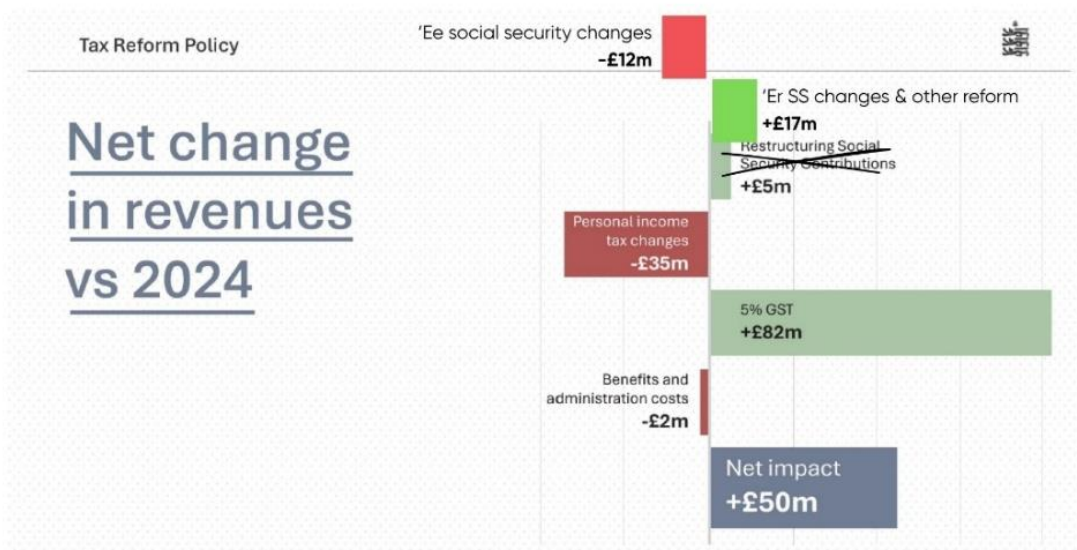


Chamber of Commerce: Member Briefing

Social Security Reform

As part of the governments tax reform in workstream 1 (GST plus) there is the introduction of a new 15% lower income tax band, restructured social security contributions, a 5% Goods and services tax, plus support for those who will be impacted.

What's really changing?



Social Security reform is part of the GST+ package and is presented as delivering a net £5m. In reality, this reflects £12m of reductions (the "Plus" – including allowances) and £17m of additional contributions.

The majority of that increase in contributions falls on employers, not individuals.

What are the structural Changes?

1. There will be a Broader Charging Base Earned and unearned income will be aligned

- Employed, self-employed and non-employed brought closer together
- Introduction of a 2.5% rate on income between the upper earning limit and £250k for employers and self employed

Impact:

- Some individuals will pay more as it will capture all income eg investment or mixed income etc
- Some will pay less, mainly due to allowances introduced

This is not neutral, it redistributes who pays, and how much is raised.

2. Introduction of Allowances

This matches the personal income tax allowance (in amount & application) and increase in the allowance available to non employed and pensioners to the same level

- Applies to employees and self-employed
- Does not apply to employers

Impact:

- Lower & middle earners will likely pay less
- Higher earners will likely pay more as allowances are phased out and other income types captured
- The self-employed effective rate reduces due to the allowance, having historically aligned on an after-tax basis

3. Alignment across all groups

- Non-employed rates will be reduced to align with employee rates (whether employed or not you will pay same rates on all income)
- There will be an increase in contribution rate for employed and self employed
- Consistent application of rates on all income

Impact:

This provides clarity and equity for employed and non-employed. Current system encourages remaining in some employment if you are in receipt of other income sources

Rates are increasing

	Rate applied in 2026	Target rate in 2031 if phased increases continue	Tax Reform W1 rate (noting the application of allowances for employees/self-employed for the first time)
Employers	7.1%	7.6%	8.0% (+2.5% between UEL & £250k)
Employees	7.5%	8.0%	8.5%
Self-employed	12.4%	13.4%	14.5% for self-employed income 8.5% for all other income (+2.5% between UEL and £250k)
Non-employed below pension age	11.8%	12.8%	8.5%
Non-employed above pension age	3.8%	3.8%	4.0%

This is expected to raise approximately £17m per year from employers.

- Existing increases that have been agreed by Employment and Social Security that are planned up to 2031 are being accelerated and increased further
- There is an additional 0.4% increase on top of existing plans
- New 2.5% rate above the upper earnings limit
- No allowance applies to employers

All employers will pay more. There are no offsets or allowances.

We have asked for a clear breakdown of the £17m, specifically:

- What was already planned
- What is accelerated
- What is new

Even without further rate increases, employer costs will continue to rise each year as contributions are applied to increasing wages.

What is Chamber concerned about?

- Material and ongoing increase in employment costs
- A significant shift of cost onto employers
- Additional increases layered on top of already agreed rises
- Increased complexity and divergence from simpler international systems
- A system that increasingly resembles a form of income tax
- Changes to payroll systems required no system in the world can deliver the proposed structure

Our position

We support:

- A sustainable Social Security system
- Fair and consistent treatment of income
- Proper long-term funding

But we need:

- A clear breakdown of the £17m
- Transparency on what is already planned vs new
- Predictable and manageable phasing
- Full assessment of cumulative business impact

This is a significant structural and cost shift that needs to be fully understood before decisions are made.

Do you have Questions?

Chamber is hosting an urgent member briefing so you can understand the full impact on your business and make your voice heard before decisions are made.

Thursday 21st May at 8am, Camilla's Cafe

[Register here](#)