

CPI Indexation of National Insurance contribution Rates, limits and thresholds

Who is likely to be affected?

Employees, employers and the self-employed.

General description of the measure

From 2012-13 the basis for indexation of the following national insurance contribution (NICs) rates, limits and thresholds will be in line with the Consumer Price Index (CPI) instead of the Retail Price Index (RPI). For September 2011, the rates of the CPI and RPI were 5.2 per cent and 5.6 per cent respectively:

- The weekly Class 1 lower earnings limit (LEL), which is the level of earnings at which employees start to accrue contributory benefit entitlement will be £107;
- The weekly Class 1 primary threshold (PT), which is the level of earnings at which employees begin to pay Class 1 NICs will be £146;
- The weekly rate of Class 2 NICs payable by the self-employed will be £2.65 and the special rate of Class 2 paid by share fishermen will be £3.30;
- The Class 2 small earnings exception (SEE), which sets the annual level of earnings below which the self-employed can be exempted from paying Class 2 NICs will be £5,595;
- The weekly rate of Class 3 NICs payable by those wishing to fill gaps in their contribution record for basic state pension and bereavement benefit purposes will be £13.25; and
- The Class 4 lower profits limit (LPL), which is the level of profits at which the self-employed begin to pay Class 4 NICs will be £7,605.
- The secondary threshold (ST) for Class 1 employer NICs, which is the level at which employers begin to pay Class 1 NICs, will be over-indexed compared to CPI and rise by the equivalent of RPI for the course of this Parliament. The weekly secondary threshold will be £144.
- The annual levels of the Class 1 Upper Earnings Limit (UEL) and Class 4 Upper Profits Limit (UPL), which are the levels at which NICs begins to be paid at 2 per cent, will continue to be aligned with the income tax higher rate threshold (the sum of the personal allowance and basic rate limit) and will remain at £42,475.

Policy objective

This measure reflects the Government's intention to move the underlying indexation assumption for direct taxes and contributions to CPI.

Background to the measure

In the June Budget 2010 the Government announced a review of how the “CPI can be used for the indexation of taxes and duties while protecting revenues.”

Detailed proposal

Operative date

The changes will apply from 6 April 2012.

Current law

Section 5 of the Social Security Contributions and Benefits Act 1992 (SSCBA 1992) and the Northern Ireland equivalent allows the LEL, PT, ST and UEL for a tax year to be set by regulations.

The LEL, PT, ST and UEL are specified as weekly figures at regulation 10 of the Social Security (Contributions) Regulations 2001.

Section 11 of the SSCBA 1992 specifies the weekly rate of Class 2 NICs and the SEE limit. Section 13 specifies the weekly rate of Class 3 NICs. Sections 15 and 18 specify the LPL. Section 141 of the Social Security Administration Act 1992 (SSAA 1992) and the Northern Ireland equivalent allow the SEE, Class 2 and 3 weekly rates and LPL to be altered by Order. Section 117 of the SSCBA 1992 and Northern Ireland equivalent allow the special weekly rate of Class 2 NICs paid by share fishermen to be specified at regulation 125(c) of Social Security (Contributions) Regulations 2001.

Proposed revisions

There are no revisions necessary to the SSCBA 1992 or SSAA 1992 primary legislation to accommodate indexation on the basis of the September CPI. The actual rates will be specified as before through affirmative statutory instruments as part of the annual NICs re-rating exercise. The Class 2 rate share fishermen rate will be set by negative regulations.

Summary of impacts

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|------------------------------|--|---------|---------|---------|---------|
| Exchequer impact (£m) | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| | 0 | +105 | +230 | +615 | +1020 |
| | Costings are those presented at Budget 2011. | | | | |
| Economic impact | No significant behavioural or wider economic impacts are anticipated from these changes. | | | | |

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| <p>Impact on individuals and households</p> | <p>Analysis from Budget 2011 showed that these measures impact employees and the self-employed, and occur alongside the £630 increase in the personal allowance in 2012-13.</p> <p>Moving indexation of the LEL from RPI to CPI means that around 70,000 more low earners will build up entitlement to contributory benefits and statutory payments.</p> <p>Moving indexation of the PT from RPI to CPI will bring approximately 40,000 additional employees into NICs. 21 million employees will lose by £6 a year on average in 2012-13.</p> <p>Moving indexation of the SEE from RPI to CPI will bring around 20,000 more people into liability for Class 2 NICs. By paying Class 2 NICs they will build up entitlement to contributory benefits.</p> <p>Moving indexation of the Class 2 weekly rate from RPI to CPI will benefit all self-employed individuals who pay Class 2 by £2.60 a year including those brought into liability by the indexation increase of the SEE by CPI.</p> <p>Moving indexation of the Class 3 weekly rate from RPI to CPI will help those who want to pay voluntary contributions to fill gaps in their contribution record.</p> <p>Moving indexation of the LPL from RPI to CPI will bring 10,000 self-employed individuals into Class 4 NICs. 2.2 million self-employed individuals who pay Class 4 will lose by £5 a year on average in 2012-13, but will benefit by £2.60 a year as result of moving indexation of Class 2 NICs from RPI to CPI.</p> <p>Estimates of numbers brought into NICs and cash losses are provided for 2012-13 in this section. These impacts increase over time, as the difference between CPI and RPI accumulates.</p> <p>All estimates of numbers brought into NICs or entitlement are indicative, based on projected 2007-08 survey data using Budget 2011 assumptions.</p> |
| <p>Equalities impacts</p> | <p>NICs changes apply regardless of personal circumstances such as gender, race or disability. Of these categories, HM Revenue & Customs (HMRC) only hold taxpayer data on gender. In terms of changes to NICs liabilities, the equalities impacts from these measures are that:</p> <p>28 per cent of the total winners (from lower Class 2 and 3 rates) are female;</p> <p>41 per cent of those brought into NICs are female; and</p> <p>42 per cent of the losers are female.</p> <p>The winners and losers are based on using RPI indexation as the baseline.</p> |
| <p>Impact on business including civil society</p> | <p>There will be no significant compliance costs for employers currently paying NICs for making these routine changes to the thresholds and limits.</p> <p>Moving the LPL to CPI will bring an estimated 20,000 self-employed</p> |

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| organisations | individuals into NICs Class 2 liabilities and bring around 10,000 into Class 4. These businesses will face compliance costs from implementing and understanding the changes and some ongoing administrative burdens. | | |
| | | Cost | Time Period (yrs) |
| | Compliance costs | | |
| | One-off Costs | £ 500,000 | 1 |
| | Average Annual Costs | £ 1,500,000 | 1 |
| | Total Costs (PV) | £ 2,000,000 | 1 |
| | Compliance benefits | | |
| | One-off Benefit | £ n/a | n/a |
| | Average Annual Benefit | £ n/a | n/a |
| | Total Benefit (PV) | £ n/a | n/a |
| | Net Benefit (NPV) | £ -2,000,000 | 1 |
| | Impact on Administrative Burden | | |
| | Increase | Decrease | Net Impact |
| | £ 1,500,000 | £ n/a | £1,500,000 |
| | Administrative burdens costs are shown for 2012-13, but will increase in subsequent years as the number of affected self-employed individuals rises. | | |
| Operational impact (£m) (HMRC or other) | The impact on HMRC will be negligible because changes to the amounts of the NICs thresholds and limits are an annual requirement. | | |
| Other impacts | <p>Small Firms Impacts Test: This change in indexation will have a minimal impact on small firms already liable for NICs, but the lower LPL and SEE will bring more small businesses into NICs liability.</p> <p>To help minimise the burden on employers, HMRC provides the Basic PAYE Tools which includes a P11 Calculator that will work out and record an employee's tax, NICs and Student Loan deductions every payday. This will contain the new NICs rates, limits and thresholds. This free computer software package is available to download from www.hmrc.gov.uk/payee/tools/basic-payee-tools.htm.</p> <p>Small businesses will need to acquaint themselves with the new limits and thresholds. For those businesses which do not have access to computers or payroll software HMRC provides manual tables.</p> <p>Competition Assessment: It is not considered that the changes to these thresholds are anti-competitive.</p> | | |

Monitoring and evaluation

The policy will be monitored and assessed alongside other measures in the Government's personal tax changes.

Further advice

If you have any questions about this change, please contact Hasan Mustafa on 020 7147 2508 (email: hasan.mustafa@hmrc.gsi.gov.uk) or Raj Nayyar 020 7147 2521 (email: raj.nayyar@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Exchequer Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.