

Insurance

National Insurance Contributions (NIC) are paid on **EARNED INCOME** which broadly includes Salary and Self-Employed income; it does not include dividends and bank interest, both of which are free from NIC.

There are four classes of National Insurance and different classes apply to different types of income as follows:

Class 1NI (Primary)	12%/2%	Paid on salary by the employee (£0 - £7,605 @ 0%, £7,606 - £42,475 @ 12%, £42,476+ @ 2%) <i>Upon reaching state pension age the employee contribution is normally nil</i>
Class 1NI (Secondary)	13.8%	Paid on salary by the employer (£0 - £7,488 @ 0%, £7,489+ @ 13.8%)
Class 1A NI	13.8%	Paid on Benefits in Kind by the employer (No lower limit, due on all benefits in kind)
Class 1B NI	13.8%	Paid on PAYE settlement agreements by the employer (No lower limit, due on all PAYE settlement agreements)
Class 2 NI	£2.65 p/w	Paid by the self employed on a weekly basis (Exemption is net earnings are below £5,315 per annum)
Class 3 NI	£13.25 p/w	Voluntary contributions (Payable voluntarily to receive a 'qualifying year' for NIC)
Class 4 NI	9%/2%	Paid on self employed profits (£0 - £7,605 @ 0%, £7,606 - £42,475 @ 9%, £42,476+ @ 2%)

For standard employees, Class 1 NI is calculated on a pay run basis i.e. simply based on the salary received in that particular pay period. Whether the pay run is weekly or monthly the thresholds are reduced accordingly i.e. an employee paid monthly will receive 1/12th of the NI thresholds each month. This is called the 'normal method' of calculating NIC and under this method the previous earnings in the tax year are not taken into consideration, this is illustrated with an example below:

Mr Bloggs is paid an annual salary of £50,000 on a monthly pay basis and received an annual bonus of £4,000 in his December pay check. His NIC is calculated on a monthly basis as follows:

Months of April - November and January - March, Gross Monthly salary - £4,166.67

£634	@ 0%	=	£ 0.00	(£ 0/12 - £7,605/12)
£635 - £3,540	@ 12%	=	£348.60	(£7,606/12 - £42,475/12)
£3,541 - £4,167	@ 2%	=	£ 12.52	(£42,476/12 +)
Total per month		=	£361.24	

Month of December, Gross Salary - £8,166.67

£634	@ 0%	=	£ 0.00
£635 - £3,540	@ 12%	=	£348.60
£3,541 - £8,167@ 2%		=	£ 92.52
Total		=	£441.12

National Insurance paid by directors is calculated by a different method, please refer to our Director's National Insurance Factsheet for more information.

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