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Pmi Month
in Price is concerned
about the effect of the
Demand NI employee
contribution on the -
home pay and on
my negotiations purely.

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON
SW1P 3AG

15 December 1980
17/12

Dear Geoffrey

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EFFECTS OF INCREASED NATIONAL INSURANCE CONTRIBUTIONS ON PAY BARGAINING

The increased National Insurance Contributions payable by employees from next April, which you recently announced, and which are provided for in the National Insurance (Contributions) Bill, will have a significant effect on employees' take home pay and on the Tax and Prices Index; and we need to bear in mind the potential effects on future pay negotiations.

I attach some examples which have been sent to me by a company which has recently, and with some difficulty, negotiated settlements in the 7/8% range. As you will see the combined effect of tax and the new NI contributions will be to claw back about half of the negotiated increases. The changes bear most heavily on the craftsmen. In the case of example B the employee concerned will, as from April, take home only £7.62 of his gross increase of £16 a week. In other words over 52% of his pay increase is lost to him.

The company is worried that once the size of the claw back is fully understood by trade union officials and by individual employees, there will be pressure for the settlements to be re-opened. They also fear that it will be harder to negotiate single figure settlements in future. We may find these attitudes reflected more widely. You will no doubt remember that Sir Derek Ezra concluded before the result of the miners' ballot was known, that the result would be significantly affected by the announcement about increased NI contributions.

I am not, of course, suggesting that we should reconsider decisions already taken, or contemplate concessions on the Bill, unless we find ourselves obliged to do so by our own back benchers. But I am sure you will agree that we need to be very much aware of the potential effect on pay bargaining of the increased NI contributions; and to take it fully into account when considering any changes in personal taxation for the next Budget.

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I am sending copies of this letter to Patrick Jenkin, to the other members of E Committee, and to Sir Robert Armstrong.

*Yours
Truly
Tom*

EXAMPLE A

CRAFTSMAN

Pension Fund member, Married, 2 Children, Tax Code 214H.

	<u>Present</u>	<u>New</u>
	£ per wk	£ per wk
Earnings	175	190
Employee NI contribution	7.59	10.65
Employee Tax	39.90	44.40
Company NI contribution	16.21	18.70

Basic wage increase	=	£8.15 per week	
Earnings increase	=	£15.00 per week	
NI increase	=	£3.06 per week	(£3.06)
Tax increase	=	£4.50 per week	
Net increase		£7.44 per week	
Company pays extra	=	£2.49 per week	(£2.49)

() increase due to Government NI changes

EXAMPLE B

CRAFTSMAN

Pension Fund Member, Married, 2 children, Tax Code 214H

	<u>Present</u>	<u>New</u>
	£ per week	£ per week
Earnings	200	216
Employee NI contribution	7.59	11.17
Employee Tax	47.40	52.20
Company NI contribution	16.21	19.62

Basic wage increase	=	£8.15 per week	
Earnings increase	=	£16.00 per week	
NI increase	=	£3.58 per week	(£3.58)
Tax increase	=	£4.80 per week	
Net increase	=	£6.62 ^{7.62} per week	

Company pays extra = £3.41 per week (£3.41)

() increase due to Government NI changes

EXAMPLE C

GRADE B

Married Woman, Pension Fund Member, Tax Code 137L

	<u>Present</u>	<u>New</u>
	£ per week	£ per week
Earnings	65.50	70.54
Employee NI contribution	3.36	4.38
Tax	11.40	12.90
Company NI contribution	7.06	7.71

<u>Basic wage increase</u>	=	<u>£5.04 per week</u>	
Earnings increase	=	<u>£5.04 per week</u>	
NI increase	=	£1.02 per week	(£0.81)
Tax increase	=	£1.50 per week	
<u>Net increase</u>	=	<u>£2.52 per week</u>	

Company pays extra £0.65 per week (£0.19)

() increase due to Government NI changes

EXAMPLE D

GRADE D

Night shift, Pension Fund Member, Married Man, 2 children, Tax Code 214H

	<u>Present</u>	<u>New</u>
	£ per week	£ per week
Earnings	94.11	101.68
Employee NI contribution	4.57	6.01
Tax	15.60	18.00
Company NI contribution	9.69	10.57

<u>Basic wage increase</u>	=	<u>£5.68 per week</u>	
Earnings increase	=	<u>£7.57 per week</u>	
NI increase	=	£1.44 per week	(£1.12)
Tax increase	=	£2.40 per week	
<u>Net increase</u>	=	<u>£3.73</u>	

Company pays extra £0.88 per week (£0.18)

() increase due to Government NI changes

EXAMPLE E

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GRADE L MANAGER

Pension Fund member, Married Man, 2 children, Tax Code 214H

	<u>Present</u>	<u>New</u>
	£ per mth	£ per mth
Earnings	961	1047
Employee NI contribution	32.88	48.45
Tax	234.30	260.10
Company NI contribution	70.26	85.03

<u>Earnings increase</u>	=	<u>£86 per month</u>	
NI contribution increase	.	£15.57 per month	(£15.57)
Tax Increase		£25.80 per month	
<u>Net increase</u>		<u>£44.63 per month</u>	

Company pays extra	£14.77	(£14.77)
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() increase due to Government NI contribution changes

15 DEC 1980

