EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (RE-RATING AND NATIONAL INSURANCE FUNDS PAYMENTS) ORDER 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) rates and limits. The purpose of this Statutory Instrument is to specify for the tax year beginning 6 April 2015:

- The rate of Class 3 NICs payable by those wishing to protect their contributions record for basic state pension and bereavement purposes;
- The lower profits limit (LPL) and the upper profits limit (UPL) between which the self-employed pay the main Class 4 percentage rate.

2.2 The instrument also allows for payment of a Treasury Grant not exceeding 10 per cent of the estimated benefit expenditure for the coming tax year to be paid into the National Insurance Fund and also makes corresponding provision for Northern Ireland.

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

3.1 None

4. Legislative Context

4.1 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 an Order should be made under that 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 Administration Act that a copy of a report by the Government Actuary or the Deputy Government Actuary be laid before Parliament on the effect which, in the Actuary's opinion, the making of the Order would have on the National Insurance Fund. A copy of the report can be found on the GOV.UK website on the following link: https://www.gov.uk/government/collections/uk-social-security-short-term-and-long-term-reports. If an Order is made under section 141 of the 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.

4.3 The report also covers the effect of the Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2015, made at the same time as this Order, which specify the levels of the lower earnings limit (LEL), upper earnings limits (UEL), upper secondary threshold (UST) and the primary (PT) and secondary thresholds (ST) for Class 1 NICs for the 2015-16 tax year. The prescribed equivalents of these limits and thresholds where the earnings period is a month or a year are also specified.

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) (Re-rating and National Insurance Funds Payments) Order 2015 are compatible with the Convention rights.

7. Policy background

- **What is being done and why**

7.1 It was announced at Budget 2011 that the basis for indexation of the NICs rates, limits and thresholds would be by reference to the Consumer Price Index (CPI). The exceptions are as follows: the secondary threshold (the point at which employers start to pay Class 1 NICs) which will continue to be set by reference to the Retail Price Index (RPI); and the Class 1 UEL / Class 4 UPL which will continue to be aligned with the point at which higher rate income tax is paid. The UST introduced from April 2015 will be set at the same level as the UEL. For September 2014, the rates of the CPI and RPI were 1.26% and 2.26% respectively.

7.2 Class 3 contributions are payable on a voluntary basis at weekly flat rate. They can be paid by those who wish to protect their entitlement to certain contributory benefits. This Order increases the rate of Class 3 contributions from £13.90 to £14.10 per week.

7.3 Self-employed earners pay Class 2 and Class 4 contributions. The National Insurance Contributions Bill 2014-15 provides, from 6 April 2015, for the collection of Class 2 NICs through Self-Assessment. The Bill will set the weekly flat rate of Class 2 NICs at £2.80 per week. The Bill also sets the annual Small Profits Threshold (SPT), which replaces the Small Earnings Exception, at £5,965. Self-employed earners whose earnings from self-employment are below the SPT are exempt from the payment of Class

2 contributions but can pay voluntarily to protect their entitlement to certain contributory benefits.

7.4 In addition to Class 2 contributions, Class 4 contributions are payable by self-employed earners whose taxable profits exceed the LPL. Class 4 contributions are payable at the main Class 4 percentage rate (currently 9%) on profits between the LPL and UPL and at the additional Class 4 percentage rate (currently 2%) on all profits above the UPL.

7.5 The LPL is increased from £7,956 to £8,060 from 6 April 2015 in line with the CPI. The UPL is set at the same level as the UEL/UST for Class 1 contributions and is being increased from £41,865 to £42,385 to maintain alignment both with the UEL and with the point at which higher rate income tax becomes payable.

7.6 This Order also makes provision under section 2(2) of the Social Security Act 1993 for payment of a Treasury Grant not exceeding 10 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.

- Consolidation

7.7 The Order makes changes to primary legislation and there are currently no plans to consolidate the legislation.

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 This Order does not impose a new obligation.

9.2 The NICs rates, limits and thresholds for 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 changes to Class 4 limits in this Order apply to small businesses in so far as the proprietor(s) are self-employed. These small businesses will need to acquaint themselves with the new rates and limits in order to calculate their National Insurance liabilities for the tax year 2015-16. These changes have no impact on employees.

12. Monitoring & review

12.1 Section 141 of the Administration Act requires the Treasury to conduct in each tax year a review of the level of general earnings in Great Britain. This Order makes changes to existing rates and limits as a result of that review and will not be subject to further monitoring or review.

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.