

NATIONAL INSURANCE

National insurance contributions (NIC) are essentially a tax on earned income. The national insurance (NI) regime divides income into different classes: Class 1 contributions are payable on earnings from employment, while the profits of the self-employed are liable to Class 2 and 4 contributions.

National insurance is often overlooked yet it is the largest source of Government revenue after income tax.

From April 1999 the collection of NIC has been taken over by the Revenue to promote greater alignment of tax and NICs.

We highlight below the areas you need to consider and identify some of the potential problems. Please contact us for further specific advice.

SCOPE OF NICs

Employees

Employees are liable to pay Class 1 NIC on their earnings. In addition a further secondary contribution is due from the employer.

Employee contributions are only due when earnings exceed an 'earnings threshold' (currently £89 a week). The amount payable is 10% of the earnings above £89 up to earnings of £585 a week. The maximum weekly employee contributions are currently £49.60.

Secondary contributions are due from the employer of 11.8% of earnings above the 'earnings threshold'. There is no upper limit on the employer's payments.

Benefits in kind

Employers providing benefits in kind such as company cars for employees have a further NIC liability under Class 1A. Contributions are payable on the amount charged to income tax as a taxable benefit.

Prior to 6 April 2000 only company cars and fuel were subject to Class 1A. From this date most benefits are subject to employer's NI.

The current rate of Class 1A is the same as the employer's secondary contribution rate – ie 11.8%.

The self-employed

NICs are due from the self-employed as follows:

- flat rate contribution (Class 2)

NASH HARVEY LLP

Factsheet