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Changes to National Insurance

The Government has recently introduced a number of changes to national insurance and further measures affecting both employers and individuals are in the pipeline. This factsheet provides an overview of some key changes, as well as offering advice on a range of strategies to help minimise your national insurance bill.

Employment Allowance

The Employment Allowance was introduced in April 2014, with the aim of reducing the employer national insurance liability for businesses and charities, and encouraging businesses to expand and take on new staff.

While a small number of exclusions apply, most businesses, charities and Community Amateur Sports Clubs are entitled to claim an annual reduction of up to £2,000 in their employer national insurance contributions (NICs) bill.

There are rules to limit the Employment Allowance to a total of £2,000 where there are 'connected' employers. For example, two companies are connected with each other if one company controls the other company.

The employer's payment of PAYE and NICs is reduced each month to the extent it includes an employer Class 1 NIC liability until the £2,000 limit has been reached.

The allowance can be claimed via payroll software or HM Revenue & Customs (HMRC) Basic PAYE Tools. Do contact us if you believe you are entitled to the allowance as it is possible to claim up to four years after the end of the tax year in which the allowance applies.

There are some exceptions for employer Class 1 liabilities which can be covered by the Employment Allowance including liabilities arising from:

- a person who is employed (wholly or partly) for purposes connected with the employer's personal, family or household affairs
- the carrying out of functions either wholly or mainly of a public nature (unless charitable status applies), for example NHS services and General Practitioner services
- employer contributions deemed to arise under IR35 for personal service companies.

With effect from 6 April 2015 Employment Allowance has been extended to those employing care and support workers. If you need guidance on this area please do get in touch so that we can offer specific advice.

From April 2016 the Employment Allowance will increase to £3,000. However, companies where the director is the sole employee will no longer be able to claim this allowance.

Who will benefit

The Government announced the increase in the Employment Allowance in recognition of the fact that the new National Living Wage (NLW) may increase costs for some businesses. Up to 90,000 employers are expected to see their employer NICs liability reduced to zero, allowing businesses to employ up to four full time workers on the new NLW from next year, without paying any NICs.

Scrapping NICs for under-21s

From 6 April 2015 employer NICs for those under the age of 21 are reduced from the normal rate of 13.8% to 0%. For the 0% rate to apply the employee will need to be under 21 when the earnings are paid.

This exemption will not apply to earnings above the Upper Secondary Threshold (UST) in a pay period. The UST is a new term for this new NIC exemption. It is set at the same amount as the Upper Earnings Limit (UEL), which is the amount at which employee NICs fall from 12% to 2%. The weekly UST is £815 for 2015/16 which is equivalent to £42,385 per annum. Employers will be liable to 13.8% NICs beyond this limit. In the Second Budget it was confirmed that the UEL will increase in line with the income tax higher rate threshold. This will increase to £43,000 in 2016/17 and to £43,600 in 2017/18.

The new rules apply to both existing employees and employers taking on new staff. They do not affect an individual's entitlement to the State Pension or contributions based benefits such as Statutory Sick Pay or Statutory Maternity Pay. The employee NICs due are unaffected and remain payable by the employee.

ABOLISHING NICs FOR APPRENTICES UNDER-25s

The Government will abolish employer NICs up to the UST for apprentices aged under 25 with the stated aim of encouraging the employment of younger workers and boosting the economy by bridging the skills gap.

From April 2016, employers who engage apprentices under the age of 25 will be able to claim exemption from employers' NICs on the cost of the apprentice's salary up to the UST. Detailed regulations will be issued on the NICs for apprentices including the definition of an apprentice.

Who will benefit

The new measure is expected to save employers an estimated £105 million in employers' NICs during its first year of operation.

NEW CLASS 3A NICs

With effect from 6 April 2016, a new single-tier State Pension will replace the existing two-part system plus various means-tested benefits, for those reaching State Pension Age on or after 6 April 2016.

The Government is providing a one-off opportunity to allow existing pensioners and those reaching State Pension Age before 6 April 2016 to top up their additional State Pension, by up to £25 per week by paying Class 3A voluntary NICs.

How it works

Each unit of Class 3A contributions will result in £1 per week of additional State Pension. The price of Class 3A is based on an actuarially fair rate with prices varying between £127 and £934 per unit depending on the purchaser's age.

Those wishing to take advantage of the Class 3A contribution must meet the following conditions:

- They must be entitled to a UK State Pension
- They must reach State Pension Age before 6 April 2016.

The facility will apply from 12 October 2015 to 5 April 2017, for eligible individuals.

The new Class 3A contribution will not replace the existing Class 3, and those taking up the new Class 3A will be advised to consider making Class 3 contributions where appropriate.

Applications and payments relating to Class 3A contributions will be dealt with by HMRC.

Who will benefit

The transitional measures are likely to be of particular benefit to those with low earnings, particularly women and carers, who tend to have low Additional State Pension entitlement, and also the self employed who are excluded from the State Earnings Related Pension Scheme (SERPS) and the State Second Pension.

Please note that receiving extra Additional State Pension could impact on certain state benefits. It is important to consider a number of areas when deciding whether to make Class 3A contributions.

Please contact us for further advice.

ADDITIONAL FUTURE MEASURES

Abolishing Class 2 and reforming Class 4 NICs

The Coalition Government previously introduced significant changes to Class 2 NICs, resulting in the introduction in April 2015 of new provisions for the collection and payment of Class 2 NICs via self assessment, rather than direct debit generally on a monthly or six-monthly basis.

From 6 April 2015 liability to pay Class 2 NIC will arise at the end of each year.

The amount of Class 2 NICs due will still be calculated based on the number of weeks of self employment in the year, but will be determined when the individual completes their self assessment return. It will therefore be paid alongside their income tax and Class 4 NICs. For those who wish to spread the cost of their Class 2 NICs, HMRC will retain a facility for them to make regular payments throughout the year.

Those with profits below the stated threshold no longer have to apply in advance for an exception from paying Class 2 NICs. Instead they will have the option to pay Class 2 NICs voluntarily at the end of the year so that they may protect their benefit rights.

The Government has announced that Class 2 NICs will be abolished in this Parliament and it will reform Class 4 NICs to include a contributory benefit test.

MINIMISING THE NIC BILL

We can work with you on a range of ideas for saving employer and/or employee NICs.

Dividends instead of salary/bonus

For limited companies you should consider paying dividends rather than a salary/bonus. Where directors are in receipt of a salary/bonus from a company, the NIC cost may be such that part of the payment could be more cost effectively made as a dividend. There are special rules for some companies providing personal services.

The decision on whether to pay a dividend is complex because doing so may influence the value of the company's shares and therefore increase the liability to capital gains tax and inheritance tax. There is also a maximum amount that may be paid, based on the company's results.

Further strategies you may also want to consider:

- Increasing the amount the employer contracts to contribute to company pension schemes.
- Share incentive plans (shares bought out of pre-tax and pre-NIC income – this is a specialist area. Please get in touch for advice).
- Salary sacrifice arrangements in respect of tax-free benefits in kind, such as the provision of childcare.

For further advice on national insurance contributions, please contact us. We have expertise in all areas of running a business and would be delighted to assist you.