RESEARCH PAPER 02/27
23 APRIL 2002

Direct taxes: rates & allowances 2002-03

This paper sets out the main changes to direct tax rates and allowances announced in the Budget of 17 April 2002. It lists the principal personal allowances which will be available against income tax in the tax year 2002-03, and it outlines the conditions necessary for eligibility for these allowances.

This paper provides a summary of the general tax position in straightforward cases only. It should be stressed that this paper deals only with tax allowances. No reference is made to cash benefits provided under the social security system, or to the working families' tax credit.

Antony Seely

BUSINESS & TRANSPORT SECTION

HOUSE OF COMMONS LIBRARY

Recent Library Research Papers include:

02/10	Taxing company cars	05.02.02
02/11	Alternative Vehicle Fuels	12.02.02
02/12	Unemployment by Constituency, January 2002	13.02.02
02/13	Economic Indicators [This month's article: London Underground & PPP]	01.03.02
02/14	The Laeken Declaration and the Convention on the Future of Europe	08.03.02
02/15	The *Police Reform Bill [HL]* [Bill 48 of 2001-02]	14.03.02
02/16	Financing for Development	15.03.02
02/17	The *Relationships (Civil Registration) Bill* and the *Civil Partnerships Bill* [Bill 36 of 2001-02 and HL Bill 41 of 2001-02]	19.03.02
02/18	Unemployment by Constituency, February 2002 20.03.02	
02/19	The *State Pension Credit Bill [HL]* [Bill 98 of 2001-02] (Revised edition)	21.03.02
02/20	The *Tobacco Advertising and Promotion Bill [HL]* [Bill 112 of 2001-02]	04.04.02
02/21	The *Enterprise Bill* [Bill 115 of 2001-02]	04.04.02
02/22	Social Indicators	10.04.02
02/23	The *Patents Act 1977 (Amendment) (No. 2) Bill* [Ten Minute Rule Bill]	15.04.02
02/24	Unemployment by Constituency, March 2002	17.04.02
02/25	The *Nationality, Immigration and Asylum Bill*: Nationality and Citizenship [Bill 119 of 2001-02]	22.04.02
02/26	The *Nationality, Immigration and Asylum Bill*: Immigration and Asylum [Bill 119 of 2001-02]	22.04.02

Research Papers are available as PDF files:

- *to members of the general public on the Parliamentary web site,*
  URL: ***http://www.parliament.uk***
- *within Parliament to users of the Parliamentary Intranet,*
  URL: ***http://hcl1.hclibrary.parliament.uk***

Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public. Any comments on Research Papers should be sent to the Research Publications Officer, Room 407, 1 Derby Gate, London, SW1A 2DG or e-mailed to PAPERS@parliament.uk

ISSN 1368-8456

Summary of main points

- Income tax on earned income is charged at three rates. For 2002-03 all three rates are unchanged: the starting rate is set at 10%, the basic rate at 22%, and the higher rate at 40%. The starting rate is charged on the first £1,920 of taxable income. The basic rate is charged on income in excess of this limit, up to the basic rate threshold of £29,900. Both thresholds have been increased in line with statutory indexation.

- The personal allowance is increased in line with inflation to £4,615 for 2002-03. The two age-related personal allowances for older people are also increased in line with inflation: to £6,100 and £6,370 for people aged 65-74 years and 75 years and over respectively. The income limit for the age-related allowances is increased to £17,900 in line with statutory indexation.

- Elderly taxpayers may be entitled to the married couple's allowance which was withdrawn from all couples aged under 65 on 6 April 2000. Only couples in which one partner was born on or before 5 April 1935 are entitled to receive an allowance; for 2002-03 this allowance is set at £5,465, or £5,535 if one partner is 75 or over. Both allowances are restricted to 10 per cent.

- Families who have one or more children under 16 living with them are eligible to claim the children's tax credit (CTC), which takes the form of an allowance – set at £5,290 for 2002-03 – for which relief is given at 10 per cent: in effect those families eligible to claim the CTC will be able to cut their annual income tax bill by up to £529. The CTC is tapered for claimants who are higher rate taxpayers. It is reduced by £1 for every £15 of income above the point at which they start to pay higher rate tax until their entitlement to the credit is exhausted; for parents claiming just the basic credit, typically this would be at an income of £42,450 for 2002-03.

- From April 2002 the CTC is paid at a higher rate for the first year of a child's life, for babies born on or after 6 April 2002. This 'baby rate' of the credit is set at £10,490 restricted to 10 per cent for 2002-03.

- In the 2002 Budget a series of important changes were announced to tax rates and allowances which are due to take effect from *April 2003*. A short appendix to this paper gives details.

- This paper does not provide details of the cash benefits provided under the social security system. In addition, it only deals with tax allowances and 'wasteable' tax credits: those which are limited to the amount of the tax liability and therefore cannot give rise to a payment by the authorities to the taxpayer. The CTC is one example of a wasteable tax credit. 'Non-wasteable' tax credits are not so limited, so that the excess of the credit over the tax liability can be paid to the taxpayer. The working families' tax credit (WFTC) and disabled person's tax credit, which replaced the in-work benefits family credit and disability working allowance from October 1999, are non-wasteable credits.

CONTENTS

I Rates and thresholds

A. Income tax

Income tax on earned income is charged at three rates: the starting rate, the basic rate, and the higher rate. All three rates are unchanged for 2002-03: the starting rate of 10%, the basic rate of 22%, and the higher rate of 40%.

The 10% starting rate applies to taxable income up to £1,920. Taxable income excludes personal allowances, which represent the amount of money someone may receive free of tax. Taxable income in excess of the starting rate threshold is charged at the basic rate of 22%. The upper limit of the basic rate band is £29,900. Taxable income in excess of this second threshold is charged the higher rate of 40%. Both thresholds have been increased in line with inflation. The three tax rates and thresholds for 2002-03 are:

Taxable income	**Tax rate**
First £1,920	**10%**
£1,921 - £29,900	**22%**
Over £29,900	**40%**

The rates of income tax on savings income - other than dividend income - are unchanged for 2002-03: 10% for income in the starting rate band; 20% for income in the basic rate band; 40% for income above that. Generally savings income is taxed at source at 20%. Those only paying the starting rate can claim a repayment of tax from the Inland Revenue.[1] The rates of tax on dividend income are 10% for income below the basic rate limit, and 32.5% above that. In calculating tax liability, dividend and savings income is regarded as the 'top slice' of income, with dividends the highest.

B. National Insurance contributions

Employees are charged National Insurance contributions (NICs) on their earnings if their earnings exceed the lower earnings limit (LEL), which is set at £75 per week for 2002-03. A zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT), which is set at £89.[2] Earnings above the PT are charged NICs at 10%, subject to a cap at the upper earnings limit (UEL), which is set at £585 per week. Employees contracted out of the state second pension (S2P) pay a reduced rate of NICs. Employers pay NICs on employee earnings at a rate of 11.8%, on earnings above the secondary

[1] An Inland Revenue helpline is available to give advice to those in this situation: 0845 307 5555. Further information is on the Revenue's internet site at: www.inlandrevenue.gov.uk/taxback/index.htm.

[2] No NICs are actually payable but a notional primary Class 1 NIC will be deemed to have been paid in respect of earnings between LEL and PT to protect benefit entitlement.

threshold (ST), also set at £89 a week for 2002-03.[3] The rates of NICs for 2002-03 are set out below:[4]

Total weekly earnings[1]	**Employee (primary) NICs rate**[2]	**Employer (secondary) NICs rate**[3]
£0 to £75 (LEL)	0%	0%
£75 to £89 (PT/ST)	0%	0%
£89 to £585 (UEL)	10%	11.8%
Above £585	0%	11.8%

[1] *The limits are defined as LEL - lower earnings limit; PT - primary threshold; ST - secondary threshold; and UEL - upper earnings limit.*
[2] *The contracted-out rebate for primary contributions in 2002-03 is 1.6 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes (COSRS), and contracted-out money purchase schemes (COMPS).*
[3] *The contracted-out rebate for secondary contributions is 3.5 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes and 1.0 per cent for contracted-out money purchase schemes. For COMPs, an additional age related rebate is paid direct to the scheme following the end of the tax year. For appropriate personal pensions, the employee and employer pay NICs at the standard not contracted-out rate. An age and earnings related rebate is paid direct to the personal pension provider following the end of the tax year.*

In the 2002 Budget several important changes were announced to take effect from *April 2003* – including changes in the rate of NICs paid by both employees and employers. A short appendix to this paper gives details.

II Personal allowances

All individuals receive a personal allowance which they can set against income tax, irrespective of sex or marital status. Two age-related additions are made to the allowance: the first, if someone is 65 or over, the second if they are 75 or over. Those born before 6 April 1935 may be eligible for two other allowances: the married couple's allowance and tax relief on maintenance payments. An allowance is also given to individuals who are blind. Families with one or more children under 16 are eligible to claim the children's tax credit; a higher 'baby rate' of the credit is introduced from April 2002.

Income tax legislation requires the main allowances and thresholds to be increased in line with the Retail Prices Index (RPI) unless Parliament determines otherwise. This statutory requirement - the so-called "Rooker-Wise" amendment - was introduced under section 22 of

---

[3] Both the PT and ST are aligned with the personal tax allowance.
[4] HM Treasury, *Budget 2002*, HC 592 April 2002 p 160

the *Finance Act 1977*.[5] The amendment was successfully made through the cross-party co-operation of Jeff Rooker and Audrey Wise with Nigel Lawson. All three argued that without indexation, inflation acted as an unauthorised, unintended and an unknown increase in taxation. By ensuring that any real changes in allowances would have to be voted on, the amendment ensured changes in the income tax structure would be 'out in the open'.

Personal allowances should be increased by a percentage equivalent to the rise in the RPI rounded up to the nearest £10; the income limit for age allowances should be increased by a similar proportion but rounded up to the nearest £100. In the case of thresholds, changes must be rounded up to the nearest multiple of £10 (starting rate threshold) or £100 (basic rate threshold). When uprating the main allowances and thresholds, the relevant inflation rate taken is the increase in the RPI in the year to September. For the year to September 2001 the rate of inflation was 1.7%.[6]

A. Personal allowance

Every taxpayer resident in the United Kingdom is entitled to a personal allowance that can be set against any type of income for tax purposes. Two additional levels of the allowance are provided for the elderly. The allowance is not transferable between spouses.

These three allowances for 2002-03 are:

Under 65	**£4,615**
65 – 74	**£6,100**
75 and over	**£6,370**

All three allowances have been increased in line with statutory indexation: the personal allowance by £80, and both of the two age-related allowances by £110.

The extra age allowances are reduced above a certain income limit by £1 for every £2 by which income exceeds the limit (this is explained below, in the part II.B of this paper). In such cases only the extra allowance is withdrawn. No-one over the age of 65 receives less than the basic personal allowance.

5 Consolidated in section 257C of the *Income and Corporation Taxes Act (ICTA) 1988*. The statutory requirement to uprate the starting rate and basic rate thresholds in line with inflation unless Parliament determines otherwise is provided under section 1 of *ICTA 1988*.

6 *National Statistics Database Series CHAW*, 16 April 2002. The legislation is framed in terms of the consumer price index itself, rather than the RPI figure, and this may make a difference; notably, allowances which end in a 5 may continue to do so (for details see HM Treasury, *Tax Benefit Reference Manual*, 2001-02 edition para 1.22).

B. Income limit for age-related allowances

Taxpayers claiming an age-related allowance whose income exceeds £17,900 for 2002-03 will have their allowance reduced by £1 for every £2 that their income exceeds this limit. This progressive reduction continues until the allowance is equal in value to that of the ordinary personal allowance, or, in the case of those taxpayers still entitled to the married couple's allowance (MCA), a 'minimum' allowance.[7] The income limit is increased by £300 in line with statutory indexation. For individual taxpayers qualifying for an age-related personal allowance, the benefit of the additional allowance will not be completely withdrawn until their total income reaches the following limits:[8]

65 – 74	**£20,870**
75 and over	**£21,410**

C. The children's tax credit

Families who have one or more children under 16 living with them are eligible to claim the children's tax credit (CTC), which takes the form of an allowance – set at £5,290 for 2002-03 – for which relief is given at 10 per cent: in effect those families eligible to claim the CTC will be able to cut their annual income tax bill by up to £529. The credit was first introduced in April 2001 and has been increased in line with inflation by £90.

An important change is made to the credit from April 2002.[9] For the first year of a child's life the credit is paid at a higher 'baby' rate, set at £10,490 for 2002-03 restricted to 10 per cent.

The CTC is tapered so that it is gradually withdrawn where the person claiming it is liable to tax at the higher rate. These people will lose £1 of tax credit for every £15 of income above the point at which they start to pay higher rate tax until their entitlement to the credit is exhausted (typically at an income of £42,450).[10] For parents whose children are born on or after 6 April 2002, and are eligible to claim the baby rate, the credit would be exhausted typically at an income of £50,250.[11] To ensure that the taper operates in the way intended, should one partner in a couple be a higher rate taxpayer, they are *obliged* to claim the CTC for their household, and cannot transfer it to their lower earning partner.[12]

---

7 The continued provision of this allowance to people born before 6 April 1935 is examined in part II.E of this paper.

8 Only the 'minimum' MCA is transferable between husband and wife. As a consequence, for the MCA the figures will depend on the income of the husband and the age of the older spouse.

9 This measure was announced in the March 2001 Budget (HC Deb 7 March 2001 c 304).

10 For 2002-03 the basic rate limit and the personal allowance are £29,900 and £4,615 respectively. The credit will start to be withdrawn from those earning above £34,515. It would be exhausted once income rose above £34,515 + [15 x £529] = £42,450.

11 ie, £34,515 + [15 x £1,049]

12 Guidance is available on the Revenue's internet site at: http://www.inlandrevenue.gov.uk/ctc/index.htm.

D. Blind person's allowance

Any person registered as blind is entitled to the blind person's allowance (BPA). The allowance is increased in line with inflation by £30 to £1,480 for 2002-03. The allowance is not restricted in value. If someone has insufficient income to make use of the allowance it can be transferred to a spouse.

E. Two transitional allowances for the elderly

Four allowances were withdrawn from April 2000: the married couple's allowance (MCA) for couples born after 5 April 1935; the additional personal allowance; the maintenance allowance for separated or divorced couples under 65; and the widow's bereavement allowance.[13] However, both the MCA and tax relief on maintenance payments were retained for individuals receiving these allowances, where either they, or their spouse/one-time spouse, had reached the age of 65 by the start of the tax year 2000-01; ie, they were born on or before 5 April 1935.

1. Married couple's allowance

A **married couple's allowance** is given to married couples in which at least one partner has reached 65 by 6 April 2000.[14] In line with the personal allowance, a higher allowance is given to couples in which at least one partner is 75 or over. For 2002-03 the two age-related allowances are:

One or both aged 66 – 74	**£5,465**
One or both aged 75 or over	**£5,535**

Both allowances have been increased by £100, in line with statutory indexation. Tax relief for these allowances is 'restricted' to 10 per cent. In effect taxpayers receive a credit worth 10% of the MCA to set against their final tax bill: ie, £547 in the case of the MCA for couples between 66 and 74.

The value of the MCA is gradually reduced for taxpayers earning above the income limit, in the same way as the age-related personal allowances (see Part II.B of this paper). The withdrawal of the MCA from elderly couples is subject to a minimum allowance set at £2,110 restricted to 10 per cent for 2002-03.[15] No couple entitled to the allowance will receive less than this. In the first instance the MCA is given to the husband, though if couples elect, the minimum MCA can be transferred to the wife or split equally between

[13] The abolition of these allowances was announced in the March 1999 Budget; for further details see *Direct taxes: rates & allowances 2000-01*, Library Research paper 00/38, 29 March 2000 pp 11-12.

[14] When a person born on or before 5 April 1935 newly gets married, that person or their spouse is entitled to claim the MCA.

[15] The minimum amount of the MCA is also increased in line with statutory indexation for 2002-03.

spouses. The allowance is reduced by one twelfth for each complete tax month pre-marriage.

2. Tax relief for maintenance payments

Generally maintenance payments are made outside the tax system: those who make payments cannot claim them against tax, and those who receive them are not taxed on them. Separated or divorced individuals who pay maintenance direct to their ex-spouse under a legally binding agreement qualify for a limited form of tax relief – often referred to as a '**maintenance allowance**' – provided that one or more of the parties reached 65 prior to 6 April 2000. This relief is set equal to the 'minimum' MCA that couples over 65 can receive (which is £2,110 restricted to 10 per cent for 2002-03). Individuals who make maintenance payments to a child, or to someone to whom they have not been married do not qualify for this relief. Tax relief is withdrawn if the ex-spouse who receives maintenance remarries.[16]

F. Summary table of the allowances

£

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Personal allowance	4,045	4,195	4,335	4,385	4,535	4,615
" (65 - 74)	5,220	5,410	5,720	5,790	5,990	6,100
" (75 & +)	5,400	5,600	5,980	6,050	6,260	6,370
CTC	-	-	-	-	5,200†	5,290†
MCA (basic)	1,830*	1,900*	1,970*	Withdrawn	Withdrawn	Withdrawn
MCA (65 - 74)††	3,185*	3,305*	5,125*	5,185*	5,365*	5,465*
MCA (75 & +)	3,225*	3,345*	5,195*	5,255*	5,435*	5,535*
Income limit	15,600	16,200	16,800	17,000	17,600	17,900
BPA	1,280	1,300	1,380	1,400	1,450	1,480

† Relief restricted to 10 per cent

* Relief restricted to 15 per cent for the tax years 1996-97 to 1998-99, and to 10 per cent for 1999-2000 to 2002-03.

†† From 2000-01 the MCA is only given to couples in which at least one partner was born before 6 April 1935.

[16] This relief is also given to those paying maintenance under arrangements set up before 15 March 1988, who benefited from transitional relief withdrawn in April 2000. Again, relief is only given if one or more of the parties reached 65 prior to 6 April 2000.

III Fringe benefits: company cars & free fuel

Generally individuals are taxed on the cash value of any fringe benefit they enjoy by virtue of their employment.[17] Special rules apply in evaluating the cash value of a company car, and free fuel provided for private motoring in a company car. A new system for taxing the benefit of a company car comes into operation in April 2002.[18] In brief, a normal minimum charge of 15% of the car's price will apply to cars emitting CO_2 at or below a specified qualifying level – set initially at 165g/km. The percentage charge will build up in 1% steps for every additional full 5g/ km over that level up to a maximum charge of 35% of the car's price. The qualifying level of CO_2 emissions will gradually be reduced over the first few years of this reform, reflecting anticipated improvements in the fuel efficiency of new cars. Cleaner, alternatively fuelled cars may be entitled to a discount on this tax charge; a supplementary charge will be levied on diesel cars if they do not meet European Community standards for cleaner vehicles.[19]

For free fuel, individuals pay a fixed charge dependent on the engine size of the car they use. In the March 1998 Budget it was announced that this charge would be increased by 20 per cent over and above the usual increases in line with pump prices each year for the following five years. The scale charges for free fuel for 2002-03 are given below:[20]

Engine size cc	Petrol cars	Diesel cars
0 – 1,400	**£2,240**	**£2,850**
1,400 – 2,000	**£2,850**	**£2,850**
2,001 +	**£4,200**	**£4,200**

Following consultation earlier this year, the Government has confirmed that the fuel scale charge will be restructured from 2003-04 "to relate it to carbon dioxide emissions and to include the same discounts and premiums as in the company car tax system."[21]

---

17 The cash value is added to their taxable income, and taxed accordingly; ie, taxed at the same rate as the rest of their income (ie 22% or 40% depending on their circumstances). Benefits in kind are taxed if the person receiving them is a director, or an employee who earns £8,500 or more per year.

18 The background to this reform is discussed in *Taxing company cars*, Library Research paper 02/10, 5 February 2002.

19 For details see the Revenue's site at www.inlandrevenue.gov.uk/cars/index.htm; a short overview of the new system is given in a Revenue leaflet: *Income tax and company cars IR172*, June 2001.

20 Inland Revenue press notice 04/02, 15 March 2002. As fuel prices have fallen since March 2001, the net increase of these charges is 16%. The scale charge for cars without a cylinder capacity is £4,200 for 2002-03.

21 HC 592 April 2002 p 135; Inland Revenue Budget Note REV BN 2, 17 April 2002

IV Pensions

The pension scheme earnings cap is increased in line with inflation by £1,800 to £97,200 for 2002-03. This is the maximum earnings from which contributions to a personal, occupational or stakeholder pension scheme can attract tax relief. The earnings cap generally applies to people who contribute to a personal pension scheme, joined an occupational scheme set up since 14 March 1989, or joined any occupational scheme from 1 June 1989 which was set up before 14 March 1989. Since April 2001 the cap has applied to people who contribute to stakeholder pension schemes.

V Charities

There is no general tax exemption or relief granted to taxpayers who make gifts to charities. Tax relief is provided through two schemes which cover regular donations made out of one's salary (Payroll Giving), and one-off cash gifts (Gift Aid).

Under the Payroll Giving scheme charitable donations are wholly deductible for income tax purposes, the relief being given through the PAYE system. The employer deducts the appropriate sum from a participating employee's pay, and passes it to an agency who distributes it to the charity or charities of the employee's choice. There are no minimum or maximum limits for donations under the scheme (a maximum limit of £1,200 a year applied prior to 6 April 2000).[22]

Gift Aid allows income tax relief for single donations by individuals. When this relief was introduced in 1990, a minimum limit on donations was set at £600. Tax relief applies to a donation of any size, following the abolition of the minimum limit of £250 from 6 April 2000.[23] Tax relief for donations under a deed of covenant is no longer given, as the abolition of the Gift Aid minimum limit made this method of tax-privileged donation redundant.[24]

VI Capital gains tax

Capital gains tax (CGT) is charged on gains in excess of the annual exempt amount, which is increased in line with statutory indexation to £7,700 for 2002-03. Individuals may realise gains up to this threshold free of tax. For tax purposes, capital gains are treated as the top slice of income. The rates of CGT are the same as the rates of tax on savings income. For 2002-03 gains below the starting rate threshold of £1,920 are taxed at 10%. Gains between

---

22 Further information is on the Revenue's site at: www.inlandrevenue.gov.uk/payrollgiving/index.htm.

23 Details are given in the Inland Revenue leaflet, *Giving to charity by individuals IR65*, September 2000, available at: www.inlandrevenue.gov.uk/pdfs/ir65.pdf.

24 For further background on the changes introduced in April 2000 see *Taxation of charities*, Library Research paper 01/46, 12 April 2001.

the starting rate threshold and basic rate threshold of £29,900 are taxed at 20%, and gains above this are taxed at 40%. Chargeable gains are tapered according to the length of time an asset has been held; the taper is more generous for business assets than non-business assets.[25]

VII Inheritance tax

Inheritance tax is levied on the value of a person's estate at the time of their death. Most large gifts made out of someone's estate within seven years of their death are treated as part of their estate for tax. The tax is charged at 40% above the tax-free threshold. The threshold is increased by £8,000 to £250,000 for 2002-03 – an increase £3,000 more than statutory indexation.

[25] The operation of the tax is relatively complex. A introductory guide is published by the Revenue – *Capital Gains Tax CGT1*, July 2001 – which is available at: www.inlandrevenue.gov.uk/pdfs/cgt1.pdf.

Appendix: Major changes announced in Budget 2002 for 2003-04

In his Budget speech on 17 April 2002[26] the Chancellor Gordon Brown announced a series of changes to tax rates and allowances which will not take effect until the 2003-04 tax year.

- The personal allowance will not be increased in line with inflation for 2003-04; rather it will be frozen at £4,615. The age-related personal allowance for people aged 65-74 years will be increased to £6,610; the allowance for those 75 years and over will be increased by £240 above statutory indexation. Other income tax allowances and limits are to be set in Budget 2003.

- From April 2003 the children's tax credit will be incorporated in the new child tax credit, along with the income-related elements of support for children in income support, income-based jobseeker's allowance, working families' tax credit (WFTC) and disabled person's tax credit (DPTC). A second tax credit, the working tax credit, will also be introduced, replacing the existing elements of support for adults and their childcare costs in both WFTC and DPTC.[27]

- From April 2003 the rates of National Insurance contributions (NICs) for both employees and employers will be increased. For employees the rate of NICs will be increased by 1 percentage point to a rate of 11% on all earnings between the primary threshold and the upper earnings limit – *and* NICs will be charged at a rate of 1% on earnings *above* the upper earnings limit. For employers the rate of NICs will be increased by 1 percentage point to a rate of 12.8% on earnings above the secondary threshold.

- Both the primary and secondary thresholds for NICs will be frozen at 2002-03 rates for 2003-04, though the upper earnings limit will be increased in line with inflation.

---

[26] HC Deb 17 April 2002 cc 577-593

[27] The main legislation to effect this change – the *Tax Credits Bill 2001-02* – is before the House at present, and the background to this measure is discussed in the Library Research paper on the Bill (Library Research paper 01/110, 5 December 2001).