

# WELFARE REFORM AND PENSIONS ACT 1999

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## EXPLANATORY NOTES

### COMMENTARY

#### *Commentary*

#### *Chapter II: National Insurance Contributions*

#### *Sections 73 & 74 (and Schedules 9 and 10): New threshold for primary Class 1 contributions*

These sections provide for a number of changes to National Insurance contributions (NICs) that were announced in the Budgets of 1998 and 1999. They were added to the Bill during Commons Committee stage (Hansard: Standing Committee D col. 981).

#### **Background**

In the 1998 Budget, the Chancellor announced a package of reforms to the structure of NICs. Most of these changes were introduced in the Social Security Act 1998, and came into effect in April 1999. As a result:

the point above which *employers* start to pay NICs, the employer earnings threshold, is set at the same level as the single person's tax allowance (£83 a week in 1999/2000) rather than the Lower Earnings Limit (LEL: £66 a week in 1999/2000);

*employees* no longer have to pay any contributions on the portion of earnings up to and including the LEL (i.e. abolition of the 2% employee "entry fee");

employers do not pay any contributions on the portion of earnings below the employer earnings threshold;

the complex structure of four employer rates of contributions has been replaced by a single rate of 12.2% (or the alternative contracted-out rate); and

Class 1B contributions were introduced – paid by employers who enter into a PAYE Settlement Agreement with the Inland Revenue for tax.

The Chancellor also announced in 1998 that, as part of future reforms, he would raise the point at which employees start to pay NICs to the new threshold for employers and the single person's tax allowance, and would do so as soon as measures were in place to protect people against the benefit losses that would otherwise result. These additional measures were confirmed in the 1999 Budget, and are contained in this Act. The changes are:

Raising in two stages the starting point at which employees begin to pay National Insurance contributions to the level of the single person's tax allowance. Stage 1, to be introduced in April 2000, is for employees to become liable to pay contributions on earnings above a threshold of £76 a week. The second stage, from April 2001, is that the threshold will be fully aligned with the single person's tax allowance (projected to be

*These notes refer to the Welfare Reform and Pensions Act 1999  
(c.30) which received Royal Assent on 11 November 1999*

around £87 a week). Combined with the increased starting point for employers' NICs (mentioned above), this will mean no tax or NICs on earnings of less than £87 a week;

National Insurance contributions build entitlement to contributory benefits. Simply raising the point at which employees begin to pay NICs would stop people with earnings below the new threshold from building up entitlement to contributory benefits. So the Chancellor announced that benefit rights for earnings between the LEL and the new threshold would be protected;

To provide for the Upper Earnings Limit (UEL) for employee contributions to be set as a multiple of the new threshold in order to allow it to be raised to £535 a week in 2000 and £575 in 2001, in line with the Chancellor's Budget statement.

These changes are all provided for in Schedule 9 (with some consequential amendments in Part II of Schedule 12).

### ***Schedule 9***

The new provisions involve a re-working of the National Insurance contributions legislation, which is already heavily amended by the Social Security Act 1998 and the Social Security Contributions (Transfer of Functions, etc.) Act 1999. So for clarity, Schedule 9 restates sections 5, 6, 8 and 9 of the Contributions and Benefits Act completely. It also deals with the consequences for contracted-out pension schemes and for the NICs revenue allocated to the NHS.

Section 74 and Schedule 10 make corresponding provision for Northern Ireland. Because they are parallel provisions, they are not referred to in the commentary below.