EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (CONTRIBUTIONS) (RATES, LIMITS AND THRESHOLDS AMENDMENTS, NATIONAL INSURANCE FUNDS PAYMENTS AND EXTENSION OF VETERAN'S RELIEF) REGULATIONS 2025

2025 No. 288

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 James Murray MP, the Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Edmund Hair, Deputy Director for National Insurance Policy, International and Student Finance at HMRC, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Ashta Kalume at HMRC Telephone: 0300 051 7486 or email: nics.correspondence@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument gives effect to the annual re-rating of various National Insurance contributions (NICs) rates, limits and thresholds for the purposes of calculating Class 1, Class 2, Class 3 and Class 4 NICs liability (or voluntary payment) for the tax year beginning 6 April 2025. It also allows for payments of a Treasury Grant not exceeding 5% of the estimated benefit expenditure for the 2025-26 tax year to be made into the National Insurance Fund (NIF) and makes corresponding provision for Northern Ireland. This instrument also extends the availability of the zero-rate relief on secondary Class 1 contributions for employers of qualifying veterans for the tax year 2025-26.

4.2 The free issue procedure has been applied in this instance as these regulations correct an error in part 4, regulation 6 of the Social Security (Contributions) (Limits and Thresholds, National Insurance Funds Payments and Extension of Veterans Relief) Regulations (S.I 2024/249). HMRC has complied with the requirement to consult with the Registrar in paragraph 4.7.6 of the Statutory Instrument Practice.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

Re rating

5.1 At Spring Budget 2021 the previous Government announced that the Income Tax Personal Allowance (PA) and Higher Rate Threshold (HRT), and the NICs Upper Earnings Limit (UEL) and Upper Profits Limit (UPL) would be fixed at their 2021-22 levels up to the 2025-26 tax year. It was also announced that from July 2022 the Class 1 Primary Threshold (PT) and the Class 4 Lower Profits Level (LPL) would be increased to align with the Income Tax PA and frozen at £12,570 up to the 2025-26 tax year. At Spring Statement 2022 the previous Government announced that these threshold freezes would be maintained for a further two years up to the 2027-28 tax year and the Secondary Threshold (ST) would also be frozen up to the 2027-28 tax year, after which the thresholds will be uprated by the September Consumer Prices Index (CPI).

5.2 At Autumn Budget 2024 the Government announced that they will use the September CPI figure of 1.7% as the basis for uprating the Class 2 and Class 3 NICs rates, as well as the Class 1 Lower earnings Limit (LEL) and the Class 2 Small Profits Threshold (SPT) for the 2025-26 tax year.

5.3 Each tax year the Treasury is required, by section 141 of the Social Security Administration Act 1992 ("the Administration Act"), to conduct a review of the general level of earnings in Great Britain, taking into account changes in that level since their last review, with a view to determining whether legislation should be made under that section to determine the rates and thresholds applying to Class 2, 3 or 4 NICs for the following tax year. This instrument satisfies the requirement for such legislation. It is a condition precedent to laying legislation under section 141 of the Administration Act that a copy of the report by the Government Actuary, or the Deputy Government Actuary, be laid before Parliament on the effect which, in the Actuary's opinion, the making of the legislation would have on the NIF[1]. If legislation is made under section 141 of the Administration Act, it may also make a corresponding provision for Northern Ireland under section 129 of the Social Security Administration (Northern Ireland) Act 1992.

5.4 These regulations set the NICs rates, limits and thresholds for tax year 2025-26 only. For future years, NICs rates, limits and thresholds will continue to be set annually through the re-rating exercise as standard.

Treasury Grant Provision

5.5 This instrument makes provision under section 2(2) of the Social Security Act 1993 for payment of a Treasury Grant not exceeding 5% of estimated benefit expenditure for the coming tax year to be paid into the NIF, if necessary. It also makes corresponding provision in respect of the Northern Ireland NIF under article 4(3) of the Social Security (Northern Ireland) Order 1993.

[1] https://www.gov.uk/government/publications/report-to-parliament-on-the-2025-re-rating-and-up-rating-orders

Veterans Relief Extension

5.6 The zero-rate relief on secondary Class 1 contributions for employers of qualifying veterans means employers pay no NICs for the first year of a veteran's employment up to salaries of £50,270. This relief has been available since April 2021 and was scheduled to come to an end in April 2025.

5.7 The Government announced at Autumn Budget 2024 that it would extend the relief until April 2026. The extension in this relief will positively impact armed forces veterans who are transitioning into civilian life by incentivising the hiring of veterans and therefore increasing a veteran's chance of employment.

Class 2, 3 and 4 contributions

5.8 Self-employed earners with profits at or above the SPT are entitled to have their Class 2 contributions treated as having actually been paid. Self-employed earners with profits below the SPT are entitled to pay Class 2 contributions voluntarily. The weekly flat rate for Class 2 will be increasing by September CPI from £3.45 to £3.50.

5.9 The SPT will be increasing by September CPI from £6,725 to £6,845.

5.10 Class 4 NICs are payable by self-employed earners at the main percentage rate, 6% for tax year 2025-26, on taxable profits that exceed the LPL up to the UPL and at the additional Class 4 percentage rate, 2% for tax year 2025-26, on all profits above the UPL.

5.11 The LPL is set at the same level as the PT and will be fixed at £12,570 for the 2025-26 tax year. The UPL is set at the same level as the HRT for Income Tax and will remain at £50,270 to maintain this alignment.

5.12 Class 3 NICs are voluntary payments paid at a flat rate of £17.45 per week for the tax year 2024-25. These will be increased to £17.75 per week from 6 April 2025, in line with September CPI.

Class 1 earnings limits and thresholds

5.13 Section 5 of the Social Security Contributions and Benefits Act 1992 ("the Contributions Act") requires earnings limits and thresholds for Class 1 NICs to be specified for Great Britain each tax year. Similarly, section 5 of the Social Security Contributions and Benefits (Northern Ireland) Act 1992 ("the Northern Ireland Contributions Act") requires there to be earnings limits and thresholds for Class 1 NICs for Northern Ireland.

5.14 The LEL is the level of earnings at which employees start to gain access to certain contributory benefits. From 6 April 2025 the LEL will be uprated by September CPI from £123 to £125 per week for tax year 2025-26 in line with the announcement made at Autumn Budget 2024. Since April 2009, the UEL (the level of earnings up to which employees pay NICs at the main percentage rate of 8% for tax year 2025-26 and thereafter the additional percentage rate of 2% for tax year 2025-26) has been aligned with the HRT for Income Tax.

5.15 The annual UEL will remain at a level equivalent to the weekly HRT and will be fixed at £967 a week to maintain this alignment in 2025-26.

5.16 Primary Class 1 NICs (known as "employees' contributions") are payable at the main primary percentage (8% for tax year 2025-26) on earnings between the PT and the UEL. Secondary Class 1 NICs (known as "employers' contributions") are payable by employers on their employees' earnings above the ST at a single percentage rate (15%

for tax year 2025-26). There is no upper limit for payment of employers' contributions.

5.17 The UST sets the level of earnings above which employers of employees under the age of 21 are no longer eligible to pay secondary Class 1 contributions at the age-related secondary percentage, which is 0% for tax year 2025-26. The UST is set at the same level as the UEL and will remain at £967 a week in 2025-26.

5.18 The Apprentice Upper Secondary Threshold (AUST) sets the level of earnings above which employers of relevant apprentices under the age of 25 are no longer eligible to pay secondary Class 1 contributions at the apprentice-related secondary percentage, which is 0% for tax year 2025-26. The AUST is set at the same level as the UEL and will remain at £967 per week in 2025-26.

5.19 The Veteran Upper Secondary Threshold (VUST) sets the level of earnings above which employers of qualifying veterans are no longer eligible to pay secondary Class 1 contributions at the veteran-related secondary percentage, which is 0% for tax year 2025-26. The VUST has been set at the same level as the UEL and will remain at £967 a week in 2025-26.

5.20 The Freeport Upper Secondary Threshold (FUST) and Investment Zone Upper Secondary Threshold (IZUST) set the level of earnings above which employers of qualifying freeports and investment zones employees are no longer eligible to pay secondary Class 1 contributions at the freeports and investment zones related secondary percentage, which is 0% for tax year 2025-26. The FUST and IZUST have been set at an annual amount of £25,000 and will remain at £481 per week for tax year 2025-26.

Class 1 prescribed equivalents and Treasury Grant provision

5.21 Sections 5(4) and (5) of the Contributions Act and the Northern Ireland Contributions Act provide that the prescribed equivalents of the LEL, PT, UEL, ST, UST and AUST (as set out above) may be set at an amount which is no greater than £1 above the arithmetical equivalent of the LEL, PT, ST, UEL, UST and AUST. The monthly arithmetical equivalent can be calculated by multiplying each of the weekly limits and thresholds by 4⅓. The annual arithmetical equivalent can be calculated by dividing each of the weekly limits and thresholds by 7 and multiplying each result by 365. The monthly and annual prescribed equivalents of the LEL, PT, ST, UEL, UST and AUST are all no greater than £1 above the arithmetic equivalent of those limits or thresholds.

5.22 Section 8(7) of the National Insurance Contributions Act 2022 provides that the prescribed equivalents of the VUST, FUST and IZUST may be set at an amount which is no greater than £1 above the arithmetical equivalent of the VUST, FUST and IZUST with the same calculation method being applied as mentioned in paragraph 7.21. The monthly and annual prescribed equivalents of both the VUST, FUST and IZUST are all no greater than £1 above the arithmetic equivalent of those thresholds.

5.23 This instrument includes the prescribed equivalents of the UEL, PT, UST, AUST, VUST, FUST and IZUST where the earnings period is a month or a year. The monthly and annual equivalents of the UEL are £4,189 and £50,270 respectively. The monthly prescribed equivalent of the PT is £1,048 and the annual prescribed equivalent of the PT is £12,570. The monthly and annual equivalents of the UST, AUST and VUST are £4,189 and £50,270 respectively. The monthly and annual equivalents of the FUST and IZUST are £2,083 and £25,000.

Explanations

Why is it being changed?

5.24 Each year the Government is required to set the various NICs rates, limits and thresholds for the purposes of collecting Class 1, Class 2, Class 3 and Class 4 NICs for the upcoming tax year.

What was the previous policy, how is this different?

5.25 All Class 2 and 3 rates and all NICs thresholds were frozen at their 2023-24 levels for the 2024-25 tax year. The majority of rates and thresholds not aligned with the Income Tax rates and thresholds will be uprated by CPI for the 2025-26 tax year.

5.26 The ST was frozen at £9,100 by the previous Government up to the 2027-28 tax year. It has been reduced to £5,000 from the 2025-26 tax year and will be frozen at this level up to the 2027-28 tax year, as announced at Autumn Budget 2024. The secondary Class 1 NICs rate has also been increased to 15% from the 2025-26 tax year in line with the Autumn Budget 2024 announcement. These changes will be legislated for via the National Insurance Contributions (Secondary Class 1 Contributions) Bill 2024-25 for the 2025-26 tax year and do not form part of these regulations.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument is being made to give effect to the annual re-rating of NICs rates, limits and thresholds. It specifies:

- LEL for primary Class 1 NICs, which is the level of earnings at which employees start to gain access to certain contributory benefits;
- PT, which is the level of earnings above which employees begin to pay primary Class 1 NICs (known as "employee contributions") at the main percentage rate (which is 8% for tax year 2025-26);
- UEL, which is the level of earnings above which employees begin to pay primary Class 1 NICs at the additional percentage rate (which is 2% for tax year 2025-26);
- UST, which is the level of earnings above which employers of employees under the age of 21 are no longer eligible for the age-related secondary percentage of Class 1 NICs (which is 0% for tax year 2025-26);
- AUST, which is the level of earnings above which employers of relevant apprentices under the age of 25 are no longer eligible for the apprentice-related secondary percentage of Class 1 NICs (which is 0% for tax year 2025-26);
- VUST, which is the level of earnings above which employers of eligible veterans are no longer eligible for the veteran-related secondary percentage of Class 1 NICs (which is 0% for tax year 2025-26);
- the FUST and IZUST, which is the level of earnings above which employers of qualifying workers in freeports and investment zones are no longer eligible for the related secondary percentage of Class 1 NICs (which is 0% for tax year 2025-26);
- and the prescribed equivalents of the LEL, PT, UEL, UST and AUST, VUST, FUST and IZUST for those earners who are paid otherwise than weekly.

6.2 This instrument is being made to give effect to the provision of a Treasury Grant not exceeding 5% of the estimated benefit expenditure for the 2025-26 tax year to the NIF of Great Britain and Northern Ireland. This instrument extends the zero-secondary rate for Class 1 NICs on the earnings of armed forces veterans during the first 12 months of their first civilian employment to the tax year 2025-26.

Why was this approach taken to change the law?

6.3 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 There was no consultation because the instrument relates to routine changes to rates, limits and thresholds as part of the annual NICs re-rating exercise.

8. Applicable Guidance

8.1 Guidance is not required as this instrument does not impose a new obligation.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note has not been prepared for this instrument because it gives effect to previously announced policy, and it relates to routine changes to limits and thresholds.

Impact on businesses, charities and voluntary bodies

9.2 The impact on business, charities or voluntary bodies is minimal with businesses being required to make routine changes to their payroll software.

9.3 The impact on small or micro businesses is minimal with businesses being required to make routine changes to their payroll software.

9.4 There is no, or no significant, impact on the public sector, except for routine changes in payroll.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring of this legislation is to conduct an annual of review the existing NICs rates, limits and thresholds. This is the standard established procedure for monitoring NICs receipts.

10.2 The instrument does not include a statutory review clause in line with the requirements set out in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Exchequer Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of The Social Security (Contributions) (Rates, Limits and Thresholds Amendments, National Insurance Funds Payments and Extension of Veteran's Relief) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").