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

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Summary

The National Insurance Contributions (Reductions in Rates) Bill 2023-24 was introduced on 23 November 2023. The Bill, with its explanatory notes, is published on the Bill's page on Parliament.uk. The page also provides details of the Bill's parliamentary progress.

The Bill completed its remaining stages in the House of Commons on 30 November. It was agreed, unamended, without a division. The Bill completed its scrutiny in the House of Lords on 12 December, and received Royal Assent on 18 December.

What is the purpose of the Bill?

The Bill implements three changes to National Insurance contributions (NICs) which were announced by Chancellor Jeremy Hunt in the 2023 Autumn Statement.

These changes are:

- a cut in the main rate of NICs paid by employees ('primary Class 1 NICs') from 12% to 10%. This rate cut would apply from 6 January 2024
- a cut in the main rate of NICs paid by the self-employed ('Class 4 NICs') from 9% to 8%. This rate cut would apply from 6 April 2024.
- cancelling the requirement of the self-employed to pay the flat-rate NICs charge ('Class 2 NICs'), which applies when someone's annual profit exceeds a set threshold (the 'lower profits threshold'). This threshold is currently £12,570. This change would take effect from 6 April 2024.

These measures extend and apply to the whole of the UK.

How would the Bill affect the public finances?

The Office for Budget Responsibility (OBR) estimate that taken together these changes to NICs would reduce tax receipts by £9.4 billion in 2024/25, rising to £10.0 billion by 2028/29.

How would the Bill affect taxpayers?

The OBR estimate this tax cut will benefit around 27 million employees and over 2 million self-employed people overall.

The OBR has assessed the impact of the three changes to NICs to be as follows:

- The 2 percentage point cut in the main rate of NICs for employees is estimated to benefit 27.3 million employees in 2024/25.
  - The average annual gain is estimated to be £304 for basic-rate taxpayers, £647 for higher-rate taxpayers, and £707 for taxpayers who pay the additional rate.
- The 1 percentage point cut in the main rate of NICs for the self-employed is estimated to benefit 2.1 million self-employed people in 2024/25.
  - The average annual gain is estimated to be £117 for a basic-rate taxpayer, £322 for a higher-rate taxpayer, and £358 for an additional-rate taxpayer.
- Removing the requirement to pay Class 2 NICs for self-employed individuals with profits above the lower profits threshold is estimated to benefit 1.9 million individuals in 2024/25. The average annual gain is estimated to be £186 per person for this group.

The OBR note that this tax cut offsets just under a quarter of the series of personal tax rises that the Government announced in the 2021 Spring Budget and the 2022 Autumn Statement. The main personal tax rises from these fiscal events were the freeze in the personal allowance and the higher-rate threshold for the period 2022/23 to 2027/28; and, the freeze in the threshold for employer NICs for the period 2023/24 to 2027/28.

Freezing tax allowances and thresholds, rather than increasing them in line with inflation, means that, as taxpayers' nominal earnings rise, more of their income is taxed, and more of what is taxed falls into higher tax bands. This is known as 'fiscal drag'. The OBR estimates that these personal tax rises will raise a combined £44.6 billion in 2028/29. The Library briefing Fiscal drag: An explainer discusses this phenomenon in more detail.

Further reading

The Library briefing National Insurance contributions: an introduction gives an overview of the National Insurance system.

1 Overview of National Insurance contributions (NICs)

1.1 What are National Insurance contributions?

National Insurance contributions (NICs) are paid by employees, employers and the self-employed. NICs receipts fund contributory benefits: the state pension, contributions-based jobseeker's allowance, contributory employment and support allowance, maternity allowance, and bereavement benefits. In turn entitlement to contributory benefits is based on someone's National Insurance payment record.[1]

NICs are levied on the earnings of workers aged 16 or over. People over the state pension age are not liable to pay either employee or self-employed NICs. Employers must still pay employer NICs for employees over the state pension age. NICs are not levied on other income, such as income from savings and investments, rental income from property, private pensions, state pensions and other social security benefits. NICs are assessed according to the period for which they are paid – weekly or monthly. This is different from income tax, which is based on someone's income for the year as a whole.[2]

A recent question in the House of Commons noted that the National Insurance system is centred around paid employment. Other forms of income – dividends, rental income, pension – do not derive from this, and so are not charged NICs:

> National Insurance contributions (NICs) are part of the UK's social security system. The system, based around the longstanding contributory principle, is centred around paid employment and self-employment, with employers, employees and the self-employed paying into the National Insurance Fund and providing funding for the NHS.
>
> Payment of NICs builds an individual's entitlement to claim contributory benefits which then replace earnings in certain circumstances, for example if someone is unable to work or is retired. Non-employment income is generally excluded from liability to NICs as it is not derived from paid employment. Consequently, individuals with only non-employment income need to pay voluntary NICs in order to build entitlement.[3]

1 HM Revenue & Customs (HMRC), What National Insurance is for, retrieved November 2023
2 For more details see, IFS TaxLab, National Insurance contributions explained, Institute for Fiscal Studies, November 2022
3 PQ HL9911, 13 September 2023

1.2 How much is raised by NICs?

NICs are forecast to raise £176.5 billion in 2023/24. In this year income tax receipts are forecast to be £277.2 billion, while receipts from VAT are forecast to be £173.3 billion.[4] Taken together these three taxes raise around two-thirds of all national taxes.[5]

The main reason that NICs are the second-biggest source of revenue (after income tax) is that personal income makes up the majority of total national income.[6]

The National Insurance Fund

The majority of the receipts from NICs are paid into the National Insurance Fund. The Fund operates on a 'pay as you go' basis. Broadly speaking, receipts from NICs in one year cover expenditure on contributory benefits in the same year. Retirement pensions account for over 90% of benefit expenditure from the fund.[7] NICs receipts in the National Insurance Fund can only be used to pay for contributory benefits, not for other government spending.[8]

Some NICs receipts are not paid into the National Insurance Fund but go to the National Health Service (NHS). This arrangement works by allocating a portion of receipts from each NICs Class to go to health expenditure.[9]

In January 2023 the Government Actuary's Department estimated that NICs would raise £164 billion in 2023/24, of which £132 billion would go into the National Insurance Fund and £32 billion would go to the NHS (about 20%).[10] As the OBR notes, this payment represents a relatively small proportion of NHS funding.[11]

4 OBR, Economic and Fiscal Outlook, CP 944, November 2023 (Table A5)
5 Receipts from all national taxes are forecast to be £988.7 billion in 2023/24 (as above).
6 OBR, Tax by tax, spend by spend: National Insurance contributions, updated 19 July 2023
7 Government Actuary's Department (GAD), Report by the Government Actuary on: The draft Social Security Benefits Up-rating Order 2023 January 2023 (Table 2.2)
8 Part XII of the Social Security Administration Act 1992 contains the statutory authority for the Fund. Section 163 of the Act specifies that payments out of the Fund may only be made to finance a list of specified benefits.
9 For details see, Government Actuary's Department (GAD), Report by the Government Actuary on: The draft Social Security Benefits Up-rating Order 2023 January 2023 (Appendix C)
10 as above (Appendix F)
11 OBR, Tax by tax, spend by spend: National Insurance contributions, updated 19 July 2023

1.3 Structure and rates

Class 1 NICs (employees and employers)

Employees

NICs rates and thresholds for employees for 2022/23 and 2023/24 are set out below:

Class 1 NICs rates for employees
2022/23 and 2023/24

Earnings per week[a]	NICs rate (6 April 2022- 5 November 2023)	NICs rate (6 November 2022 - 5 April 2023)	NICs rate (6 April 2023 - 5 January 2024)	NICs rate (6 January 2024 - 5 April 2024
Below £123 (LEL)	0%	0%	0%	0%
£123 to £190/242[b] (PT)	0%	0%	0%	0%
£190/242 to £967 (UEL)	13.25%	12%	12%	10%
Above £967	3.25%	2%	2%	2%

[a] LEL: Lower Earnings Limit; PT: Primary Threshold; UEL: Upper Earnings Limit
[b] The PT was set at £190 from 6 April to 5 July 2022, and at £242 from 6 July 2023.

Source: Annex A to HMRC, Overview of Tax Legislation and Rates, March 2023; and, Annex A to HMRC, Overview of tax legislation and rates, November 2023

Employees must pay primary Class 1 NICs on their earnings if they earn more than the lower earnings limit. A zero rate of NICs is charged on earnings between the lower earnings limit and the primary threshold. A notional primary Class NIC is deemed to have been paid in respect of earnings between lower earnings limit and the primary threshold to protect benefit entitlement.

In the 2022 Spring Statement 2022 the then Chancellor Rishi Sunak announced that the primary threshold would be increased during the 2022/23 tax year, so that it was aligned with the income tax personal allowance.[12]

Earnings above the primary threshold are charged NICs at the main rate of 12%, subject to a cap at the upper earnings limit. The Government plans to cut the main rate to 10% with effect from 6 January 2024.

The upper earnings limit is aligned with the higher-rate threshold, the point at which taxpayers start to pay the 40% higher rate of income tax. Earnings above the upper earnings limit are charged NICs at a rate of 2%.

12 HMRC, National Insurance: Increase to Primary Threshold and the Lower Profits Limit and reduction in Class 2 liability of those earning between the Small Profits Threshold and Lower Profits Limit, 23 March 2022

Employers

Employers pay secondary Class 1 NICs on employee earnings above the secondary threshold at the rate of 13.8%. The secondary threshold is set at £175 per week for 2023/24.

In the 2022 Autumn Statement Chancellor Jeremy Hunt announced that the secondary threshold would be frozen for the five-year period from 2023/24 to 2027/28.[13]

Employers may be entitled to one of a number of tax reliefs on their payment of employer NICs.[14]

Class 2 and Class 4 NICs (the self-employed)

Self-employed people pay a weekly flat-rate Class 2 NIC, set at £3.45 for 2023/24.[15] The self-employed can apply for exemption from paying Class 2 contributions if their annual profits are less than the level of the small profits threshold. This threshold is set at £6,725 for 2023/24.

The self-employed may be liable to pay a separate Class 4 charge, based on their annual profits. Class 4 NICs are charged at a main rate (9% in 2023/24) on profits between a lower profits limit (£12,570 a year) and an upper profits limit (£50,270 a year). Class 4 NICs are charged at an additional rate (2% in 2023/24) on profits above the upper profits limit. The upper profits limit is aligned with upper earnings limit for primary Class 1 NICs and the higher-rate (40%) threshold for income tax.

As part of the changes to NICs thresholds announced in the 2022 Spring Statement, the then Chancellor Rishi Sunak announced that the point at which the self-employed start paying Class 2 NICs would be aligned with the lower profits limit for Class 4 NICs. Those with profits between the small profits threshold and this new lower profits threshold would be treated as having made Class 2 contributions to preserve their entitlement to contributory benefits. In addition the lower profits limit would be aligned with the personal allowance for income tax in the same way as the primary threshold for primary Class 1 NICs.[16]

In the 2022 Autumn Statement Chancellor Jeremy Hunt confirmed that the lower profits threshold and the lower profits limit would remain aligned with the primary thresholds for primary Class 1 NICs and the personal allowance. As a result these thresholds would be frozen at £12,570 (or the weekly equivalent) for the next five years (2023/24 to 2027/28). In addition, the upper profits limit would remain aligned with the primary Class 1 NICs upper

13 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.26

14 For more details see, Commons Library research briefing CBP-9754, Direct taxes: rates and allowances 2023/24.

15 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.18

16 HMRC, National Insurance: Increase to Primary Threshold and the Lower Profits Limit and reduction in Class 2 liability of those earning between the Small Profits Threshold and Lower Profits Limit, 23 March 2022

earnings limit and the income tax higher-rate threshold. All three thresholds would be frozen at £50,270 (or the weekly equivalent) for the same period of time.[17]

Class 3 NICs

Individuals may be entitled to make voluntary Class 3 contributions to ensure that they qualify for the state pension and bereavement benefits. Class 3 NICs are charged at a weekly flat rate, set at £17.45 for 2023/24.[18]

17 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.17

18 as above para 5.18

2 What was announced in the 2023 Autumn Statement?

2.1 The Chancellor's statement

The Chancellor Jeremy Hunt presented the Autumn Statement on 22 November 2023. In his statement the Chancellor announced three reforms to NICs:

- A 2 percentage point cut in the main rate of NICs paid by employees, from 12% to 10%. Mr Hunt noted that normally changes to personal taxes would apply from the start of the new tax year. However, in this case the Government would introduce legislation to bring it into effect from 6 January 2024, "so that people can see the benefit in their payslips at the start of the new year."[19]

- A 1 percentage point cut in the main rate of NICs paid by the self-employed, from 9% to 8%. The new rate would take effect from 6 April 2024.

- Removing the requirement for the self-employed to pay the flat-rate Class 2 NICs charge if their annual profits exceeded the lower-profits limit (£6,725 a year). Mr Hunt explained that "access to entitlements and credits will be maintained in full and those who choose to pay voluntarily will still be able to do so, but this change simplifies and cuts tax for nearly 2 million self-employed people."[20]

The Autumn Statement report provided more details of the change to be made to Class 2 NICs:

> - From 6 April 2024, self-employed people with profits above £12,570 will no longer be required to pay Class 2 NICs, but will continue to receive access to contributory benefits including the State Pension.
>
> - Those with profits between £6,725 and £12,570 will continue to get access to contributory benefits including the State Pension through a National Insurance credit without paying NICs as they do currently.

19 HC Deb 22 November 2023 c337

20 HC Deb 22 November 2023 c334. See also, HMRC, A reduction in the main rates of Primary Class 1 and Class 4 NICs and the removal of the requirement to pay Class 2 NICs: tax information and impact note, 23 November 2023

- Those with profits under £6,725 and others who pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension, will continue to be able to do so.[21]

The Government is to set out further details on reforming Class 2 NICs in the new year.[22]

2.2 Impact on the public finances

The Office for Budget Responsibility estimates that the cost of cutting the rate of primary Class 1 NICs will be £2.23 billion for the period 6 January to 5 April 2024. It is then forecast to cost £8.72 billion in 2024/25, rising to £9.33 billion by 2028/29.[23]

The cost of cutting the rate of Class 4 NICs, and scrapping the compulsory Class 2 charge, is considerably lower.

In the first case, the 1 percentage point in the main rate of Class 4 NICs is forecast to cost £345 million in 2024/25, and around £346 million a year over the next four years.[24] In the second case, reforming Class 2 NICs is forecast to cost £380 million in 2024/25. The cost is projected to rise to £465 million the next year, and then remain at around £375 million for the next three years. The Treasury's policy costings document notes that this forecast accounts for several behavioural responses.[25]

In its Economic and Fiscal Outlook, published along with the 2023 Autumn Statement, the Office for Budget Responsibility note that a number of dynamic effects are expected to lower the cost of these reforms. The 'static impact' of these measures is forecast to be £11.1 billion by 2028/29.[26] The 'static impact' is the amount a policy measure would cost, or raise, if it did not lead to any change in taxpayers' behaviour.

The OBR set out three dynamic effects which, taken together, are forecast to lower the cost by £1.0 billion (close to 10 per cent):

- A direct behavioural response to the measure is expected to be fewer tax-motivated incorporations (TMIs), which we estimate will be reduced by a cumulative 50,000 TMIs by 2028-29. This generates an additional £0.4 billion in receipts, with additional amounts of income tax and NICs outweighing the loss in corporation tax.

21 Autumn Statement, CP 977 (PDF), November 2023 para 5.13
22 as above
23 HM Treasury, Autumn Statement 2023: Policy Costings, (PDF) November 2023 p9
24 as above p10
25 as above p11
26 OBR, Economic and Fiscal Outlook, CP 944 (PDF), November 2023 para 3.7

- Through indirect behavioural effects the measure is estimated to increase hours worked from both new and existing employees by 0.3 per cent or 94,000 in full-time equivalent terms. This comes through two channels:
  - There is an increase in labour supply of 14,000 in full-time equivalent terms, as the 28,000 additional entrants to employment in 2028-29 join the labour force at lower-than-average hours. The earnings of the majority of those within this cohort will not be far above the personal allowance threshold and will have a low effective tax rate. There is therefore a relatively low per-person increase in income tax and NICs receipts of £0.1 billion in 2028-29.
  - The increase in post-tax income is also likely to boost the number of hours worked by existing employees by 79,000 on a full-time equivalent basis in 2028- 29. This offsets a further £0.6 billion of the cost of the measure in 2028-29. This higher per-person amount assumes that those that are incentivised to increase their hours worked will tend to earn more than those entering employment.[27]

2.3 Impact on taxpayers

The OBR also addresses the impact of these reforms on taxpayers:

- The cut in the primary Class 1 rate is estimated to benefit 27.3 million employees in 2024/25. The average annual gain is estimated to be £304 for basic-rate taxpayers, £647 for higher-rate taxpayers, and £707 for those that pay the additional rate.
- The cut in the Class 4 rate is estimated to benefit 2.1 million self-employed people in 2024/25. The average annual gain is estimated to be £117 for a basic-rate taxpayer, £322 for a higher-rate taxpayer, and £358 for an additional rate taxpayer.
- Removing the compulsory Class 2 charge is estimated to benefit 1.9 million individuals in 2024/25. The average annual gain is estimated to be £186 per person for this group.[28]

The number of people affected and the amount they would gain as a result of these reforms are set out in the table below:

27 OBR, Economic and Fiscal Outlook, CP 944 (PDF), November 2023 para 3.7. For more details on the OBR's approach to estimating these dynamic effects of individual policy measures see, OBR, Dynamic scoring of policy measures in OBR forecasts, 9 November 2023.

28 OBR, Economic and Fiscal Outlook, CP 944 (PDF), November 2023 para 3.6

Impact of the measures

Number of people benefitted and average annual gain per person

	People benefitted	Average annual gain for taxpayers		
	millions	Basic rate	Higher rate	Additional rate
2 percentage point cut in Class 1 NICs	27.3	£304	£647	£707
1 percentage point cut in Class 4 NICs	2.1	£117	£322	£358
Cancellation of the requirement to pay Class 2 NICs	1.9		£186	

Source: OBR, Economic and Fiscal Outlook, CP 944 (PDF), November 2023 para 3.6

2.4 Initial reactions

In the days before the Autumn Statement there was a considerable amount of speculation that the Chancellor would announce cuts to personal taxes.[29]

In its response to the Autumn Statement, the Director of the Institute for Fiscal Studies (IFS) think tank Paul Johnson argued that the decision to cut NICs, rather than income tax, was "the right decision – and an unusual one. Over the past 40 years NI rates have tended to rise as the basic rate of income tax has been cut." Mr Johnson noted that the rate cuts reduced the disparity in the taxation of earnings and the taxation of other forms of income. He went on to highlight that it reduced the difference between the tax treatment of pensioners and those of working age:

> One of the consequences of this, plus increasing the NI threshold back in 2022, and the fact that the income tax personal allowance for pensioners was aligned with that for those of working age back in the 2010s, means that average tax rates on pensioners and on workers have converged quite a lot.
>
> To take one example. A pensioner on £25,000 pays about £400 more in income tax than they would have done back in 2010, while a worker on the same income will pay about £1,200 less in income tax and NI. In 2010 the employee would have paid about £2,750 more than the pensioner, they will now pay £1,250 more. This is unequivocally a good thing. Back in 2010 around half of pensioners paid any income tax. Now more than two thirds do.[30]

Mr Johnson also noted that the scale of this tax cut was considerably smaller than the increase in personal taxes from the long-term freeze in the personal

29 For example, "Autumn statement: Jeremy Hunt looks to cut UK taxes and 'turbo-charge growth'", Guardian, 21 November 2023

30 Paul Johnson, Introductory Comments: Autumn Statement 2023, (PDF) Institute for Fiscal Studies, 23 November 2023

income tax allowance and tax thresholds. In his presentation on the Autumn Statement IFS economist Sam Ray-Chaudhuri noted that while these 'visible' tax cuts lowered taxes for almost 30 million people, this was a long way off from reversing the 'less visible' tax increases from freezing thresholds. Mr Ray-Chaudhuri estimated that this represented the Government "giving back less than £1 of every £4 taken away."[31]

In its response to the Autumn Statement, the Resolution Foundation agreed that there were benefits to the Government cutting NICs rather than income tax, but raised concerns that most of the gains would go to those on higher incomes:

> The 2p reduction in the main rate of employee NI will save employees up to £754, while the self-employed will gain up to around £570 from a rate cut and the abolition of Class 2 NI; in both cases, the largest gains are for higher earners (broadly speaking, those with employee or self-employment earnings and currently paying the higher or additional rates of income tax) [...]
>
> On an individual level, low earners receive less than higher earners [...] And, on a household level, dual earner households can receive twice the benefit (up to £1,500 a year), while tax-paying households on Universal Credit will lose 55 per cent of any tax cut through means-testing. Overall, around 80 per cent of the benefit of the NI cuts will go to the top half of the population.[32]

The Library briefing Autumn Statement 2023: Reaction provides more details on the initial reactions to the Autumn Statement.

The Treasury Select Committee's enquiry on the Autumn Statement

Following the Chancellor's statement the Treasury Committee held an enquiry on the Autumn Statement, which consisted of three evidence sessions: with senior officials from the OBR on 28 November, with a number of economists on the same day, and with the Chancellor on 29 November.

In the first of these sessions Anne Marie Morris had a series of question about the reforms to NICs for Professor David Miles (lead on economic analysis at the OBR), and Tom Josephs (lead on fiscal analysis).

Initially she asked Professor Miles about the relative impact of the NICs cut compared with the Government's decision to freeze income tax thresholds, and which was heavier. Professor Miles said that, in the absence of any other policy changes, the NICs cut was worth £10 billion to taxpayers, while "over the next five years, the Government may get in the order of £30 billion more because of the threshold freeze":

> Not all the £30 billion more comes from labour income, because people pay tax on interest income, investment income and other things, so it is not all a

31 Sam Ray-Chaudhuri, IFS Autumn Statement: Personal taxes and benefits, (PDF), 23 November 2023

32 Torsten Bell and others, A pre-election Statement: putting the Autumn Statement 2023 in context, Resolution Foundation, 23 November 2023 pp23-24

> tax on labour income. Still, it is overwhelmingly likely that as things stand, if there is no change, the total amount of tax that people will pay on labour income, as a result of the threshold freeze, will be bigger than, and more than offset, the cut in national insurance.[33]

Anne Marie Morris went on to ask about the impact of the cut in the main employee rate of NICs on employment and the wider economy. Professor Miles sketched out two effects: first, people who were not working and now felt it was worth trying to get a job, and, second, a much larger group of people who were already working, who decided to work more hours:

> We think [the first effect will result in] about 28,000 more people in the labour force, and they will stay there. The bigger effect is on the much larger group of people who are already working [...] We think that that is probably the equivalent of 80,000 full-time equivalent people. The first effect, on the people who decide that they will do some work now, rather than not work, is smaller than that; in terms of full-time equivalents, it is probably about 15,000.
>
> If you add the two bits together, you are looking at about 100,000 more people who work. They will pay some tax. That will offset part of the cost of the measure. [34]

Professor Miles went on to make the point that these incentive effects would only affect those of working age:

> The numbers I gave for people who decide that they will go into the world of work are younger people. Quite often, they are people who are perhaps not going to go into full-time work. That is why the full time equivalent number of extra people is less than the actual number of heads. We think that these people will not, on average, be full-time workers.[35]

Finally the Member asked about the impact of the changes to Class 2 and Class 4 on the self-employed: "getting rid of one class and reducing the other at least streamlines the system, but in the real world, what impact is this going to have on the self-employed?":

> Tom Josephs: Essentially the same kind of effects that David has outlined apply to the reduction in class 2 and class 4 [...] but the effects are probably smaller, just because the kind of population that is affected is smaller. Also, the gain is just a bit less, because it's a 1% versus a 2% cut. And the removal of the class 2 flat rate is actually quite small in monetary terms [...] We assume [...] that there is another kind of behavioural effect, which is that it reduces the incentive for people to incorporate to gain a tax advantage. There is a bit less incentive to do that, which also affects the yield from the measure a bit.[36]

When asked whether this was a good thing or not, Mr Josephs added, "it is a good thing in the sense that you want to try to avoid a tax system that is

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33 Treasury Committee, Oral evidence: Autumn Statement 2023, HC 286, 28 November 2023 Q54
34 as above Q55
35 as above Q56
36 as above Q58

creating incentives for people to incorporate just for tax purposes. So if it's reducing the incentive to do that, that is a good thing, I think. [37]

[37] as above Q59

3 The Bill

The National Insurance Contributions (Reductions in Rates) Bill 2023-24 was introduced on 23 November 2023. The Bill, with its explanatory notes, is published on the Bill's page on Parliament.uk.

3.1 The contents of the Bill

The Bill has five clauses and one schedule. The Bill would apply to the whole of the UK.[38]

Clause 1 would cut the main rate of NICs paid by employees from 12% to 10% with effect from 6 January 2024.

The Social Security Contributions and Benefits Act (SCCBA) 1992 consolidates the main provisions dealing with NICs with regard to England, Wales and Scotland. The Social Security Contributions and Benefits (Northern Ireland) Act (SCCBI(NI)A) 1992 makes equivalent provision for Northern Ireland.

Clause 1(1) and clause 1(2) would amend each of these Acts to set the new primary Class 1 rate. Clause 1(3) would cut the reduced rate of NICs which some married women and widows pay by 2 percentage points, from 5.85% to 3.85%.[39]

Clause 2 would cut the main rate of NICs paid by the self-employed from 9% to 8% with effect from 6 April 2024. Clause 2(1) and clause 2(2) would amend the relevant provisions in the SCCBA 1992 and the SCCBI(NI)A 1992 to set the new Class 4 rate.

Clause 3 would remove the requirement for the self-employed to pay the flat-rate Class 2 NICs charge if their annual profits exceeded the lower-profits limit. This measure would take effect from 6 April 2024. Clause 3(1) and clause 3(2) would amend the relevant provisions in the SCCBA 1992 and the SCCBI(NI)A 1992 to this effect.

38 Explanatory Notes to the National Insurance Contributions (Reductions in Rates) Bill 12 2023-24 para 5

39 Prior to April 1977 married women had the option to pay a reduced rate of NICs, if they made an election to do this. For details see, HMRC, Reduced rate National Insurance for married women, retrieved 27 November 2023; and, Commons Library research briefing CBP-1910 Married women and state pensions.

Clause 4 and schedule 1 would make a number of transitional and consequential provisions.

Clause 5 would set the Bill's short title.

3.2 The Bill's scrutiny

In her business statement on 23 November the Leader of the House, Penny Mordaunt, announced that all of the remaining stages of the Bill would be taken on 30 November.

The explanatory notes to the Bill set out the Government's rationale for 'fast-tracking' this legislation:

> The changes to primary Class 1 rates are to occur on 6 January 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.
>
> It is important for those employers to have as much time as possible to implement the changes to their payroll software ahead of the rate reduction. This is particularly important given all employees in the UK who pay NICs will be affected.[40]

A Library briefing, Fast-track legislation, provides more details on this procedure. A second Library briefing provides a list of public bills since 1979 when the main Commons stages (second and third reading) have been passed within one day.[41]

In this context the Chartered Institute of Taxation (CIOT), a professional body for tax advisers, has raised concerns that payroll and software providers may find it a challenge to get their systems updated in time.[42] This issue is addressed in HMRC's tax information and impact note on the Bill:

> If some employers are unable to update their payroll software before 6 January 2024, they will be required to run their payroll retrospectively for past periods where higher National Insurance contribution rates had been incorrectly applied.
>
> Although individuals should contact their employer for refunds as a first port of call in all circumstances, there may be circumstances where individuals may need to apply to HMRC for a refund (for example, if their employer is no longer trading, or if an individual has moved roles and their previous employer has

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40 as above para 10

41 Commons Library research briefing CBP-4974, Expedited legislation: Public bills receiving their second and third readings on the same day in the House of Commons

42 CIOT press notice, National Insurance 'roller-coaster' presents implementation challenges, 22 November 2023

> confirmed they are unable to issue a refund retrospectively themselves). There are not expected to be any continuing costs.[43]

The Bill completed its second reading and remaining stages on 30 November. It was agreed, unamended, without a division.[44]

The Chief Secretary to the Treasury, Laura Trott, introduced the Bill at second reading. She explained that the Government had decided to prioritise a cut in NICs for two reasons: "First, we want to put more money in the pockets of working families, and NICs are the most targeted way to do that. Secondly, better reward for work makes working more appealing, and the more people work, the more there is a boost in growth."[45]

In response the Shadow Financial Secretary James Murray welcomed the cut in NICs rates as the Opposition "believe that taxes on working people are too high, and we have long said that we want to see them come down when they can be cut in an economically and fiscally responsible way."[46] Mr Murray also observed that these tax cuts were "more than eclipsed by hikes in tax that this Government had announced before; the freezing of national insurance and income tax thresholds for six years is now expected to cost taxpayers £45 billion."[47]

The Chair of the Treasury Select Committee, Harriet Baldwin, welcomed the Bill, as it would boost incentives for people to join the workforce, and would simplify the tax structure.[48] By contrast, speaking for the SNP Drew Hendry argued that "on paper [the reductions in NICs rates] might appear beneficial, but in reality they are superficial."[49] Following a number of speeches by Conservative backbenchers supporting the Bill, it received its second reading without a division.[50]

During the Committee stage of the Bill the Shadow Financial Secretary James Murray raised concerns about the implementation date for the cut in the main employee rate of NICs. He asked "if the Minister could confirm whether HMRC accepts that some employers' payroll software will not be ready in time for 6 January. If so, how many employers does he anticipate being affected?"[51] Speaking for the SNP Drew Hendy also raised this point, and asked "how the clause will be given effect by 6 January, and what measures the Government are taking to ensure that that happens."[52]

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43 HMRC, A reduction in the main rates of Primary Class 1 and Class 4 NICs and the removal of the requirement to pay Class 2 NICs: tax information and impact note, 23 November 2023
44 House of Commons, Votes and Proceedings (No.15) (PDF), 30 November 2023
45 HC Deb 30 November 2023 c1083
46 as above c1086
47 as above c1085
48 as above c1089
49 as above c1090
50 as above c1102
51 as above c1104
52 as above

In response the Financial Secretary to the Treasury Nigel Huddleston confirmed that HMRC was "engaging with industry and providing relevant guidance", and that the Government expected the majority of companies and software developers to be able to make the necessary changes in time. [53]

The Bill was read a second time in the House of Lords, and completed its remaining stages, unamended, on 12 December.[54] In turn the National Insurance Contributions (Reduction in Rates) Act 2023 received Royal Assent on 18 December 2023.[55]

53 as above

54 HL Deb 12 December cc1826-37; HL Deb 12 December c1870; HL Deb 12 December c1870-71

55 House of Commons, Votes and Proceedings No.24 (PDF), 18 December 2023