

**EXPLANATORY MEMORANDUM TO THE
SOCIAL SECURITY (CONTRIBUTIONS) (AMENDMENT) REGULATIONS
2005**

2005 No. 166

1. This explanatory memorandum has been prepared by the Treasury and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. **Description**

- 2.1 The purpose of this Statutory Instrument is to specify the levels of the lower and upper earnings limits for primary and secondary Class 1 National Insurance Contributions and the primary and secondary thresholds for Class 1 National Insurance Contributions for 2005-06. It also provides for the equivalents of the primary and secondary thresholds where the earnings period is a month or a year.

3. **Matters of special interest to the Joint Committee on Statutory Instruments**

- 3.1 None

4. **Legislative Background**

- 4.1 This instrument is being made to effect an annual uprating of thresholds for Class 1 National Insurance Contributions in line with inflation. It increases the upper and lower earnings limits and the primary and secondary thresholds for the payment of Class 1 National Insurance Contributions for 2005-06.
- 4.2 The instrument is made at the same time as The Social Security (Contributions) (Re-Rating And National Insurance Funds Payments) Order 2005, which is an affirmative instrument, that brings into force the annual up-rating of National Insurance rates and thresholds of Class 2, Class 3 and Class 4 National insurance Contributions.

5. **Extent**

- 5.1 These Regulations apply throughout the United Kingdom.

6. **European Convention on Human Rights**

- 6.1 This instrument is subject to the negative resolution procedure. Accordingly, no statement of compliance with the European Convention on Human Rights is required.

7. Policy background

- 7.1 Class 1 National Insurance Contributions (NICs) are payable on earnings and are made up of two elements primary contributions payable by the employee and secondary contributions payable by the employer. Section 5 of the Social Security Contributions and Benefit Act 1992, as amended by paragraph 1 of Schedule 9 to The Welfare Reform and Pensions Act 1999 allow the earnings limits and threshold for Class 1 NICs to be changed.
- 7.2 Employees contributions are payable at the main primary percentage (currently 11%) on earnings between the Primary Threshold and the Upper Earnings Limit. From April 2003, following the National Insurance Contributions Act 2002, Class 1 employees contributions have also been due at the additional primary percentage (currently 1%) on all earnings exceeding the Upper Earnings Limit.
- 7.3 Employers pay Class 1 NICs on their employees' earnings above the Secondary Threshold at a single percentage rate. There is no upper limit for payment of employers' NICs.
- 7.4 The LEL is linked by statute to the amount of basic state retirement pension, rounded down to the nearest pound. An increase to the basic state pension was announced in the pre Budget report. This instrument increases the LEL to the new level of basic state pension.
- 7.5 Both the primary and secondary thresholds are set at a level equivalent to the Income Tax Personal Allowance (ITPA). An increase to the ITPA was also announced in the pre budget report. This instrument increases both of these thresholds to the increased level of the ITPA.
- 7.6 The upper earnings limit has also been increased in line with inflation.
- 7.7 This instrument also provides for the equivalents of the primary and secondary thresholds where the earnings period is a month or a year.

8. Impact

- 8.1 A regulatory impact assessment has not been prepared for this instrument as it does not impose any new costs on business.

9. Contact

Julia Vinall at the Inland Revenue, Tel: 01760 339730 or e-mail: Julia.Vinall@ir.gsi.gov.uk can answer any queries regarding the instrument.