

## National Insurance

Director's are in a unique position because they have the power to influence how and when they receive their pay.

This means that if their NIC was calculated under the 'normal method' they could pay their annual salary in one single week and thus pay a lot less NI than a normal employee paid the same amount but spread over the whole tax year.

To combat this Director's NIC is calculated under a different method called the 'directors' method'. Broadly speaking this is done on the same basis as PAYE in so much as previous earnings from the employment in that tax year are taken into account when calculating the NI due i.e. a cumulative basis. Directors will not pay any NI on their salary until the cumulative earnings exceed £7,605.

The employers contribution is calculated in exactly the same manner but this starts to become payable once the cumulative salary has exceeded £7,488.

Overall, provided that the salaries due throughout the year are paid equally then Directors and Employees will pay the same amount of NI and it will only be the timing of the NI deductions that differs.

### To illustrate this with an example:

Mr Bloggs is paid an annual salary of £30,000 on a monthly pay basis as a director of his own Limited company, ABC Limited.

As a Director his NI is calculated under the 'directors' method'.

<b>April Salary</b>	£3,000 - Cumulative salary - £3,000 - Not exceeded the thresholds so no NI payable.
<b>May Salary</b>	£3,000 - Cumulative salary - £6,000 - Not exceeded the thresholds so no NI payable.
<b>June Salary</b>	£3,000 - Cumulative salary - £9,000 - Thresholds exceeded so NI becomes payable as below.

### Employees NI:

Cumulative salary (£9,000) less primary class 1NI threshold (£7,605) gives £1,395 taxable for NI at 12% = £167.40

### Employers NI:

Cumulative salary (£9,000) less secondary class 1NI threshold (£7,488) gives £1,512 taxable for NI at 13.8% = £208.66

For the July salary onwards the earnings thresholds have been used up by the April to June salaries so all further salaries this tax year will attract NI at the rates of 12% (for the employee) and 13.8% (for the employer) which equates to £360 and £414 respectively per month.

### Not a director for a full tax year?

If you become a director part way through the tax year then the NI thresholds (both employees and employers) are reduced down accordingly so you only receive a percentage of these based on how many weeks are left to go in the tax year.

If you leave the directorship during the year you still receive the full allowances for that tax year.

**Note:** Employees NIC falls to 2% of any part of the salary in excess of £42,475pa.



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