



EXPLANATORY NOTES

National Insurance Contributions (Reduction in Rates) Act 2023

Chapter 57

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NATIONAL INSURANCE CONTRIBUTIONS (REDUCTION IN RATES) ACT 2023

EXPLANATORY NOTES

What these notes do

These Explanatory Notes relate to the National Insurance Contributions (Reduction in Rates) Act 2023 which received Royal Assent on 18 December 2023 (c. 57).

- 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 (Reduction in Rates) Act 2023 which received Royal Assent on 18 December 2023 (c. 57).

Overview of the Act

- 1 This Act introduces a cut in the rate of primary (employee) Class 1 National Insurance contributions (NICs) from 12% to 10% and a cut in the rate of self-employed Class 4 NICs from 9% to 8% with related consequential changes. The Act also includes provisions to remove the liability of self-employed persons to pay Class 2 NICs for those with profits above £12,570 per annum, whilst maintaining access to contributory benefits. The Class 1 NICs rate cut takes effect from 6 January 2024. The Class 4 NICs rate cut and provisions relating to Class 2 NICs will take effect from 6 April 2024.

Policy background

- 2 The Act is intended to deliver part of the Government's long-term plan to grow the economy and reform the tax system. At a time of rising living costs, the Act is intended to provide a cut in the amount of NICs paid for 29 million working people, worth £450 to the average employee and £350 to the average self-employed person. The Government has chosen to prioritise those in work because it believes that is the best way to encourage economic growth and reducing NICs is the best way to target these individuals.

Legal background

- 3 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.
 - c. The Social Security Administration Act 1992 (SSAA 1992).
 - d. The Social Security Administration (Northern Ireland) Act 1992.
 - e. The Social Security (Contributions) Regulations 2001 (S.I. 2001/1004).
- 4 These provisions will continue to be the main legislation dealing with NICs.

Territorial extent and application

- 5 The Act extends to, that is forms part of, the law of England and Wales, Scotland and Northern Ireland. Amendments the Act makes to the legislation of Great Britain and Northern Ireland have the same extent as the enactments they amend. The Act applies in England, Wales, Scotland and Northern Ireland.
- 6 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.
- 7 The matters to which the provisions of the Act relate are not within the legislative competence of the Scottish Parliament, Senedd Cymru or the Northern Ireland Assembly, and no legislative consent motion is being sought in relation to any provision of the Act.

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- 8 See the table in Annex A for a summary of the position regarding territorial extent and application in the United Kingdom.

Commentary on provisions of Act

Section 1: Reduction of Class 1 main primary percentage

- 9 Section 1 amends section 8(2)(a) SSCBA 1992 to reduce the main primary percentage of Class 1 NICs paid by employees from 12% to 10%. The section makes equivalent provisions for Northern Ireland by amending SSCB(NI)A 1992. The section also reduces the reduced rate that applies in relation to a historic class of married women and widows. The amendments take effect from 6 January 2024.

Section 2: Reduction of main Class 4 percentage

- 10 Section 2 amends section 15(3ZA)(a) SSCBA 1992 to reduce the main Class 4 percentage paid by the self-employed from 9% to 8%. The section makes equivalent provisions for Northern Ireland by amending SSCB(NI)A 1992. The amendments take effect from 6 April 2024.

Section 3: Removal of requirement to pay Class 2 contributions

- 11 Section 3 amends section 11 SSCBA 1992 to remove the obligation on persons to pay Class 2 contributions where their earnings exceed the lower profits threshold. The small profits threshold is retained, with the result that self-employed persons with profits from a trade, profession or vocation above it will be treated as having paid Class 2 NICs. The section makes equivalent provisions for Northern Ireland by amending SSCB(NI)A 1992. The amendments take effect from 6 April 2024.

Section 4: Transitional and consequential provision

- 12 Section 4 introduces the schedule containing transitional and consequential provisions.

Section 5: Short title

- 13 Section 5 gives the short title of the Act as the National Insurance Contributions (Reduction in Rates) Act 2023.

Schedule: Transitional and consequential provisions

- 14 Paragraph 1 reduces the rate of Class 1 NICs for directors to whom regulation 8(2) to (5) of S.I. 2001/1004 applies (which also applies for Northern Ireland) to a main rate of 11.5% for the 2023-24 tax year. Class 1 NICs paid by directors are assessed on an annual basis. A blended rate has been applied to ensure consistency and fairness with in-year changes to other rates of NICs. Paragraph 1 also provides a blended rate of 5.35% for directors who have elected to pay the married women and widows reduced rate.
- 15 Paragraph 2 amends the calculation of the annual maximum for the 2023-24 tax year, as set out in regulations 21 and 100 of S.I. 2001/1004. This calculation is assessed on an annual basis, therefore blended rates have been used to ensure consistency with in-year changes to other rates of NICs. Paragraph 3 amends the calculation of the annual maximum for subsequent tax years.

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- 16 Paragraph 4 makes consequential changes arising from clause 3 that removes the requirement to pay Class 2 NICs. It omits section 11A SSCBA 1992 (Application of certain provisions of the Income Tax Acts in relation to Class 2 contributions) and makes equivalent provisions for Northern Ireland by amending SSCB(NI)A 1992. The paragraph also makes consequential amendments to sections 141, 143 and 145 of SSAA 1992. These amendments take effect from 6 April 2024.
- 17 Paragraph 5 provides the Treasury with a power to make consequential, transitional or saving provisions that may amend primary legislation. Regulations made under the power may apply retrospectively from 6 April 2023. Statutory Instruments made using this power are subject to the negative procedure.

Commencement

- 18 The primary Class 1 NICs rate change (Section 1) comes into force on 6 April 2024 and, the consequential amendments for Class 1 (for directors and the annual maximum, paragraphs 1 and 2 of the Schedule) come into force upon Royal Assent with effect for the tax year 2023-24. The provisions relating to Class 2 and 4 NICs (Sections 2 and 3 and the consequential amendments in paragraphs 3 and 4 of the Schedule) come into force on 6 April 2024. The power to make further consequential amendments (paragraph 5 of the Schedule) and sections 4 and 5 (introducing the Schedule and giving the short title) come into force upon Royal Assent.

Related documents

- 19 The following documents are relevant to the Act and can be read at the stated locations:
 - A Tax Information and Impact Note has been published by HM Revenue and Customs.¹
 - A Delegated Powers Memorandum has been prepared by HM Treasury.²

¹ <https://www.gov.uk/government/publications/changes-to-national-insurance-contributions-from-6-january-2024/a-reduction-in-the-main-rates-of-primary-class-1-and-class-4-national-insurance-contributions-and-the-removal-of-the-requirement-to-pay-class-2-nation>

² <https://publications.parliament.uk/pa/bills/cbill/58-04/0012/231123DelegatedPowersmemo.pdf>

Annex A - Territorial extent and application in the United Kingdom

Provision	England	Wales	Scotland	Northern Ireland
	Extends to E & W and applies to England?	Extends to E & W and applies to Wales?	Extends and applies to Scotland?	Extends and applies to Northern Ireland?
Section 1	Yes	Yes	Yes	Yes
Section 2	Yes	Yes	Yes	Yes
Section 3	Yes	Yes	Yes	Yes
Section 4	Yes	Yes	Yes	Yes
Section 5	Yes	Yes	Yes	Yes
Schedule	Yes	Yes	Yes	Yes

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Annex B - Hansard References

20 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	23 November 2023	Vol. 741 Col. 469
Second Reading	30 November 2023	Vol. 741 Col. 1083
Public Bill Committee	30 November 2023	Vol. 741 Col. 1103
Report and Third Reading	30 November 2023	Vol. 741 Col. 1106
<i>House of Lords</i>		
Introduction	4 December 2023	Vol. 834 Col. 1282
Second Reading	12 December 2023	Vol. 834 Col. 1827
Order of Commitment discharged	12 December 2023	Vol. 834 Col. 1870
Third Reading	12 December 2023	Vol. 834 Col. 1871
Royal Assent	18 December 2023	House of Commons Vol. 742 Col. 1105
		House of Lords Vol. 834 Col. 2035

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Annex C - Progress of Bill Table

21 This Annex shows how each section and Schedule 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
Schedule	Schedule	Schedule	Schedule	Schedule	Schedule

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