

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT SOCIAL SECURITY (CONTRIBUTIONS)  
(RATES, LIMITS AND THRESHOLDS  
AMENDMENTS AND NATIONAL INSURANCE  
FUNDS PAYMENTS) REGULATIONS 2020

*Monday 9 March 2020*

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**Friday 13 March 2020**

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**The Committee consisted of the following Members:**

*Chair:* STEWART HOSIE

- |   |  |
|---|--|
| † Aiken, Nickie ( <i>Cities of London and Westminster</i> ) (Con) | McFadden, Mr Pat ( <i>Wolverhampton South East</i> ) (Lab)             |
| † Bailey, Shaun ( <i>West Bromwich West</i> ) (Con)               | † Norman, Jesse ( <i>Financial Secretary to the Treasury</i> )         |
| † Bell, Aaron ( <i>Newcastle-under-Lyme</i> ) (Con)               | † Rutley, David ( <i>Lord Commissioner of Her Majesty's Treasury</i> ) |
| † Britcliffe, Sara ( <i>Hyndburn</i> ) (Con)                      | † Smith, Jeff ( <i>Manchester, Withington</i> ) (Lab)                  |
| † Cartlidge, James ( <i>South Suffolk</i> ) (Con)                 | Streeting, Wes ( <i>Ilford North</i> ) (Lab)                           |
| † Cates, Miriam ( <i>Penistone and Stocksbridge</i> ) (Con)       | † Wragg, Mr William ( <i>Hazel Grove</i> ) (Con)                       |
| † Collins, Damian ( <i>Folkestone and Hythe</i> ) (Con)           |  |
| † Day, Martyn ( <i>Linlithgow and East Falkirk</i> ) (SNP)        | Ben Street, <i>Committee Clerk</i>                                     |
| † Dodds, Anneliese ( <i>Oxford East</i> ) (Lab/Co-op)             |  |
| † McCabe, Steve ( <i>Birmingham, Selly Oak</i> ) (Lab)            | † <b>attended the Committee</b>  |
| McDonagh, Siobhain ( <i>Mitcham and Morden</i> ) (Lab)            |  |

# Third Delegated Legislation Committee

Monday 9 March 2020

[STEWART HOSIE *in the Chair*]

## Draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2020

6 pm

**The Financial Secretary to the Treasury (Jesse Norman):** 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 2020.

It is an honour to see you in the Chair, Mr Hosie. The regulations set the national insurance contributions rates, limits and thresholds for the 2020-21 tax year. They will allow the Government to deliver their manifesto commitment to cut national insurance contributions for 31 million people across the United Kingdom.

National insurance contributions are social security contributions. Payment of NICs determines eligibility for the state pension and other contributory benefits. NICs receipts go towards funding the NHS and those same contributory benefits.

I will first outline the changes to the class 1 primary threshold and class 4 lower profits limit. The primary threshold and lower profits limit indicate the points at which employees and the self-employed start to pay class 1 and class 4 NICs, respectively. These thresholds will rise from £8,632 to £9,500 a year. These changes, promised in the Conservative's 2019 manifesto, underline the Government's commitment to ensure that work pays, putting more money into the pockets of hard-working people. They will benefit about 31 million taxpayers, with a typical employee £104 better off compared with 2019-20. Legislating now ensures that taxpayers will benefit from April 2020.

Increases to the primary threshold and lower profits limit do not affect eligibility for a state pension. That is determined by the lower earnings limit for employees and payment of class 2 NICs for the self-employed. The lower earnings limit will rise in line with inflation, from £6,136 to £6,240 a year. The upper earnings limit, where employees start to pay 2% NICs, is aligned with the higher rate threshold. As announced at the 2018 Budget, it will be frozen and remain at £50,000 per year.

The self-employed pay both class 2 and class 4 NICs. The rate of class 2 NICs will rise in line with inflation, from £3 to £3.05 a week. The small profits threshold is the point above which the self-employed must pay class 2 NICs. This will rise with inflation, from £6,365 to £6,475 a year. For class 4 NICs, as already outlined, the lower profits limit will rise to £9,500. The upper profits limits is where the self-employed start to pay 2% NICs. This is also aligned with the higher rate threshold and will remain at £50,000 a year.

For employers, the secondary threshold determines where they start to pay employer NICs. This will rise with inflation, from £8,632 to £8,788 a year. The level at which employers of people under 21 and of apprentices under 25 start to pay employer NICs will remain frozen at £50,000 a year.

Finally, class 3 contributions allow people to top up their national insurance record voluntarily. The rate for class 3 NICs will increase in line with inflation, from £15 to £15.30 a week.

The regulations also make provision for a Treasury grant of up to 5% of forecasted annual benefit expenditure to be paid into the national insurance fund, if needed, during 2020-21. 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 in line with inflation, and I commend the draft regulations to the Committee.

6.4 pm

**Anneliese Dodds (Oxford East) (Lab/Co-op):** It is an honour to serve with you in the Chair, Mr Hosie. I am grateful to the Minister for his explanation of the draft regulations.

First, I want to make clear that we will not contest this measure. Anything that puts more money into struggling people's pockets is to be welcomed. However, we are concerned about the lack of targeting of the measure and the lack of cost-benefit analysis in relation to other measures. We are concerned about the lack of a forward plan for changes to national insurance thresholds, and about the overall coverage—or otherwise—of the national insurance system in the absence of other support for the provision of social security.

I am sure that the Minister is well aware that the policy will cost about £2 billion a year, but that only 3% of the gains from raising the threshold will accrue to the poorest fifth of households. He referred to an average gain of £104, and that is correct, but on average the highest-income 30% of working households will gain much more than that—£150 per annum—and the poorest tenth of households will gain only about £30.

The reasons are fairly obvious; I am sure that they are obvious to everyone in the Committee. First, many of the worst-off working households did not earn enough to pay contributions to NI in the first place. Secondly, two-earner households tend to be further up in the income distribution anyway, but they will benefit twice over from the policy. Thirdly, many forms of social security are tested on after-tax rather than before-tax incomes. Some interesting analysis has been done by, for example, the Women's Budget Group, indicating that almost two thirds of those in employment who will not benefit significantly from the change are women. The impact is therefore disproportionate.

There are particular issues for workers and families who need to claim universal credit. As I am sure Committee members are aware, universal credit is means-tested based on net earnings—so, after tax. Such employees, including, incidentally, the majority of national insurance-paying single parents, would have their universal credit reduced by £54 as a result of the policy, which would leave them only £32 a year better off. Have the Government

conducted any cost-benefit analysis of the change compared with other income-boosting measures? For example, did they consider increasing the work allowance within universal credit? That would benefit the poorest tenth of working households 15 times as much as the policy in question.

I understand that the Government want eventually to move further—towards increasing the class 1 and class 4 NICs threshold to £12,500. Is there a timeframe for that change yet, or indeed an indication of what will plug the gap resulting from it? I understand that moving up to a threshold of £12,500 by 2023-24 would cost £9 billion and that, unlike the change we are considering, it is not yet funded; there is no indication of how it would be covered. It would be helpful if the Minister could inform us whether he intends to go ahead with that change, and if so how it will be compensated for, or whether it will be paid for through further reductions in public services, beyond those we have already experienced.

Finally, attention has rightly been focused this week on eligibility for statutory sick pay. I welcome the changes that the Government are making, so that there is eligibility for sick pay from day one, but it has been concerning to learn that large numbers of people—about 2 million of them—do not qualify for statutory sick pay anyway. The cut-off is identical, from what I can see, to the lower earnings limit—£118 a week.

I am, of course, just speaking about employees, and not the self-employed. Does the Minister intend to continue raising the lower earnings limit in line with inflation? Does he feel that that is sufficient, given the slow upturn in wages since the financial crisis, and are additional measures needed to ensure that people can contribute towards the social security that they might need—such as the state pension or bereavement support allowance, and so on—which all depend on the lower earnings limit?

6.9 pm

**Jesse Norman:** I thank the shadow Minister for her remarks. She raised a range of issues, and touched first on what she described as lack of targeting. Of course it is the nature of the legislation that it is universal in its applicability. It is not designed to be a targeted benefit, and that is not its function. Its job is to improve the national insurance situation of 31 million people, which it does. The question of targeting is better addressed to

many other aspects; it is not actually relevant to national insurance contributions, which for years have been legislated for on a universal basis.

I do not think that the hon. Lady is correct that this change is regressive in the way that it will operate. It is certainly not a tax cut for higher earners. All employees earning above £9,500 will benefit by the same amount, and some 1.1 million people will no longer pay NICs as a result. Those are important properties.

**Anneliese Dodds:** I am grateful to the Minister for his generosity in giving way. I do not believe that I used the word “regressive”. I made clear that the impact on those at the higher level of the income distribution will be larger, in terms of the absolute amount that they will not pay, compared with those at the bottom of the income distribution. Surely he is not contesting that.

**Jesse Norman:** If we look in full at the 31 million people affected, we will see that those in employment and earning above £9,500 will receive the same amount. The hon. Lady rightly mentions universal credit, and she understands that its effect is to smooth, via tapering, various cliff edges. That is a helpful and good property—I am sure she does not regret it—and it interacts with this measure. The broad picture, however, is the one I describe.

As the hon. Lady has acknowledged, the measure has elements of a contributory scheme, so it will have effects on people who do not have a full contributions record. On the Government’s future ambitions, she will understand that a statutory instrument debate is not the place to unveil such a strategy, and certainly not in the lee of a Budget two days away. It is the Government’s ambition to increase the threshold to £12,500, and decisions will be taken at future fiscal events. Increasing the NICs threshold to £9,500 this year is a first step towards that ambition. The hon. Lady also mentioned additional measures and statutory sick pay. It would be foolish in the extreme for me to comment on that matter two days before a fiscal event, and I therefore think we should leave it for a future discussion in the House.

*Question put and agreed to.*

6.13 pm

*Committee rose.*





