

CCH British Tax Guide: National Insurance Contributions

Lesley Fidler

2014-15

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Throughout this book the male pronoun is used to cover references to both the male and female.

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This year's edition is based on original text by David Heaton FCA CTA of David Heaton Tax Ltd.

Preface

National Insurance contributions moved up the agenda of many tax practitioners during the last couple of decades of the twentieth century when NICs-free bonuses could be awarded by substituting ‘kind’ for cash. The assets ranged over the years from premium bonds to trade debts via industrial diamonds, oriental carpets and platinum sponge – to name but a few of the generally unattractive, but valuable, items that were used. At one time, it was almost unthinkable in some quarters for a bonus to be paid with an associated NICs liability. Whilst those days are long gone, the increasing cost of National Insurance contributions and the erosion of the link between them and the acquisition of entitlement to state benefits, have kept NICs on the tax planning agenda.

So, what NICs changes stand out in the past year?

The significant difference in cost between employed and self-employed contributions and the widespread use of agency workers have exercised many ingenious minds, resulting in a range of ‘solutions’ to reduce the amounts paid to HMRC, with the consequent savings either protecting jobs or making the rich richer, depending on the product and the commentator. On 6 April 2014, the tax rules for agency workers were changed in an attempt to prevent perceived abuses of this nature and these changes are mirrored for NICs purposes by regulations effective from the same date. Whilst they may have put paid to the use of some structures, they will no doubt give rise to others.

The Government’s quest for legislation that defeats advisers’ creativity continues and has reached the shores of NIC-land with the NICs agency changes including a targeted anti-avoidance rule. From March this year, the *National Insurance Contributions Act 2014* extends the scope of the GAAR to NICs and provides for subsequent changes to the GAAR to be mirrored for NICs. Follower notices, accelerated payments and conduct notices which are all created for tax purposes by *Finance Act 2014* have their NICs equivalents in the current NICs Bill but are not expected to arrive in NIC-land until two months after the Bill is passed.

Pensions have caught the attention of many individuals in the past year. The Chancellor’s 2014 Budget proposed ‘the most far-reaching reform to the taxation of pensions since the regime was introduced in 1921’ (wasn’t something similar said about A-Day in 2006?) with the removal of the need to buy an annuity. The spread of pensions auto-enrolment for employees continues and brings salary sacrifice schemes in its wake, taking advantage of the absence of NICs on employer contributions. Add to this the publicity over the state pension becoming a flat-rate amount, and the link between making National Insurance contributions and enjoying future benefits is likely to prompt more individuals to review the extent of their contributions records.

For employers, the £2,000 Employment Allowance that can be claimed against their secondary Class 1 contributions for 2014–15 could be the highlight of the

year, whilst those who employ under-21s may be anticipating 2015–16's zero per cent secondary contributions with eagerness.

There have been plenty of other changes which, whilst of great importance to those affected, may be less widespread or significant in their impact generally. Details may be found in the pages of this work which has been brought up to date as at 31 July 2014. Historical background has been retained to explain why the rules are as they are and to give information to assist in dealing with HMRC enquiries into the past six years.

My thanks go to my former colleague, David Heaton, who not only wrote the initial version of this work but who also, together with Neil Booth, welcomed me to NIC-land over 20 years ago and since then has assisted me navigate its highways and byways and appreciate some of the scenery en route.

Lesley Fidler

August 2014

What's new?

There follows a series of summaries highlighting the main changes and developments relevant to National Insurance contributions that have occurred since the last edition of *British Tax Guide: National Insurance Contributions*.

NIC rates and state benefit rates for 2014–15 added (accessible via the online link to *Hardman's Tax Rates and Tables* – see Contents table)

302-075: The *Categorisation of Earners Regulations* 1978 no longer apply to entertainers from 6 April 2014.

303-075: The *Categorisation of Earners Regulations* 1978 have been amended by statutory instrument in respect of agency workers with effect from 6 April 2014, in order to reflect the anti-avoidance income tax changes. The National Insurance Contributions Bill creates a TAAR to apply in the area.

305-600: An age-related zero per cent rate of secondary contributions in respect of employees under 21 comes into effect on 6 April 2015 (*National Insurance Contributions Act* 2014).

306-700: The Supreme Court decision in *Forde v McHugh* provides that the NICs term 'earnings' is different from 'emoluments' used in income tax legislation.

307-400: The NICs Holiday scheme came to the end of its statutory life on 5 September 2013.

307-450: A £2,000 Employment Allowance to be used against secondary Class 1 contributions is created by the *National Insurance Contributions Act* 2014.

307-500: The GAAR is extended to NICs by the *National Insurance Contributions Act* 2014.

323-875: Changes to the definition of salaried members of LLPs by *Finance Act* 2014 are extended to NICs by the *National Insurance Contributions Act* 2014.

Key data: National Insurance contributions

National Insurance contributions

1-000 NIC rates: general

There are currently six classes of National Insurance contributions payable according to the individual circumstances of the payer. A new class of voluntary contributions (Class 3A) is being introduced in October 2015.

Class 1 contributions

Class 1 contributions are earnings-related and payable by employer and employee on earnings above the earnings threshold. The primary threshold (PT) applies for employees and the secondary threshold (ST) for employers (with the thresholds aligned for 2014–15). Employees pay at the main rate up to the upper earnings limit (UEL) and the additional rate above the limit.

Where the employee is a member of the employer's contracted-out pension scheme, a contracted-out rebate reduces the contributions due from both on any earnings between the lower earnings limit (LEL) and the upper accruals point (UAP). Earnings between the LEL and the PT/ST attract the rebate despite there being no contributions due at that level.

The *Pensions Act 2014* contains provisions to implement the single-tier state pension from April 2016. The single-tier pension is a flat rate pension that will replace the second state pension and with it contracting out of National Insurance will be abolished. The current value of the contracting-out rebate is 3.4 per cent for employers and 1.4 per cent for employees on earnings between the LEL and UAP. Contracting out for money purchase schemes (COMPS), mixed benefit schemes (COMB) contracted out on a defined contribution basis, appropriate personal pension schemes (APP) and APP stakeholder schemes was abolished on 5 April 2012.

The reduced rate applies to married women or widows with a valid certificate of election and affects only primary contributions.

Individuals over State Pension age (see 325-100) pay no primary contributions, though employers still pay the secondary contribution, at the not contracted-out rate, regardless of the previous category of contribution liability. Children under 16 and their employers pay no contributions. The *National Insurance Act 2014* provides that from 6 April 2015 employers will not be required to pay secondary contributions for employees under the age of 21 on earnings up to the UEL.

National Insurance: £2,000 employment allowance

The *National Insurance Contributions Act 2014* provides for the introduction of an allowance of £2,000 per year for all businesses and charities to be offset against their employer Class 1 secondary NICs liability from April 2014. The allowance is claimed as part of the normal payroll process through Real Time Information (RTI).

1-020 Class 1 NIC: 2014–15

Class 1 contributions

Class 1 primary (employee) contributions 2014–15

Lower earnings limit (LEL) ⁽¹⁾	£111 weekly £481 monthly £5,772 yearly
Primary threshold (PT)	£153 weekly £663 monthly £7,956 yearly
Upper earnings limit (UEL)	£805 weekly £3,489 monthly £41,865 yearly
Upper accrual point (UAP)	£770 weekly £3,337 monthly £40,040 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	12% on £153.01 to £805 weekly 2% on excess over £805 weekly
Contracted-out rate	10.6% on £153.01 to £770 weekly 12% on £770.01 to £805 weekly 2% on excess over £805 weekly
Reduced rate	5.85% on £153.01 to £805 weekly 2% on excess over £805 (no rebate even if contracted out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT, count towards the employee's basic state pension, even though no contributions are paid on those earnings. Similarly, earnings between the LEL and the PT count towards the employee's entitlement to certain benefits including the second state pension (S2P). Employees in contracted-out employment earn no S2P rights and receive a rebate of contributions of 1.4 per cent. This applies from the LEL to the UAP, so earnings from LEL to PT attract a 'negative' contribution of 1.4 per cent and the rate for earnings from PT to UAP becomes 10.6 per cent. Earnings from UAP to UEL are subject to the main not contracted-out rate.

Monthly and annual LEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Monthly and annual PT and UEL figures are prescribed by SI 2001/1004, reg. 11 and amended by Statutory Instrument.

Class 1 secondary (employer) contributions 2014–15⁽²⁾

Secondary earnings threshold (ST)	£153 weekly £663 monthly £7,956 yearly
Not contracted-out rate	13.8% on earnings above the ST (From April 2015 the rate will be 0% for employees under 21)

Class 1 secondary (employer) contributions 2014–15⁽²⁾

Contracted-out rate ⁽¹⁾	10.4% for salary-related (COSR) on earnings from ST to UAP (plus 3.4% rebate for earnings from LEL to ST), then 13.8% above UAP
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Notes

⁽¹⁾ Although employer contributions do not *per se* give any benefit entitlements, earnings between the LEL and ST are those classed as relevant for S2P. Employers with contracted-out occupational pension schemes receive a rebate of contributions for scheme members of 3.4 per cent (COSR). This applies from the LEL to the UAP, so earnings from LEL to ST attract a 'negative' contribution and the rate for earnings from ST to UAP is reduced as shown.

⁽²⁾ From 6 April 2014, qualifying employers are entitled to an allowance of £2,000 per year to offset against their Class 1 NICs (*National Insurance Contributions Act 2014*, s. 1-8, Sch. 1).

Monthly and annual ST figures are prescribed by SI 2001/1004, reg. 11 and amended by Statutory Instrument.

1-040 Class 1 NIC: 2013–14**Class 1 contributions****Class 1 primary (employee) contributions 2013–14**

Lower earnings limit (LEL) ⁽¹⁾	£109 weekly £473 monthly £5,668 yearly
Primary threshold (PT)	£149 weekly £646 monthly £7,755 yearly
Upper earnings limit (UEL)	£797 weekly £3,454 monthly £41,450 yearly
Upper accrual point (UAP)	£770 weekly £3,337 monthly £40,040 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	12% on £149.01 to £797 weekly 2% on excess over £797 weekly
Contracted-out rate	10.6% on £149.01 to £770 weekly 12% on £770.01 to £797 weekly 2% on excess over £797 weekly
Reduced rate	5.85% on £149.01 to £797 weekly 2% on excess over £797 (no rebate even if contracted out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT, count towards the employee's basic state pension, even though no contributions are paid on those earnings. Similarly, earnings between the LEL and the PT count towards the employee's entitlement to certain benefits including the second state pension (S2P). Employees in contracted-out employment earn no S2P rights and receive a rebate of contributions of 1.4 per cent. This applies from the LEL to the UAP, so earnings from LEL to PT attract a 'negative' contribution of 1.4 per cent and the rate for earnings from PT to UAP becomes 10.6 per cent. Earnings from UAP to UEL are subject to the main not contracted-out rate.

Monthly and annual LEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Class 1 secondary (employer) contributions 2013–14⁽²⁾

Secondary earnings threshold (ST)	£148 weekly £641 monthly £7,696 yearly
Not contracted-out rate	13.8% on earnings above the ST
Contracted-out rate ⁽¹⁾	10.4% for salary-related (COSR) on earnings from ST to UAP (plus 3.4% rebate for earnings from LEL to ST), then 13.8% above UAP

Notes

⁽¹⁾ Although employer contributions do not *per se* give any benefit entitlements, earnings between the LEL and ST are those classed as relevant for S2P. Employers with contracted-out occupational pension schemes receive a rebate of contributions for scheme members of 3.4 per cent (COSR). This applies from the LEL to the UAP, so earnings from LEL to ST attract a ‘negative’ contribution and the rate for earnings from ST to UAP is reduced as shown.

⁽²⁾ From 22 June 2010 until 5 September 2013, qualifying businesses will be exempt (when a claim is made and accepted) from the first £5,000 of Class 1 NICs due in respect of the first ten qualifying employees hired in the first year of business (*National Insurance Contributions Act 2011*, s. 4).

1-060 Class 1 NIC: 2012–13

Class 1 contributions

Class 1 primary (employee) contributions 2012–13

Lower earnings limit (LEL) ⁽¹⁾	£107 weekly £464 monthly £5,564 yearly
Primary threshold (PT)	£146 weekly £634 monthly £7,605 yearly
Upper earnings limit (UEL)	£817 weekly £3,540 monthly £42,475 yearly
Upper accrual point (UAP)	£770 weekly £3,337 monthly £40,040 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	12% on £146.01 to £817 weekly 2% on excess over £817 weekly
Contracted-out rate	10.6% on £146.01 to £770 weekly 12% on £770.01 to £817 weekly 2% on excess over £817 weekly
Reduced rate	5.85% on £146.01 to £817 weekly 2% on excess over £817 (no rebate even if contracted out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT, count towards the employee's basic state pension, even though no contributions are paid on those earnings. Similarly, earnings between the LEL and the PT count towards the employee's entitlement to certain benefits including the second state pension (S2P). Employees in contracted-out employment earn no S2P rights and receive a rebate of contributions of 1.4 per cent. This applies from the LEL to the UAP, so earnings from LEL to PT attract a 'negative' contribution of 1.4 per cent and the rate for earnings from PT to UAP becomes 10.6 per cent. Earnings from UAP to UEL are subject to the main not contracted-out rate.

Monthly and annual LEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Class 1 secondary (employer) contributions 2012–13⁽²⁾

Secondary earnings threshold (ST)	£144 weekly £624 monthly £7,488 yearly
Not contracted-out rate	13.8% on earnings above the ST
Contracted-out rate ⁽¹⁾	10.4% for salary-related (COSR) (plus 3.4% rebate for earnings from LEL to ST), then 13.8% above UAP

Notes

⁽¹⁾ Although employer contributions do not *per se* give any benefit entitlements, earnings between the LEL and ST are those classed as relevant for S2P. Employers with contracted-out occupational pension schemes receive a rebate of contributions for scheme members of 3.4 per cent (COSR). This applies from the LEL to the UAP, so earnings from LEL to ST attract a 'negative' contribution and the rate for earnings from ST to UAP is reduced as shown.

⁽²⁾ From 22 June 2010 until 5 September 2013, qualifying businesses will be exempt (when a claim is made and accepted) from the first £5,000 of Class 1 NICs due in respect of the first ten qualifying employees hired in the first year of business (*National Insurance Contributions Act 2011*, s. 4).

1-080 Class 1 NIC: 2011–12**Class 1 contributions****Class 1 primary (employee) contributions 2011–12**

Lower earnings limit (LEL) ⁽¹⁾	£102 weekly £442 monthly £5,304 yearly
Primary threshold (PT)	£139 weekly £602 monthly £7,225 yearly
Upper earnings limit (UEL)	£817 weekly £3,540 monthly £42,475 yearly
Upper accrual point (UAP)	£770 weekly £3,337 monthly £40,040 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	12% on £139.01 to £817 weekly 2% on excess over £817

Contracted-out rate	10.4% on £139.01 to £770 weekly 12% on £770.01 to £817 weekly 2% on excess over £817
Reduced rate	5.85% on £139.01 to £817 weekly 2% on excess over £817 (no rebate even if contracted-out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT, count towards the employee's basic state pension, even though no contributions are paid on those earnings. Similarly, earnings between the LEL and the PT count towards the employee's entitlement to certain benefits including the second state pension (S2P). Employees in contracted-out employment earn no S2P rights and receive a rebate of contributions of 1.6 per cent. This applies from the LEL to the UAP, so earnings from LEL to PT attract a 'negative' contribution of 1.6 per cent and the rate for earnings from PT to UAP becomes 10.4 per cent. Earnings from UAP to UEL are subject to the main not contracted-out rate.

Monthly and annual LEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Class 1 secondary (employer) contributions 2011–12⁽²⁾

Secondary earnings threshold (ST)	£136 weekly £589 monthly £7,072 yearly
Not contracted-out rate	13.8% on earnings above the ST
Contracted-out rate ⁽¹⁾	10.1% for salary-related (COSR) and 12.4% for money-purchase (COMP) schemes on earnings from ST to UAP (plus 3.7% and 1.4% rebates for earnings from LEL to ST), then 13.8% above UAP.

Notes

⁽¹⁾ Although employer contributions do not *per se* give any benefit entitlements, earnings between the LEL and ST are those classed as relevant for S2P. Employers with contracted-out occupational pension schemes receive a rebate of contributions for scheme members of 3.7 per cent (COSR) or 1.4 per cent (COMP). This applies from the LEL to the UAP, so earnings from LEL to ST attract a 'negative' contribution and the rate for earnings from ST to UAP is reduced as shown

⁽²⁾ From 22 June 2010 until 5 September 2013, qualifying businesses will be exempt (when a claim is made and accepted) from the first £5,000 of Class 1 NICs due in respect of the first ten qualifying employees hired in the first year of business (*National Insurance Contributions Act 2011*, s. 4).

1-100 Class 1 NIC: 2010–11

Class 1 contributions

Class 1 primary (employee) contributions 2010–11

Lower earnings limit (LEL) ⁽¹⁾	£97 weekly £421 monthly £5,044 yearly
Primary threshold (PT)	£110 weekly £476 monthly £5,715 yearly

Class 1 contributions**Class 1 primary (employee) contributions 2010–11**

Upper earnings limit (UEL)	£844 weekly £3,656 monthly £43,875 yearly
Upper accrual point (UAP)	£770 weekly £3,337 monthly £40,040 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	11% on £110.01 to £844 weekly 1% on excess over £844
Contracted-out rate	9.4% on £110.01 to £770 weekly 11% on £770.01 to £844 weekly 1% on excess over £844
Reduced rate	4.85% on £110.01 to £844 weekly 1% on excess over £844 (no rebate even if contracted-out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT, count towards the employee's basic state pension, even though no contributions are paid on those earnings. Similarly, earnings between the LEL and the PT count towards the employee's entitlement to certain benefits including the second state pension (S2P). Employees in contracted-out employment earn no S2P rights and receive a rebate of contributions of 1.6 per cent. This applies from the LEL to the UAP, so earnings from LEL to PT attract a 'negative' contribution of 1.6 per cent and the rate for earnings from PT to UAP becomes 9.4 per cent. Earnings from UAP to UEL are subject to the main not contracted-out rate.

Monthly and annual LEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Class 1 secondary (employer) contributions 2010–11⁽²⁾

Secondary earnings threshold (ST)	£110 weekly £476 monthly £5,715 yearly
Not contracted-out rate	12.8% on earnings above the ST
Contracted-out rate ⁽¹⁾	9.1% for salary-related (COSR) and 11.4% for money-purchase (COMP) schemes on earnings from ST to UAP (plus 3.7% and 1.4% rebates for earnings from LEL to ST), then 12.8% above UAP.

Notes

⁽¹⁾ Although employer contributions do not *per se* give any benefit entitlements, earnings between the LEL and ST are those classed as relevant for S2P. Employers with contracted-out occupational pension schemes receive a rebate of contributions for scheme members of 3.7 per cent (COSR) or 1.4 per cent (COMP). This applies from the LEL to the UAP, so earnings from LEL to ST attract a 'negative' contribution and the rate for earnings from ST to UAP is reduced as shown.

⁽²⁾ From 22 June 2010 until 5 September 2013, qualifying businesses will be exempt (when a claim is made and accepted) from the first £5,000 of Class 1 NICs due in respect of the first ten qualifying employees hired in the first year of business (*National Insurance Contributions Act 2011*, s. 4).

1-120 Class 1 NIC: 2009–10

Class 1 contributions

Class 1 primary (employee) contributions 2009–10

Lower earnings limit (LEL) ⁽¹⁾	£95 weekly £412 monthly £4,940 yearly
Primary threshold (PT)	£110 weekly £476 monthly £5,715 yearly
Upper earnings limit (UEL)	£844 weekly £3,656 monthly £43,875 yearly
Upper accrual point (UAP)	£770 weekly £3,337 monthly £40,040 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	11% on £110.01 to £844 weekly 1% on excess over £844
Contracted-out rate	9.4% on £110.01 to £770 weekly 11% on £770.01 to £844 weekly 1% on excess over £844
Reduced rate	4.85% on £110.01 to £844 weekly 1% on excess over £844 (no rebate even if contracted-out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT, count towards the employee's basic state pension, even though no contributions are paid on those earnings. Similarly, earnings between the LEL and the PT count towards the employee's entitlement to certain benefits including the second state pension (S2P). Employees in contracted-out employment earn no S2P rights and receive a rebate of contributions of 1.6 per cent. This applies from the LEL to the UAP, so earnings from LEL to PT attract a 'negative' contribution of 1.6 per cent and the rate for earnings from PT to UAP becomes 9.4 per cent. Earnings from UAP to UEL are subject to the main not contracted-out rate.

Monthly and annual LEL, UEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Class 1 secondary (employer) contributions 2009–10

Secondary earnings threshold (ST)	£110 weekly £476 monthly £5,715 yearly
Not contracted-out rate	12.8% on earnings above the ST
Contracted-out rate ⁽¹⁾	9.1% for salary-related (COSR) and 11.4% for money-purchase (COMP) schemes on earnings from ST to UAP (plus 3.7% and 1.4% rebates for earnings from LEL to ST), then 12.8% above UAP.

Notes

⁽¹⁾ Although employer contributions do not *per se* give any benefit entitlements, earnings between the LEL and ST are those classed as relevant for S2P. Employers with contracted-out occupational

pension schemes receive a rebate of contributions for scheme members of 3.7 per cent (COSR) or 1.4 per cent (COMP). This applies from the LEL to the UAP, so earnings from LEL to ST attract a 'negative' contribution and the rate for earnings from ST to UAP is reduced as shown

1-140 Class 1 NIC: 2008–09

Class 1 contributions

Class 1 primary (employee) contributions 2008–09

Lower earnings limit (LEL) ⁽¹⁾	£90 weekly £390 monthly £4,680 yearly
Primary threshold (PT)	£105 weekly £453 monthly £5,435 yearly
Upper earnings limit (UEL)	£770 weekly £3,337 monthly £40,040 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	11% on £105.01 to £770 weekly 1% on excess over £770
Contracted-out rate	9.4% on £105.01 to £770 weekly 1% on excess over £770
Reduced rate	4.85% on £105.01 to £770 weekly 1% on excess over £770 (no rebate even if contracted-out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT, count towards the employee's basic state pension, even though no contributions are paid on those earnings. Similarly, earnings between the LEL and the primary threshold count towards the employee's entitlement to certain benefits including the second state pension (S2P). Employees in contracted-out employment earn no S2P rights and receive a rebate of contributions of 1.6 per cent. This applies from the LEL to the UEL, so earnings from LEL to PT attract a 'negative' contribution of 1.6 per cent and the rate for earnings from PT to UEL becomes 9.4 per cent.

Monthly LEL and UEL figures are calculated per SI 2001/1004, reg. 11 (as amended by SI 2008/133). The equivalent annual figures are calculated as 52 times the weekly figure (NIM 12021).

Class 1 secondary (employer) contributions 2008–09

Secondary earnings threshold (ST)	£105 weekly £453 monthly £5,435 yearly
Not contracted-out rate	12.8% on earnings above the ST
Contracted-out rate ⁽¹⁾	9.1% for salary-related (COSR) and 11.4% for money-purchase (COMP) schemes (plus 3.7% and 1.4% rebates for earnings from LEL to ST), then 12.8% above UEL.

Notes

⁽¹⁾ As for employees, earnings between the LEL and the ST will count towards the employee's entitlement to S2P. Employers with contracted-out occupational pension schemes receive a rebate of contributions for scheme members of 3.7 per cent (COSR) or 1.4 per cent (COMP). This applies from the LEL to the UEL, so earnings from LEL to ST attract a 'negative' contribution and the rate for earnings from ST to UEL is reduced as shown.

1-160 Class 1 NIC: 2007-08

Class 1 contributions

Class 1 primary (employee) contributions 2007-08

Lower earnings limit (LEL) ⁽¹⁾	£87 weekly £377 monthly £4,524 yearly
Primary threshold (PT)	£100 weekly £435 monthly £5,225 yearly
Upper earnings limit (UEL)	£670 weekly £2,904 monthly £34,840 yearly
Rate on earnings up to PT ⁽¹⁾	0%
Not contracted-out rate	11% on £100.01 to £670 weekly 1% on excess over £670
Contracted-out rate ⁽¹⁾	9.4% on £100.01 to £670 weekly 1% on excess over £670 (1.6% also rebated for earnings from LEL £87 to PT £100)
Reduced rate	4.85% on £100.01 to £670 weekly 1% on excess over £670 (no rebate even if contracted-out)

Notes

⁽¹⁾ Earnings from the LEL, up to and including the PT will count towards the employee's basic state pension, even though no contributions will have been paid on those earnings. Similarly, earnings between the LEL and the PT will count towards the employee's entitlement to certain benefits including the additional pension, the second state pension (S2P). Employees in contracted-out employment receive a rebate of contributions of 1.6 per cent. This applies from the LEL to the UEL, so earnings from LEL to PT attract a 'negative' contribution of 1.6 per cent and the rate for earnings from PT to UEL becomes 9.4 per cent.

Class 1 secondary (employer) contributions 2007-08

Secondary earnings threshold (ST)	£100 weekly £435 monthly £5,225 yearly
Not contracted-out rate	12.8% on earnings above threshold
Contracted-out rate ⁽¹⁾	9.1% for salary-related (COSR) and 11.4% for money-purchase (COMP) schemes (plus 3.7% and 1.4% rebates for earnings from LEL to secondary threshold), then 12.8% above UEL.