House of Commons Library

Research Briefing

29 March 2024

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

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Summary

The National Insurance Contributions (Reductions in Rates) (No.2) Bill 2023-24 was introduced on 7 March 2024. 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.

All of the stages of the Bill in the House of Commons were completed on 13 May 2024, when the Bill was agreed unamended. The National Insurance (Reduction in Rates) Act 2024 received Royal Assent on 20 March 2024.

What is the purpose of the Bill?

The purpose of the Bill is to implement two changes to National Insurance contributions (NICs) announced by Chancellor Jeremy Hunt in the Spring Budget 2024:

- a cut in the main rate of NICs paid by employees ('primary Class 1 NICs') from 10% to 8%.
- a cut in the main rate of NICs paid by the self-employed ('Class 4 NICs') from 8% to 6%.

Both of these measures would take effect from the start of the new tax year, 6 April 2024. They would extend and apply to the whole of the UK.

These reductions in the rates of NICs follow two rate cuts which the Chancellor had announced in the 2023 Autumn Statement:

- a cut in the main rate of primary Class 1 NICs from 12% to 10%, from 6 January 2024.
- a cut in the main rate of Class 4 NICs from 9% to 8%, from 6 April 2024.

Provision for these reductions was made by the National Insurance Contributions (Reduction in Rates) Act 2023. Further details are provided in a Library briefing on this legislation.

How would the Bill affect the public finances?

The Office for Budget Responsibility (OBR) estimate that the two NICs rate cuts announced in the Budget would reduce tax receipts by 9.4 billion in 2024/25, and have an average five-year cost of £10.3 billion a year.

How would the Bill affect taxpayers?

The OBR estimate this tax cut will benefit around 27.6 million employees and 2.2 million self-employed people overall.

- The 2 percentage point cut in the main rate of NICs for employees is estimated to benefit 27.6 million employees in 2024/25.
  - The average annual gain is estimated to be £303 for taxpayers who pay the basic rate of income tax, £646 for higher-rate taxpayers, and £705 for additional-rate taxpayers.
  - Taken together with the 2 percentage point cut announced in the Autumn Statement 2023, the combined gains are estimated to be £606, £1,291 and £1,413 respectively.
- The 2 percentage point cut in the main rate of NICs for the self-employed is estimated to benefit 2.2 million self-employed people in 2024/25.
  - The average annual gain is estimated to be £235 for basic-rate taxpayers, £635 for higher-rate taxpayers, and £710 for taxpayers who pay the additional-rate.
  - Taken together with the 1 percentage point cut announced in the Autumn Statement 2023, the combined gains are £353, £946 and £1,058 respectively.

The OBR note that these reductions in NICs reverse around half of the total additional tax revenue raised from the series of personal tax rises 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. The OBR estimate that the freeze in the personal allowance with the freeze in these two thresholds will raise £42.7 billion, while the successive cuts in NICs rates will cost £21.4 billion, in 2028/29.

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 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.

The Library briefing Spring Budget 2024: a summary provides a summary of the announcements in the Budget, and an overview of the latest economic forecasts.

1 Overview of National Insurance contributions

1.1 What are National Insurance contributions (NICs)?

National Insurance contributions (NICs) are paid by employees, employers and the self-employed. Receipts from this tax 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 PQ 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 March 2024

2 For more details see, IFS TaxLab, National Insurance contributions explained, Institute for Fiscal Studies (IFS), November 2022

3 PQ HL9911, 13 September 2023

1.2 How much is raised by NICs?

NICs are forecast to raise £179.2 billion in 2023/24. In this year income tax receipts are forecast to be £279.2 billion, while receipts from VAT are forecast to be £170.7 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 National Insurance 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. This principle was set out in answer to a PQ:

> The underpinning principle is not of an individual paying for their own benefits, but rather a system where those in work, employers and voluntary payers pool their resources to meet the claims of all of those who are eligible. Within the scheme, a person's financial contributions reflect their ability to pay, rather than any likelihood of future entitlement.[7]

Retirement pensions account for over 90% of benefit expenditure from the fund.[8] NICs receipts in the National Insurance Fund can only be used to pay for contributory benefits, not for other government spending.[9] As a consequence of this arrangement, legislation regarding NICs cannot be included in the annual Finance Bill.[10]

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.[11]

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4 OBR, Economic and Fiscal Outlook, CP 1027, March 2024 (Table A5)

5 Receipts from all national taxes are forecast to be £985 billion in 2023/24 (as above).

6 OBR, Tax by tax, spend by spend: National Insurance contributions, updated 19 July 2023

7 PQ8001, 11 January 2024

8 Government Actuary's Department (GAD), Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2024, January 2024 (Table 2.2)

9 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.

10 For more details see, Erskine May 25th edition 2019 para 36.21; Commons Library research briefing CBP-813 The Budget and the annual Finance Bill (Section 2.1).

11 For details see, GAD, Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2024, January 2024 (Appendix C)

In January 2024 the Government Actuary's Department estimated that NICs would raise £173 billion in 2023/24, of which £140 billion would go into the National Insurance Fund and £33 billion would go to the NHS (just under 20%).[12] As the OBR notes, this payment represents a relatively small proportion of NHS funding.[13]

1.3 Structure and rates (2023/24)

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

Primary Class 1 NICs are forecast to raise £66.0 billion in 2023/24, which represents around 35% of total NICs receipts.[14]

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.

12 as above (Appendix F)
13 OBR, Tax by tax, spend by spend: National Insurance contributions, updated 19 July 2023
14 GAD, Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2024, January 2024 p46 (Appendix F). Total NICs receipts are forecast to raise £173.4 billion in 2023/24.

In the 2022 Spring Statement 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.[15]

Earnings above the primary threshold have been charged NICs at the main rate of 12%, subject to a cap at the upper earnings limit. However, the rate was cut to 10% with effect from 6 January 2024.[16]

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%.

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.[17]

Secondary Class 1 NICs are forecast to raise £106.9 billion in 2023/24, which represents around 62% of total NICs receipts.[18]

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.[19]

Employers may be entitled to one of a number of tax reliefs on their payment of employer NICs.[20] Employers are also liable to pay Class 1A and 1B NICs on expenses and benefits that they pay their employees.[21]

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.[22] 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.

15 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

16 Annex A to, HMRC, Overview of Tax Legislation and Rates, March 2024

17 as above

18 GAD, Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2024, January 2024 p46 (Appendix F)

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

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

21 For details see, HMRC, Rates and thresholds for employers 2022 to 2023, April 2023. Class 1A and 1B NICs are forecast to raise £1.70 billion in 2023/24, around 1% of total NICs receipts: GAD, Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2024, January 2024 p46 (Appendix F).

22 Annex A to, HMRC, Overview of Tax Legislation and Rates, March 2024

Class 2 NICs are forecast to raise £393 million in 2023/24.[23]

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.

Class 4 NICs are forecast to raise £4.0 billion in 2023/24, which represents just over 2% of total NICs receipts.[24]

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.[25]

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 were frozen at £12,570 (or the weekly equivalent), and are set to remain so until 2027/28. In addition, the upper profits limit would remain aligned with the primary Class 1 NICs upper 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.[26]

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.[27]

Class 3 NICs are forecast to raise £392 million in 2023/24.[28]

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23 GAD, Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2024, January 2024 p46 (Appendix F)

24 as above

25 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

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

27 Annex A to, HMRC, Overview of Tax Legislation and Rates, March 2024

28 GAD, Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2024, January 2024 p46 (Appendix F)

2 What was announced in the Spring Budget 2024?

2.1 The Chancellor's statement

The Chancellor Jeremy Hunt presented the Spring 2024 Budget on 6 March 2024. In his statement the Chancellor announced two reforms to NICs:

- a 2 percentage point cut in the main rate of employee NICs from 10% to 8%, with effect from 6 April 2024. This followed a similar two percentage point cut announced in the 2023 Autumn Statement that took effect from 6 January 2024.
- a 2 percentage point cut in the main rate of self-employed NICs, in addition to the 1 percentage point cut announced in the 2023 Autumn Statement. Both measures would take effect from 6 April 2024, so that the rate would fall from 9% to 6%.[29]

The Chancellor noted that these tax cuts would mean "an additional £450 a year for the average employee, or £350 for someone who is self-employed."[30] The Chancellor went on to say the Government planned to cut NICs further:

> The way we tax people's income is particularly unfair. Those who get their income from having a job pay two types of tax: national insurance contributions and income tax [...] When it is responsible, when it can be achieved without increasing borrowing and when it can be delivered without compromising high-quality public services, we will continue to cut national insurance as we have done today.[31]

In the 2023 Autumn Statement the Chancellor had also announced that the Government would bring forward plans to cancel the requirement of the self-employed to pay the flat-rate NICs charge ('Class 2 NICs').[32] In addition to the two NICs rate reductions, the Spring Budget 2024 report confirmed that the Government would consult on this measure later in 2024.[33]

29 HMRC, Changes to National Insurance contributions from 6 April 2024, 7 March 2024

30 HC Deb 6 March 2024 c851. The Treasury provided further estimates of the impact of the NICs rate cut on taxpayers in a factsheet published alongside the Budget report: Spring Budget 2024: Personal Tax Factsheet, 6 March 2024.

31 HC Deb 6 March 2024 c851, cc851-2

32 Autumn Statement, CP 977 (PDF), November 2023 para 5.13

33 Spring Budget 2024, HC 560, (PDF) March 2024 para 5.49

2.2 Impact on the public finances

The Office for Budget Responsibility (OBR) estimate that taken together these two changes to NICs would reduce tax receipts by 9.4 billion in 2024/25, and have an average five-year cost of £10.3 billion a year.[34]

The OBR's costing is made up of three components:

- an estimated 'static cost' of £11.3 billion in 2028/29, which is the amount these rate cuts are thought to cost before taking behavioural responses into account.

- a direct behavioural response from the reduced financial incentive for individuals to incorporate their businesses to reduce their tax liabilities.[35] The OBR estimates this will increase tax receipts by £0.6 billion in 2028/29.

- Indirect behavioural effects, from the incentive for people to either join the labour force, or increase their working hours.[36] The OBR estimates this will increase tax receipts by £1.7 billion in 2028/29.

Overall the OBR judge that these dynamic behavioural effects "combine to lower the cost of the NICs cut measure by an estimated £2.3 billion (around 20 per cent) relative to its static cost."[37]

2.3 Impact on taxpayers

The OBR estimate this tax cut will benefit around 27.6 million employees and 2.2 million self-employed people overall.[38]

- The 2 percentage point cut in the main rate of NICs for employees is estimated to benefit 27.6 million employees in 2024/25.
  - The average annual gain is estimated to be £303 for basic-rate taxpayers, £646 for higher-rate taxpayers, and £705 for taxpayers who pay the additional rate.

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34 OBR, Economic and Fiscal Outlook, CP 1027 (PDF), March 2024 Table 3.2, para 3.8

35 These 'tax-motivated incorporations' stem from differences in the tax treatment of income from employment, profits from self-employment, and corporate profits. These differences enable business owner-managers to enjoy preferential tax rates. For details see, Stuart Adam and Helen Miller, Taxing work and investment across legal forms: pathways to well-designed taxes, IFS, January 2021; OBR, The effect of incorporations on tax receipts, November 2016.

36 For more details of this analysis see, OBR, Economic and Fiscal Outlook, CP 1027 (PDF), March 2024 pp68-70 (Box 3.2)

37 OBR, Economic and Fiscal Outlook, CP 1027 (PDF), March 2024 para 3.9-10; Table 3.2

38 as above para 3.7

    - Taken together with the 2 percentage point cut announced in the Autumn Statement 2023, the combined gains are £606, £1,291 and £1,413 respectively.[39]

- The 2 percentage point cut in the main rate of NICs for the self-employed is estimated to benefit 2.2 million self-employed people in 2024/25.

    - The average annual gain is estimated to be £235 for a basic-rate taxpayer, £635 for a higher-rate taxpayer, and £710 for an additional-rate taxpayer.

    - Taken together with the 1 percentage point cut announced in the Autumn Statement 2023, the combined gains are £353, £946 and £1,058 respectively.[40]

The OBR note that these reductions in NICs offset around half of the total addtional tax revenue raised from series of personal tax rises the Government announced in the 2021 Spring Budget and the 2022 Autumn Statement.[41]

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.[42]

The OBR estimate that the freeze in thresholds will raise £41.1 billion, while the successive cuts in NICs rates will cost £21.4 billion, by 2028/29:

> The net fiscal impact of the personal tax threshold freezes and NICs rate cuts announced since March 2021 has been to increase tax receipts by £19.7 billion by 2028/29 [...]
>
> This comprises:
>
> - Changes to thresholds that raise receipts by £41.1 billion by 2028/29. This is primarily driven by £33.6 billion of revenue from freezing the income tax personal allowance and higher rate threshold since March 2021, relative to raising them by CPI.
>
>   This is £8.2 billion more than we forecast in our March 2023 Economic and Fiscal Outlook, as higher and more persistent inflation has increased the difference between the frozen thresholds and the rates to which they would have risen absent the measures.

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39 OBR, Economic and Fiscal Outlook, CP 1027 (PDF), March 2024 para 3.7

40 as above

41 as above para 3.41

42 For more details see, Commons Library research briefing CBP-9186, Spring Budget 2021: personal allowance and higher rate threshold. In addition the Government cut the additional rate threshold from 6 April 2023 (boosting receipts), and increased both the NICs primary threshold and the Class 2 lower profits limit to align with the personal allowance in 2022/23 (cutting receipts).

- A £21.4 billion cost from the successive cuts in the rate of NICs announced in November and in this Budget, each costing £10.7 billion in 2028/29.[43]

2.4 Initial reactions and debate

In the days before the Budget there was a considerable amount of speculation that the Chancellor would announce cuts to NICs.[44]

In his response to the Budget, the director of the Institute for Fiscal Studies (IFS) Paul Johnson observed that the reductions in NICs rates, combined with those announced in the 2023 Autumn Statement, represented "a genuinely substantial tax cut", one that was "better targeted" on people of working age who were working, and which reduced "the wedge between taxes on different sorts of income." He went on to note that the decision to cut NICs rates, rather than income tax rates, meant that these tax cuts had not mitigated the impact of frozen income tax thresholds for pensioners:

> While many workers will be better off as a result of tax changes over this parliament, pensioners will be substantial net losers. Well over 60 per cent of pensioners now pay income tax. Income tax changes will leave most of them £650 a year worse off by 2027, and over £3,000 a year worse off if they are higher rate tax payers.[45]

In his presentation of the personal tax measures in the Budget, IFS economist Tom Wernham noted that the two sets of NICs rate reductions would offset freezes for about half of all employees: those with earnings in a range between just under £30,000 up to just over £60,000.[46]

In its response to the Budget, the Resolution Foundation argued that the rise in personal taxes on pensioners represented "a staggering turnaround from the approach of Conservative governments since 2010":

> Looking beyond just employees, though, personal taxes are still going up significantly, with threshold freezes exceeding value of NI rate cuts by £20 billion (£41 billion versus £21 billion). What's going on?
>
> £8 billion is being raised by the freezes to thresholds for employer NI, which in time should feed through into lower pay levels for employees. And there is a big group of losers: pensioners, who are already exempt from NI but affected

43 OBR, Economic and Fiscal Outlook, CP 1027 (PDF), March 2024 para 3.40. As noted, the £41.1 billion estimate also includes the impact of changes to the additional rate threshold, the NICs primary threshold and the Class 2 NICs threshold.

44 For example, "Jeremy Hunt to cut national insurance by 2p in budget", Guardian, 5 March 2024; "Jeremy Hunt seeks to win over voters with £900 tax cut", Times, 5 March 2024.

45 Paul Johnson, Spring Budget 2024: IFS analysis – opening remarks, (PDF) 7 March 2024 p4

46 Effect in 2024/25 of tax changes since 2021. Tom Wernham, Spring Budget 2024: IFS analysis – NICs, income tax and child benefit, (PDF) 7 March 2024 (slide 4)

> by freezes to Income Tax thresholds. All 8 million taxpaying pensioners will see their taxes increase, by an average of £1,000 – an £8 billion collective hit.[47]

The BBC's economics editor Faisal Islam made a similar point, arguing that the two-stage cut in NICs rates combined with the freeze in income tax thresholds represented "the entire reversal" of the Conservative party's tax strategy since 2010.[48]

In his response to the Budget statement the Leader of the Opposition, Keir Starmer, stated that the Labour Party would support the reduction in NICs rates "because we have campaigned to lower the tax burden on working people for the whole Parliament", although he was critical of the decision to continue the freeze in income tax thresholds "dragging more and more people into higher taxes."[49] The Chair of the Treasury Select Committee, Harriet Baldwin (Conservative) welcomed the cut in NICs rates as "a smart way to help growth."[50] Speaking for the SNP Drew Hendry raised concerns that the NICs rate cut would provide "very little for people on low incomes" so that there was "not a lot of sense in that measure."[51] Speaking for the Liberal Democrats Ed Davey was also critical of the cut in NICs, describing it as "a badly executed conjuring trick, giving with one hand but taking away twice as much with the other."[52]

A number of other MPs mentioned this measure in their contributions to the Budget debate on 6th March.

Dame Angela Eagle (Labour) argued "the personal tax cuts that the Chancellor is brandishing today are […] completely drowned out by the other huge increases in tax."[53] Sammy Wilson (DUP) said the NICs reduction was one example of some of the positive measures in the Budget "until we remember that the figures in the Red Book and the figures from the OBR show that the impact of that is wiped out by the stealth tax, which is imposed on the UK population as a result of not moving tax thresholds."[54]

Sir David Evennett (Conservative) suggested that NICs was "an unfair double tax on work" and the Chancellor's decision was "creating a fairer system."[55] Priti Patel (Conservative) agreed that "getting national insurance down is fundamental" but went on to suggest that "we must tackle fiscal drag, and the number of people who get caught up in higher rates of taxation."[56] John Stevenson (Conservative) said the further cut in NICs rates "will be welcomed, including by all those in work" and that the party should commit to further

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47 Torsten Bell and others, Back for more? Putting the Spring Budget in context, Resolution Foundation, 7 March 2024 p4
48 "Jeremy Hunt's Budget was more radical than it looked", BBC News, 9 March 2024
49 HC Deb 6 March 2024 c857, c856
50 as above c862
51 as above c864
52 as above c875
53 as above c871
54 as above cc895-6
55 as above c877
56 as above c881

reductions before abolishing the tax "ultimately."[57] Nigel Mills (Conservative) argued that the Chancellor's statement about phasing out NICs when affordable was "a welcome sense of direction but if he really thinks double-taxing is the wrong thing to do, he could stop it more quickly by abolishing national insurance, putting more on income tax and just having one tax."[58]

Sir David Davis (Conservative) said that a cut in income tax rather than NICs would have been preferable, as it would have would encouraged "highly skilled and capable people" over 65 to remain the workforce, "but that is what we have got and it is probably much better than we would have got from the Opposition."[59] Suella Braverman (Conservative) agreed with Sir David's point, saying "I do regret that income tax was not chosen as the tax to cut over national insurance, because pensioners have lost out as a result."[60] Sir Edward Leigh (Conservative) suggested a cut in income tax "would have been much more dynamic, and people understand it." He went on to add "there is no point in keeping the triple lock if we are dragging more and more pensioners […] into paying tax and sometimes into a higher rate of tax."[61] Kevin Foster (Conservative) noted "all those in employment will benefit from national insurance rates being reduced, but in future we must consider particularly those who have saved for a small retirement annuity on top of the state pension."[62] Cat Smith (Labour) anticipated receiving complaints from pensioners because they would not benefit from the tax cut: "While the triple lock goes some way, it does not compensate for the rising cost of living and inflation spiralling out of control."[63]

The Library briefing Spring Budget 2024: Reaction provides more details on the initial reactions to the Budget.

57 HC Deb 6 March 2024 c887
58 as above c920
59 as above c894
60 as above c901
61 as above cc910-11
62 as above c924
63 as above c906

3 The Bill

The National Insurance Contributions (Reductions in Rates) (No.2) Bill 2023-24 was introduced on 7 March 2024. 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 three clauses. The Bill would apply to the whole of the UK.[64]

Clause 1 would set the main rate of NICs paid by employees at 8%, and the main rate of NICs paid by the self-employed at 6%.[65]

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

Clause 1(1)(a) and (b) would amend each of these Acts to set the new primary Class 1 rate. Clause 1(2) would cut the reduced rate of NICs which some married women and widows pay by 2 percentage points, from 3.85% to 1.85%.[66]

Clause 1(3)(a) and (b) would amend the relevant provisions in the SSCBA 1992 and the SSCB(NI)A 1992 to set the new Class 4 rate. This supersedes the provision which had been made by section 2 of the National Insurance Contributions (Reduction in Rates) Act 2023, to cut this rate from 9% to 8% from 6 April 2024. Clause 1(4) would provide that this section in the Act is to be treated as never having had effect.

Clause 2 would make amendments to the way someone's 'annual maximum' NICs contribution is to be calculated for 2024/25, following the change in both the main employee rate and the main self-employed rate. NICs is not charged on a 'cumulative' basis, unlike income tax. As a result, if someone has more than one job, or works as both an employee and as self-employed, they may

64 Explanatory Notes to the National Insurance Contributions (Reductions in Rates) (No.2) Bill 147 2023-24 para 5

65 as above para 18-19

66 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 8 March 2024; and, Commons Library research briefing CBP-1910 Married women and state pensions.

quite possibly paying NICs on earnings from both.[67] Provision is made by the Social Security (Contributions) Regulations SI 2001/1004 to set a statutory annual maximum that someone would be liable to pay in these circumstances.[68]

Clause 3 would provide that the legislation comes into force on 6 April 2024. The clause also sets the Bill's short title.

Following the Bill's introduction, HMRC published an impact assessment on the impact of the changes made to NICs rates both by this Bill and by the earlier legislation to cut rates introduced after the 2023 Autumn Statement. This noted that HMRC had "considered opportunities to promote equalities and good relations between people in each of the protected characteristic groups and those outside of that group", and that "none have been identified."[69]

3.2 The Bill's scrutiny

In her business statement on 7 March the Leader of the House, Penny Mordaunt, announced that all stages of the Bill in the House of Commons (second reading, committee and third reading) would be taken on 13 March.

As noted above, legislation regarding NICs is not included in the annual Finance Bill, because receipts from NICs are paid into the NI Fund, rather than being collated with other taxes. As a result, the Bill would not qualify for certification as a Money Bill, and could potentially be amended in the Lords, though this is unlikely given its sole purpose is directly connected to the public finances.

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

> The reduction in the rate of primary Class 1 NICs is intended to take effect from 6 April 2024. Therefore it is necessary that the Bill receive Royal Assent before Parliamentary recess for Easter, starting on 26 March 2024, to give as much certainty and notice to employers and payroll software developers.
>
> The fast-tracking procedure is also appropriate for the changes in the Bill relating to Class 4 NICs to give certainty and notice to the self-employed, with the changes intended to take effect from 6 April 2024.[70]

A Library briefing, Fast-track legislation, provides more details on this procedure. A second Library briefing provides a list of public bills since 1979

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67 For details see, HMRC, National Insurance Manual para NIM01251; para NIM24151

68 specifically regulation 21 (Class 1) and regulation 100 (Class 4) of SI 2001/1004.

69 HMRC, NICs changes from Autumn Statement 2023 and Spring Budget 2024 – Screening equality impact assessment, 8 April 2024

70 Explanatory Notes to the National Insurance Contributions (Reductions in Rates) (No.2) Bill 12 2023-24 para 11

when the main Commons stages (second and third reading) have been passed within one day.[71]

The Government adopted a similar approach when it introduced the legislation to implement the cuts to NICs rates announced in the Autumn Statement 2023.[72] At that time 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.[73] This issue is addressed in HMRC's tax information and impact note on the current Bill:

> Any employers unable to update their payroll software in time for the changes coming into effect from 6 April 2024 may be required to re-run their payroll retrospectively for past periods where higher National Insurance contributions 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). There are not anticipated to be any other continuing costs.[74]

All of the stages of the Bill in the House of Commons were completed on 13 May 2024, when the Bill was agreed unamended.[75]

Introducing the Bill the Exchequer Secretary Gareth Davies noted that "together with the autumn statement cuts, this is an overall tax cut worth some £20 billion per year", which represented "the largest-ever cut to employee and self-employed national insurance."[76] Speaking for the Opposition James Murray confirmed that the Labour Party supported the cut in NICs rates, but went on to argue that "the Government are giving with one hand, but are taking far more with the other":

> Figures from the Office for Budget Responsibility show that for every £5 that working people will get back from the Government's national insurance cuts, they will be losing a total of £10 thanks to the Conservatives' tax plan. That tax plan will leave the average household £870 worse off and will drag 3.7 million more people into paying tax by 2028-29.[77]

Speaking for the SNP Kirsty Blackman argued the Bill "is the wrong measure at the wrong time", observing that the cut in NICs rates would "have a disproportionately positive impact on higher earners and a disproportionately

71 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

72 For details see, Commons Library research briefing CBP-9898, National Insurance Contributions (Reduction in Rates) Bill 2023-24 (Section 3.2: The Bill's scrutiny)

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

74 HMRC, Reduction to the main rates of primary Class 1 and Class 4 National Insurance contributions, 7 March 2024

75 HC Deb 13 March 2024 cc331-392; House of Commons, Votes and Proceedings No.65 (PDF), 13 March 2024

76 HC Deb 13 March c332

77 as above c334

negative impact on lower earners."[78] Speaking for the Liberal Democrats Sarah Olney also opposed the Bill on the grounds that the Chancellor "is continuing to stealth-tax millions of hard-working families and pensioners through the freeze on national insurance and income tax thresholds, which is subjecting them to the highest tax burden since the second world war."[79]

The Bill received its second reading (by 304 votes to 43).[80] Having completed its committee stage unamended, the Bill received its third reading (by 293 votes to 41).[81]

The Bill completed all of its stages in the House of Lords on 18 and 19 March 2024, when it was agreed unamended.[82] Subsequently the National Insurance (Reduction in Rates) Act 2024 received Royal Assent on 20 March 2024.[83]

78 HC Deb 13 March 2024 c340
79 as above c352
80 as above c371-3
81 as above c391-2
82 HL Deb 18 March 2024 c86; HL Deb 19 March 2024 c106
83 House of Commons, Votes and Proceedings No.70 (PDF), 20 March 2024

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