EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS)) (RE-RATING AND NATIONAL INSURANCE FUNDS PAYMENTS) ORDER 2007

2007 No.

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 rates of Class 2 & 3 National Insurance Contributions and the amount of earnings below which an earner may be excepted from liability for Class 2 contributions.

2.2 The Order also specifies the lower and upper profit limits for Class 4 contributions payable at the main Class 4 percentage rate.

2.3 It also allows for payment of a Treasury Grant not exceeding 2 per cent of estimated benefit expenditure for the coming tax year to be paid into the National Insurance Fund and makes corresponding provision for Northern Ireland.

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

None

4. Legislative Background

4.1 In each tax year the Treasury is required, by section 141 of the Social Security Administration Act 1992 ("the GB 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 an order should be made under the section to have effect for the following tax year.

4.2 It is a condition precedent to laying such an order under section 141 of the GB Administration Act that a report by the Government Actuary or the Deputy Government Actuary be laid before Parliament on the effect which, in that Actuary's opinion, the making of the order would have on the National Insurance Fund. The report by the Government Actuary's Department was published on 24th January 2007 as Cm 7021. If an order is made under section 141 of the GB Administration Act, the order may also make a corresponding provision for Northern Ireland under section 129 of the Social Security Administration (Northern Ireland) Act 1992.

5. Extent

These Regulations apply throughout the United Kingdom.

6. European Convention on Human Rights

In the view of the Paymaster General, Dawn Primarolo, the provisions of this draft Order are compatible with the Convention rights.

7. Policy Background

7.1 Class 2 contributions are payable by the self employed and are a flat rate weekly contribution. This Order increases the rate of Class 2 contributions to £2.20 per week.

7.2 Self employed earners whose earnings from self employed are below the Small Earnings Exception can apply to be exempt from the payment of Class 2 contributions. The Small Earnings Exception is increased to £4635.

7.3 Class 4 contributions are payable in addition to Class 2 contributions by those who are self employed earners whose profits exceed the Lower Profits Limit. Class 4 contributions are payable at the main Class 4 rate (currently 8%) on self employed earnings between the Lower Profits Limit and the Upper Profits Limit and , since April 2003, at 1% on all profits above the Upper Profits Limit. The Lower Profits Limit is set at the same level as the earnings threshold for Class 1 contributions. The Upper Profits Limit is set at the same level as the Upper Earnings Limit for Class 1 contributions.

7.4 Class 3 contributions are payable on a voluntary basis and are also a flat rate weekly contribution. Class 3 contributions are payable by those who wish to protect their entitlement to certain contributory benefits. This Order increases the rate of Class 3 contributions to £7.80 per week.

7.5 The Order also makes provision under section 2(2) of the Social Security Act 1993 for payment of a Treasury Grant not exceeding 2 per cent 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.

8. Impact

A regulatory impact assessment has not been prepared for this instrument as it does not impose any new costs on the private or voluntary sectors.

9. Contact

Kevin Rice at HM Revenue & Customs, Tel: 0207 147 2514 or e-mail: **kevin.rice@hmrc.gsi.gov.uk** can answer any queries regarding the instrument