PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT SOCIAL SECURITY (CONTRIBUTIONS) (RATES, LIMITS AND THRESHOLDS AMENDMENTS AND NATIONAL INSURANCE FUNDS PAYMENTS) REGULATIONS 2017

DRAFT TAX CREDITS AND GUARDIAN'S ALLOWANCE UP-RATING ETC. REGULATIONS 2017

Monday 6 March 2017

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not later than

Friday 10 March 2017

The Committee consisted of the following Members:

Chair: Mrs Anne Main

† Barclay, Stephen *(Lord Commissioner of Her Majesty's Treasury)*
† Ellison, Jane *(Financial Secretary to the Treasury)*
† Glen, John *(Salisbury)* (Con)
† Hart, Simon *(Carmarthen West and South Pembrokeshire)* (Con)
† Haselhurst, Sir Alan *(Saffron Walden)* (Con)
Hodge, Dame Margaret *(Barking)* (Lab)
† Lammy, Mr David *(Tottenham)* (Lab)
† McLaughlin, Anne *(Glasgow North East)* (SNP)
† Mackinlay, Craig *(South Thanet)* (Con)
† Mackintosh, David *(Northampton South)* (Con)
Reeves, Rachel *(Leeds West)* (Lab)
† Reynolds, Jonathan *(Stalybridge and Hyde)* (Lab/Co-op)
† Shelbrooke, Alec *(Elmet and Rothwell)* (Con)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Stephens, Chris *(Glasgow South West)* (SNP)
† Swayne, Sir Desmond *(New Forest West)* (Con)
† Throup, Maggie *(Erewash)* (Con)
Winnick, Mr David *(Walsall North)* (Lab)

Marek Kubala, *Committee Clerk*

† attended the Committee

First Delegated Legislation Committee

Monday 6 March 2017

[MRS ANNE MAIN *in the Chair*]

Draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017

4.30 pm

The Financial Secretary to the Treasury (Jane Ellison): I beg to move,

That the Committee has considered the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017.

The Chair: With this it will be convenient to consider the draft Tax Credits and Guardian's Allowance Up-rating etc. Regulations 2017.

Jane Ellison: It is a pleasure to serve under your chairmanship, Mrs Main.

I am in Committee to introduce the changes that we are making in the two areas covered by the two sets of draft regulations. I will speak first to the changes being made to the disability elements of tax credits, as well as the guardian's allowance, and then to the draft regulations on the rates, limits and thresholds that govern national insurance contributions. Many of the changes are being made to the rates in line with inflation, as measured by the consumer prices index, which put inflation at 1% in the year to September 2016.

The draft Tax Credits and Guardian's Allowance Up-rating etc. Regulations 2017 provide for an increase in line with inflation to the disability elements of tax credits. That means that we are maintaining the value of support for disabled children in receipt of child tax credits and disabled workers in receipt of working tax credit. I should add that the rise in rates covers the new element for disabled children who were born on or after 6 April this year, regardless of the two-child limit for claims of child tax credit. The regulations also increase the guardian's allowance in line with inflation. That is to sustain the level of support for children whose parents are absent or deceased.

As hon. Members know, an aim of the Government has been to reform the welfare system over a number of years, not only to bring the country's public finances under control and to act responsibly to set our public services on a long-term and sustainable path, but to address a point of fundamental fairness for British people by ensuring that work always pays. In that spirit, we set about reforming the welfare system. We looked, for example, at the fact that between 2008 and 2015, the rise in how much people got in child tax credits had far outstripped any rise in what people were earning—an increase of 33% in the rate of the child element of child tax credits, versus only 12% in earnings growth. On a number of occasions, we have spoken about our determination to address the trend of benefits going up faster than salaries. The Welfare Reform and Work Act 2016 therefore legislated to freeze the majority of working-age benefits and tax credits for the following four years.

The disability elements of tax credits and the guardian's allowance are exempt from that freeze so that we may provide support to those who face the additional costs of disability and care. The exemption should be seen as part of a wider commitment that we have demonstrated in government to support the most vulnerable in our welfare system. Spending on disability benefits has risen by more than £3 billion in real terms since 2010. It will remain higher in each year to 2020 than in 2010.

As the Committee knows, ultimately universal credit will replace the system of tax credits as a much more effective way of providing means-tested support for working-age people who are in or out of work. Universal credit is a significant reform that has at its heart the proposition that work should always pay.

The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017 will make changes to the rates, limits and thresholds for national insurance contributions and make provision for a Treasury grant to be paid into the national insurance funds if required. I will provide a brief outline of the detail of the changes, which will take effect from 6 April 2017. On class 1 national insurance contributions, the lower earnings limit or the level of earnings at which employees start to gain access to contributory benefits will rise in line with inflation. The primary threshold, which is the level at which employees begin to pay class 1 national insurance at 12%, will also rise with inflation.

The upper earnings limit, which is the level at which employees start to pay class 1 contributions at 2%, is being raised from £827 to £866 a week. That reflects the Government's commitment to align the limit with the UK's higher rate income tax threshold, which is being raised from £43,000 to £45,000 for the 2017-18 tax year. I might return to that point about the higher rate income tax threshold in more detail.

As the Chancellor announced in the autumn statement, the levels at which employers and employees start to pay class 1 national insurance contributions are being aligned. To do that, the secondary threshold, where employers start to pay, is being increased from £156 a week to £157 a week. That will be the same as the primary threshold for employees from 6 April 2017. That will make it easier for employers as they will no longer have to operate two similar thresholds at slightly different rates. That was recommended by the Office of Tax Simplification in a report some time ago.

Finally for the employed, the level at which employers of people under 21 and of apprentices under 25 start to pay employer's contributions will keep pace with the upper earnings limit and rise from £827 to £866 a week. That maintains our commitment to reduce the cost of employing young apprentices and young people. That above-inflation increase, which will maintain alignment with the upper earnings limit, means that employers will pay national insurance only for the highest earning apprentices and under-21-year-olds.

To move on to the self-employed, the level at which they have to pay class 2 contributions will rise with inflation to £6,025 a year. The weekly rate of class 2 contributions will also rise in line with inflation to

£2.85. Self-employed people who earn above the lower profits limit also pay class 4 national insurance contributions at 9%. That threshold will rise with inflation.

Above the upper profits limit, the self-employed instead pay 2%. Like the upper earnings limit for the employed, that limit for the self-employed will rise from £43,000 to £45,000 a year. For those making voluntary class 3 contributions, the rate will increase in line with inflation from £14.10 to £14.25 a week.

Let me draw the attention of hon. Members to two reports that have been published alongside the regulations. The report made under section 40 of the Tax Credits Act 2002 contains the numbers of tax credit awards, inquiries, penalties imposed, and prosecutions and convictions for tax credit offences made in tax year 2015-16. The report made under section 41 of the 2002 Act shows the rate of all non-frozen tax credits other than the childcare element in relation to inflation.

Finally, I note that the regulations make provision for a Treasury grant of up to 5% of forecast annual benefit expenditure to be paid into the national insurance fund, if needed, during 2017-18. That is a routine measure that does not impact on the Government's overall fiscal position. A similar provision will be made in respect of the Northern Ireland national insurance fund.

I hope that that is a useful overview of the changes we are making to bring rates of support and contributions to the Exchequer in line with inflation. I commend to the Committee the draft regulations on tax credits and the guardian's allowance, as well as those on social security contributions.

4.38 pm

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is a pleasure to see you in the Chair, Mrs Main.

As the Minister has outlined, the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017 enact the annual re-rating of various national insurance contribution rates, limits and thresholds and allow for the payment of a Treasury grant not exceeding 5% of the estimated benefit expenditure for the coming tax year into the national insurance fund. The draft Tax Credits and Guardian's Allowance Up-rating etc. Regulations 2017 provide for increases in certain tax credit rates and an increase in the weekly rate of guardian's allowance—a small benefit paid to people looking after a child who is effectively an orphan—from April.

Labour is acutely aware that average real hourly pay remains 10% below its level before the financial crisis and that rising inflation is devaluing people's wages further. Indeed, analysis by the Institute for Fiscal Studies that came out last week shows that low-income working families with children are suffering most and that, by the end of the Parliament, average households will be £5,000 a year worse off than they might have otherwise expected. We will therefore not oppose any rise, however small, in vital support for people who are struggling to get by. However, we would not want that to be mistaken for any type of endorsement of the Government's overall insistence on making the majority of people pay for tax cuts for the more affluent while continuing to pursue cuts to in-work benefits.

Although the Government are uprating some benefits—though not by very much—they are excluding others entirely. As a result of the benefit freeze for benefits and tax credits administered by Her Majesty's Revenue and Customs, child benefit is frozen for four years; the basic 30-hour, second adult and lone parent elements of working tax credit are frozen for four years; and the individual per child element of child tax credit is frozen for four years. How can that be right? If the economy is growing, it is surely only just that the benefits are shared fairly. Labour is committed to ensuring that the lowest-paid in our society are not further burdened by having to subsidise tax cuts elsewhere that arguably are not needed.

We will not divide the Committee, but I have placed on the record our objections to the Government's strategy, as of course we will in response to the Budget on Wednesday.

4.40 pm

Anne McLaughlin (Glasgow North East) (SNP): I draw the Committee's attention to the explanatory notes to the draft tax credits uprating regulations, which point out that previous Acts required

"the rates of Child Benefit to be reviewed each tax year, however this is not being done for this tax year"

because, as the Minister said, section 11 of the Welfare Reform and Work Act 2016 froze child benefit for four years. The Scottish National party has called on the UK Government to end that freeze, which, coupled with increased living costs, is putting even more pressure on the finances of low-income families. We are talking about pitiful upratings, but for people on such low incomes every penny really counts. The Minister will therefore not be surprised to hear me say that, although we welcome these upratings, the same should be done for all benefits that are currently frozen.

On the other set of regulations, although the SNP disagrees with aspects of the policy intent, the area the Committee is exploring is consequential on a Government policy that is not in itself controversial. That said, we have several wider concerns for the future of the UK economy and the Scottish economy, and they are not just our concerns.

I will not go into too much detail, but the Fraser of Allander Institute has warned that Brexit could reduce Scotland's economic performance. The institute's modelling of the World Trade Organisation scenario suggests that after 10 years, GDP would be more than 5% lower—£8 billion in today's terms—than it would otherwise have been and real wages would be 7% lower, which is equivalent to an average reduction of £2,000 per year. It also projects that the number of people employed would be 3% lower—that is 80,000 jobs.

The Resolution Foundation estimates that, combined with UK Government policies, lower growth post-Brexit will hit low-income households in particular. For example, a lone parent working part time on the national living wage could be up to £2,640 a year worse off by 2020-21. That is just not sustainable for people on such low incomes. A couple with three children on low wages could be up to £3,650 a year worse off by 2020-21.

The European single market has opened Scotland to a market of more than 500 million people. Scottish exports to the EU were worth £12.3 billion in 2015—the EU accounted for 43% of Scotland's international exports. There are 1,000 companies in Scotland that are owned in the EU, which employ more than 127,000 people. In 2015, Scotland secured more foreign direct investment

[Anne McLaughlin]

projects than any part of the UK outside London, and FDI has created 40,000 jobs in Scotland since 2006. Around 181,000 EU citizens live in Scotland, bringing new skills and expertise.

Those are just a few examples of our concerns about the wider economic impact. As the hon. Member for Stalybridge and Hyde said, we will not divide the Committee, but I wanted to take the opportunity to make some comments.

Question put and agreed to.

DRAFT TAX CREDITS AND GUARDIAN'S ALLOWANCE UP-RATING ETC. REGULATIONS 2017

Resolved,

That the Committee has considered the draft Tax Credits and Guardian's Allowance Up-rating etc. Regulations 2017.—*(Jane Ellison.)*

4.44 pm

Committee rose.