EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (AMENDMENT NO. 2) REGULATIONS 2026

2026 No. 294

1. Introduction

1.1 This Explanatory Memorandum has been prepared by HM Revenue and Customs (HMRC) on behalf of HM Treasury and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Torsten Bell MP, Minister for Pensions at the Department for Work and Pensions and HM Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Gareth Cooper, Deputy Director for Income Tax policy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 HMRC's National Insurance contributions policy team can be contacted by email at the following address with any queries regarding the instrument: nics.correspondence@hmrc.gov.uk

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The legislation amends provisions to pay Class 2 and Class 3 voluntary National Insurance contributions (NICs) for periods abroad set out in regulation 147 of the Social Security Contributions Regulations (SSCR) 2001. Voluntary NICs are optional payments individuals can make in order to build their entitlement to contributory benefits.

4.2 Voluntary Class 2 NICs build entitlement to State Pension, along with some working age contributory benefits including new style Employment and Support Allowance and Bereavement Support Payment. Class 3 NICs are voluntary contributions which build entitlement to State Pension only.

4.3 The legislation removes the ability for employees and most self-employed individuals to pay voluntary Class 2 NICs for periods abroad from the start of the 2026 to 2027 tax year and onwards.

4.4 This change means that individuals will only be able to pay voluntary Class 2 NICs in respect of time spent outside of the UK for the 2026 to 2027 tax year and onwards where they are low paid self-employed workers within scope of a relevant social security agreement (SSA) that the UK has with another country, and volunteer development workers (VDWs) paying the special rate of Class 2 NICs.

4.5 The legislation also changes the conditions for new applications to pay Class 3 NICs from the start of the 2026 to 2027 tax year and onwards. From 6 April 2026, individuals submitting new applications to pay Class 3 NICs in respect of periods

abroad from the 2026 to 2027 tax year and onwards will need to have lived in the UK for at least 10 continuous years or have built at least 10 qualifying years on their National Insurance record. Voluntary NICs paid for periods abroad will not count towards the 10 qualifying year requirement unless they are paid under a relevant SSA or by VDWs.

4.6 Provided certain conditions are met, those who have been paying Class 2 or Class 3 contributions while they are outside of the UK in relation to tax years ending before 6th April 2026 will be able to continue to do without meeting the new requirements described in paragraph 4.5.

Where does the legislation extend to, and apply?

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

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

5. Policy Context

What is being done and why?

5.1 The government is restricting the ability to pay voluntary Class 2 and Class 3 NICs for individuals living or working abroad.

5.2 Individuals living or working abroad are able to pay voluntary NICs (subject to meeting relevant eligibility conditions) in order to fill gaps in their National Insurance record, which provides entitlement to contributory benefits including the State Pension.

5.3 Previously, individuals living or working outside of the UK were able to build entitlement to a UK State Pension, often at a substantively lower cost than many individuals paying NICs in the UK. This was the case even where the individual had spent limited time in the UK. In respect of the 2026 to 2027 tax year onwards, these regulations will remove the ability to pay voluntary Class 2 NICs for periods spent outside of the UK and increase the qualifying criteria for new applications to pay Class 3 NICs for periods spent outside of the UK.

5.4 These changes are being made to ensure that individuals building a UK State Pension from outside of the UK have a sufficient link to the UK and are paying a fairer price to do so.

What was the previous policy, how is this different?

5.5 Under the previous policy, individuals who had either spent 3 continuous years living in the UK or have built at least 3 qualifying years of National Insurance contributions on their National Insurance record were able to pay Class 3 NICs in respect of periods abroad. This enabled individuals that had spent limited time in the UK to build UK State Pension entitlement from abroad.

5.6 Individuals who met the 3-year criteria outlined above and who were working immediately before they left the UK could instead choose to pay voluntary Class 2 NICs in respect of their time spent working abroad. Voluntary Class 2 NICs (£3.50 per week for 2025/26) are substantively cheaper than Class 3 NICs (£17.75 per week for 2025/26) and, in addition to UK State Pension, also build entitlement to some working age contributory benefits such as New Style Employment and Support Allowance and Bereavement Support Payments. This enabled individuals working

outside of the UK to build access to UK contributory benefits for substantially less than many individuals paying NICs in the UK.

5.7 In respect of the 2026 to 2027 tax year onwards, the new policy removes the ability to pay voluntary Class 2 NICs for periods spent outside of the UK and increases the qualifying criteria for new applications to pay Class 3 NICs for periods spent outside of the UK.

5.8 These changes remove the ability to pay voluntary Class 2 NICs in respect of periods abroad from the 2026 to 2027 tax year onwards and increase the qualifying conditions for new applications to pay Class 3 NICs contributions from the start of the 2026 to 2027 tax year and onwards.

5.9 Whilst the removal of the ability to pay voluntary Class 2 NICs applies to any customer wanting to pay voluntary Class 2 NICs in respect of periods abroad from the 2026 to 2027 tax year onwards (except for those paying under a relevant SSA and VDWs), the increased requirements to pay Class 3 NICs will apply to new applications, and those who have lost the ability to rely on their ability to pay prior to 6 April 2026, to pay Class 3 NICs in respect of periods abroad from the 2026 to 2027 tax year and onwards.

5.10 Customers with an existing arrangement to pay voluntary Class 2 NICs for periods abroad will be given the opportunity to apply to pay Class 3 NICs without needing to meet the new qualifying criteria. To be eligible under the 3-year criteria, existing voluntary Class 2 NICs customers must have applied to pay voluntary Class 2 NICs abroad before 6 April 2026 and must have paid voluntary Class 2 NICs abroad for the 2024 to 2025 or 2025 to 2026 tax years and submitted an application to pay Class 3 NICs abroad before 6 April 2027. HMRC will contact these customers later this year regarding the closure of their existing arrangement to pay voluntary Class 2 NICs and the option to start paying Class 3 NICs.

5.11 Customers with an existing arrangement to pay Class 3 NICs for periods abroad can continue paying Class 3 NICs without re-applying or needing to meet the new criteria.

5.12 Customers can lose their right to pay Class 3 NICs under the conditions that applied before 6th April 2026, if they cease to be eligible to pay Class 3 NICs in respect of periods abroad on or after 6 April 2026. For example, where an individual returns to the UK and becomes liable to pay Class 1 NICs on their employed earnings or doesn't take up employment but becomes eligible to pay Class 3 NICs in respect of their time in the UK.

6. Legislative and Legal Context

How has the law changed?

6.1 These regulations are being made under powers conferred by sections 13(1), 14(1) 119 and 175(3) and (4) of the Social Security Contributions and Benefits Act 1992(a) and sections 13(1), 14(1), 119 and 171(3) and (4) of the Social Security Contributions and Benefits (Northern Ireland) Act 1992(b). The regulations are being made with the concurrence of the Secretary of State and the Department for Communities (Northern Ireland).

6.2 Regulation 147 of SSCR 2001 sets the conditions for an individual to be eligible to voluntary National Insurance contributions in respect of periods spent outside of the UK.

6.3 These regulations amend regulation 147 for the 2026 to 2027 tax year and onwards. The regulations do not amend the conditions to pay voluntary NICs abroad for periods abroad up to and including the 2025 to 2026 tax year.

6.4 The amended regulation 147 no longer includes provision allowing for voluntary Class 2 NICs to be paid for a period a person is working outside of the UK from the 2026 to 2027 tax year and onwards.

6.5 The amended regulation 147 increases the qualifying criteria to pay Class 3 NICs for periods outside of the UK from the 2026 to 2027 tax year and onwards.

6.6 The amended regulation 147 also includes provision for some customers with existing arrangements to pay voluntary NICs outside of the UK to not need to meet the increased qualifying criteria, subject to meeting certain conditions. As part of this, the amended regulation 147 sets out where this provision allowing some customers to pay without meeting the new conditions will cease to apply. This includes where an individual returns to the UK and starts paying Class 1 NICs on their employed earnings or Class 3 NICs in respect of their time in the UK.

Why was this approach taken to change the law?

6.7 Legislating through a statutory instrument rather primary legislation supports timely delivery for the start of the 2026 to 2027 tax year.

7. Consultation

Summary of consultation outcome and methodology

7.1 These changes were not consulted on as doing so would have risked forestalling behaviour which would undermine the intended policy outcome.

8. Applicable Guidance

8.1 Information about the changes to voluntary NICs policy announced at Budget 2025 and being implemented on 6 April 2026 is available online on the GOV.UK website.[1]

8.2 Further guidance will be published on 6 April 2026.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the GOV.UK website[2].

Impact on businesses, charities and voluntary bodies

9.2 There is no significant impact on business, charities or voluntary bodies because this instrument is not changing their obligations to pay NICs. Where employers choose to pay for Class 3 NICs on behalf of their employees working outside of the UK, they will need to pay an additional £767 per year (2026/27 rates) compared to if they were paying for voluntary Class 2 NICs.

[1] Guidance for Voluntary National Insurance contributions for periods abroad from April 2026: https://www.gov.uk/government/publications/changes-to-voluntary-national-insurance-contributions-for-periods-spent-abroad/voluntary-national-insurance-contributions-for-periods-abroad-from-april-2026

[2] Tax Information and Impact Notes: https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

9.3 The increased upfront eligibility criteria will mean that some businesses or civil society organisations will not be able to offer to pay for Class 3 NICs where employees working outside of the UK do not meet the new 10-year criteria.

9.4 One-off costs could include familiarisation with the policy changes, but no ongoing costs are anticipated. The measure is expected to have no impact on business or civil society organisations' experience of dealing with HMRC as the application process remains the same.

9.5 The legislation impacts small or micro businesses in the same way. One-off costs could include familiarisation with the policy changes, but no ongoing costs are anticipated.

9.6 The impact on the public sector is also as set out above.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 There are no plans to monitor or review the instrument.

10.2 The instrument does not include a statutory review clause because it relates to a tax, duty, levy or other charge and therefore meets the requirements of the exemption set out in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").