PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fifth Delegated Legislation Committee

DRAFT SOCIAL SECURITY (CONTRIBUTIONS) (RATES, LIMITS AND THRESHOLDS AMENDMENTS AND NATIONAL INSURANCE FUNDS PAYMENTS) REGULATIONS 2018

DRAFT TAX CREDITS AND GUARDIAN'S ALLOWANCE UP-RATING ETC. REGULATIONS 2018

Wednesday 7 February 2018

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Sunday 11 February 2018

The Committee consisted of the following Members:

Chair: SIR DAVID CRAUSBY

Ali, Rushanara *(Bethnal Green and Bow)* (Lab)
† Baron, Mr John *(Basildon and Billericay)* (Con)
† Brereton, Jack *(Stoke-on-Trent South)* (Con)
† Cadbury, Ruth *(Brentford and Isleworth)* (Lab)
† Caulfield, Maria *(Lewes)* (Con)
† Dodds, Anneliese *(Oxford East)* (Lab/Co-op)
† Grant, Bill *(Ayr, Carrick and Cumnock)* (Con)
† Gray, Neil *(Airdrie and Shotts)* (SNP)
Grogan, John *(Keighley)* (Lab)
† Hoare, Simon *(North Dorset)* (Con)
† Mann, Scott *(North Cornwall)* (Con)
† Rutley, David *(Lord Commissioner of Her Majesty's Treasury)*
† Siddiq, Tulip *(Hampstead and Kilburn)* (Lab)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Stride, Mel *(Financial Secretary to the Treasury)*
† Swayne, Sir Desmond *(New Forest West)* (Con)
† Zeichner, Daniel *(Cambridge)* (Lab)

Yohanna Sallberg, Laura-Jane Tiley, *Committee Clerks*

† attended the Committee

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Wednesday 7 February 2018

[Sir David Crausby *in the Chair*]

Draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2018

8.55 am

The Financial Secretary to the Treasury (Mel Stride): 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 2018.

The Chair: With this it will be convenient to consider the draft Tax Credits and Guardian's Allowance Up-rating etc. Regulations 2018.

Mel Stride: It is a pleasure to serve under your chairmanship, Sir David.

Let me begin by addressing the draft Tax Credits and Guardian's Allowance Up-rating etc. Regulations. The Government are committed to a welfare system that is fair to the taxpayer while maintaining our protection for the most vulnerable in society. As in previous years, we are legislating to ensure that the guardian's allowance and the disability elements of child tax credit and working tax credit increase in line with the consumer prices index, which stood at 3% in the year to September 2017. The draft regulations will maintain the level of support for disabled children in receipt of child tax credit, disabled workers in receipt of working tax credit and children whose parents are absent or deceased. Increases to these rates are part of the Government's wider commitment to supporting the most vulnerable in our society.

The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 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 fund if required. These changes will take effect on 6 April 2018. Re-rating will increase the national insurance contribution rates, limits and thresholds in line with inflation to protect taxpayers from rising prices. Before I deal with the substance of the draft regulations, I draw the Committee's attention to their fiscal significance: they will enable the collection of £130 billion in national insurance contributions, which will work directly to support our national health service, pensioners and people who have been bereaved.

Let me outline the changes to employee and employer NICs, commonly referred to as class 1 NICs. The lower earnings limit of £6,000 for class 1 NICs—the level of earnings at which employees start to gain access to contributory benefits, including the state pension, employment and support allowance and jobseeker's allowance—will rise in line with inflation to £116 a week. Employees will have to pay class 1 NICs at 12%. The primary threshold of £8,424—the level of earnings at which class 1 NICs have to be paid—will rise with inflation to £162 a week. The upper earnings limit is the level at which employees start to pay class 1 NICs at 2% on all earnings above a certain income tax threshold; the Government have committed to aligning this threshold with the UK's higher income tax rate of £46,350. Employers have to pay national insurance at a rate of 13.8% above an earnings level called a secondary threshold. This threshold will rise with inflation to £162 a week, as it has been aligned with the primary threshold for employees since April 2017.

The Government are committed to reducing the cost to businesses of employing young apprentices and young people. The level at which employers of people under 21 and of apprentices under 25 start to pay employers' contributions will rise from £866 to £892 a week.

The self-employed pay class 2, 3 and 4 NICs. Class 2 NICs provide access to contributory benefits for the self-employed, such as the state pension. The weekly rate of class 2 NICs to be paid will rise in line with inflation to £2.95, a flat rate for all the self-employed. The small profits threshold—the level of profits at which the self-employed have to pay class 2 NICs—will rise with inflation to £6,205 a year. The self-employed currently pay class 4 NICs at a rate of 9% on profits above £8,044 a year; that limit will now rise with inflation to £8,424. They also pay 2% above what is known as an upper profits limit; that limit will rise from £45,000 to £46,350 a year. The rate for class 3 contributions, which allow people to voluntarily top up their national insurance record, allowing access to contributory benefits, will increase in line with inflation from £14.25 to £14.65 a week.

The regulations also 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 2018-19. A similar provision will be made in respect of the Northern Ireland national insurance fund.

I trust that that is a useful overview of the changes that we are making to bring rates of support and contributions to the Exchequer into line with inflation.

9 am

Anneliese Dodds (Oxford East) (Lab/Co-op): It is a pleasure to serve on the Committee with you in the Chair today, Sir David.

I am grateful to the Minister for what was indeed a useful overview of the changes. As he explained, the first set makes it possible to increase certain tax credit and child benefit rates as well as the guardian's allowance rate. Those changes were prefigured in the Budget, as were the changes to national insurance contributions that we have been talking about—the annual re-rating of NIC rates, limits and thresholds—and provision for a Treasury grant to be paid into the national insurance fund.

I want to speak briefly about both sets of regulations. As to NICs, given the impact of inflation on incomes, which has been compounded by an exceptionally long period of sluggish wage growth, we support moves to ensure that NIC thresholds are increased in line with changes in the consumer prices index. Of course thresholds for the best-off people will be increasing by much more than inflation, with the Government's commitment to increase the top band threshold eventually to £50,000. We feel that that is a move—along with many other Government changes to the tax system, and particularly to income tax—that should not be prioritised now. However, on their own terms the threshold increases in the regulations, at least for NICs, appear sensible.

The same applies to the increases by CPI in the Tax Credits and Guardian's Allowance Up-rating etc. Regulations 2018. As the Minister explained, those cover the disabled worker and severe disability elements of working tax credit, the disabled and severely disabled child elements of child tax credit, and the guardian's allowance. Of course, something of great concern is what the Minister did not talk about: the elements that are not being uprated, which is the majority of them.

The regulations fail to cover any other elements of working-age social security support that come under the aegis of the Treasury and HMRC. Given that those elements have been frozen at their 2015-16 rates until 2020, the practical impact of the freeze is predicted to be a 5% fall in the value of social security support for some of the poorest families in Britain by 2020. Coupled with additional cuts to tax credits and the lower levels of support available through universal credit, that is pushing large numbers of people in Britain into poverty—especially children.

The Joseph Rowntree Foundation has noted that the social security freeze is the

"single biggest policy driver behind rising poverty, hitting families in and out of work".

The freeze has also been criticised by the End Child Poverty coalition. I was disturbed to hear from the coalition that now almost a third of children in my constituency are growing up in poverty. The Institute for Fiscal Studies also recently noted that the Government's changes to social security, including the freeze, have left many families ill-prepared for another economic slowdown, should there be one.

The Minister suggested that those changes somehow, overall, protect the most vulnerable in society, and I find that difficult to understand. I normally find him persuasive on many issues, but on that matter I am afraid we cannot concur, because the most vulnerable in society are unfortunately being badly let down. In the circumstances, the regulations should be condemned for what they leave out—adequate support for struggling families to make ends meet. Often the people concerned are not those seeking work; they are among the growing number who are in work but living in poverty.

9.4 am

Mel Stride: I thank the hon. Lady for her observations, and especially for her broad support for the measures that we are bringing forward today.

On the issue of the thresholds and the potential benefit to higher earners as a consequence of upratings in the future, of course at this stage we are not at the £50,000 limit, so that is not a debate for today. A second point I want to make, on the issue of looking after the most vulnerable, is that we are doing a number of things from a Treasury perspective outside the benefits system, which were announced at the Budget, including a national living wage increase of 4.4%. That is well above inflation, something that the hon. Lady understandably referred to. That will begin in April. Of course, the increase in the personal allowance will take even more people out of tax, as well as providing a tax break for more than 30 million people.

Neil Gray (Airdrie and Shotts) (SNP): The saving from the social security benefits freeze was estimated to be £3.5 billion, but because of increased inflation it is now estimated, according to the Library figures that we have obtained, to be £5.2 billion. Does the Minister think that the Government need to continue the benefit freeze under those terms?

Mel Stride: When looking at the impact of inflation on potential savings such as the hon. Gentleman describes, we have to bear in mind that many costs are going up for the Government as a consequence of increased levels of inflation. It is not simply something that can be looked at in isolation.

Anneliese Dodds: I am grateful to the Minister for giving way; he is being very generous. Is he aware that analysis by groups such as the Women's Budget Group has shown that any benefits, particularly for the worst-off families, that might have come through the increase in the personal allowance and the national living wage are cancelled out by the social security changes? When those changes are taken into account, people's incomes have been falling. Furthermore, the very worst-off families often do not benefit from the changes, because they are simply unable to accrue enough hours to reach the threshold in the first place.

Mel Stride: As I have been explaining, the national living wage increases and the rise in the personal allowance are clearly elements of this. We are also now rolling out universal credit, which will increasingly make sure that work pays. We believe that that is the best way out of poverty and the best way to improve living standards. To make some broader points, as a responsible Government we need to balance the costs of benefits with the compelling need to look after and support the most vulnerable in our society. I argue that that is why today's measures effectively exempt from the freeze the categories of individuals whom we are discussing today, who are indeed among the most vulnerable in our society.

Between 2008 and 2015, jobseeker's allowance rose by about 21%, child tax credits by about 33%, but earnings by only about 12%. The total spend on benefits in 1980-81 was £30 billion in real terms. By 2014-15, that had risen to £96 billion. We have to place this debate within the context of that overall fiscal framework.

Anneliese Dodds: I am very happy to talk about how the overall balance of benefits has changed over time. The most significant difference between the 1980s and now, when we look at the overall balance of social security, is the gigantic increase in housing benefit that has occurred over the period, particularly over the last seven years. We have seen a radical increase in the cost of housing, which has left many families struggling when their wages have not been increasing. That is the major difference.

[Anneliese Dodds]

If we were to look at a pie chart of social security in those two periods, housing benefit has driven most of the change—certainly not increases in support for unemployed people, where the amount of support that people get in relation to wages has fallen precipitously. It has fallen more in the UK than in most comparable countries. I am very pleased to put the debate in that context; it is important that we do so, and remind ourselves that changes in the overall burden of social security payments have often been the result of a failure to deal with structural problems, such as the arguably overheated housing market that we have at the moment.

The Minister mentioned increases in different tax credits and JSA. I do not believe that they have been above inflation. Certainly, unemployment support has gone down substantially. The element of JSA that is linked to contribution-based national insurance has substantially decreased over time. It is simply not the case that we are moving towards a more contributory system. Most analysts would suggest that we have actually had a residualisation over recent years.

The Chair: Order. Interventions should be short. I think that was about three interventions.

Mel Stride: Thank you, Sir David. We might be in danger of discussing matters that diverge quite far from the instruments themselves. To deal with the point raised by the hon. Lady, one of the most telling statistics in all of this is that in 2013—the latest year for which these figures were available—this country had the largest percentage of GDP spend on family benefits, including child benefits, of any country in the OECD. In the context of the economic challenges that we face, we need to be fiscally prudent at the same time as growing our economy, as we are. As the hon. Lady will know, we are near record levels of employment. We have the lowest level of unemployment for over 40 years, we have reduced the deficit now by three-quarters, and we go into the coming period after the Budget on the back of 19 consecutive months of growth. So there are many things that are driving up in the direction of improving living standards.

Mr John Baron (Basildon and Billericay) (Con): The Minister will also be aware that our record on helping the vulnerable is something to be proud of. The Minister has talked about reducing income inequality but we must also remember that many foundations—including the Joseph Rowntree Foundation—suggest that we have reduced relative poverty as well. There is always more to be done, but together with very low unemployment we can be proud of the fact that we have helped the vulnerable in society, whilst accepting that there is still more to be done.

Mel Stride: My hon. Friend is entirely right, and he will know that prior to the very recent figures, which still show that the level of income inequality is the lowest since 2010, it was the lowest in 30 years.

Anneliese Dodds *rose—*

Mel Stride: I know that the hon. Lady is itching to tell me about it excluding housing and raise various points, but it is a recognised measure within the Gini coefficient. I do believe that this Government have a record of which they can be truly proud. There is more to be done, but I think we can all agree on these measures, to the extent that they are relieving measures for particular categories of individuals whom we all, on both sides of the Committee, seek to support. I hope that on that basis we can approve these measures.

Question put and agreed to.

DRAFT TAX CREDITS AND GUARDIAN'S ALLOWANCE UP-RATING ETC. REGULATIONS 2018

Resolved,

That the Committee has considered the draft Tax Credits and Guardian's Allowance Up-rating etc. Regulations 2018.—*(Mel Stride.)*

9. 13 am

Committee rose.