



EXPLANATORY NOTES

National Insurance Contributions (Increase of Thresholds) Act 2022

Chapter 16

£6.90

NATIONAL INSURANCE CONTRIBUTIONS (INCREASE OF THRESHOLDS) ACT 2022

EXPLANATORY NOTES

What these notes do

These Explanatory Notes relate to the National Insurance Contributions (Increase of Thresholds) Act 2022 which received Royal Assent on 31 March 2022 (c. 16).

- These Explanatory Notes have been prepared by HM Revenue and Customs (HMRC) in order to assist the reader in understanding the Act. They do not form part of the Act and have not been endorsed by Parliament.
- These Explanatory Notes explain what each part of the Act will mean in practice; provide background information on the development of policy; and provide additional information on how the Act will affect existing legislation in this area.
- These Explanatory Notes might best be read alongside the Act. They are not, and are not intended to be, a comprehensive description of the Act.

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These Explanatory Notes relate to the National Insurance Contributions (Increase of Thresholds) Act 2022 which received Royal Assent on 31 March 2022 (c. 16)

Overview of the Act

- 1 The Act deals with the following matters:
 - Increase in the Primary Threshold (PT) for Class 1 National Insurance contributions (NICs).
 - Increase in Lower Profits Limit (LPL) for Class 4 NICs.
 - Regulation making power to ensure the threshold for paying Class 2 NICs is equivalent to the LPL, and to make provisions for people whose profits for a tax year are at or less than the LPL to be treated as having made Class 2 contributions.

Policy background

- 2 The Government's ultimate ambition has been to align the NICs starting thresholds with the income tax personal allowance. For the 2020-21 tax year the PT and LPL were raised by over £800 to £9,500, representing a tax cut for 31 million workers. For 2021-22, the PT and LPL were increased by the Consumer Price Index (CPI) to £9,568. The current legislated position for 2022-23 is a further increase by CPI to £9,880 from 6 April 2022.
- 3 At Spring Statement 2022 the Government announced that it will meet this ambition by aligning the starting thresholds from July 2022 and, alongside this, from 6 April 2022, self-employed individuals with profits between the Small Profit Threshold and LPL will continue to be able to build up National Insurance credits but will not pay any Class 2 NICs.

Legal background

- 4 Legislation relating to the existing system of NICs and social security benefits is set out in a combination of primary and subordinate legislation. The relevant provisions are:
 - a. The Social Security Contributions and Benefits Act 1992 (SSCBA 1992).
 - b. The Social Security Contributions and Benefits (Northern Ireland) Act 1992 (SSCB(NI)A 1992).
 - c. The Social Security Administration Act 1992 (SSAA 1992).
 - d. The Social Security Administration (Northern Ireland) Act 1992 (SAA(NI)A 1992).
 - e. The Social Security (Contributions) Regulations 2001 (SI 2001/1004).
- 5 These provisions will continue to be the main legislation dealing with NICs.

Territorial extent and application

- 6 The Act extends to England and Wales, Scotland and Northern Ireland.
- 7 There is a convention that Westminster will not normally legislate with regard to matters that are within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly without consent of the legislature concerned.

Scotland

- 8 The Act does not contain any provisions relating to matters which are within the legislative competence of the Scottish Parliament and therefore no Legislative Consent Motion is being sought in relation to any provisions of the Act. If the Government introduces or accepts amendments relating to the legislative competence of the Scottish Parliament consent will be sought for them.

Wales

- 9 The Act does not contain any provisions relating to matters within the legislative competence of Senedd Cymru and therefore no Legislative Consent Motion is being sought in relation to any provisions of the Act. If there are amendments which relate to such matters, consent will be sought for them.

Northern Ireland

- 10 Under the provisions of Schedule 2 to the Northern Ireland Act 1998 NICs are an excepted matter. The Act therefore applies to the relevant Northern Ireland legislation relating to NICs, where stated. If there are amendments which relate to non-excepted matters, consent of the Northern Ireland Assembly will be sought for them.

Commentary on provisions of Act

Section 1: Increase of primary threshold

- 11 Section 1(1) introduces amendments to SI 2001/1004.
- 12 Section 1(2) amends regulation 10(c) by replacing the weekly amount of the PT of £190 with £242.
- 13 Prescribed equivalents ensure that the threshold is reflective of an employment pay period. Section 1(3) amends regulation 11(3) by replacing the monthly and annual prescribed equivalents of the PT as follows:
 - a. in sub-paragraph (a), the monthly prescribed equivalent of £823 is replaced with £1,048.
 - b. in sub-paragraph (b), the annual prescribed equivalent of £9,880 is to be replaced with £12,570.
- 14 Section 1(4) specifies that the amendments made by subsections (2) and (3) come into force on 6 July 2022.

Section 2: Increase in lower limit of profit for Class 4 contributions

- 15 Section 2(1) amends sections 15(3) and 18(1) and (1A) SSCBA 1992 and SSCB(NI)A 1992 by replacing the amount specified for the LPL as £9,880 with £11,908.
- 16 Section 2(2) specifies the amendment by subsection (1) is treated as coming into force on 6 April 2022.
- 17 Section 2(3) and 2(4) specifies that the amount of £11,908 (as substituted by subsection (1)) is to be replaced by £12,570 from 6 April 2023.

Section 3: Equivalent provisions for Class 2 contributions

- 18 Section 3(1) requires the Treasury to make regulations to ensure that the threshold for paying Class 2 NICs is equivalent to the LPL threshold.
- 19 Section 3(2) specifies that those regulations may treat individuals whose profit is below the LPL as having made Class 2 contributions, that the regulations may have effect from 6 April 2022 and may amend an Act of Parliament.

Section 4: Transitional and consequential provisions

- 20 Section 4(1) ensures that the calculation for the annual maximum amount of Class 1 NICs that individuals with more than one employment pays during the 2022-23 tax year uses the equivalent to the annual threshold for employees across the 2022-23 tax year (£11,908).
- 21 Section 4(2) provides that the primary threshold for weekly and annual earnings periods for directors, referenced in regulation 8 of SI 2001/1004, are set at £229 and £11,908 respectively.
- 22 Section 4(3) provides that the modification made by subsections (1) and (2) has effect for the 2022-23 tax year.
- 23 Section 4(4) provides the Treasury with regulation making powers to amend SI 2001/1004 as the Treasury considers appropriate. This power may have retrospective effect, but from no earlier than 6 April 2022.

Section 5: Regulations

- 24 Section 5(1) provides that regulations made under the powers in this Act are to be made by statutory instrument.
- 25 Section 5(2) applies section 175(3) and (4) of the Social Security Contributions and Benefits Act 1992 (SSCBA) to any regulations under this Act. This allows for supplemental, transitional, or consequential provisions.
- 26 Section 5(3) specifies that the power in section 3 (equivalent provisions for Class 2 contributions) are subject to the draft affirmative procedure where they amend an Act of Parliament.
- 27 Section 5(4) specifies that any other regulations made under this Act are subject to the negative procedure.

Section 6: Short title

- 28 Section 6 gives the short title of the Act as National Insurance Contributions (Increase of Thresholds) Act 2022.

Commencement

29 The Act came into force on 6 April 2022.

Related documents

30 The following documents are relevant to the Act and can be read at the stated locations:

- National Insurance Contributions (Increase of Thresholds) Act – Draft Legislation and Explanatory Notes at <https://bills.parliament.uk/bills/3142>.
- Tax Information and Impact Note at <https://www.gov.uk/government/publications/national-insurance-primary-threshold-and-the-lower-profits-limit-increase-and-associated-class-2-changes-in-2022-to-2023-tax-year/national-insurance-increase-to-primary-threshold-and-the-lower-profits-limit-and-reduction-in-class-2-liability-of-those-earning-between-the-small-pr>.
- Spring Statement 2022 Main Document, policy costings and Scorecard at <https://www.gov.uk/government/publications/spring-statement-2022-documents>.

Annex A - Hansard References

31 The following table sets out the dates and Hansard references for each stage of the Act's passage through Parliament.

Stage	Date	Hansard Reference
<i>House of Commons</i>		
Introduction	24 03 2022	Vol. 711 Col. 458
Second Reading	24 03 2022	Vol. 711 Col. 462-511
Public Bill Committee	24 03 2022	Vol. 711 Col. 512-525
Report and Third Reading	24 03 2022	Vol. 711 Col. 512-525
<i>House of Lords</i>		
Introduction	25 March 2022	Vol. 820 Col. 1226
Second Reading	30 March 2022	Vol. 820 Col. 1611-1626
Grand Committee	30 March 2022	Vol. 820 Col. 1651-1659
Report and Third Reading	30 March 2022	Vol. 820 Col. 1651-1659
Royal Assent	31 March 2022	House of Commons Vol. 711 Col. 997
		House of Lords Vol. 820 Col. 1675

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Annex B - Progress of Bill Table

32 This Annex shows how each section of the Act was numbered during the passage of the Bill through Parliament.

Section of the Act	Bill as Introduced in the commons	Bill as amended in Committee in the Commons	Bill as introduced in the Lords	Bill as amended in Committee in the Lords	Bill as amended on Report in the Lords
Section 1	Clause 1	Clause 1	Clause 1	Clause 1	Clause 1
Section 2	Clause 2	Clause 2	Clause 2	Clause 2	Clause 2
Section 3	Clause 3	Clause 3	Clause 3	Clause 3	Clause 3
Section 4	Clause 4	Clause 4	Clause 4	Clause 4	Clause 4
Section 5	Clause 5	Clause 5	Clause 5	Clause 5	Clause 5
Section 6	Clause 6	Clause 6	Clause 6	Clause 6	Clause 6

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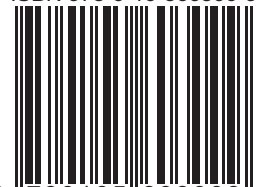
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