

NATIONAL INSURANCE CONTRIBUTIONS (NIC)

National Insurance is the UK equivalent of social insurance schemes (Pay Related Social Insurance, Health and (formerly Employment levies) charged in Ireland. The amount of NIC a person pays and the rules governing depend on the class of contributions the employee must make.

Employees

Most employees pay Class 1 contributions. The primary contribution is by employee and the secondary contribution is by employer. They are percentage based contributions levied on gross earnings in excess of a certain sum (£6,000 for 2008).

Earnings are all earnings paid in cash or readily convertible to cash. NIC are paid on gross earnings with no deductions. This does not include certain exempt employment benefits and reimbursed business expenses and cash benefits which are not readily convertible. Benefits such as contributions into a pension scheme, workplace nurseries, mobile phones are not subject to NIC. Remuneration readily convertible into cash includes vouchers and shares and unit trusts.

NIC are payable where an individual is employed in the UK, over 16 and whose earnings are in excess of the lower threshold of £6,035 in 2008. They are payable between aged 16 and 65 for a man and 60 for a woman.

The employee's contributions are 11% on earnings between £5,035 and £33,530 and 1% on gross earnings in excess of £33,540.

Secondary contributions are payable by employers in respect of employees over the age of 16 and until cessation of employment. They are still payable when an employee is over pensionable age. Secondary contributions are 12.8% of all gross earnings over £5,035. There is no earnings limit.

Employers must deduct primary contributions and pay secondary contributions on each weekly or monthly pay date. They are payable to HMRC along with income tax under PAYE. It is normally due on the 19th of each month. Employers are required to pay Class 1A contribution on taxable benefits (such as motor cars).

Self Employed

There are special rules for company directors to prevent avoidance of NIC by payment of lower salaries. The rules aggregate salary from different sources.

Self employed individuals pay Class 2 and Class 4 contributions. Class 2 contributions are paid by individuals over 16 until retirement age on earnings above the low earnings threshold of £4,465 per annum. Class 2 contributions are a flat payment of £2.10 per week.

In addition most self employed will usually be liable to Class 4 NIC. They are payable when the individual is over 16 until normal retirement age. These are based on a percentage levied on the profits in excess of £5,035. They are not a deduction allowed for income tax purposes. Profits for the purpose of Class 4 NIC consist of taxable trading profits after deducting trading losses and charges.

Class 4 NIC are payable at 8% on profits between £5,035 and £33,540 and 1% on profits in excess of this amount. Class 4 contributions are payable to HMRC at the same time as the individual's income tax contribution under self assessment.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.