

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

Public Bill Committee

## NATIONAL INSURANCE CONTRIBUTIONS (RATE CEILINGS) BILL

*Second Sitting*

*Tuesday 27 October 2015*

*(Afternoon)*

---

### CONTENTS

CLAUSES 1 to 5 agreed to.  
Bill to be reported, without amendment.

---

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS  
LONDON – THE STATIONERY OFFICE LIMITED

£3.00

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

**not later than**

**Saturday 31 October 2015**

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY  
FACILITATE THE PROMPT PUBLICATION OF  
THE BOUND VOLUMES OF PROCEEDINGS  
IN GENERAL COMMITTEES

© Parliamentary Copyright House of Commons 2015

*This publication may be reproduced under the terms of the Open Parliament licence,  
which is published at [www.parliament.uk/site-information/copyright/](http://www.parliament.uk/site-information/copyright/).*

**The Committee consisted of the following Members:***Chairs:* †MR ADRIAN BAILEY, ANDREW ROSINDELL

- |   |  |
|---|--|
| † Berry, Jake ( <i>Rossendale and Darwen</i> ) (Con)                  | † Mak, Mr Alan ( <i>Havant</i> ) (Con)                               |
| † Boswell, Philip ( <i>Coatbridge, Chryston and Bellshill</i> ) (SNP) | † Marris, Rob ( <i>Wolverhampton South West</i> ) (Lab)              |
| † Cooper, Julie ( <i>Burnley</i> ) (Lab)                              | † Menzies, Mark ( <i>Fylde</i> ) (Con)                               |
| † Frazer, Lucy ( <i>South East Cambridgeshire</i> ) (Con)             | † Merriman, Huw ( <i>Bexhill and Battle</i> ) (Con)                  |
| † Gauke, Mr David ( <i>Financial Secretary to the Treasury</i> )      | † Morton, Wendy ( <i>Aldridge-Brownhills</i> ) (Con)                 |
| † Long Bailey, Rebecca ( <i>Salford and Eccles</i> ) (Lab)            | † Stride, Mel ( <i>Lord Commissioner of Her Majesty's Treasury</i> ) |
| † McGinn, Conor ( <i>St Helens North</i> ) (Lab)                      | † Warman, Matt ( <i>Boston and Skegness</i> ) (Con)                  |
| † Mc Nally, John ( <i>Falkirk</i> ) (SNP)                             | Liam Laurence Smyth, <i>Committee Clerk</i>                          |
| † McDonald, Andy ( <i>Middlesbrough</i> ) (Lab)                       | † <b>attended the Committee</b>                                      |

## Public Bill Committee

Tuesday 27 October 2015

(Afternoon)

[MR ADRIAN BAILEY *in the Chair*]

### National Insurance Contributions (Rate Ceilings) Bill

2 pm

**The Chair:** We now begin line-by-line consideration of the Bill. Please ensure that all electronic devices are turned off or switched to silent mode. It is unseasonably warm today—very pleasant. If Members want to remove their jackets, they should feel free to do so.

#### Clause 1

MAIN AND ADDITIONAL PRIMARY PERCENTAGES

*Question proposed,* That the clause stand part of the Bill.

**The Financial Secretary to the Treasury (Mr David Gauke):** It is a very great pleasure to serve under your chairmanship, Mr Bailey. I welcome all hon. Members to their places. Progress was brisk and efficient at our evidence session this morning and if it were up to me, that momentum would continue, but of course it is not up to me.

Clause 1 specifies that the class 1 contributions payable by employees at the main primary percentage shall not exceed 12%. Class 1 contributions are payable at 12% on earnings between £155 and £815 a week. For earnings above £815 a week, the additional primary percentage shall not exceed 2%. The provisions in clause 1 will apply to any tax year that begins after the day on which the Bill comes into force before the next election.

**Rob Marris (Wolverhampton South West) (Lab):** It is a pleasure to serve under your chairmanship again, Mr Bailey. You commented on the weather. Of course, you and I know that that the weather in West Bromwich and in Wolverhampton is always lovely, especially at this time of year.

Through clause 1 the Government are limiting their room for manoeuvre. I am aware, as are all hon. Members, that there was a commitment by the Conservative party in the general election not to freeze but to put a cap on national insurance contributions at both rates. That was also the policy of my party, so I think that we will have a fairly brisk afternoon.

However, the Bill, as primary legislation, puts restrictions on Government, which, as I suggested to the Minister in the evidence session this morning, creates a measure of uncertainty. When some things are restricted, like this and other tax measures, such as the 1,300 tax reliefs, of which the Audit Commission says that only about 200 are tracked properly, it can create uncertainty by a kind of ripple effect—if one is being certain in one

sphere but saying nothing about this other sphere, whatever it may be in terms of the tax regime, perhaps one has plans to change that.

Do the Government currently have any plans to change, in any way, the regime for national insurance contributions, whether in terms of the upper earnings limit or the percentage rates at which it is levied? There are different rates, of course, depending on the different classes, including class 3A, which runs out at the end of next March. Are there any proposed changes to the regime?

**Mr Gauke:** I am grateful for the hon. Gentleman's comments and I am encouraged, as I am sure you are, Mr Bailey, by the consensus, at least on being brisk this afternoon.

As for future plans for national insurance contributions, of course, all taxes—and for these purposes, we count national insurance contributions as a tax—are kept under review. Any announcements are made by the Chancellor in Budgets and autumn statements. I have nothing to add to what has previously been said in Budgets and autumn statements. As was touched upon in our evidence session this morning, the Office of Tax Simplification is looking at national insurance contributions and their alignment with income tax. It has examined that in the past, and it and the Government believe that it would be helpful to draw out some of the related issues in quite a complex matter.

**Rob Marris:** I appreciate that consultation is ongoing and evidence is still being gathered, but is the Government's preferred option at this point to have such an alignment?

**Mr Gauke:** The Government's position is very much an open one. There is no preferred position as such. Clearly, the matter has been raised on numerous occasions over many years. I suspect that all parties have looked at this issue to a greater or lesser extent. The Office of Tax Simplification has made recommendations in the past on this matter, and we think that it would be beneficial for it to continue to look at the subject with a view to developing potential ideas and then, after that further investigation, for us to have an informed debate on whether to take the proposals forward. The Government do not have a predetermined position, but we think that it would be beneficial to the general debate for the OTS, which is a respected organisation that has already done good work in this area, to take the matter forward.

In short, we do not have further proposals other than those that we previously set out—not least, of course, the cap. The hon. Gentleman is right to say that the Bill provides for a cap, not a freeze.

*Question put and agreed to.*

*Clause 1 accordingly ordered to stand part of the Bill.*

#### Clause 2

SECONDARY PERCENTAGE

*Question proposed,* That the clause stand part of the Bill.

**Mr Gauke:** Like clause 1, clause 2 is a simple provision and I do not intend to detain the Committee for long in explaining it. The rate of secondary class 1 contributions payable by employers for employees who are not under

the age of 21 is 13.8%. It is payable on earnings above £156 per week. The clause simply provides that the rate shall not exceed 13.8%.

**Rebecca Long Bailey** (Salford and Eccles) (Lab): Again, as this is part of the Government's policy to cap national insurance contributions for this Parliament, we do not oppose it in principle, but I hope that the Minister will address a few issues.

The national insurance fund is used almost exclusively to pay for contributory benefits. However, one portion, as we discussed this morning in the evidence session, is used for the NHS. Will the Minister assure us that the Government are not tying their own hands should there be another economic crisis? There could be a danger in such circumstances that the Chancellor may decide to reduce public spending further, just at the point when a stimulus is needed.

Economists the world over warn that the global economic situation is becoming increasingly precarious, and the Minister will no doubt be acutely aware that the Opposition have concerns that the Government are not taking sufficient measures to increase our financial resilience. I ask the Minister, in the words of Keynes: if the facts change, will the Chancellor change his mind? Alternatively, if the Government are committed to keeping this framework in place regardless, what contingency plans exist to protect the fund if unemployment starts to rise and receipts from national insurance consequently fall?

On Second Reading, the point was made that the Chancellor's spending plans are predicated on, "a forecast rise in revenue yield from NICs".—[*Official Report*, 15 September 2015; Vol. 599, c. 941.]

However, should this yield be less than forecast, whether due to unforeseen circumstances, simple miscalculation or, indeed, economic policy failures, what will the Government do? Will further cuts be imposed on public expenditure, or will borrowing rise and the Chancellor simply change his targets once again?

I was grateful for the Minister's response this morning when he confirmed that NHS funding would not be cut directly as a result of any impact that the Bill has. However, in the same way as the Bill provides an assurance to the market that the Government will keep their promise on national insurance, it would be prudent to legislate for the promise on the NHS. I trust that the Minister has listened diligently to my concerns and I look forward to his response.

**Mr Gauke:** I am grateful to the hon. Lady for her questions. She asked whether we are tying our hands in these circumstances. To the extent that we are not putting up the employers' rate of national insurance contributions, for which the clause provides, or the employees' rate, for which clause 1 provides, we are making it clear that we do not believe that that would be the right thing to do.

The hon. Lady draws me on to hypothetical ground when she asks what would happen if there were a crash, but even on a Keynesian analysis, I do not think anyone would particularly advocate, as an immediate response to an economic downturn, increasing employers' or employees' national insurance contributions. I do not

claim to be an expert on Keynesian orthodoxy, but I do not think that that would constitute an orthodox Keynesian response to a downturn.

On the hon. Lady's points about the impact on the national insurance fund, let me repeat the assurances that I gave this morning. There is no question of the fund not being able to fund pensions or the NHS. The Government will introduce the new state pension from 2016, which will make pensions affordable and improve the sustainability of the national insurance fund in the long term and provide the right support for private saving.

The Government Actuary recommends a working balance of one sixth of benefit expenditure for the national insurance fund, as we heard this morning. There is provision to top up the national insurance fund from the Consolidated Fund to maintain the balance at that level. For the 2015-16 tax year, a top-up of £9.6 billion has been provided for in legislation. The future funding of contributory benefits, should NICs receipts prove insufficient, is a matter for the Chancellor and that decision would need to be made at the relevant fiscal event, based on the latest projections available at the time, and taking account of this Bill. I hope that that provides some reassurance that there is flexibility.

It is not the case—nor is this an argument that a future Government would make—that, if the national insurance fund were lower than we expected, we would not honour our commitments on the NHS and on the state pension. I have to make the point that, when it comes to ensuring that we can have a properly funded NHS and properly funded pensions, we need to make sure that the economy is on a sound footing, and that the public finances are strong. That means that we have to make choices, and, in some cases, difficult choices about public finances. That includes, for example, identifying savings in the welfare budget, but, Mr Bailey, that would be taking me away from clause 2.

**The Chair:** You are getting very close.

**Mr Gauke:** Tempting though that is, I should return to the clause. I hope that those points of clarification are helpful to the Committee and that clause 2 can stand part of the Bill.

*Question put and agreed to.*

*Clause 2 accordingly ordered to stand part of the Bill.*

### Clause 3

#### UPPER EARNINGS LIMIT

*Question proposed,* That the clause stand part of the Bill.

**Mr Gauke:** This clause provides that the upper earnings limit for any tax year for the duration of the Parliament shall not exceed the weekly equivalent of the income tax higher rate threshold proposed for that tax year. The class 1 upper earnings limit is the point at which an employee transitions from paying class 1 contributions at the main rate of 12% to paying class 1 contributions at 2%. Since April 2009, this point has been aligned with the higher rate tax threshold.

**Rebecca Long Bailey:** Hon. Members will be pleased to hear that I do not wish to go into great detail on clause 3. We are aware that the clause links the upper earnings limit to the higher rate income tax threshold by setting out that it shall not exceed the weekly equivalent of the proposed higher rate threshold for that tax year. That means that employees stop paying national insurance contributions at the 12% rate when their income reaches the higher rate income threshold, and thereafter the rate of national insurance is 2%.

2.15 pm

The upper earnings limit has been in line with the higher rate income tax threshold since April 2009. However, the Prime Minister made a pledge to legislate formally for this link before the general election. If this is already common practice, will the Minister explain why it has been necessary to legislate on this point in the Bill? Surely, this is another clear example of the irrelevance of the Bill and the political game the Chancellor is playing with the legislative integrity of this place. This is 15 minutes of Members' time that we will never get back. That puts the matter into perspective.

I do not want to repeat previous discussion, and we broadly support the principles of the clause, but it is simply not necessary. None the less, we will not oppose it at this stage.

**Mr Gauke:** I am sorry if we are detaining the hon. Lady. I am sure she has many useful things to do this afternoon, so I will not detain her longer than I have to. I come back to the point that we debated this morning. It was a manifesto commitment that we would legislate for this and it is similar to the argument on rates that we have just had on clauses 1 and 2. It underlines our commitment.

I suspect that, had the Bill contained just clauses 1 and 2, and not dealt with the upper earnings limit alignment, the hon. Lady would have been one of the first to identify an apparent lacuna in the legislation and would say that there was nothing to stop us increasing the 12% band of national insurance contributions above the point at which the higher rate threshold came into place. Indeed, I think that that was Labour party policy in 1992, so it is not an immaterial issue or one that has never been considered in public debate.

To be consistent with the capping of the employees' NICs rate, it is right to set out the threshold and the fact that that is tied in with the higher rate threshold. That has been the practice for some years now and we wish to maintain it.

**Rebecca Long Bailey:** On highlighting a lacuna, several need to be highlighted and we will take the same approach as the Government to the Bill. If they are going to legislate for every single pre-election promise, surely they should apply the same sort of legislation to every manifesto pledge. They are certainly not doing that.

As my hon. Friend the Member for Wolverhampton South West rightly said this morning, while the Government might be providing assurances to the market on this issue, they are certainly not providing any assurances on all their other pre-election promises because they are not legislating for them in the same way.

**Mr Gauke:** Again, I come back to the central point. The Conservative party, and indeed the Labour party, made pledges during the last general election campaign not to increase rates. We wished to underline our commitment to the British people by announcing during the election campaign that we would legislate for this. It further emphasised our commitment on this issue.

Having set out that we would legislate on rates, it is also right that we legislate on the way in which the national insurance thresholds currently tie in with the income tax thresholds, which is at the point where the upper earnings limit meets the higher rate threshold. It was logical to include clause 3, which meets exactly the same objective as clauses 1 and 2. We made a commitment that we would not increase the 12% band above the point at which higher rate income tax would be paid, and I think—I am sure I will be corrected—that the Labour party made the same commitment. Given that we are legislating in the Bill on rates, it made sense also to address that threshold point. That is why the clause is part of the Bill, and why I hope the Committee will support it.

*Question put and agreed to.*

*Clause 3 accordingly ordered to stand part of the Bill.*

*Clauses 4 and 5 ordered to stand part of the Bill.*

**Mr Gauke:** On a point of order, Mr Bailey. I am not sure whether it is appropriate or necessary to make a point of order at this point, but I think I should. I thank you for your guidance over the last 21 minutes. You have demonstrated all the skills we needed this afternoon, and I am grateful for that. I also thank Mr Rosindell for his assistance this morning.

I thank all hon. Members for their participation in our proceedings. They can report back to the Whips that they have served on yet another Bill Committee, and I hope they feel that this has been a day well spent.

I thank the Whips—the Lord Commissioner of Her Majesty's Treasury, my hon. Friend the Member for Central Devon, and the hon. Member for St Helens North—for their assistance. I also thank Opposition Members, including the Front-Bench spokespeople, the hon. Members for Wolverhampton South West and for Salford and Eccles, for their constructive engagement with the Bill.

This is the second Bill that some of us have completed in recent days. It has taken considerably less time than the Finance Bill, for which I, for one, am very grateful.

May I conclude by thanking the Clerks, the *Hansard* reporters, the police and the attendants, as well as the officials from Her Majesty's Revenue and Customs and the Treasury, for their assistance with this short but important Bill? I look forward to discussing these issues again—no doubt at some length—on Third Reading.

**Rebecca Long Bailey:** Further to that point of order, Mr Bailey. I reiterate the thanks the Minister has expressed. I also thank him for what has, as always, been a lively and engaging debate. It has been a pleasure.

**John Mc Nally (Falkirk) (SNP):** Further to that point of order, Mr Bailey. This is the first Bill Committee on which I have sat. May I, too, thank the Minister and the Clerks for taking us through the Bill and for the guidance

they have given us? I am equally glad that our proceedings have been quite short and relatively simple to follow and that I could associate them with my constituents back home in Falkirk.

*Bill to be reported, without amendment.*

2.24 pm

*Committee rose.*

