EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (LIMITS AND THRESHOLDS, NATIONAL INSURANCE FUNDS PAYMENTS AND EXTENSION OF VETERANS RELIEF) REGULATIONS 2024

2024 No. 249

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before Parliament by Command of His Majesty.

2. Purpose of the instrument

2.1 This instrument gives effect to the annual re-rating of National Insurance contributions (NICs) limits and thresholds for the purposes of calculating Class 1 NICs liability for the tax year beginning 6 April 2024. It also allows for payments of a Treasury Grant not exceeding 5% of the estimated benefit expenditure for the 2024-25 tax year to be made into the National Insurance Fund and makes corresponding provision for Northern Ireland. This instrument also extends the availability of the zero-rate relief on secondary Class 1 contributions for employers of veterans for the tax year 2024-25.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Extent and Territorial Application

4.1 The extent of this instrument (that is, the jurisdiction which the instrument forms part of the law of) is the United Kingdom.

4.2 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. European Convention on Human Rights

5.1 The Financial Secretary to the Treasury, Nigel Huddleston MP, has made the following statement regarding Human Rights:

"In my view the provisions of the Social Security (Contributions) (Limits and Thresholds, National Insurance Funds Payments and Extension of Veterans Relief) Regulations 2024 are compatible with the Convention rights."

6. Legislative Context

6.1 This instrument is being made to give effect to the annual re-rating of NICs rates, limits and thresholds. It specifies:

- the lower earnings limit (LEL) for primary Class 1 NICs, which is the level of earnings at which employees start to gain access to certain contributory benefits;

- the primary threshold (PT), which is the level of earnings above which employees begin to pay primary Class 1 NICs (known as “employee contributions”) at the main percentage rate (which is 10% for tax year 2024 25);
- the upper earnings limit (UEL), which is the level of earnings above which employees begin to pay primary Class 1 NICs at the additional percentage rate (which is 2% for tax year 2024-25);
- the secondary threshold (ST), which is the level above which employers begin to pay secondary Class 1 NICs (known as “employer contributions”) in respect of their employees’ earnings at 13.8% for tax year 2024-25;
- the upper secondary threshold (UST), which is the level of earnings above which employers of employees under the age of 21 are no longer eligible for the age-related secondary percentage of Class 1 NICs (which is 0% for tax year 2024-25);
- the apprentice upper secondary threshold (AUST), which is the level of earnings above which employers of relevant apprentices under the age of 25 are no longer eligible for the apprentice-related secondary percentage of Class 1 NICs (which is 0% for tax year 2024-25);
- the veteran upper secondary threshold (VUST), which is the level of earnings above which employers of eligible veterans are no longer eligible for the veteran-related secondary percentage of Class 1 NICs (which is 0% for tax year 2024-25);
- the freeports and investment zones upper secondary threshold (FUST), which is the level of earnings above which employers of eligible workers in freeports and investments zones are no longer eligible for the freeport-related secondary percentage of Class 1 NICs (which is 0% for tax year 2024-25);
- and the prescribed equivalents of the LEL, PT, UEL, ST, UST and AUST, VUST and FUST for those earners who are paid otherwise than weekly.

6.2 This instrument is being made to give effect to the provision of a Treasury Grant not exceeding 5% of the estimated benefit expenditure for the 2024-25 tax year to the National Insurance Fund of Great Britain and Northern Ireland. This instrument extends the zero-secondary rate for Class 1 National Insurance Contributions (NICs) on the earnings of armed forces veterans during the first 12 months of their first civilian employment to the tax year 2024-25.

7. Policy background

What is being done and why?

7.1 It was announced at Autumn Statement 2022 that NICs rates that are in line with Income Tax will be fixed at their 2023-24 levels until the 2027-28 tax year.

7.2 This instrument makes provision under section 2(2) of the Social Security Act 1993 for payment of a Treasury Grant not exceeding 5% of estimated benefit expenditure for the coming tax year to be paid into the National Insurance Fund, if necessary. It also makes corresponding provision in respect of the Northern Ireland National Insurance Fund under article 4(3) of the Social Security (Northern Ireland) Order 1993.

7.3 The National Insurance holiday for veterans provides relief to employers of veterans during the first year of their civilian employment. This measure provides employers with a relief on their secondary Class 1 Nation Insurance contributions, up to the Upper Secondary Threshold.

7.4 The government wants to support those who have served in HM Armed Forces in their transition to civilian life, and to encourage businesses to utilise the valuable skillset veterans have to offer.

7.5 The veterans relief previously had a sunset date of April 2024, which is now being extended until April 2025.

7.6 Each tax year the Treasury is required, by section 141 of the Social Security Administration Act 1992 ("the Administration Act"), to conduct a review of the general level of earnings in Great Britain, taking into account changes in that level since their last review, with a view to determining whether legislation should be made under that section to determine the rates and thresholds applying to Class 2, 3 or 4. Where it is determined to make legislation changing those rates and thresholds, they are usually included in this annual re-rating instrument. This year, in accordance with section 141(6) of the Social Security Administration Act 1992 a copy of the report by the Treasury, explaining the reasons for not making regulations under section 141 of that Act (annual review of Class 2, 3 and 4 contributions) together with a copy of the report by the Government Actuary in accordance with section 142(1) of that Act, giving the Actuary's opinion on the likely effect on the National Insurance Fund of not making those regulations, was laid before Parliament with the draft of these Regulations. A copy of the reports can be found at the links below [1]. This is also available to purchase from the TSO Shop on their website at https://www.tsoshop.co.uk or by telephone on 0333 202 5070.

7.7 These regulations set the NICs rates, limits and thresholds for tax year 2024-25 only. For future years, NICs rates, limits and thresholds will continue to be set annually through the re-rating exercise as standard.

Class 1 earnings limits and thresholds

7.8 Section 5 of the Social Security Contributions and Benefits Act 1992 ("the Contributions Act") requires earnings limits and thresholds for Class 1 NICs to be specified for Great Britain each tax year. Similarly, section 5 of the Social Security Contributions and Benefits (Northern Ireland) Act 1992 ("the Northern Ireland Contributions Act") requires there to be earnings limits and thresholds for Class 1 NICs for Northern Ireland.

7.9 The LEL is the level of earnings at which employees start to gain access to certain contributory benefits. From 6 April 2024 the LEL will be fixed at its current level to £123 per week for tax year 2024-25 in line with the announcement made at Autumn Statement 2023. Since April 2009, the UEL (the level of earnings up to which employees pay NICs at the main percentage rate of 10% for tax year 2024-25 and thereafter the additional percentage rate of 2% for tax year 2024-25) has been aligned with the HRT for income tax.

[1] GAD Report - https://www.gov.uk/government/publications/report-to-parliament-on-the-2024-re-rating-and-up-rating-orders; Treasury Report - https://www.gov.uk/government/publications/report-on-the-annual-review-of-national-insurance-contributions/treasury-report-on-the-annual-review-of-national-insurance-contributions

7.10 The annual UEL is set at the same level as the HRT and will remain at £967 a week to maintain this alignment in 2024-25.

7.11 Primary Class 1 NICs (known as “employees’ contributions”) are payable at the main primary percentage (10% for tax year 2024-25) on earnings between the PT and the UEL. Secondary Class 1 NICs (known as “employers’ contributions”) are payable by employers on their employees’ earnings above the ST at a single percentage rate (13.8% for tax year 2024-25). There is no upper limit for payment of employers’ contributions.

7.12 The UST sets the level of earnings above which employers of employees under the age of 21 are no longer eligible to pay secondary Class 1 contributions at the age related secondary percentage, which is 0% for tax year 2024-25. The UST is set at the same level as the UEL and will remain at £967 a week in 2024-25.

7.13 The AUST sets the level of earnings above which employers of relevant apprentices under the age of 25 are no longer eligible to pay secondary Class 1 contributions at the apprentice-related secondary percentage, which is 0% for tax year 2024-25. The AUST is set at the same level as the UEL and will remain at £967 per week in 2024-25.

7.14 The VUST sets the level of earnings above which employers of qualifying veterans are no longer eligible to pay secondary Class 1 contributions at the veteran-related secondary percentage, which is 0% for tax year 2024-25. The VUST has been set at the same level as the UEL and will remain at £967 a week in 2024-25.

7.15 The FUST sets the level of earnings above which employers of qualifying freeports and investment zones employees are no longer eligible to pay secondary Class 1 contributions at the freeports and investment zones related secondary percentage, which is 0% for tax year 2024-25. The FUST has been set at £25,000 and will remain at £481 per week for tax year 2024-25. Class 1 prescribed equivalents and Treasury Grant provision

7.16 Sections 5(4) and (5) of the Contributions Act and the Northern Ireland Contributions Act provide that the prescribed equivalents of the LEL, PT, ST, UEL, UST and AUST (as set out above) may be set at an amount which is no greater than £1 above the arithmetical equivalent of the LEL, PT, ST, UEL, UST and AUST. The monthly arithmetical equivalent can be calculated by multiplying each of the weekly limits and thresholds by 4⅓. 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 LEL, PT, ST, UEL, UST and AUST are all no greater than £1 above the arithmetic equivalent of those limits or thresholds.

7.17 Section 8 (7) of the National Insurance Contributions Act 2022 provides that the prescribed equivalents of the VUST and FUST may be set at an amount which is no greater than £1 above the arithmetical equivalent of the VUST and FUST with the same calculation method being applied as mentioned in paragraph 7.21. The monthly and annual prescribed equivalents of both the VUST and FUST are all no greater than £1 above the arithmetic equivalent of those thresholds.

7.18 This instrument includes the prescribed equivalents of the UEL, PT, ST, UST, AUST, VUST and FUST where the earnings period is a month or a year. The monthly and annual equivalents of the UEL are £4,189 and £50,270 respectively. The monthly prescribed equivalent of the PT is £1,048 and the annual prescribed equivalent of the PT is £12,570. The monthly and annual prescribed equivalents of the ST are £758 and

£9,100 respectively. The monthly and annual equivalents of the UST, AUST and VUST are £4,189 and £50,270 respectively. The monthly and annual equivalents of the FUST are £2,083 and £25,000.

Explanations

Why is it being changed?

7.19 Each year the government is required to set the various NICs rates, limits and thresholds for the purposes of collecting Class 1, Class 2, Class 3 and Class 4 NICs for the upcoming tax year.

What will it now do?

7.20 This instrument will set the various NICs rates, limits and thresholds for the tax year 2024-25.

8. European Union Withdrawal and Future Relationship

8.1 This instrument does not relate to withdrawal from the European Union.

9. Consolidation

9.1 There are currently no plans to consolidate the legislation which is amended by this instrument.

10. Consultation outcome

10.1 There was no consultation because the instrument relates to routine changes to rates, limits and thresholds as part of the annual NICs re-rating exercise.

11. Guidance

11.1 Guidance is not required as this instrument does not impose a new obligation.

12. Impact

12.1 The impact on business, charities or voluntary bodies is minimal with businesses being required to make routine changes to their payroll software.

12.2 There is no, or no significant, impact on the public sector, except for routine changes in payroll.

12.3 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 limits and thresholds. A Tax Information and Impact Note covering NICs thresholds and related changes to income tax thresholds (remaining at 2022-23 levels until 2027-28) is available at https://www.gov.uk/government/publications/the-personal-allowance-and-basic-rate-limit-for-income-tax-and-certain-national-insurance-contributions-nics-thresholds-from-6-april-2026-to-5-apr/income-tax-personal-allowance-and-the-basic-rate-limit-and-certain-national-insurance-contributions-thresholds-from-6-april-2026-to-5-april-2028.

13. Regulating small business

13.1 The legislation applies to activities that are undertaken by small businesses due to the changes to the LPL and LPT in so far as the proprietor(s) are self-employed. These small businesses will need to acquaint themselves with the new limits in order to calculate their National Insurance liabilities from 6 April 2024.

13.2 To minimise the impact of the requirements on small businesses (employing up to 50 people), the approach taken is that employers can use HMRC's Basic PAYE Tools to work out their payroll deductions and submit payroll information online.

13.3 The basis for the final decision on what action to take to assist small businesses is informed by the fact that Basic PAYE Tools work out the tax and NICs for employees every time they are paid and can be used to report this information to HMRC. This free computer package is available to download from https://www.gov.uk/basic-paye-tools

13.4 Alternatively, small businesses can find out more information on other HMRC recognised payroll software to manage Real Time Information payments and deductions from https://www.gov.uk/payroll-software. Small businesses will need to ensure that the new rates, limits and thresholds are used to calculate their National Insurance liabilities from 6 April 2024.

14. Monitoring & review

14.1 The approach to monitoring of this legislation is that this instrument makes changes to existing rates, limits and thresholds, which are reviewed annually.

14.2 The instrument does not include a statutory review clause in line with the requirements set out in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

15. Contact

15.1 Ashta Kalume at HMRC Telephone: 0300 051 7486 or email: ashta.kalume@hmrc.gov.uk can be contacted with any queries regarding the instrument.

15.2 Edmund Hair, Deputy Director for National Insurance Policy, International and Student Finance at HMRC can confirm that this Explanatory Memorandum meets the required standard.

15.3 Nigel Huddleston MP, Financial Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.