Introduction to National Insurance contributions and the announced changes

National Insurance contributions (NICs) are a direct tax charged on employees, self-employed people and employers.

Only income from employment and self-employment is in the scope of NICs. Other types of income (such as income from rent, or investment) does not create a liability for NICs.

NICs are broadly divided into 'classes':

- Class 1 NICs are charged on employees (on their earnings; 'primary' Class 1 NICs) and on employers (on their employees' earnings; 'secondary' Class 1 NICS)
- Class 2 NICs are a flat-rate contribution that used to be charged on self-employed people (from April 2024, self-employed people no longer have to pay these)
- Class 3 NICs are a voluntary contribution allowed, in certain circumstances, if someone has a gap in their National Insurance record
- Class 4 NICs are charged on the profits of self-employed people[1]

The bill only relates to secondary Class 1 contributions.

More information about the operation of other NICs classes is provided in the Library briefing National Insurance contributions: An introduction.[2]

1 HM Government, National Insurance: introduction – National Insurance classes, accessed 23 October 2024

2 Commons Library research briefing CBP-4517, National Insurance contributions: an introduction

1.1 Secondary Class 1 NICs thresholds, rates and allowances

Class 1 NICs are charged weekly or monthly, depending on the employer's assessment period. Therefore, if an employee is paid monthly, the employer NICs assessment will be monthly.[3]

As a result, NICs thresholds are usually expressed in weekly or monthly terms.

The table below shows the applicable thresholds, rates and allowances for secondary Class 1 NICs (employer NICs).

Secondary Class 1 NICs for employers
Amount per week/month, 2024/25

Threshold name	Description	Threshold amount	Rate
Secondary Threshold	Employers start paying NICs on their employees' earnings	£175/£758	13.8%
Upper Secondary Threshold	Employers start paying NICs for employees who are under 21, certain apprentices, and veterans	£967/£4,189	13.8%

Source: HMRC, Rates and allowances: National Insurance contributions, 22 July 2024

The employment allowance and the £100,000 cap

The employment allowance is a deduction from the total amount of payable employer NICs. It is therefore a saving for employers.[4] The employment allowance is currently only available to employers whose employer NICs liability was lower than £100,000 in the previous tax year.[5] This effectively acts as a 'cap': employers with a secondary Class 1 NICs liability exceeding £100,000 cannot claim the allowance.

Regardless of total employer NICs liability, not all employers are eligible for this allowance. Public bodies and businesses doing more than 50% of their work in the public sector cannot claim the allowance unless they are a charity.[6]

The current employment allowance deduction available is £5,000.[7] The allowance was originally introduced by the then Chancellor, George Osborne,

3 HM Government, National Insurance: introduction – How much you pay, accessed 20 November 2024
4 HM Government, Employment Allowance – What you'll get, accessed 31 October 2024
5 HM Government, Employment Allowance – Check if you're eligible, accessed 31 October 2024
6 As above; see also HMRC, Eligibility for Employment Allowance: further employer guidance, 15 February 2023 for more information
7 HM Government, Employment Allowance – What you'll get, accessed 31 October 2024

in 2014, and set at a value of £2,000.[8] The value of the employment allowance increased to £3,000 in 2016, to £4,000 in 2020, and to £5,000 in 2022.[9]

1.2 Example of secondary Class 1 NICs on an employee's earnings

The box below provides an example of the secondary Class 1 NICs liability on an employee's monthly earnings. This example does not take into account the employer's possible eligibility for the employment allowance.

This example only calculates the secondary Class 1 NICs liability, and does not account for primary Class 1 NICs (employee NICs, which the employee would be directly liable for).

1 Worked example

Gerri is employed by a company. She earns £2,800 a month. As her earnings exceed the secondary threshold, a secondary Class 1 NIC due. Gerri's employer's NICs liability is calculated as follows:

Her earnings are liable for employer NICs at the 13.8% rate over the secondary threshold (£758/month), as follows:

13.8% of (£2,800 - £758) = 13.8% of 2,042 = £281.80

The employer will pay £281.80 in secondary Class 1 NICs for employing Gerri for that month.

1.3 What are NICs for?

Broadly, payment of some classes of NICs may give people an entitlement to certain benefits. These are known as 'contributory benefits', as eligibility is

8 HM Treasury, Budget 2013 (PDF), March 2013. Statutory provision is made in the National Insurance Contributions Act 2014

9 HMRC, Employment Allowance: increase to £3,000, 25 January 2016; HMRC, Employment Allowance increases for National Insurance from April 2020, 11 March 2020; and HMRC, Employment Allowance increases for National Insurance from April 2022, 23 March 2022. The Library published a research briefing on the bill that introduced the employment allowance (published November 2013), and on the parliamentary scrutiny of the Bill (published February 2014)

determined (at least in part) by a record of contributions: in other words, by payment of NICs.[10]

People may be eligible for National Insurance credits if they are unable to pay NICs (for example, if they are ill, or unemployed).[11]

The main contributory benefit is the State Pension. Eligibility for the State Pension is determined by several factors (such as age), as well as someone having 10 qualifying years on their National Insurance record.[12] Qualifying years can be completed either by paying NICs, receiving National Insurance credits or both.

What are employer NICs for?

Secondary Class 1 NICs are a levy on the employer rather the employee. Employers do not pay NICs to build an entitlement to contributory benefits because they are paying NICs in relation to their employees.

Introducing the measure, the Chancellor said she would raise employer NICs as the government wanted to keep their commitment to not increase taxes on a worker's payslip:

> I have made an important choice today: to keep every single commitment that we made on tax in our manifesto. I say to working people, I will not increase your national insurance, I will not increase your VAT, and I will not increase your income tax.[13]

There are several reasons behind the NICs levy on employers. These lie in the origins of the modern National Insurance system, which was devised by Sir William Beveridge in the 1940s. In creating a system of social insurance for the UK, Beveridge said that:

- an employer contribution should be considered a part of the cost of production by supporting employees when they "are actually working and when they are standing by"
- employers should "feel concerned for those who work under their control"
- employers needed a definite status to make representations about how social security was being administered and how it could be improved[14]

Section 2 of the Library briefing National Insurance contributions: An introduction has a detailed overview of the contributory principle as

10 HM Government, National Insurance: introduction – What National Insurance is for, accessed 20 November 2024
11 HM Government, National Insurance credits, accessed 18 November 2024
12 HM Government, The new State Pension, accessed 18 November 2024
13 HC Deb 30 October 2024, c818
14 William Beveridge, The Beveridge Report – Social Insurance and Allied Services, November 1942, paragraph 274

envisaged by Beveridge and the creation of the modern National Insurance system.

1.4 How much money do NICs raise?

In 2023/24, the government raised around £179 billion from NICs. Almost 95% of these were Class 1 NICs. Of Class 1 NICs:

- £61.8 billion came from employee NICs (34.5% of the total amount)
- £108.3 billion came from employer NICs (over 60% of the total amount)[15]

Overall, only income tax raised more money than NICs in 2023/24 (over £277 billion). VAT, the third largest tax in the UK in terms of tax revenue, raised almost £169 billion. Corporation tax, the fourth largest tax, raised just over £94 billion.[16]

1.5 Where does the money raised from NICs go?

Unlike most other national taxes, money raised from NICs does not go to the consolidated fund (the government's current account). Instead, most money raised by NICs is sent to a separate fund, the National Insurance Fund (NIF).[17]

Money in the NIF is mostly ring-fenced for spending on contributory benefits. This means that most of the money in the NIF cannot be spent on anything other than benefit payments. However, by law, money in the NIF can be spent on certain specific non-contributory benefits (such as the carer's allowance).[18] Money that is not immediately spent by the NIF (the 'surplus') can be invested, though only in specific ways.[19] See section 3.4 of the Library briefing National Insurance contributions: An introduction for more information.[20]

Not all money raised through NICs goes to the NIF. A share of money raised through each class of NICs is instead allocated to the National Health Service (NHS). This is known as the NHS allocation. The Government Actuary's Department (GAD) estimates that, in 2023/24, £33.5 billion of NICs revenue

15 OBR, Economic and Fiscal Outlook – October 2024 – detailed forecast tables: receipts, October 2024, table 3.4
16 OBR, Economic and Fiscal Outlook – October 2024, CP 1169, October 2024, table A.5, p172
17 HM Revenue and Customs (HMRC), National Insurance Fund Accounts, updated 14 December 2023
18 Social Security Administration Act 1992, as amended, ss162-63
19 HMRC, Great Britain National Insurance Fund Account for the year ended 31 March 2023 (PDF), HC 354, 14 December 2023
20 Commons Library research briefing CBP-4517, National Insurance contributions: an introduction

was given to the NHS, and the remaining £139.9 billion was transferred to the NIF.[21]

The NHS allocation is determined by law: a share of each type of NICs must be transferred to the NHS. For example, 1.9 percentage points of secondary Class 1 NICs is transferred to the NHS.[22]

1.6 Relevant legislation

NIC rates are set in the Social Security Contributions and Benefits Act 1992:

- section 8.2 for primary Class 1 NICs
- section 9(2) for secondary Class 1 NICs
- section 15(3ZA) for Class 4 NICs[23]

NIC thresholds are set out in secondary legislation: regulations 10 and 11 of the Social Security (Contributions) Regulations 2001.[24]

1.7 Recent changes to NICs

Towards the end of the 2019–2024 Parliament, the Conservative government implemented changes to the rates of primary Class 1 NICs (for employees) and Class 4 NICs (for self-employed people). Between 2023 and 2024, the government reduced NICs from 12% to 8% for employees, and from 9% to 6% for self-employed people.[25]

More information on these changes can be found in the following Library briefings:

- National Insurance Contributions (Reduction in Rates) Bill 2023-24

21 GAD, Report by the Government Actuary on: The draft Social Security Benefits Up-rating Order 2024; and The determination not to lay draft Social Security (contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2024 (PDF), January 2024, p46

22 The relevant legislation is the Social Security Administration Act 1992, as amended, section 162

23 Social Security Contributions and Benefits Act 1992, as amended. The Government Actuary's Department gives further detail of the NHS allocation of secondary Class 1 NICs in its up-rating report (PDF, p30): "The amount of the secondary Class 1 NICs apportioned to the NHS is calculated as the relevant percentage of the total earnings of those employees who earn above the primary threshold [...]".

24 The Social Security (Contributions) Regulations 2001, as amended

25 See HM Treasury, Autumn Statement 2023, CP 977, November 2023; and HM Treasury, Spring Budget 2024, HC 560, March 2024 for more detail. The relevant acts are the National Insurance Contributions (Reduction in Rates) Act 2023, and the National Insurance Contributions (Reduction in Rates) Act 2024.

- National Insurance Contributions (Reduction in Rates (No. 2) Bill 2023-24

A shorter overview of these changes is also included in sections 5.3 and 5.4 of the Library briefing National Insurance contributions: An introduction.[26]

1.8 Autumn Budget 2024: Announcement of changes to employer NICs

The Chancellor, Rachel Reeves, held the Budget on 30 October 2024. In her speech, she announced changes to employer NICs:

> Any responsible Chancellor would need to make difficult decisions today to raise the revenues required to fund our public services and restore economic stability. So in today's Budget, I am announcing an increase in employers' national insurance contributions. We will increase the rate of employers' national insurance by 1.2 percentage points to 15% from April 2025, and we will reduce the secondary threshold – the level at which employers start paying national insurance on each employee's salary – from £9,100 a year to £5,000. This will raise £25 billion per year by the end of the forecast period.[27]

In her speech, the Chancellor added that the proposals would mean "working people will not see higher taxes in their payslips as a result [...]".[28]

The reduction in the secondary threshold is a reduction from its currently monthly level of £758 to £417.[29]

Rachel Reeves added that the government wanted to "protect our smallest companies", and therefore announced an increase in the employment allowance from £5,000 to £10,500.[30] The Chancellor said this would mean that over 850,000 employers would not have to pay any NICs from April 2025, and over 1 million would pay the same or less than they previously did.[31]

The Budget report added that the government would abolish the £100,000 limit for accessing the employment allowance. Therefore, all eligible employers would benefit from the allowance, regardless of their NICs liability.[32]

The Budget report, published on the day of the Chancellor's speech, highlighted that the government had decided to increase employer NICs,

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26 Commons Library research briefing CBP-4517, National Insurance contributions: an introduction

27 HC Deb 30 October 2024, c818

28 HC Deb 30 October 2024, c818

29 See clause 2(3)(a) of the National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25 (PDF). Other subsections of this clause give equivalent numbers for the proposed new secondary threshold in weekly and yearly terms.

30 HC Deb 30 October 2024, c818

31 As above

32 HM Treasury, Autumn Budget 2024, HC 295, October 2024

alongside other taxes, "to raise revenue and deliver the increased investment that public services need."[33]

Compensation for public sector employers

The Budget report added that the government would give an allowance (or compensation) to "public sector organisations" to balance the impact of the NICs increase.[34] Its table shows this cost to the government will be £4.7 billion in 2025/26, rising to £5.1 billion in 2029/30.[35] This does not mean these organisations are exempted from the NICs increase. Rather, the government is proposing to increase their budgets to negate the impact of the measure. The government has not published a breakdown of organisations that would be compensated. It said on 14 November that the approach would be finalised in detail "as soon as possible" so that government departments and devolved governments can plan for 2025/26.[36]

The public sector compensation announced by the government in the Budget report is not included in the bill.

1.9 More information on NICs

Section 1 of the Library briefing National Insurance contributions: An introduction gives a detailed overview of the current working of the National Insurance system, including further information on the calculation of NICs, the National Insurance Fund, and rates and allowances for other NICs classes.

The Institute for Fiscal Studies, an economic and fiscal policy think tank, has published a helpful explainer on NICs.[37] The Chartered Institute of Taxation (CIOT) has also published an explainer, with specific reference to the announcements made at the Autumn 2024 Budget.[38]

33 HM Treasury, Autumn Budget 2024, HC 295, October 2024, para 2.40, p45
34 HM Treasury, Autumn Budget 2024, HC 295, October 2024, table 5.1, item 26, p118
35 As above, table 5.1, item 26, p118
36 PQ 13497 [on Employers' Contributions: Wales], 14 November 2024
37 IFS, National Insurance contributions explained, 4 April 2024
38 CIOT, National insurance explainer (Budget October 2024 update), 1 November 2024

2 The bill

The National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25 was introduced on 13 November 2024. The bill, with its explanatory notes, is published on a dedicated webpage on parliament.uk.

The bill has three substantive clauses. The fourth and last clause is its short title.

The bill does not detail its territorial extent. The bill's explanatory notes, however, confirm that the bill's provisions would extend to the entirety of the UK.[39]

The changes made by the bill would come into force on 6 April 2025.

Annex A to this briefing includes an explainer of the legislative process.

2.1 Clause 1

Clause 1(1) would amend the Social Security Contributions and Benefits Act 1992 to increase the rate of employer NICs from 13.8% to 15%.

Subsection (2) would implement an equivalent change to the Social Security Contributions and Benefits (Northern Ireland) Act 1992. This is necessary because social security is formally devolved in Northern Ireland. The actual change, however, is the same. This is because, under the Northern Ireland Act 1998 (section 87), Northern Ireland maintains parity with social security in Great Britain. Section 5 of the Library briefing Social security powers in the UK has more information on this.[40]

2.2 Clause 2

Clause 2 amends the Social Security (Contributions) Regulations 2001.

The clause would reduce the secondary threshold from £175 a week to £96 a week, via an amendment to regulation 10(d) of the 2001 regulations.

[39] UK Parliament, National Insurance contributions (Secondary Class 1 Contributions) Bill – Explanatory Notes (PDF), November 2024

[40] Commons Library research briefing CBP-9048, Social security powers in the UK

Regulation 11(3A)(a) provides a monthly equivalent (£758) to the secondary threshold. Clause 2(3)(a) of the bill would amend the monthly threshold to £417.

Regulation 11(3A)(b) provides a yearly equivalent (£9,100) to the secondary threshold. Clause 2(3)(b) of the bill would amend the yearly threshold to £5,000.

2.3 Clause 3

Clause 3 would amend the National Insurance Contributions Act 2014, the act that established the employment allowance.

Clause 3(1) would increase the employment allowance from £5,000 to £10,500.

Subsection (3) would cancel the £100,000 cap on employers' NICs liability. This would allow all eligible employers to use the employment allowance, regardless of their total employer NICs liability.

3 Forecast economic impact of the announced changes

3.1 The Treasury assessment

The Budget policy costings document shows this measure is the biggest tax increase announced in the Budget. The Treasury forecasts that these proposals will raise £23.8 billion in 2025/26, increasing to £25.7 billion in 2029/30, the end of the forecast period.[41] The OBR certified these forecasts.

3.2 The OBR assessment

The Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook on the same day as the Budget was announced.[42] The document analyses the state of the UK economy and public finances, and evaluates the impact of policies proposed by the government at the Budget. This includes certifying the government's costings for each proposal announced.

The OBR gave a breakdown of the costing of the proposed changes. It estimated that:

- the increase in the employer NICs rate from 13.8% to 15% would raise £11.8 billion a year on average
- the reduction in the secondary threshold from £9,000 to £5,000 would raise £17.7 billion a year on average
- the increase in the employment allowance from £5,000 to £10,500, and the cancellation of the £100,000 cap, would cost £4.6 billion a year on average[43]

HM Revenue and Customs (HMRC) estimates around 940,000 employers would see their NICs liabilities increase from April 2025. Around 820,000 would see no change, and around 250,000 employers would see their NICs liabilities decrease as a result of the reforms. Therefore, HMRC estimates

41 HM Treasury, Autumn Budget 2024: Policy Costings (PDF), October 2024
42 OBR, Economic and Fiscal Outlook – October 2024 (PDF), CP 1169, October 2024
43 OBR, Economic and Fiscal Outlook – October 2024 (PDF), CP 1169, para 3.8, p53

"more than half of businesses with NICs liabilities [in 2025/26] will either gain or see no change in their secondary Class 1 liabilities.[44]

The OBR adds that it estimates that "the average employer who loses out will see their liabilities increase by around £26,000."[45]

Static costing and the behavioural response

The Treasury and OBR forecast that the measure will raise £25.7 billion by 2029/30. This is the "static costing", meaning it does not account for behavioural changes in response to the proposals.[46]

The OBR also analyses the potential behavioural responses to the measures announced in the Budget. The main responses forecast by the OBR are "indirect behavioural effects [...] on nominal and real wages, and profits."[47] The OBR assumes employers will pass a significant share of the cost of the measure onto employees and consumers (via lower wages and higher prices). In 2025/26, the OBR expects that the share passed on to employees and consumers will be 60%. From 2026/27, however, it estimates that 76% of the total cost will be passed on to employees "through lower real wages".[48]

The OBR estimates that these behavioural responses would reduce the revenue from the measure by £3.4 billion in 2025/26, rising to £7.5 billion in 2029/30. This represents around 30% of the static costing.[49]

Overall, the OBR estimates that all behavioural responses to the measure would reduce the overall yield by £5.7 billion in 2025/26, increasing to £10.3 billion in 2029/30.[50]

In 2029/30, therefore, the OBR forecast the "post-behavioural yield" would be £16.1 billion.[51] This is around £9.6 billion less than the static costing of £25.7 billion.

The OBR has created a table to show the effects of different behavioural responses on the total revenue generated by the increase in employer NICs. This is reproduced below.

44 HMRC, Changes to the Class 1 National Insurance Contributions Secondary Threshold, the Secondary Class 1 National Insurance contributions rate, and the Employment Allowance from 6 April 2025, 13 November 2024
45 As above
46 As above
47 As above, para 3.11, p54
48 As above
49 OBR, Economic and Fiscal Outlook – October 2024 (PDF), CP 1169, para 3.11, p54
50 As above, para 3.10, pp53-54
51 As above, table 3.2, p55

Forecast cost of the rise in employer NICs, £ billion
Including the effect of behavioural responses

	2025/26	2026/27	2027/28	2028/29	2029/30
Static costing	-23.9	-24.3	-24.7	-25.6	-26.4
Direct behavioural response:					
Increased incorporations and mini umbrella company incentives	0.2	0.6	0.5	0.6	0.7
Post-direct-behavioural costing	-23.8	-23.7	-24.2	-24.9	-25.7
Indirect behavioural response:					
Reduction in wages and salaries	3.4	6.9	7.1	7.3	7.5
Reduction in profits					
Reduction in employment and hours	0.5	0.6	0.6	0.6	0.7
Welfare impact	0.3	0.4	0.4	0.4	0.4
Post-indirect-behavioural costing	-18.3	-14.6	-15.2	-15.7	-16.1
Memo: RDEL compensation to public sector organisations	4.7	4.7	4.8	4.9	5.1

Source: OBR, Economic and Fiscal Outlook – October 2024 (PDF), October 2024, Table 3.2, p55 – the table integrates a correction slip published by the OBR on 7 November 2024 (PDF)

3.3 IFS assessment of the effect on lower wages

In its analysis of the Budget, the economic think tank the Institute for Fiscal Studies (IFS) examined the effects of the changes for people on different wages. In a presentation on the announced tax measures, IFS economist, Isaac Delestre, projected that the effects of the measure would be felt most significantly by employers of the lowest earners. He anticipates that the increase in labour costs for employers of people on the lowest 10% of earnings would be over 4.5%, and the increase in labour costs for employers of people on the highest 10% of earnings would be under 1.5%.[52]

52 IFS, Autumn Budget 2024 – Tax measures (PDF), 31 October 2024

4 Reactions and government view

4.1 House of Commons

In the Commons, the reaction to the announcement broadly reflected party lines. Labour MPs were largely supportive of the proposal. For example, Dame Meg Hillier (the chair of the Treasury Committee) said the increase in employer NICs was "an understandable measure".[53] Other Labour MPs said that the proposal was consistent with Labour's promise not to raise taxes on working people, as employer NICs taxes employers, rather than employees.[54]

MPs from HM Official Opposition criticised the proposal. The then Leader of the Opposition, Rishi Sunak, said the increase in employer NICs was a tax on working people, and therefore a breach of Labour's electoral manifesto.[55] Other Conservative MPs also expressed concerns about the potential effects of the measure on workers as well as businesses.[56]

MPs speaking for the Liberal Democrats, the Scottish National Party, the Democratic Unionist Party and Plaid Cymru also expressed concerns about the potential effects of the proposal.[57]

Parliamentary questions

The proposal to increase employer NICs has been raised by MPs several times in parliamentary questions (PQ). Questions primarily asked for an assessment of the impact of the measure (including on specific sectors), or asked for further detail about public sector compensation.[58]

53 HC Deb 30 October 2024, cc836-37

54 For example, see HC Deb 30 October 2024, c865 (Preet Kaur Kill, Labour and Co-op); cc876-77 (Matt Western, Labour); c881 (Ruth Jones, Labour); and c897 (Matthew Patrick, Labour)

55 As above, c832

56 See, for instance, HC Deb 30 October 2024, c836 (Caroline Dinenage, Conservative); c887-88 (Mike Wood, Conservative)

57 See Ed Davey (Liberal Democrat – HC Deb 30 October 2024, cc840-41); Dave Doogan (SNP, cc858-59); Sammy Wilson (DUP, c875), and Llinos Medi (Plaid Cymru, c884)

58 See, for example, PQ 11999 [on Employers' Contributions: Business], 6 November 2024; PQ 12760 [on Employers' Contributions: General Practitioners], 11 November 2024; PQ 12948 [on Employers' Contributions: Government Departments], 12 November 2024; PQ 13480 [on Employers' Contributions: Public Sector], 14 November 2024; PQ 14066 [on Employers' Contributions], 18 November 2024; PQ 14321 [on Employers' Contributions: Charities], 19 November 2024; PQ 14103 [on Employers' Contributions: Civil Society], 22 November 2024; PQ 16116 [on Social Services: National Insurance Contributions], 29 November 2024, and PQ 15800 [on Employers' Contributions: Retail Trade], 3 December 2024

In its answers, the government emphasised it had to make "difficult decisions on tax [to raise] the revenue required to fix the public finances [...]", and that the government would still protect the smallest businesses by increasing the employment allowance.[59] With regards to public sector compensation, the government has said its approach to compensating public sector employers was consistent with the system used by the previous government at the time of the introduction of the Health and Social Care Levy.[60]

4.2 Think tanks and campaigning organisations

In its response to the Budget, the economic and fiscal think tank the Institute for Fiscal Studies (IFS) highlighted that the increase in employer NICs would have a large, negative effect on employee wages.[61] Deputy director and director of tax of the IFS , Helen Miller, said the increase in employer NICs would definitely have consequences for workers.[62] IFS director, Paul Johnson, said that there would be more significant repercussions for those employing people on lower wages due to the decrease in the secondary threshold.[63] IFS economist, Isaac Delestre, projected that the effects of the measure would be felt most significantly by employers of the lowest earners. He anticipates that the increase in labour costs for employers of people on the lowest 10% of earnings would be over 4.5%, and the increase in labour costs for employers of people on the highest 10% of earnings would be under 1.5%.[64]

Professor David Miles of the OBR expressed a similar view when giving evidence to the Treasury Committee following the Budget. He added that the decrease in the secondary Class 1 threshold would affect "almost everybody who is working".[65] He added, however, that the effect of the reform on lower-paid workers was "not entirely obvious". He said that this was due to the effect of the increase in the national living wage, among other factors.[66]

Responding to another question from the Treasury Committee, IFS director, Paul Johnson, said that this change to NICs was a reverse of the cuts to employee NICs implemented by the previous Chancellor:

> If you compare this change in national insurance contributions to the one that the last Chancellor made – the last Chancellor cut employee national insurance contributions – that was clearly a benefit to working people, but no benefit to pensioners. This is the reverse. This is a cost to employers and working people with no cost to people getting their money from elsewhere. [...] The broad thing here [...] is that your winners are your users of public services

59 For example, PQ 11999 [on Employers' Contributions: Business], 6 November 2024
60 For example, PQ 12948 [on Employers' Contributions: Government Departments], 12 November 2024
61 IFS, What does the Budget mean for the UK?, 31 October 2024
62 As above
63 As above
64 IFS, Autumn Budget 2024 – Tax measures (PDF), 31 October 2024
65 Treasury Select Committee, Budget 2024, 5 November 2024, HC 320 2024-25, Q55
66 As above

> and the big number of your losers is, broadly speaking, people working for companies and the companies themselves.[67]

The National Institute for Economic and Social Research (NIESR), an independent research organisation, has argued the NICs measures could lead to "higher unemployment or weaker wage rises."[68] The NIESR, like the IFS, pointed out that "the percentage increase in the employer's tax bill is the most pronounced for low-income earners", and said it could lead to difficulties for certain sectors, such as hospitality.[69] In its initial response to the Budget, the Adam Smith Institute, a think tank promoting free market and neoliberal ideas, also singled out the hospitality sector as a sector that would be particularly affected by the measure.[70]

The Resolution Foundation (RF), a think tank focused on improving the lives of people on low and middle incomes in the UK, also discussed the OBR's assessment of the measures. They added that the decrease in the secondary threshold to £5,000 would "make it less worthwhile for employers to try and keep workers' pay below it" in order to avoid an employer NICs charge.[71] The RF also argued that a change in NICs made the bias against employment income worse. This is because NICs, unlike income tax, is only charged on employment income, and said the gap between employment and self-employment would continue to grow.[72]

Giving evidence to the Treasury Committee following the Budget, Mike Brewer, interim director of the Resolution Foundation, said that although the increase in the employment allowance would result in the increased use of umbrella companies to avoid NICs liabilities, the elimination of the £100,000 threshold was a positive move. He said the £100,000 threshold was "worse than a cliff edge", as it incentivised companies to artificially maintain their employer NICs liabilities below the threshold in order to be eligible for the employment allowance.[73]

The TaxPayers' Alliance, an organisation campaigning to reform the UK's tax system and the delivery of public services, accused Labour of breaching its manifesto, and said the increase in employer NICs would "decimate businesses up and down the country."[74]

The Institute for Economic Affairs (IEA) predicted the measure would harm workers through lower wages, reduced benefits and a reduction in job

67 Treasury Select Committee, Budget 2024, 5 November 2024, HC 320 2024-25, Q151.
68 NIESR, NIESR's Response to the Autumn 2024 Budget (PDF), 31 October 2024
69 As above, p22
70 Adam Smith Institute press release, The Adam Smith Institute Responds to the 2024 Budget, 30 October 2024
71 Resolution Foundation, More, more, more (PDF), October 2024
72 Resolution Foundation, More, more, more (PDF), October 2024
73 Treasury Select Committee, Budget 2024, 5 November 2024, HC 320 2024-25, Q150.
74 TaxPayers Alliance press release, TaxPayers' Alliance responds to Rachel Reeves' Budget, 30 October 2024

opportunities.[75] Two days before the Budget, the IEA had published research arguing that an increase in employer NICs could result in pay cuts for workers. According to the IEA, the research illustrates that "the incidence of tax, who ultimately bears the burden, doesn't always fall on who pays it."[76] In its response to the Budget, the Centre for Policy Studies also argued a "vast bulk of [the NICs increase] ultimately falls on workers themselves".[77]

On the other hand, the Fabian Society, a Labour-affiliated think tank, said that the government had "provided fiscal muscle behind [its] wider programme […]", while acknowledging the reforms to employer NICs "could be a challenge for some".[78]

Organisational reactions to other elements of the Budget, as well as wider reactions from political parties, is covered by the Library briefing Autumn Budget 2024: Reaction.[79]

4.3 Media

Media outlets mostly expressed and reported criticism of the decision to increase employer NICs.

Several publications highlighted the analyses of some of the think tanks outlined above, particularly focusing on whether the increase in employer NICs would represent a tax on workers.[80]

Some publications spoke to employers in potentially affected industries. Many of the employers who were interviewed expressed concerns about the potential effects of the rise.

75 IEA press release, Budget likely to hurt working people and do little for economic growth, IEA researchers suggest, 30 October 2024

76 IEA press release, Employer NIC rise could reduce wages, according to new research, 28 October 2024

77 CPS, CPS Director responds to the Budget, 30 October 2024

78 Fabian Society, Success criteria, 1 November 2024

79 Commons Library research briefing CBP-10128, Autumn Budget 2024: Reaction

80 "How will the employer National Insurance rise affect you?", The Independent, 30 October 2024; "Let's be honest… this Budget is austerity for the private sector", City AM, 30 October 2024. See also, "Did Labour mislead UK public ahead of Budget?", Financial Times, 31 October 2024; "Say it however you like, a National Insurance hike is a tax on jobs", City AM, 30 October 2024; "Employer national insurance hike to slow hiring and wage growth, critics say", The Independent, 30 October 2024; "Millions of working people will suffer from Reeves' first Budget, warns OBR", The Telegraph [via Factiva], 30 October 2024; "Will the Budget employer national insurance hike hit your wages? We explain what it means", This is Money, 30 October 2024; "Working people will pay the price of higher taxes for employers", Financial Times, 30 October 2024; "Where's The Growth?", The Times [via Factiva], 31 October 2024; "Employers warn of crisis as Reeves increases NI contributions", The Telegraph [via Factiva], 31 October 2024; "Furious bosses hit out at Rachel Reeves' 'business battering' Budget: Industry leaders say £25bn National Insurance raid will 'grind growth to a halt' and threaten jobs and wages", Daily Mail, 31 October 2024

In an interview with the I newspaper, the chief executive of the palliative care and bereavement charity, Sue Ryder, asked the government to use some of the additional NICs receipts to improve financial support for the hospice care sector.[81]

A day after the Budget, the Guardian newspaper published a letter from representatives of social care organisations who were concerned about the potential negative effects of the employer NICs increase on their sector.[82] In another Guardian article, the executive co-chair of the National Care Association, a representative body, said many member organisations were worried about increasing costs for the social care sector.[83]

The Telegraph interviewed Andy Chamberlain, director of policy at the Association of Independent Professionals and the Self-Employed, who said that the NICs increase would have a negative impact on workers employed via umbrella companies, "who cover the cost of employers' National Insurance through their rate of pay."[84]

The Times reported the conclusion of Mike Brewer, interim head of the Resolution Foundation. Mr Brewer said that the increase in employer NICs had reversed, and surpassed, the cuts in employee NICs implemented by the previous government. However, he said that this reversal was not straightforward:

> But there are winners and losers in this convoluted policy reversal, with self-employed workers and small businesses being the big winners, and firms employing lots of very low or very high earners worse affected.[85]

Giving evidence to the Treasury Select Committee, IFS director, Paul Johnson, had a similar assessment, saying "[increasing] the wedge between employing someone or contracting with a self-employed worker" would incentivise companies to use self-employed contractors.[86]

On 31 October 2024, the Independent newspaper reported that the Chancellor had told the BBC that, as a result of the NICs increase, it was likely that "wage increases might be slightly less than they otherwise would have been."[87]

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81 "Hospice charities warn ministers they may have to strip back care", The I, 30 October 2024

82 "Rachel Reeves has left the social care sector in deep trouble", The Guardian, 31 October 2024; see also, "NHS receives major Budget boost but 'lacklustre' social care settlement will hit councils, experts warn", The Independent, 30 October 2024

83 "Ed Davey: care sector will be 'pushed to brink' by national insurance hike and should be exempt", The Guardian, 31 October 2024

84 "How to fight back against Reeves' bombshell Budget", The Telegraph [via Factiva], 30 October 2024

85 "National insurance hike 'will be passed on to workers'", The Times [via Factiva], 30 October 2024

86 Treasury Select Committee, Budget 2024, 5 November 2024, HC 320 2024-25, Q143

87 "UK Treasury chief admits business tax rise could lead to lower than anticipated wages", The Independent, 31 October 2024

4.4 Government response to stakeholder views

Commentary from MPs (particularly from opposition parties), think tanks, and media outlets often referenced the OBR analysis and its forecast that the increase to employer NICs would have a negative effect on wage growth.

In its impact assessment of the proposals, the government said that changes to NICs would aim to "fix the foundations of the public finances and invest in public services."[88]

When questioned about this by the Treasury Committee during an evidence session following the Budget, the Chancellor said she would not dispute the OBR's analysis.[89] She referenced the previous government's cuts to employee NICs, and argued they had been made under "the pretence [...] that the money was there to actually be able to afford those cuts".[90] She said that reversing those cuts would not have been the right approach and would have contravened Labour's manifesto promise not to raise taxes for working people. She then argued that, by increasing employer NICs, businesses would be able to work out how to handle the change:

> What we have done with the increase in employer national insurance is leave it to the business to work out how to absorb it. Businesses are amazingly creative and have great ingenuity, and one of the things that they do really well is drive efficiency and productivity performance. Some of the increases in national insurance will be absorbed through efficiency and productivity gains. Some of it will be absorbed through profits.[91]

Though she agreed that there would be an effect on wage growth, she added that, overall, wages would increase and real household disposable income would increase as well.[92] In an interview with the BBC on 30 October, the Chancellor said that the tax increases in the Budget were needed to "put our public finances in a firm trajectory", and added that she would not want to deliver a similar Budget again.[93]

4.5 Reactions from public service providers

In its costing, the OBR highlighted that the government would give public sector organisations compensation for the changes in employer NICs to mitigate the impact of the employer NICs increase. This is outlined in section

88 HMRC, Changes to the Class 1 National Insurance Contributions Secondary Threshold, the Secondary Class 1 National Insurance contributions rate, and the Employment Allowance from 6 April 2025, 13 November 2024

89 Treasury Select Committee, Budget 2024, 6 November 2024, HC 320 2024-25, Q244

90 As above

91 As above

92 As above

93 "This is not a Budget we want to repeat, says Reeves", BBC News, 30 October 2024

1.8 of this briefing. The government's compensation for public sector organisations is not included in the bill.

The last time employer NICs were increased, albeit temporarily, was when the Health and Social Care Levy was introduced in 2022. The previous Conservative government that introduced the 2022 levy said it would compensate public sector employers for increased costs.[94] The government confirmed it would take the same approach for public sector employers in an answer to a recent Parliamentary Question:

> The Government will provide support for departments and other public sector employers for additional Employer National Insurance Contributions costs only. This funding will be allocated to departments, with the Barnett formula applying in the usual way.
>
> This is in line with the approach taken under the previous Government's Health and Social Care Levy.[95]

As the government has not yet published additional information relating to compensation for public sector employers, it is unclear which public sector organisations will receive compensation. As a result, several sector representatives have expressed concern about the potential effects of the changes if compensation is not provided. Some sectors face additional concerns about compensation because they would still remain ineligible for the employment allowance (particularly GPs, as discussed below).

Local authorities

The National Association of Local Councils (NALC) asked the Ministry for Housing, Communities and Local Government (MHCLG) whether parish and town councils would be included in the compensation scheme. On 6 November, the NALC said that "parish and town councils [would] not be compensated for this increase."[96] The Society of Local Council Clerks (SLCC) shared a an email they received from the MHCLG that confirmed the government's position:

> The policy set by the Chancellor is to compensate those who are direct public sector employees funded out of public money. Parish councils are not directly funded by central government and so do not fall into this category.[97]

However, the government has confirmed that local government will be compensated for the increase in employer NICs.[98]

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94 Prime Minister's Office, 10 Downing Street, Cabinet Office, and Department of Health and Social Care, Build Back Better: Our Plan for Health and Social Care, updated 12 September 2024

95 PQ 12948 [on Employers' Contributions: Government Departments], 12 November 2024

96 NALC press release, NALC is concerned about costs to parish and town councils from increased employer national insurance, 6 November 2024

97 SLCC press release, No Central Compensation for the Additional Costs of Employer's NICs, 6 November 2024

98 PQ 11851 [on Local Government: Employers' Contributions], 8 November 2024; and PQ 13962 [on Local Government: Employers' Contributions], 18 November 2024

Social care providers

Social care providers have also expressed concern that they might not be covered by the compensation measures. Andrew Harrop, formerly the chief executive of the Fabian Society, speculated that money set aside in the Budget to support publicly funded social care providers would not be enough to cover the increase in employer NICs.[99]

Care England, speaking to the Local Government Chronicle, said its members were concerned about the cost of staffing without any compensation, and asked the government to ensure compensation was received, among other requests.[100] An article published by the Nuffield Trust, a health think tank, has warned that the increase in employer NICs could have severe consequences for the social care sector.[101]

General practitioners

General practitioners (GPs) have also expressed uncertainty about their position on compensation. Following the Budget, the government specified GP surgeries would not be compensated for the NICs increase. Darren Jones (the Chief Secretary to the Treasury) said on BBC Question Time that “GPs are privately owned partnerships, they’re not part of the public sector”.[102] This has caused the Royal College of General Practitioners (RCGP) and the British Medical Association (BMA) to ask the government for an assurance that general practices would not have to cover the cost of the NICs rise themselves.[103] On 18 November, industry publication Pulse said that the Prime Minister, Keir Starmer, had confirmed that “funding arrangements in relation to this will be made by the end of the year”.[104]

Pulse had previously been critical of the changes to NICs, particularly in relation to its effect on GPs. The publication said that although it appeared that GPs would not be eligible for compensation, as they were not classed as part of the public sector, they were also not eligible for the employment allowance, in relation to which they were classed as public sector bodies.[105]

99 “A revealing correction”, Cradle to Grave [via Substack], 12 November 2024

100 “‘Social care providers should be exempt from NICs increase’”, Local Government Chronicle, 14 November 2024

101 Nuffield Trust, Will the Autumn Budget push the social care sector beyond breaking point?, 22 November 2024

102 BBC, Question Time 31 October 2024, 31 October 2024

103 See RCGP press release, National Insurance hike will be the ‘straw that breaks the camel’s back’ for practices, says College, 1 November 2024; and BMA, National insurance blow for GPs, accessed 19 November 2024. The British Medical Journal has also published a helpful summary on the issue of GPs and employer NICs on 11 November (accessible via the House of Commons Library website)

104 “Government to set out NI hike funding arrangements for GPs ‘by the end of the year’”, Pulse, 18 November 2024

105 “A Budget seemingly designed to punish GPs”, Pulse, 1 November 2024. This is consistent with HMRC’s employer guidance on the Employment Allowance, which states that bodies carrying out more than 50% of their work for the public sector (such as GP services) are not eligible for the allowance.

4.6 Reactions from the hospitality sector

UKHospitality, the trade body representing hospitality businesses, has been critical of the proposed changes to employer NICs. Its criticism chiefly focuses on the potential effects of the changes for those employing staff on lower wages. Chief executive, Kate Nicholls, said the NICs change, alongside other measures announced in the Budget, would "make it harder for businesses to support employment and invest in their business."[106] On 15 November, the trade body urged the government to rethink the announced NICs changes following the news that the UK economy had grown by 0.1% in the previous quarter. Kate Nicholls said this meant that the economy was still fragile, and the measure could risk being economically damaging to the sector:

> Hospitality is disproportionately hit by these changes, as a significant employer of part-time staff, and we'd urge the Government to either create a new employer NICs band for lower earners or implement an exemption for lower band taxpayers working fewer than 20 hours per week.[107]

The Financial Times quoted Simon Dodd, chief executive of pub chain Young's, saying the sector would struggle to withstand additional pressures from the Budget:

> A double whammy of national living wage on top of the national insurance employer contribution is a very large cost to swallow for the sector.[108]

4.7 Reaction from the charity sector

The National Council for Voluntary Organisations (NCVO) has written an open letter to the Chancellor expressing concern about the potentially "devastating impact" that the increase in employer NICs could have on the charity and voluntary sectors.[109] The NCVO estimated that the NICs increases would result in an additional tax liability of £1.4 billion.[110] This conclusion accounts for the increased discount via the employment allowance, which charities are eligible to claim.[111] The NCVO research suggests that 26,000 charities would see their employer NICs bill reduced as a result of the

106 UKHospitality press release, UKHospitality responds to the Budget, 30 October 2024

107 UKHospitality press release, Employer NICs rethink needed to unlock economic growth, 15 November 2024

108 "Pubs hammered by 'staggering extra costs' from Budget", Financial Times, 1 November 2024

109 NCVO, Open letter to the chancellor on the impact of increased employer National Insurance Contributions for charities, 31 October 2024

110 As above

111 NCVO, Employer National Insurance Contributions (NICs) and the voluntary sector (PDF), 31 October 2024

increase in the employment allowance, and the removal of the £100,000 cap.[112]

On 12 November, the charity sector publication Civil Society reported that over 7,000 charities had signed an open letter to the Chancellor expressing concerns about the increase in employer NICs.[113] The article reports concerns raised by several high-profile charities, including Crisis, St Mungo's, Marie Curie and Dorothy House.[114]

Commenting on the article, a Treasury spokesperson, said that the UK's tax regime for charities was one of the most generous regimes in the world. The spokesperson added that the increase in the employment allowance would mean 865,000 small employers would pay no NICs at all.[115]

4.8 Reactions from the higher education sector

The Office for Students, the universities' regulator in England, has estimated that the changes to employer NICs would cost the higher education sector £133 million in 2024/25, rising to £430 million in 2025/26.[116] The Sunday Times suggests that this could "wipe out" the tuition fee increase announced by the Education Secretary, Bridget Phillipson, in October 2024.[117] Director of the Higher Education Policy Institute, Nick Hillman, agreed with this assessment, saying that he believed the result of the change could include "lower pay rise[s] for staff at universities, […] further redundancies and […] cramming more students on to the popular courses."[118]

On 18 November, the BBC reported that the University of Edinburgh raised the possibility of redundancies as a result of the proposed NICs increase, among other possible cost cutting measures.[119]

Jo Grady, general secretary of the University and College Union (UCU), a trade union representing higher and further education staff, has said the

112 NCVO, Employer National Insurance Contributions (NICs) and the voluntary sector (PDF), 31 October 2024

113 "Over 7,000 charities sign letter to chancellor over £1.4bn NICs rise as concerns spread", Civil Society, 12 November 2024

114 As above

115 As above; for more information about eligibility for the employment allowance, see HM Treasury, Employment Allowance: further guidance for employers, 15 February 2023

116 Office for Students, Financial sustainability of higher education providers in England: November 2024 update (PDF), 15 November 2024, p7

117 "Hike university tuition fees further, say struggling vice-chancellors", The Sunday Times [via Factiva], 17 November 2024

118 "Universities face financial crisis as NI increase wipes out fee rise", The I [via Factiva], 16 November 2024

119 "Edinburgh University warns staff to expect job cuts", BBC News, 18 November 2024

changes to employer NICs "will hit the sector hard when higher education is already on its knees."[120]

[120] UCU press release, Budget is 'thin gruel' for higher education, says UCU, 30 October 2024

5 The bill's parliamentary progress

5.1 Second reading

The bill received its second reading on 3 December 2024. Three reasoned amendments were tabled by opposition MPs to decline the bill's second reading.[121] The amendment in the name of the Shadow Chancellor (Mel Stride) was selected for debate.[122] The text of the amendment is as follows:

> That this House declines to give a Second Reading to the National Insurance Contributions (Secondary Class 1 Contributions) Bill because it breaks the manifesto commitment of the Labour Party not to increase National Insurance; and will lead to lower growth, lower wages for working people, fewer jobs and the closure of businesses.[123]

Speaking for the government, Exchequer Secretary James Murray said the government had to take "difficult but necessary [decisions] to fix the public finances, fund the NHS and other public services and deliver economic stability."[124] He added that the government wanted to protect working people, which is why the Budget did not include changes to VAT, income tax, or employee NICs.[125] He recognised businesses would be asked to contribute more, and "it would be up to individual businesses to decide how to respond to these changes."[126] James Murray also outlined what the government had done to protect "small businesses and charities", chiefly the doubling of the employment allowance from £5,000 to £10,500.[127]

Speaking for the Official Opposition, Richard Fuller (the Shadow Chief Secretary to the Treasury) said the increase in employer NICs was "Labour's job tax on workers across the UK" and added that the changes to employer NICs contradicted the promise in Labour's electoral manifesto to not increase taxes on working people.[128] In his speech, Mr Fuller made reference to certain sectors he argued would be disproportionately affected by the measure, including hospices, charities, GP practices, retailers, and hospitality businesses.[129]

121 House of Commons, Order Paper for Tuesday 03 December 2024
122 HC Deb 3 December 2024, c199
123 House of Commons, Order Paper for Tuesday 03 December 2024, item 2
124 HC Deb 3 December 2024, c199
125 As above
126 As above
127 As above
128 As above, cc207-08
129 As above, cc210-11

Speaking for the Liberal Democrats, Deputy Leader and Treasury spokesperson Daisy Cooper expressed the Liberal Democrats' opposition to the measures included in the bill.[130] She also referenced the impact the measures would have on specific sectors, such as health and social care providers, hospitality businesses, and education providers.[131] She urged the government to "exempt health and care providers" from the proposed changes.[132] She also suggested alternative ways to raise revenue for public services, including by increasing taxes on big banks and on digital services.[133]

Many opposition MPs that spoke in the debate, as well as some Labour backbenchers, mentioned in their remarks the impact an increase in employer NICs would have on specific sectors in the economy, such as nurseries, hospitality businesses, social enterprises, GPs, social care providers, hospices, and higher education providers.[134]

Many MPs also asked the government about the issue of compensation for public sector employers, discussed in sections 1.8 and 4.5 of this briefing. Members questioned whether certain providers of public services (such as GPs or dentists) would be entitled to compensation.[135] Responding to these concerns, the Exchequer Secretary said that third party employers contracted by public sector organisations are dealt with differently should get in touch with their sponsor to discuss their situation:

> We are protecting public services by providing relief directly to departments and other public sector employers. Third parties, private organisations, or those who have a contract with the public sector are dealt with differently and they should approach their local council, or whoever is sponsoring them, to talk about their funding arrangements.[136]

Several opposition Members also opposed the government's claim that the measures did not represent a tax on workers, chiefly referencing analysis from the OBR that forecast a reduction in employees' pay as a result of the

130 HC Deb 3 December 2024, c215
131 As above
132 HC Deb 3 December 2024, c215
133 As above, c216
134 As above. For example, for nurseries, Stella Creasy (Labour, c200), Adam Dance (Liberal Democrat, c230), and Damian Hinds (Conservative, c244); for hospitality businesses, Angus MacDonald (Scottish National Party, c201), Stuart Anderson (Conservative, cc219-20), and Ben Obese-Jecty (Conservative, c227); for social enterprises, Clive Lewis (Labour, c202); for GPs, Christine Jardine (Liberal Democrat, c206) and Dave Doogan (Scottish National Party, c236); for social care providers, Dr Luke Evans (Conservative, c213), Jess Brown-Fuller (Liberal Democrat, c248), and Sarah Dyke (Liberal Democrat, c252); for hospices, Adrian Ramsay (Green, c218) and Joe Robertson (Conservative, c239); for higher education providers, Ben Lake (Plaid Cymru, c224)
135 For example, see Wendy Morton (Conservative, HC Deb 3 December 2024, c205), Ben Lake (Plaid Cymru, cc223-24), and Dave Doogan (Scottish National Party, cc235-36)
136 HC Deb 3 December 2024, c205

measure.[137] Section 3 of this briefing provides information on the OBR's assessment.

Votes

The House divided on the Official Opposition's reasoned amendment. The amendment was negatived along party lines (186 ayes to 330 noes).[138]

The House then divided on whether the bill should be read a second time. The bill passed its second reading, also along party lines (332 ayes to 189 noes).[139]

The House then agreed to a programme motion committing the entire bill to a committee of the whole house.[140]

5.2 Committee and remaining stages

The committee of the whole house and remaining stages of the bill are scheduled to take place on 17 December 2024.[141]

137 For example, see Dave Doogan (HC Deb 3 December 2024, c199), Stuart Anderson (Conservative, cc219-20), Ben Obese-Jecty (Conservative, c227), Sammy Wilson (Democratic Unionist Party, c247), Rupert Lowe (Reform, cc249-50), Graham Leadbitter (Scottish National Party, c251)

138 House of Commons, Votes and Proceedings, 3 December 2024, item 6; see also National Insurance Contributions (Secondary Class 1 Contributions) Bill - Division 53, 3 December 2024

139 House of Commons, Votes and Proceedings, 3 December 2024, item 6; see also National Insurance Contributions (Secondary Class 1 Contributions) Bill - Division 54, 3 December 2024

140 As above, item 7

141 HC Deb 5 December 2024, c457

6 Annex A: An explainer of the legislative process

Bills can be introduced in either the House of Commons or the House of Lords. They can be amended, but the entire text of a bill has to be agreed by both Houses before it can receive Royal Assent and become law. In both Houses, bills go through the same stages although there are slight differences in the practices of the two Houses.

6.1 Commons stages

A bill that is introduced in the House of Commons will go through the following stages.

- First reading sees the formal introduction of a bill, when a clerk reads out the name of the bill in the Commons chamber. The National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25 was introduced on 13 November 2024. There is no debate at this stage. Bills cannot be published before their introduction. Government bills are usually published immediately after introduction.

- Second reading debate is the first time MPs debate a bill. They discuss the purpose of the bill. Debates are usually scheduled to take a full day (five to six hours). The second reading of the National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25 took place on 3 December 2024. At the end of the debate, MPs decide whether it should pass to the next stage. Sometimes a 'reasoned amendment', which sets out the reasons to reject a bill, is tabled. If this is agreed to, or if the bill is simply voted down, the bill cannot make any further progress. No amendments are made to the bill itself at this stage.

- Committee stage is usually conducted by a small number of MPs (usually 17) in a public bill committee but sometimes bills can be considered in detail in the Commons Chamber by all MPs in a Committee of the whole House. The committee debates and decides whether amendments should be made to the bill and whether each clause and schedule should be included. The National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25 is scheduled to receive its committee stage (in committee of the whole house) and all remaining stages on 17 December 2024.

- Report stage takes place in the Commons Chamber and involves MPs considering the bill as agreed at committee stage. MPs can also propose further amendments which can be voted on.
- Amendments at committee and report stage can leave out words, substitute words and add words, including whole clauses and schedules. They can be proposed by backbench and frontbench MPs. The Speaker or the chair of the committee selects and groups amendments to debate.
- Third reading, usually on the same day as report stage, is the final chance for MPs to debate the contents of a bill before it goes to the House of Lords. It's usually a short debate and changes cannot be made at this stage in the Commons. At the end of the debate, the House decides whether to approve the bill and therefore pass it onto the House of Lords.

6.2 Lords stages

The House of Lords respects the Commons' primacy on financial matters and does not usually amend Finance Bills (those that implement the Budget) or money bills.

Bills concerning NICs do not qualify for certification as a Money Bill, as receipts from NICs are paid into the National Insurance Fund. Therefore, the National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25 could potentially be amended in the Lords. This, however, is unlikely, given the bill's sole purpose is directly connected to the public finances. Usually, bills concerning NICs are introduced in the Commons.

Members of the House of Lords debate the bill, going through the same stages as in the Commons. Key differences between the two Houses are that in the Lords, committee stage usually takes place on the floor of the House and a bill can be amended at third reading.

Most bills are considered by a committee of the whole House in the House of Lords. Some are referred to the Lords Grand Committee – which all members can attend. However, divisions (votes) are not permitted in the Grand Committee and any amendments made have to be agreed to without a division.

The Lords can also make amendments to a bill. Major points of difference should have been resolved before third reading but amendments to "tidy-up" a bill are permitted.

No party has a majority in the House of Lords and government defeats are not uncommon. For bills that have started in the House of Commons, the Lords is essentially asking MPs to think again about the subject of the amendment.

6.3 ‘Ping pong’

If the Lords amend a bill that was sent from the Commons, the amendments are returned to the Commons and MPs debate the amendments proposed by the Lords. This is potentially the start of “ping-pong”, a process whereby amendments and messages about the amendments are sent backwards and forwards between the two Houses until agreement is reached.

Once agreement has been reached, the bill receives Royal Assent, becoming law when both Houses have been notified that Royal Assent has been granted.

6.4 Amendments

MPs can submit amendments, via the Public Bill Office (PBO), at three different stages of a bill: committee stage, report stage, and when a bill is returned from the Lords. Once the PBO accepts the amendment, it has been ‘tabled’. If an MP wants to amend a bill during committee stage but is not a member of the committee, they will need a committee member to ‘move’ it for debate on their behalf.

In order to be debated, the amendment must be selected by the chair. Similar amendments may be grouped for debate to avoid repetition. For committee stage, selection and grouping is carried out by MPs from the panel of chairs chosen to chair the committee. If there is a Committee of the Whole House, the chair is the Chairman of Ways and Means (the principal Deputy Speaker). For report stage, it is the Speaker.

Amendments might not be selected for debate if they are, for example, outside the scope of a bill, vague, or tabled to the wrong part of a bill. The PBO can advise on whether an amendment is likely to be selected.

6.5 Further information on bill procedure

The MPs’ Guide to Procedure has a section on bills.

MPs who have questions about the procedure for bills or want advice on how to amend them should contact the Public Bill Office.

The Library can provide information on the background and potential impact of a bill and of amendments but cannot help MPs with drafting amendments.

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