



HM TREASURY

Treasury Report on the annual review of National Insurance Contributions (NICs)

January 2010



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1

Treasury Report On The Annual Review Of National Insurance Contributions (NICs)

1.1 In accordance with section 141(6) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions etc) Act 1999, this report sets out the reasons for not laying before Parliament a draft order under section 141 to amend Part I of the Social Security Contributions and Benefits Act 1992 to change those National Insurance contributions (NICs) rates and thresholds outlined below for the 2010-11 tax year.

1.2 An order under section 141 of the Social Security Administration Act 1992 may amend the following figures set out in the Social Security Contributions and Benefits Act 1992:

- a. the figure specified as the weekly rate of Class 2 contributions
- b. the figure specified as the amount of earnings below which regulations may exempt an earner from liability for Class 2 contributions
- c. the figure specified as the amount of a Class 3 contribution
- d. the figures specified as the lower and upper limits of profits which are to be taken into account for the purposes of Class 4 contributions.

The annex shows the rates that will apply for 2010-11.

1.3 Her Majesty's Treasury has undertaken a review that has taken account of factors including:

- a. impact of not changing the Class 2, 3 and 4 rates and thresholds on those making contributions
- b. revenue for the National Insurance Fund
- c. general level of earnings
- d. the level of the Retail Price Index in September 2009 and its relation to the level in September 2008
- e. alignment of National Insurance and Income Tax thresholds
- f. the wider economic context
- g. estimated benefit expenditure in 2010-11
- h. the relationship between contributions and benefit entitlement and
- i. impact on balance of the National Insurance Fund.

1.4 The weekly rate of Class 2 NICs will remain unchanged because, in particular, this secures an appropriate level of revenue while providing the self employed with a good level of benefit entitlement relative to the amount of contributions payable.

1.5 The Class 2 small earnings exception will remain unchanged because this provides an appropriate level under current conditions for self employed individuals on small incomes to be excepted from Class 2 NICs liability.

1.6 The Class 3 NICs flat rate will remain unchanged because this secures an appropriate level of revenue while providing a good level of benefit entitlement relative to the amount of contributions payable.

1.7 The Class 4 lower profits limit will remain unchanged because this maintains alignment with the primary threshold for employee Class 1 NICs.

1.8 The Class 4 upper profits limit will remain unchanged because this maintains alignment with the higher rate threshold for income tax and the upper earnings limit for Class 1 National Insurance Contributions.

1.9 The decision not to make an order under section 141 of the Social Security Administration Act 1992 will have no adverse impact significant to the extent that the finances of the National Insurance Fund are likely to fall below recommended levels.

1.10 The Government Actuary in his Report on the draft of the Social Security Benefits Up-rating Order 2010 has confirmed that on the basis of his estimates the balance in the National Insurance Fund at 31 March 2011 is expected to be greater than minimum level (one-sixth of the amount of benefit payments in 2010-11) considered necessary to ensure that a reasonable working balance is maintained.

Stephen Timms

Financial Secretary to the Treasury

January 2010

A Annex

A.1 NATIONAL INSURANCE RATES AND THRESHOLDS TO WHICH THIS REPORT RELATES

Table 1.A: Table of rates in 2009-10 and 2010-11

| | |
|--|---------|
| Weekly Rate of Class 2 contributions | £2.40 |
| Annual Class 2 Small Earning Exception | £5,075 |
| Annual Class 4 Lower Profits Limit | £5,715 |
| Annual Class 4 Upper Profits Limit | £43,875 |
| Weekly Rate of Class 3 contributions | £12.05 |

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