

8 May 2025

## Supplementary forecast information release

### Static costing of changes to Employer National Insurance Contributions

- 1.1 The OBR is releasing this information following a request for further detail in respect of the static costing of the changes to employer National Insurance contributions (NICs) which were included in the *October 2024 Economic and fiscal outlook (EFO)*. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.
- 1.2 This release briefly describes the measure and sets out the modelling used to estimate the static costing, following the OBR's policy costings process.<sup>1</sup> As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies, the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central. This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.
- 1.3 Consistent with this approach, the static and direct behavioural costing of the NICs changes was produced by HMRC, with the methodology set out below developed and undertaken by HMRC officials. The costing was then scrutinised by the OBR and the final version was certified by the OBR as reasonable and central. The OBR's judgements on the indirect effects of the policy on the economy and the fiscal implications of this are explained in detail in paragraph 3.11 of our *October 2024 EFO*. The key model used in this costing is HMRC's Personal Tax Model based on the 2021-22 Survey of Personal Incomes. Requests for access to this should be directed to HMRC.

#### Policy description

- 1.4 The Government announced a series of changes to employer NICs at Autumn Budget 2024 which took effect from April 2025.<sup>2</sup> These changes included:
  - An increase to the rate of employer NICs from 13.8 per cent to 15 per cent.

---

<sup>1</sup> See our *Briefing paper No. 6: Policy costings and our forecast*, March 2014.

<sup>2</sup> See HMT, *Policy Costings Document*, October 2024.

- A reduction to the secondary threshold, the level at which employer NICs starts being levied on employers, from £9,100 to £5,000 a year. The threshold then rises in line with CPI inflation from 2028-29 onwards.
- Increasing the employment allowance, a relief that employers can claim on their total NICs liabilities, from £5,000 to £10,500.
- Removing the employment allowance threshold, meaning that all eligible employers can claim this allowance rather than just eligible employers with liabilities below £100,000.

## Modelling

### Static costing

- 1.5 The static costing, modelled by HMRC, consists of a separate calculation of each element of the policy as well as accounting for any interactions between the changes. Tables 1.1 to 1.5 below provide the breakdowns of each element of the static costing. The static costing is the amount of revenue the measure yields before accounting for behavioural responses.
- 1.6 The static yield from changes to the employer NICs rate and secondary threshold is modelled on HMRC's Personal Tax Model based on the 2021-22 Survey of Personal Incomes, projected forward in line with economic assumptions consistent with the OBR's October 2024 *EFO*. The static yield from changes to the employment allowance (EA) rate and threshold is modelled on HMRC's employer model using RTI data, projected forward in line with OBR determinants for employment and wage growth. The static costing was modelled by HMRC by calculating the difference between the pre- and post-measure tax regimes to the tax base. Taking each element in turn:
- The static costing for the employer NICs rate change (Table 1.1) is calculated by applying the rate change of 1.2 percentage points to wages above the pre-policy change secondary threshold of £9,100, as earnings above this amount would have previously incurred an employer NICs rate of 13.8 per cent instead of the 15 per cent rate following the introduction of the policy.
  - The rate change for the reduction of the secondary threshold to £5,000 (Table 1.2) is the 15 percentage point change in employer NICs contributions for earnings between £5,000 (the threshold at which the new rate begins applying) and £9,100 (the threshold at which the old rate began applying). This rate change is applied to all earnings between these amounts, as these earnings did not incur employer NICs liabilities previously. The yield for employer NICs rate and threshold changes is expected to increase each year once the divergence between the counterfactual and the new threshold and rate widens once the threshold begins being updated by CPI inflation from 2028-29 onwards.

- Similar approaches are applied for EA elements of the costings. These changes remove the threshold at which employers can claim EA and increase the allowance. A 15 percentage point reduction in employer NICs is applied to all additional liabilities now covered by the employment allowance, as these liabilities would have incurred employer NICs liabilities previously:
  - The first component of this is the loss of revenue from increasing the EA from £5,000 to £10,500 (Table 1.3). This includes a small effect from the increase in employer NICs liabilities, due to the rate change and lower threshold, resulting in some employers being eligible for additional relief from the pre-policy change £5,000 EA.
  - The second component is the loss of revenue from employers who were previously ineligible for any employment allowance but now will become eligible because of the removal of the £100,000 EA threshold (Table 1.4).

Table 1.1: Static cost of increasing the rate of employer NICs to 15 per cent

	£ million, unless otherwise stated				
	Forecast				
	2025-26	2026-27	2027-28	2028-29	2029-30
Tax base	935,840	963,748	991,556	1,017,067	1,046,878
Rate change (percentage points)	1.2	1.2	1.2	1.2	1.2
<b>Static costing</b>	<b>11,230</b>	<b>11,565</b>	<b>11,899</b>	<b>12,205</b>	<b>12,563</b>

Source: HMRC

Table 1.2: Static cost of reducing the secondary threshold to £5,000

	£ million, unless otherwise stated				
	Forecast				
	2025-26	2026-27	2027-28	2028-29	2029-30
Tax base	114,878	115,654	116,415	120,277	123,988
Rate change (percentage points)	15	15	15	15	15
<b>Static costing</b>	<b>17,232</b>	<b>17,348</b>	<b>17,462</b>	<b>18,042</b>	<b>18,598</b>

Source: HMRC

Table 1.3: Static costing of increasing the employment allowance to £10,500

	£ million, unless otherwise stated				
	Forecast				
	2025-26	2026-27	2027-28	2028-29	2029-30
Tax base	23,532	22,351	22,478	22,654	22,856
Rate change (percentage points)	-15	-15	-15	-15	-15
<b>Static costing</b>	<b>-3,530</b>	<b>-3,353</b>	<b>-3,372</b>	<b>-3,398</b>	<b>-3,428</b>

Note: Includes interaction of the current £5,000 employers allowance with the lower secondary threshold and higher rate.  
Source: HMRC

Table 1.4: Static costing of removing the employment allowance threshold

	£ million, unless otherwise stated				
	Forecast				
	2025-26	2026-27	2027-28	2028-29	2029-30
Tax base	6,631	8,185	8,392	8,621	8,844
Rate change (percentage points)	-15	-15	-15	-15	-15
<b>Static costing</b>	<b>-995</b>	<b>-1,228</b>	<b>-1,259</b>	<b>-1,293</b>	<b>-1,327</b>

Source: HMRC

1.7 The final static costing of this package produced by HMRC combines all of these elements and their interactions together to give the total static impact. Table 3.2 in the October 2024 *EFO* shows the revenue raised by the measure after also accounting for behavioural responses. The revenue raised was estimated to be reduced significantly by these behavioural responses, which include reduced labour supply and demand in response to lower wages and higher employer costs, to £16.1 billion in 2029-30.

Table 1.5: Summary of static costing - including interactions

	£ million				
	Forecast				
	2025-26	2026-27	2027-28	2028-29	2029-30
Employer NICs rate increase	11,230	11,565	11,899	12,205	12,563
Employer NICs secondary threshold reduction	17,232	17,348	17,462	18,042	18,598
Employment allowance increase <sup>1</sup>	-3,530	-3,353	-3,372	-3,398	-3,428
Employment allowance threshold removal	-995	-1,228	-1,259	-1,293	-1,327
<b>Total static costing</b>	<b>23,937</b>	<b>24,333</b>	<b>24,730</b>	<b>25,555</b>	<b>26,406</b>

<sup>1</sup>This includes an interaction of the pre-policy change £5,000 employers allowance with the changes to employer NICs rate and threshold.

Note: Totals may not sum due to rounding.

Source: HMRC