EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (LIMITS AND THRESHOLDS) (AMENDMENT) REGULATIONS 2015

2015 No. [XXXX]

1. This explanatory memorandum has been prepared by HM Revenue and Customs 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 2015:

- 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 limit (UEL), which is the level of earnings at which employees begin to pay Class 1 NICs at the additional percentage rate;
- the secondary threshold (ST), which is the level at which employers begin to pay Class 1 NICs on their employees' earnings;
- the upper secondary threshold (UST), introduced from 6 April 2015, 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, currently set at 0% of Class 1 NICs; and
- the monthly and prescribed equivalents of the LEL, PT, ST ,UEL and UST.

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. It sets the UST for the purposes of calculating the amount of Class 1 NICs due for the tax year 2015-16.

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 2015, which is an affirmative instrument that gives effect to the annual re-rating of National Insurance rates and limits for Class 3 and Class 4 NICs for the tax year 2015-16.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Financial 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 2015 are compatible with the Convention rights.

7. Policy background

- What is being done and why

7.1 At Budget 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 will continue to follow the Retail Price Index (RPI) and the UEL will continue to be aligned with the point at which higher rate income tax is paid. For September 2014 the rates of CPI and RPI were 1.26% and 2.26% respectively.

7.2 The figures for the NICs rates, limits and thresholds for the tax year 2015-16 were announced on 3 December 2014 in the Autumn Statement. This instrument gives effect to the changes to the LEL, UEL, PT and ST. It introduces the UST for Class 1 NICs and sets 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 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. It was announced in Budget 2011 that the LEL would be calculated by reference to the CPI. For the tax year 2015-16 the LEL will increase from £111 to £112 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. They are also due at the additional primary percentage (currently 2%) on all earnings above the UEL. The PT is increased by reference to the CPI from £153 to £155 per week for the tax year 2015-16.

7.6 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. The ST is increased by reference to the RPI from £153 to £156 per week for the tax year 2015-16.

7.7 Since April 2009 the UEL has been aligned with the level at which the higher rate of income tax is payable.

7.8 In the Autumn Statement on 3 December 2014 it was announced that for those born after 5 April 1948 the income tax personal allowance will be £10,600 and the basic rate limit will be £31,785 for the tax year 2015-16. At the same time it was confirmed that the UEL would continue to be aligned with the income tax "higher rate threshold" of £42,385 (the sum of the personal allowance and basic rate limit). The overall effect is that the weekly UEL for 2015-16 will increase to £815 per week.

7.9 The NICs Act 2014 introduced a zero rate band for employers contributions in respect of employees under the age of 21 with earnings below an upper secondary threshold called the UST which is aligned to the UEL. The UST introduced from 6 April 2015 is £815 per week.

7.10 These regulations include prescribed equivalents of the PT, ST, UEL and UST where the earnings period is a month or a year. The monthly prescribed equivalent of the PT is £672 and the annual prescribed equivalent of the PT is £8,060. The monthly and annual prescribed equivalents of the ST are £676 and £8,112 respectively. The monthly and annual equivalents of the UEL are £3,532 and £42,385 respectively. The monthly and annual equivalents of the UST are £3,532 and £42,385.

7.11 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/ UST (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/UST. 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 PT, ST and UEL/ UST are all no greater than the arithmetic equivalent of those limit or thresholds (rounded to the nearest pound).

- Consolidation

7.12 There are currently no plans to consolidate the principal Regulations.

8. Consultation outcome

8.1 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.

9. Guidance

9.1 These regulations do not impose any new obligation.

9.2 The NICs rates, limits and thresholds for the tax year 2015-16 were announced on 3 December 2014 in the Autumn Statement and can be found on the GOV.UK website on the following link: https://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2015-16/tax-and-tax-credit-rates-and-thresholds-for-2015-16.

10. Impact

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

10.2 There are no public sector implications.

10.3 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 rates, limits and thresholds to a predetermined 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. The 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

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 2015-16.

12. Monitoring & review

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

13. Contact

Ativie Edebiri at the HMRC Tel: 03000 584748 or email: ativie.edebiri@hmrc.gsi.gov.uk can answer any queries regarding the instrument.