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HL Bill 25 of 2023–24

# National Insurance Contributions (Reduction in Rates) Bill

**Author:** James Goddard
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The National Insurance Contributions (Reduction in Rates) Bill is a government bill that was introduced in the House of Commons on 23 November 2023. The bill has been fast tracked by the government and it completed all its House of Commons stages on 30 November 2023.

The bill was introduced in the House of Lords on 4 December 2023 and is due to have its second reading and all other stages on 12 December 2023.

The purpose of the bill is to give effect to three changes to national insurance contributions (NICs) announced by the chancellor, Jeremy Hunt, in the autumn statement on 22 November 2023. These were:

- The reduction of the main rate of class 1 employee NICs from 12% to 10%. This would take effect from 6 January 2024.
- The reduction of the main rate of class 4 self-employed NICs from 9% to 8%. This would take effect from 6 April 2024.
- The abolition of class 2 self-employed NICs. This would take effect from 6 April 2024.

During its House of Commons stages the bill received broad cross-party support and it passed without amendment. However, the opposition criticised the government for the wider economic context in which the bill's measures were being introduced, including the assessment from the Office for Budget Responsibility (OBR) that most of the gains from reducing NICs rates would be counteracted by freezes to both income tax and NICs thresholds.

# 1. Background

## 1.1 Overview

The National Insurance Contributions (Reduction in Rates) Bill is a government bill that was introduced in the House of Commons on 23 November 2023. The bill has been fast tracked and it completed all its House of Commons stages on 30 November 2023.

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The purpose of the bill is to give effect to three changes to national insurance contributions (NICs) announced by the chancellor, Jeremy Hunt, in the autumn statement on 22 November 2023. Mr Hunt said the NICs reforms were part of the autumn statement's package of "growth measures to back British business" and to "make work pay".[1] The announcements on NICs were:[2]

- The reduction of the main rate of class 1 employee NICs from 12% to 10%. This would take effect from 6 January 2024.
- The reduction of the main rate of class 4 self-employed NICs from 9% to 8%. This would take effect from 6 April 2024.
- The abolition of class 2 self-employed NICs. This would take effect from 6 April 2024.

[1] HC Hansard, 22 November 2023, col 326.

[2] HM Treasury, 'Autumn statement 2023', 22 November 2023, CP 977, pp 2–3.

## 1.2 Current structure of national insurance contributions

NICs are paid by employees, employers and the self-employed.[3] NICs receipts fund certain contributory benefits, such as the state pension, contributory job seekers' allowance, and maternity allowance. NICs are divided into different classes depending on a person's employment status and earnings. The current classes and rates for 2023/24 are:[4]

- **Class 1: Employees** under the state pension age with earnings above £242 a week. The primary class 1 rate is 12% paid on earnings between £242 and £967 a week. Earnings above £967 a week incur a 2% rate. Class 1A or 1B are paid by employers on their employees' expenses or benefits.
- **Class 2: Self-employed** people with profits of more than £12,570 a year pay a flat rate of £3.45 a week.
- **Class 3: Voluntary contributions**.
- **Class 4: Self-employed** people with profits of between £12,570 and £50,270 a year pay a rate of 9%. A rate of 2% is paid on profits over £50,270.

## 1.3 Impact of the bill's provisions

The OBR's 'Economic and fiscal outlook', published on 22 November 2023 to accompany the autumn statement, stated that the fiscal impact of the NICs measures would reduce government revenues by approximately £10bn a year from 2024/25 to 2028/29.[5]

On the impact of the reduction of class 1 NICs from 12% to 10%, the OBR estimated that:

> 27.3 million employees stand to benefit in 2024/25, with average annual gains of £304 for basic rate taxpayers, £647 for higher rate taxpayers, and £707 for those that pay the additional rate.[6]

However, the OBR also stated that some of the gains to employees would be counteracted

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[3] HM Government, 'National insurance: Introduction', accessed 1 December 2023.

[4] HM Government, 'National insurance: Introduction—National insurance classes', accessed 1 December 2023; and HM Revenue and Customs 'Rates and allowances: National insurance contributions', 18 April 2023.

[5] Office for Budget Responsibility, 'Economic and fiscal outlook', 22 November 2023, CP 944, p 55, table 3.1.

[6] As above, p 56.

by tax threshold freezes (known as fiscal drag):

> We expect the two pence cut to employee national insurance contributions announced in the autumn statement to directly boost real household incomes per person by around 0.5% by 2028/29. But the effect of the freezes in income tax and NICs thresholds, alongside recent strength in nominal earnings growth, will result in a significant amount of 'fiscal drag'.[7]

The OBR estimated that the reduction in class 4 NICs from 9% to 8% would benefit:

> 2.1 million self-employed individuals in 2024/25, with the average annual gains ranging from £117 for basic rate taxpayers, £322 for those on the higher rate, and £358 for additional rate taxpayers.[8]

On the abolition of class 2 NICs, the OBR estimated there would be "1.9 million gainers in 2024/25 who will be an average of £186 a year better off".

The OBR estimated that the aggregate impact of the NICs cuts on employment would be to:

> […] raise employment by 28,000 (under 0.1%) in 2028/29. The increase in post-tax income is also likely to boost the hours worked by existing employees. The total increase in hours worked from new and existing employees is estimated to be 0.3% or 94,000 in full-time equivalent terms.[9]

The response to the autumn statement by the Institute for Fiscal Studies (IFS) highlighted the OBR's assessment that the NICs cuts would be counteracted by fiscal drag. The IFS stated:

> Taken in isolation, [the NICs changes] put money back into the pockets of almost 30 million workers at a cost of around £10bn per year […] The bigger picture is that these changes give back less than £1 of every £4 that is being taken away from households through changes to NICs and income tax announced since March 2021. Those takeaways are far less transparent than the smaller giveaway announced today—implemented as they are through multi-year freezes to income tax and NICs

[7] Office for Budget Responsibility, 'Economic and fiscal outlook', 22 November 2023, CP 944, p 45.
[8] As above, p 56.
[9] As above, p 19.

> thresholds, which gradually bring more and more people into higher tax brackets, and especially so at a time of high inflation.[10]

A similar view was expressed by the Centre for Policy Studies think tank, which welcomed the NICs cuts "at a time of rising taxes".[11] However, it said it would have been preferable, and more advantageous to many taxpayers, to have "halted the relentless ratchet of fiscal drag via frozen thresholds".

The Resolution Foundation (RF) think tank also welcomed the reductions to NICs, but it said they were "dwarfed" by the effect of other tax rises.[12] It also said that the chancellor had funded the tax cuts through "implausible" plans to cut public spending in the next parliament. The RF claimed that the package of NICs reform "is not progressive".[13] It said that 80% of the gains would go to the wealthiest half of the population.

## 2. Why is the bill being fast tracked?

In the autumn statement the chancellor announced that, unlike other tax changes which usually take effect from the following April, the reduction to employee class 1 NICs would be implemented from 6 January 2024.[14] The bill's explanatory notes gave the following justification for the bill being fast tracked:

> The reduction in the rate of primary Class 1 NICs is intended to take effect from 6 January 2024 therefore the government considers that it is necessary for the bill to receive royal assent before parliamentary recess for Christmas 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 2 and 4 NICs to give certainty and notice to the self-employed, with the changes intended to take effect from 6 April 2024.[15]

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[10] Institute for Fiscal Studies, 'Autumn statement 2023 response', 22 November 2023.

[11] Centre for Policy Studies, 'CPS welcomes permanent full expensing', 22 November 2023.

[12] Resolution Foundation, 'Pre-election giveaways arrive early with biggest tax cuts since 1988, but taxes are up not down—rising by £4,300 per household', 22 November 2023.

[13] Resolution Foundation, 'A pre-election statement: Putting the autumn statement 2023 in context', 23 November 2023, p 3.

[14] HC Hansard, 22 November 2023, col 337.

[15] Explanatory notes, p 3.

# 3. Bill provisions

The bill consists of five clauses and one schedule.

**Clause 1** would reduce the main rate of class 1 NICs. Clause 1(1) would amend section 8(2)(a) of the Social Security Contributions and Benefits Act 1992 (SSCBA 1992) to replace "12%" with "10%". Clause 1(2) would make equivalent provisions in Northern Ireland's legislation by amending section 8(2)(a) of the Social Security Contributions and Benefits (Northern Ireland) Act 1992 (SSCB(NI)A 1992). The bill's explanatory notes state that clause 1(3) would lower the reduced class 1 rate "that applies in relation to a historic class of married women and widows" from 5.85% to 3.85%.[16] Clause 1(4) would provide that these amendments come into force on 6 January 2024.

**Clause 2** would reduce the main rate of class 4 NICs. Clause 2(1) would amend section 15(3ZA)(a) of the SSCBA 1992 to replace reference to "9 per cent" with "8%" and clause 2(2) would similarly amend the SSCB(NI)A 1992. Clause 2(3) would provide that these amendments come into force on 6 April 2024.

**Clause 3** would remove the requirement to pay class 2 NICs set out in the SSCBA 1992 and SSCB(NI)A 1992. Clause 3(3) would provide that these amendments come into force on 6 April 2024.

**Clause 4** would provide for the bill's schedule to make transitional and consequential amendments. The schedule would, among other provisions, reduce the rate of class 1 NICs for company directors to 11.5% and make consequential amendments arising from clause 3 that remove the requirement to pay class 2 NICs.

**Clause 5** would make provision for the bill's short title.

The bill's explanatory notes confirm that the territorial extent of the bill is to England, Wales, Scotland and Northern Ireland.[17]

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[16] Explanatory notes, p 4.
[17] As above, p 2.

# 4. House of Commons stages

The bill was introduced in the House of Commons on 23 November 2023. It completed all stages on 30 November 2023. New clause 1 was tabled by the opposition at committee stage, but it was subsequently withdrawn and the bill passed without amendment.

## 4.1 Second reading

At second reading there was cross-party support for the bill.[18] However, the opposition criticised the government for the broader context of the cost of living pressures in which the autumn statement had been made.

Introducing the bill, the chief secretary to the Treasury, Laura Trott, said:

> The bill will cut taxes for 29 million working people […] We are prioritising national insurance for two key 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 […] The government are committed to tax cuts that reward and incentivise work, and that grow the economy in a sustainable way. These measures do just that.[19]

Labour's shadow financial secretary, James Murray, said:

> […] Labour welcomes the cut in national insurance that the bill includes. We 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. We will support the bill, but we believe that the government need to be honest with people. The Conservatives need to be honest and admit that they are responsible for the biggest hit to living standards on record, and that this has been the biggest tax-raising Parliament that our country has ever seen.[20]

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[18] HC Hansard, 30 November 2023, cols 1083–1102.
[19] HC Hansard, 30 November 2023, cols 1083–84.
[20] HC Hansard, 30 November 2023, col 1086.

The SNP spokesperson for the economy, Drew Hendry, said:

> The bill, in legislating for the changes to national insurance outlined in the autumn statement, is a glaring example of the government's disconnect from the realities on the ground. The changes announced by the chancellor […] are a mere drop in the ocean of what is urgently needed now by families struggling with rampant food price increases, punishing increases in rents and mortgages, and the dreaded prospect of another winter with soaring energy bills.[21]

Concluding the second reading debate for the government, the financial secretary to the Treasury, Nigel Huddleston, responded to the criticism from the opposition parties that the autumn statement had not provided support for cost of living pressures. He said the statement had increased the living wage and uprated benefits and pensions in line with inflation.[22] Mr Huddleston concluded by stating that "the bill delivers a tax cut for 29 million working people, and I am pleased that it will be getting support from across the House".

The bill passed second reading without division.

### 4.2 Committee stage

At committee stage the government minister Nigel Huddleston introduced the bill and outlined its clauses. During the discussion of clause 1 of the bill, which would reduce the employee class 1 NICs rate, shadow minister James Murray questioned whether some employers would be able to implement the change by 6 January 2024. He asked Mr Huddleston if he 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?[23]

In addition, Mr Murray stated that:

> Many operators in the retail sector have a moratorium on releasing new software updates in the November to January period, given what a busy time that is for them.

[21] HC Hansard, 30 November 2023, col 1090.
[22] HC Hansard, 30 November 2023, col 1101.
[23] HC Hansard, 30 November 2023, col 1104.

> I would be grateful if the minister could confirm whether he is aware of that. If so, what meetings has he already had with retailers to discuss this point and, if so, what has the outcome of those meetings been?[24]

In response, Mr Huddleston stated that "HMRC is engaging with industry and providing relevant guidance".[25] He said the government were "confident" that the majority of software developers would be able to make changes to their payroll software in time for the 6 January deadline. James Murray subsequently said that Mr Huddleston's answer did not provide sufficient detail and he asked if the minister would commit to writing to him with more information. Mr Huddleston committed to do so.[26]

The only proposed amendment to the bill tabled at committee stage was new clause 1, tabled by James Murray.[27] New clause 1 would have required the government to lay a report before Parliament which documented the amount of NICs deductions from a worker on the national living wage between 2023/24 and 2027/28 under the provisions of the bill and a comparison of the amount of NICs deductions for the same worker as a result of the freezing of NICs thresholds over the same period. The report would also have required the government to set out the costs of implementing the changes in the bill and a comparison with the cost implementing and repealing the health and social care levy in 2021 and 2022.[28]

Moving new clause 1, Mr Murray said the opposition were requesting the figures from the government because the Labour Party's analysis had shown that:

> A full-time worker on the national living wage will pay an estimated £70 more in national insurance next year, even with the cut in the bill, as a result of the thresholds being frozen. What is more, the full impact of the government's freezing of national insurance thresholds will be that by 2027/28—again, even with the cut in the bill—a full-time worker on the national living wage will pay £160 more a year in tax. Can the minister confirm whether he accepts our calculation?[29]

Nigel Huddleston said he was happy to provide figures which he hoped would give

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[24] HC Hansard, 30 November 2023, col 1104.
[25] HC Hansard, 30 November 2023, col 1104.
[26] HC Hansard, 30 November 2023, col 1106.
[27] HC Hansard, 30 November 2023, col 1105.
[28] For information on the levy, see: House of Commons Library, 'Health and Social Care Levy', 22 November 2022.
[29] HC Hansard, 30 November 2023, col 1105.

Mr Murray "some assurances". He said:

> A worker on the national living wage will save £165 next year from the national insurance cut, and thanks to above-inflation increases in the NICs starting threshold since 2010, a full-time worker on the national living wage will pay £400 less in national insurance contributions next year than they otherwise would have. That includes the historical increase to the national insurance contributions starting thresholds in July 2022 by this government—the largest ever increase to a personal tax starting threshold.[30]

Mr Huddleston also confirmed that the cost to HMRC of "implementing and reversing the health and social care levy was £5mn".

James Murray withdrew the new clause and the bill completed committee stage without amendment.

### 4.3 Report and third reading

The bill was reported without amendment, read a third time and passed.

## 5. Read more

- House of Commons Library, 'National Insurance Contributions (Reduction in Rates) Bill 2023–24', 28 November 2023
- House of Lords Library, 'Autumn statement 2023: Key announcements and analysis', 24 November 2023
- Chartered Institute of Taxation, 'Autumn statement 2023: Class 2 NIC change is a simplification and saving for some, but not those on the lowest incomes', 24 November 2023

[30] HC Hansard, 30 November 2023, col 1106.

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