National Insurance Contributions (Employer Pensions Contributions) Bill – Committee Stage Briefing

The 2025 Budget announced that employer and employee NICs would be due on pension contributions above £2,000 a year made through salary sacrifice from 6 April 2029.

This Bill would give the Treasury the powers to enact this cap through regulations.

There are several areas of significant uncertainty about the evidence base for this policy, its expected impact and how it will apply in practice.

Many Prospect members have written about their MP to express their concerns about this measure.

This briefing summarises the main concerns that the many millions of employees who make pension contributions through salary sacrifice have.

- This policy will have a negative impact on economic growth and is one of the least popular measures announced in the 2025 Budget.
- There is no publicly available information to support the government's assertions that the cost of this relief is growing unsustainably or that it is disproportionately used by high earners in respect annual bonuses.
- It is not correct to claim that this measure will mainly impact higher earners; most of the impact is on employer NICs and these will mostly be passed on to entire workforces and not targeted at higher earners (or any other group).
- The projected yield for this measure is very unlikely to be achieved in practice, greatly undermining the entire case for introducing it.
- There are several practical issues with the implementation of this measure that have not been considered by Parliament.

This policy will have a negative impact on economic growth and is unpopular

Economic growth is the number one mission of this government[1].

This measure increases employer NIC bills. As with the increase in employer NICs in April 2025, this will reduce labour supply and demand in response to lower wages and higher employer costs, resulting in lower economic growth than otherwise.

[1] Kickstarting Economic Growth - GOV.UK

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From fifteen different 2025 Budget announcements that were polled, this measure had the second lowest level of support (21%)[2].

There is a lack of publicly available evidence to support the government's case

The main purpose of this measure is to increase revenue to help the government meet its goal for the headroom available over its fiscal targets.

The Chancellor's 2025 Budget speech[3] and the Minister's contributions to the debate at Second Reading[4] explained why the government felt this was a particularly appropriate measure for achieving this goal:

- The revenue would mainly be raised by those with the broadest shoulders.
- It would tackle the claimed overuse of this relief by employees in financial services and other industries using it for bonus payments.
- It would address the claimed significant increase in the cost of this relief to government.

Most of the yield from this measure will come from employers, because the marginal employer NIC rate (15%) is far higher than the marginal employee rate (8% or 2%, depending on earnings).

The OBR estimates that 76%[5] of the increase in employer NICs will be passed on to employees.

Increased employer costs that are passed on to employees typically affect the whole workforce (through lower annual pay rises or even job cuts) and not just higher earners.

It does not seem to be correct to claim that this is a measure that largely protects low or middle earners.

There is no publicly available information about the cost of this relief by industry or specifically in relation to bonuses. But the latest HMRC data[6] (for 2023-24) showed that less than 7% of the cost of this relief was in respect of additional rate employee NICs (ie in respect of earnings taxed at the higher or additional rates of income tax). This does not suggest that this relief is being disproportionately exploited by those with extensive bonus payments.

Ministers have claimed that the cost of this relief is expected to triple between 2016/17 and 2030/31. The implication is that this relief is unsustainable and must be reformed.

But this claim seems to rest on the fact that the estimated for the relief in the latest year (2023-24) has been revised, whereas the estimate for 2016-17 has not been.

If this is allowed for, then the cost of this relief would seem to have just grown approximately in line with the rate of growth of underlying NIC receipts over the same period.

The projected yield is unlikely to be achieved

As noted above, the main purpose of this measure is to increase revenue to help the government meet its goal for the headroom available over its fiscal targets

The estimated yield of the measure in 2029/30 (£4.8 billion[7]) is crucial to its perceived merits.

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[2] How have Britons reacted to the 2025 Budget? | YouGov
[3] Budget 2025 speech - GOV.UK
[4] National Insurance Contributions (Employer Pensions C - Hansard - UK Parliament
[5] CP 1439 – Office for Budget Responsibility – Economic and fiscal outlook – November 2025
[6] See Table 6.2: Table_6.ods
[7] Budget_2025-Policy_Costings.pdf

There are strong reasons for doubting that this yield will be achieved in practice:

- £1.6bn relates to the anticipated impact of employees switching to Relief At Source (RAS) schemes, for which there is no obvious basis.
- The impact of behavioural responses by employers could be significantly higher in practice (Prospect and other unions are already speaking to employers about this).

Practical difficulties with the policy

While mainly a matter for consultation on future regulations, there are key issues with applying an annual cap for individuals to a relief on a tax that applies on a pay period and per job basis:

- Will there be a pay period cap that is equivalent to £2,000 annually?
- Will someone employed for part of the year have a £2,000 cap for that period of employment, or will it be pro-rata'd?
- When someone changes job mid-year, how will their new employer know how much headroom is available against the cap?
- How will employers share headroom against the cap where someone has two or more jobs?

These difficulties could result in higher implementation costs for employers and others than have been anticipated.

Potential amendments to the Bill

Prospect members are strongly opposed to the implementation of the proposed cap. But they feel the Bill could be improved in the following ways:

- Any cap should only be introduced at a much higher level than £2,000.
- There should be automatic provisions for the cap to be indexed over time.
- There should be no statutory powers for a future government to reduce the level of the cap.

Prospect supports amendments to the Bill that seek to achieve the above aims.