

PAYSLP METHODOLOGY SERIES

Chapter 3 — Literature Review

National Insurance — Class 1 Employee

*A thematic synthesis of statutory, regulatory
and policy literature*

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ABSTRACT

This literature review examines the statutory, fiscal and policy literature governing employee Class 1 National Insurance contributions for the 2026/27 tax year. Drawing on the Social Security Contributions and Benefits Act 1992 as primary statutory authority, on HMRC guidance for the operative rates and thresholds, and on professional commentary from the Low Incomes Tax Reform Group, the review traces the recent trajectory of the main rate from 12 percent to 8 percent following the Spring Budget 2024, and analyses the resulting position. Three themes are pursued: the constitutional and conceptual basis of National Insurance as a contributory system; the structural distinction between the Primary Threshold and the Upper Earnings Limit; and the interaction between recent rate reductions, frozen thresholds, and the broader UK fiscal consolidation strategy. The review argues that contemporary Class 1 contributions have drifted progressively away from their historic conceptual basis as a benefits-funding charge and now operate, in functional terms, as a second income tax with a different statutory dress.

Keywords: National Insurance, Class 1, contributory benefits, fiscal wedge, 2026/27

1. Introduction

National Insurance contributions, although nominally distinct from income tax in both statutory authority and conceptual framing, exert an equally significant effect on take-home pay for the average UK employee. For 2026/27, an employee earning £50,270 (at the Upper Earnings Limit) pays Class 1 primary contributions of £3,015.20, alongside approximately £7,486 of income tax—a combined wedge of nearly £10,500, of which more than 28 percent is the National Insurance component. Despite this material fiscal weight, National Insurance is comparatively under-discussed in the academic and popular literature, partly because of its historic positioning as a contributory rather than redistributive instrument.

This chapter undertakes a thematic literature review of the principal sources informing the calculation of Class 1 primary contributions for 2026/27 as implemented in the ukNI function of the Payslp methodology. Four sources are drawn upon: the Social Security Contributions and Benefits Act 1992 (c. 4), as the principal piece of primary legislation; HMRC’s technical guidance on National Insurance rates and categories; the Spring Budget 2024 (HM Treasury, 2024), which legislated the most recent rate reduction; and the Low Incomes Tax Reform Group commentary on National Insurance for employees.

2. Scope and Methodological Approach

The review is restricted to Class 1 primary (employee) contributions and does not extend to secondary (employer) contributions, which are considered only briefly to the extent necessary for contextual interpretation. Class 2 and Class 4 contributions, applicable to self-employed earners, are reviewed separately in Chapter 7 of this Methodology Series.

Methodologically, the review combines a doctrinal approach (centred on the 1992 Act and its amendments) with policy-analytical interpretation, drawing on Treasury fiscal statements and professional commentary. National Insurance is comparatively well documented at the doctrinal level but comparatively under-scrutinised at the policy level. The review takes this asymmetry into account by treating the Spring Budget 2024 rate reduction not as a discrete event but as part of a longer trajectory whose direction the literature is now beginning to chart.

3. Literature Review

3.1 The contributory conception and its drift

Class 1 National Insurance is statutorily a contributory system: paying it confers entitlement to a range of ‘contributory’ benefits, principally the new State Pension. The Social Security Contributions and Benefits Act 1992 (c. 4) establishes this conceptual structure, with sections 1 to 3 setting out the categories of contribution and sections 5 to 9 defining the earnings thresholds. The Act’s framework has its origins in the Beveridge Report and the post-war settlement, in which contribution was understood as the predicate of entitlement.

The contributory conception, however, has drifted considerably over time. The Low Incomes Tax Reform Group (2026) observes that the link between contributions paid and benefits received is now attenuated to the point of near-fiction for many contributors: pension entitlement is determined by qualifying years rather than by the size of contributions paid, and the contribution-benefit linkage for in-work benefits such as Statutory Sick Pay or Statutory Maternity Pay is similarly indirect. Class 1 primary contributions function, in this assessment, increasingly as a second income tax with a particular statutory dress. The implications for distributional analysis are significant, since National Insurance applies a different rate profile than income tax—not least the precipitous drop from 8 percent to 2 percent above the Upper Earnings Limit—and is therefore regressive in its incidence over much of the income range.

3.2 Structural features — Primary Threshold and Upper Earnings Limit

Two principal thresholds define the contribution profile for 2026/27. The Primary Threshold, at which the main rate first applies, stands at £242 per week (£12,570 annualised), having been aligned with the Personal Allowance for income tax in 2022. The Upper Earnings Limit, above which the rate drops to 2 percent, remains at £967 per week (£50,270 annualised), aligned with the higher-rate threshold for income tax. This alignment is significant: it produces a coherent set of ‘wedge’ transitions at common gross-income points, easing administrative complexity and aiding taxpayer understanding.

HMRC’s guidance (2026) presents these thresholds in weekly, monthly and annual forms, reflecting the operational reality that PAYE applies them per pay-period rather than annually. The annualised treatment used by the Payslp calculator is an approximation that holds exactly when the earnings profile is constant across the year, and which diverges under bonus or irregular pay patterns. This is a known limitation of annualised tools and is documented in the methodology.

3.3 The Spring Budget 2024 rate reduction and its consequences

The Spring Budget 2024 (HM Treasury, 2024) cut the main rate of Class 1 primary contributions from 10 percent to 8 percent, following an earlier cut from 12 percent to 10 percent at the Autumn Statement 2023. The Low Incomes Tax Reform Group (2026) calculates that the combined effect of these two reductions is a saving of approximately £1,508 per year for an employee earning at the Upper Earnings Limit, although the proportional benefit is much lower for those whose earnings fall below the Primary Threshold (who pay no NI at all) and those whose earnings are well above the UEL (where the 2 percent upper rate is unchanged).

The political context of these reductions is also relevant. Class 1 contributions have proved a politically attractive instrument for fiscal reduction because they are levied only on employed earners, leaving pensioners and other non-earners unaffected. They also have a lower distributive salience than income tax, since ‘NI’ in popular discourse is not always recognised as a tax. The result has been a quiet but substantial shift in the composition of the fiscal wedge faced by employees: where the income-tax

component has remained broadly stable, the NI component has shrunk significantly.

3.4 Threshold freezes and the offsetting effect

The Primary Threshold and the Upper Earnings Limit have, alongside the income tax thresholds, been frozen at their current levels and are scheduled to remain so until April 2031 (HM Treasury, 2024). The interaction with the rate reductions is significant. The rate cut from 12 percent to 8 percent reduces the bill at any given gross income above the Primary Threshold; the threshold freeze pulls more earners into the contribution-paying population. These effects partially offset, particularly at the lower end of the earnings distribution, and the net distributional consequence over time depends on the trajectory of wage growth.

4. Synthesis and Implications for Calculator Implementation

The literature establishes a clear set of parameters for the calculation of Class 1 primary contributions in 2026/27: an annual Primary Threshold of £12,570, an annual Upper Earnings Limit of £50,270, a main rate of 8 percent, and an upper rate of 2 percent above the UEL. The ukNI function in the Payslp methodology implements this profile in its annualised form, with an optional per-period mode that follows the HMRC convention of applying weekly or monthly equivalents within each pay period.

The literature also raises a more reflective question. The drift of National Insurance from contributory benefit funding toward general taxation, combined with rate reductions that materially alter the fiscal wedge, suggests that the conventional presentation of income tax and National Insurance as separate quantities is increasingly artificial. The Low Incomes Tax Reform Group (2026) implicitly endorses this view in commentary that consistently presents the combined wedge rather than the individual components. Calculator design might appropriately follow suit, presenting a unified ‘take-home’ figure as the primary output and the income-tax / National Insurance decomposition as secondary analytical detail—an approach that the Payslp interface already broadly adopts.

5. Conclusion

Class 1 primary National Insurance contributions for 2026/27 are calculated on a straightforward two-rate basis above two thresholds: 8 percent on annualised earnings between £12,570 and £50,270 and 2 percent thereafter. The simplicity of the operative arithmetic belies, however, a complex policy trajectory. The rate reductions of 2023 and 2024 have shifted the composition of the employee fiscal wedge significantly toward income tax; the threshold freezes scheduled through April 2031 will progressively pull more earners into liability. The conceptual basis of National Insurance as a contributory system, finally, has drifted to the point at which the literature increasingly treats it as a second income tax in all but statutory dress. Calculator implementation must render the present arithmetic accurately whilst providing users with the analytical foundations to interpret their position in this evolving landscape.

References

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