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British Tax Guide:
National Insurance Contributions

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Preface

The world of NIC is changing. The biggest potential change was that the government announced not long after taking office that it was going to consult on merging the operation of PAYE and NIC, but predictably enough that plan has run into the sand. As a wise man once said, if I was going there, I wouldn't start from here.

The benefits system is certainly changing, though, and the reform might make it easier, eventually, to make some progress towards the harmonised system that people allegedly crave. The link between contributions and the earnings-related element of the state pension, S2P, has been reformed this year, and *Pensions Act* 2011 has pushed virtually everybody's state pension age further into the future, with consequent effects on the value and incidence of their NICs.

The EU's attempts at modernisation of the rules for migrant workers in 2010 have had to be re-written already, with special rules created for air crew and those who regularly work in two or more member states, while Switzerland and the EFTA states have fallen into line behind the 2010 regulations, just in time for them to be changed. Croatia is set to join the EU in mid–2013 – it is hoped that they know what they are signing up to.

HMRC's successes in the courts have been notable over the last year. ITV's artistes seem now destined to be treated mainly as employees after it lost its appeal against the status decision reported last year. The NIC-on-FURBS case, where Forde & McHugh Limited had previously succeeded before two tribunals, went in favour of HMRC at the Court of Appeal, questionably so in the minds of some, and the Supreme Court may yet revert to the tribunals' decisions. Reed Employment plc lost a significant case on salary sacrifice for home-to-work travel expenses before the First-Tier Tribunal and the appeal is awaited by the rest of the population of umbrella employment businesses. The anti-avoidance bandwagon was ostensibly also given an extra push by the introduction of NIC regulations to cope with the disguised remuneration rules in FA 2011, albeit eight months late and with a major flaw, in that they deem the taxable amount to be earnings for NIC purposes but fail to deem any payment to take place, so there can be no actual NIC liability in many cases.

Lightening the mood for the year, the government provided a knee-jerk reaction to the Ed Lester story (the Student Loans Company chief executive was working through a personal service company) by consulting on the idea of making all 'controlling persons' go onto the payroll of the client organisation. It was an idea rejected when IR35 was conceived, and it is difficult to see why it should work now, but time will tell.

It is perhaps worth noting that regulations in April 2012 finally closed a hole in the collection mechanism for NICs that arose in 2004 from inadequate updating of the NIC regulations following the re-write of the Schedule E legislation in ITEPA. The NIC rules, for eight years, did not empower employers to recover

Class 1 NICs in respect of many employment-related security gains, nor were they obliged to report any such amounts, because the regulations did not encompass for that period any amounts taxable under ITEPA 2003, Pt. 7 as a result of an incorrect definition of earnings. It seems unlikely that any employer will be making a refund claim.

Finally, it must be reported that the Regional NIC Holiday scheme, whose early demise was predicted here when it was introduced, has achieved just 3.5 per cent of its target after half of its projected life. The previous NIC Holiday died a quiet, lonely death in the late 1990s, and it was never a good idea to try waking the dead.

This year's text covers rules and cases up to 1 July 2012 and is intended as an explanation and outline of the current scheme, with historical background given to aid understanding of the present and to assist in dealing with HMRC enquiries into the last six years.

Once again, I must express my thanks to my partners and colleagues in Baker Tilly for their support, patience and endless supply of challenging questions, and to my colleagues on the ICAEW's Employer Taxes and NIC Committee, who helped me keep on top of all the changes. Any mistakes are mine alone, but tax and NICs are now too complex to be anything but a team effort.

David Heaton

August 2012

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 2012-13 added (accessible via the online link to *Hardman's Tax Rates and Tables* - see Contents table)

300-900: IR35 and status continue to cause problems and require change.

306-025: contracting out through money purchase pensions has been abolished.

306-600: HMRC succeeded in overturning decisions previously made in favour of employers in *Forde & McHugh Limited* (FURBS contributions were earnings subject to NICs, according to the Court of Appeal) and *Cheshire Employer & Skills Development Limited* (exclusion of car allowances as relevant motoring expenditure).

306-685: the disguised remuneration rules, introduced by FA 2011 to combat tax avoidance arrangements, were extended to create corresponding NIC liabilities from 6 December 2011, albeit with a major flaw that neuters the new regulations.

307-525: two avoidance schemes were successfully challenged by HMRC before the tribunal and Court of Appeal, although both *Reed Employment plc* (salary sacrifice and travel to work expenses) and *PA Holdings Limited* (bonuses converted to dividends) are expected to take their cases further.

321-800 and 336-325: the European social security rules for migrant workers that were updated in May 2010 were found to be deficient, and key parts have been re-written from June 2012, together with special rules for air crew.

322-000: ITV Services lost its appeal against having many of its artistes deemed to be its employees under the entertainers rules in the *Categorisation Regulations* 1978.

323-375: the deemed employee status of freelance lecturers, teachers and instructors has been revoked.

325-000 and 330-400: change to the state pension age, under *Pensions Act* 2011, affecting both liability for contributions and the value of such contributions.

340-850: the reporting landscape is changing, as HMRC prepares to switch employers from annual reporting to real-time reporting, requiring real-time information (RTI) from April 2013.

341-535: employers who pose a threat to the NI system through failure to pay on time and in full may now be required to provide security for payment, with the threat of criminal penalties if they do not comply.

Key data: National insurance contributions

National Insurance contributions

1-000 NIC rates: general

There are six classes of National Insurance contributions payable according to the individual circumstances of the payer.

Class 1 contributions

Class 1 contributions are earnings-related and payable by employer and employee on earnings above the earnings threshold. From 6 April 2011, the primary threshold (PT) applies for employees and the secondary threshold (ST) for employers. Employees pay at the main rate up to the upper earnings limit (UEL) and, from 6 April 2011, the 2 per cent 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, until 5 April 2009, the UEL and, from 6 April 2009, 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.

For 2012 to 2017 the rebates for defined benefit schemes (salary-related schemes) have been reduced to 3.4% for employers and 1.4% for employees. From 6 April 2012 contracting out via money-purchase (COMP) schemes was abolished. Contracting out via a personal pension plan is also no longer possible from 6 April 2012.

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

Men over 65 and women over state pension age (60–65 since 6 April 2010) 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.

1-020 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	–1.4% on £107 to £146 weekly 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 primary threshold (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, UEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Class 1 secondary (employer) contributions 2012–13

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).

1-040 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[1]	–1.6% on £102 to £139 weekly 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 primary threshold (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, UEL and UAP figures are calculated as per SI 2001/1004, reg. 11.

Class 1 secondary (employer) contributions 2011–12

Secondary earnings threshold (ST)	£136 weekly £589 monthly £7,072 yearly
Not contracted-out rate	13.8% on earnings above the ST

Class 1 secondary (employer) contributions 2011–12	
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% 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 3.7 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).

1-060 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
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 primary threshold (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 2010–11

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

1-080 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 primary threshold (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

1-100 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 primary threshold (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.

1-120 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%. This applies from the LEL to the UEL, so earnings from LEL to PT attract a 'negative' contribution of 1.6% and the rate for earnings from PT to UEL becomes 9.4%.

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.
Reduced rate	12.8% on earnings above the threshold, rebated as above if the woman is in contracted-out employment

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% (COSR) or 1.4% (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.

1-140 Class 1 NIC: 2006–07

Class 1 contributions

Class 1 primary (employee) contributions 2006–07

Lower earnings limit (LEL)[1]	£84 weekly £364 monthly £4,368 yearly
Primary threshold (PT)	£97 weekly £420 monthly £5,035 yearly
Upper earnings limit (UEL)	£645 weekly £2,795 monthly £33,540 yearly
Rate on earnings up to PT[1]	0%
Not contracted-out rate	11% on £97.01 to £645 weekly 1% on excess over £645
Contracted-out rate[1]	9.4% on £97.01 to £645 weekly 1% on excess over £645 (1.6% also rebated for earnings from LEL £84 to PT £97)

Class 1 primary (employee) contributions 2006–07	
Reduced rate	4.85% on £97.01 to £645 weekly 1% on excess over £645 (no rebate even if contracted-out)

Notes

(1) As 2007–08 above.

Class 1 secondary (employer) contributions 2006–07	
Secondary earnings threshold (ST)	£97 weekly £420 monthly £5,035 yearly
Not contracted-out rate	12.8% on earnings above the ST
Contracted-out rate[1]	9.3% for salary-related (COSR) and 11.8% for money-purchase (COMP) schemes on earnings from secondary threshold to the UEL, then 12.8% on earnings above the UEL (plus 3.5% (COSR) and 1% (COMP) rebates for earnings from LEL to ST)
Reduced rate	12.8% on earnings above the ST, rebated as above if the woman is in contracted-out employment

Notes

(1) As for employees, earnings between the LEL and the PT will count towards the employee's entitlement to SERPS and S2P. Employers with contracted-out occupational pension schemes receive a rebate of contributions for scheme members of 3.5% (COSR) or 1% (COMP). This applies from the LEL to the UEL, so earnings from LEL to PT attract a 'negative' contribution and the rate for earnings from PT to UEL is reduced as shown.

1-160 Class 1 NIC: 2005–06

Class 1 contributions

Class 1 primary (employee) contributions 2005–06	
Lower earnings limit (LEL)[1]	£82 weekly £356 monthly £4,264 yearly
Primary threshold (PT)	£94 weekly £408 monthly £4,895 yearly
Upper earnings limit (UEL)	£630 weekly £2,730 monthly £32,760 yearly
Rate on earnings up to PT[1]	0%
Not contracted-out rate	11% on £94.01 to £630 weekly 1% on excess over £630

Class 1 primary (employee) contributions 2005–06

Contracted-out rate[1]	9.4% on £94.01 to £630 weekly 1% on excess over £630 (1.6% also rebated for earnings from LEL £82 to PT £94)
Reduced rate	4.85% on £94.01 to £630 weekly 1% on excess over £630 (no rebate even if contracted-out)

Notes

[1] As 2007–08 above.

Class 1 secondary (employer) contributions 2005–06

Secondary earnings threshold (ST)	£94 weekly £408 monthly £4,895 yearly
Not contracted-out rate	12.8% on earnings above ST
Contracted-out rate[1]	9.3% for salary-related (COSR) and 11.8% for money-purchase (COMP) schemes on earnings from the ST to the UEL, then 12.8% on earnings above the UEL (plus 3.5% (COSR) and 1% (COMP) rebates for earnings from LEL to ST)
Reduced rate	12.8% on earnings above the ST, rebated as above if the woman is in contracted-out employment

Notes

[1] As 2006–07 above.

1-200 Class 1A contributions

Since 6 April 2000, employers (but not employees) have paid NICs on an annual basis on benefits in kind provided to employees earning at the rate of £8,500 p.a. or more or to directors (SSCBA 1992, s. 10). Contributions for the year are due by 19 July following the end of the tax year to which they relate (22 July for electronic payment). Rates applying are always the full Class 1 secondary (employer) rate for each year, with no rebate for contracted-out employees. They have been as follows:

2005–06 to 2010–11: 12.8%, 2011–12 to 2012-13: 13.8%

For rates of interest on late paid Class 1A contributions, see **1-320**

1-220 Return deadlines for Class 1 and 1A contributions

Forms	Date	Penalty provision
End of year returns P14, P35, P38 and P38A	19 May following year of assessment	TMA 1970, s. 98A (to change to FA 2009, Sch. 55 once commenced)
P11D(b)	6 July following year of assessment	SI 2001/1004, reg. 81(2)

Note

In cases of PAYE and NIC default there are provisions to prevent double charging. Class 1A contributions are recorded annually in arrears. Penalties will only be imposed if there is a delay in the submission of the relevant year's PAYE return or P11Ds and P11D(b).

1-240 Class 1B contributions

Class 1B contributions are payable by employers on the amount of earnings in a PAYE settlement agreement (PSA) that are chargeable to Class 1 or Class 1A NICs, together with the total amount of income tax payable under the agreement (SSCBA 1992, s. 10A). Class 1B contributions are charged at the same rate as Class 1A contributions (see above) and are payable by 19 October after the end of the tax year to which the PSA applies (22 October for electronic payment).

1-260 Class 2 contributions

Class 2 contributions are paid at a flat rate by a self-employed person unless he has applied for and been granted exception because his earnings are below the small earnings exception (SEE) limit for Class 2 contributions. If a person is excepted, he may still pay the contributions voluntarily to keep up his right to the benefits they provide.

Rates and SEE limit

	Weekly contribution rate			
Tax year	Rate £	Share fishermen £	Volunteer development workers £	Small earnings exception limit £
2012–13	2.65	3.30	5.35	5,595
2011–12	2.50	3.15	5.10	5,315
2010–11	2.40	3.05	4.85	5,075
2009–10	2.40	3.05	4.75	5,075
2008–09	2.30	2.95	4.50	4,825
2007–08	2.20	2.85	4.35	4,635