EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (LIMITS AND THRESHOLDS) (AMENDMENT) REGULATIONS 2014

2014 No. 569

1. This explanatory memorandum has been prepared by H.M. Revenue and Customs (HMRC) and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument gives effect to the annual re-rating of various National Insurance contributions (NICs) limits and thresholds. The purpose of this Statutory Instrument is to specify for the purposes of calculating Class 1 NICs for the tax year beginning 6 April 2014:

- the lower earnings limit (LEL), which is the level of earnings at which employees start to accrue contributory benefit entitlement;
- the primary threshold (PT), which is the level of earnings at which employees begin to pay Class 1 NICs at the main percentage rate;
- the upper earnings limits (UEL), which is the level of earnings at which employees begin to pay Class 1 NICs at the additional percentage rate; and
- the secondary threshold (ST), which is the level at which employers begin to pay Class 1 NICs on their employees' earnings.

The instrument also sets the monthly and annual prescribed equivalents of the PT, ST and UEL.

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

3.1 None.

4. Legislative Context

4.1 This affirmative instrument is being made to give effect to the annual re-rating of the weekly limits and thresholds for NICs. It increases the level of the LEL, PT, ST and UEL for the purposes of calculating the amount of Class 1 NICs due for the tax year 2014-15.

4.2 It also specifies the prescribed equivalents of the Class 1 NICs limits and thresholds for those earners who are paid otherwise than weekly.

4.3 This instrument is being made at the same time as the Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2014, which is an affirmative instrument that gives effect to the annual re-rating of National Insurance rates and limits for Class 2, Class 3 and Class 4 NICs for the tax year 2014-15.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Exchequer Secretary to the Treasury, Mr David Gauke MP has made the following statement regarding Human Rights:

In my view the provisions of the Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2014 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 In the Budget on 23 March 2011 it was announced that the basis for indexation of the rates, limits and thresholds for NICs would be by reference to the Consumer Price Index (CPI). The exceptions are as follows: the ST (the point at which employers start to pay NICs) which will continue to follow the Retail Price Index (RPI) and the UEL which will continue to be aligned with the point at which higher rate income tax is paid. For September 2013, the rates of CPI and RPI were 2.67% and 3.15% respectively.

7.2 The figures for the NICs rates, limits and thresholds for the tax year 2014-15 were announced on 5 December 2013 in the Autumn Statement. This instrument gives effect to the changes to the LEL, UEL, PT and ST for Class 1 NICs and the prescribed equivalents.

7.3 Section 5 of the Social Security Contributions and Benefits Act 1992, as amended by paragraph 1 of Schedule 9 to the Welfare Reform and Pensions Act 1999, requires that the earnings limits and thresholds for Class 1 NICs are specified for Great Britain for each tax year. Similarly, section 5 of the Social Security Contributions and Benefits (Northern Ireland) Act 1992, as amended by paragraph 1 of Schedule 10 to the Welfare Reform and Pensions Act 1999, requires that the earnings limits and thresholds for Class 1 NICs are specified for Northern Ireland.

7.4 The LEL is the level of earnings at which entitlement to contributory benefits begins to accrue and was previously linked by statute to the amount of basic State Pension. This statutory link was removed from April 2011. The basic State Pension rises in line with earnings, prices or by 2.5 per cent – whichever is the greater. It was announced in Budget 2011 that the LEL would be calculated by reference to the CPI. For the tax year 2014-15 the LEL will increase to £111 per week.

7.5 Primary Class 1 contributions (known as “Employees’ contributions”) are payable at the main primary percentage (currently 12%) on earnings between the PT and the UEL. Primary Class 1 contributions are also due at the additional primary percentage (currently 2%) on all earnings above the UEL. Employers pay secondary Class 1 NICs (known as “Employers’ contributions”) on their employees’ earnings above the ST at a single percentage rate (currently 13.8%). There is no upper limit for payment of employers’ contributions.

7.6 Since April 2009 the UEL has been aligned with the level at which the higher rate of income tax is payable. Changes were made to section 5 of the Social Security Contributions and Benefit Act 1992 and section 5 of the Social Security Contributions and Benefits (Northern Ireland) Act 1992 by sections 1 and 2 of the National Insurance Contributions Act 2008 respectively to achieve this alignment.

7.7 In the Autumn Statement on 5 December 2013 it was confirmed that for the tax year 2014-15 the personal allowance for those born after 5 April 1948 will be increased to £10,000 and the basic rate limit will be reduced to £31,865. At the same time it was confirmed that the UEL would continue to be aligned with the income tax "higher rate threshold" of £41,865 (the sum of the personal allowance and basic rate limit). The overall effect is that the weekly UEL for 2014-15 will increase to £805 per week.

7.8 The PT is increased by reference to the CPI to £153 per week for the tax year 2014-15. The ST is increased by reference to the RPI to £153 per week for the tax year 2014-15 so that for the 2014-15 tax year the PT and ST are aligned.

7.9 These regulations include prescribed equivalents of the PT, ST and UEL where the earnings period is a month or a year. The monthly prescribed equivalent of the PT is £663 and the annual prescribed equivalent of the PT is £7,956. The monthly and annual prescribed equivalents of the ST are £663 and £7,956 respectively. The monthly and annual equivalents of the UEL are £3,489 and £41,865 respectively. The prescribed equivalents of the LEL are calculated by formulas provided in the Social Security (Contributions) Regulations 2001 (SI 2001/1004). Sections 5(4) and (5) of the Social Security Contributions and Benefits Act 1992 and the Social Security Contributions and Benefits (Northern Ireland) Act 1992 provide that the prescribed equivalents of the PT, ST and UEL (as set out above) may be set at an amount which is no greater than £1 above the arithmetical equivalent of the weekly PT, ST and UEL. The monthly arithmetical equivalent can be calculated by multiplying each of the weekly limits and thresholds by 4 $^1/_3$. The annual arithmetical equivalent can be calculated by dividing each of the weekly limits and thresholds by 7 and multiplying each result by 365. The monthly and annual prescribed equivalents of the PT, ST and UEL are all no greater than the arithmetic equivalent of those limit or thresholds (rounded to the nearest pound).

- ***Consolidation***

7.10 These amendments will make only small amendments to the Social Security (Contributions) Regulations 2001 which are very large and complex (the printed text ran to around 150 pages in 2001). HMRC has no current plans to consolidate these Regulations. On the last occasion it was a task involving 18 months work and contributions from four different Government departments.

8. Consultation outcome

8.1 No consultation has been undertaken. This instrument relates to routine changes to rates, limits and thresholds as part of the annual NICs re-rating exercise.

9. Guidance

9.1 These Regulations do not impose any new obligation.

9.2 The NICs rates, limits and thresholds for the tax year 2014-15 were announced on 5 December 2013 in the Autumn Statement and can be found on HMRC's website.

10. Impact

10.1 No impact on business, charities and voluntary bodies is foreseen.

10.2 No impact on the public sector is foreseen.

10.3 In line with government commitments, a Tax Information and Impact Note has not been prepared for this instrument as it gives effect to previously announced policy and it relates to routine changes to rates, limits and thresholds to a predetermined indexation formula.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 To help minimise the impact of the requirements on firms employing up to nine or fewer employees, employers can use HMRC's Basic PAYE Tools to work out their payroll deductions and submit payroll information online to HMRC. The Basic PAYE Tools work out the PAYE tax, NICs and other deductions for employees, every time they are paid, and can be used to report this information to HMRC. This free computer software package is available to download from http://www.hmrc.gov.uk/payerti/payroll/bpt/paye-tools.htm.

11.3 Small businesses will need to ensure that the new limits and thresholds are used to calculate their National Insurance liabilities for the tax year 2014-15.

12. Monitoring & review

12.1 These Regulations make changes to existing rates and thresholds and are usually reviewed annually.

13. Contact

Hasan Mustafa at HMRC, Tel: 03000 586 718 or e-mail: hasan.mustafa@hmrc.gsi.gov.uk can answer any queries regarding the instrument.