

Individuals

National Insurance Contributions

From the age of 16 to state retirement age, you must pay National Insurance Contributions (NICs) if you are an employee currently earning above £153 per week (£155 per week from 5 April 2015), or self-employed and making a profit over £5,885 per year (£5,965 from 5 April 2015). The exact amount you must pay depends on your employment status and how much you earn.

Class 1 National Insurance Contributions

Class 1 National Insurance is paid by employees, which includes company directors and is deducted from your gross pay by your employer. The rates for most people are:

- 12% on your weekly earnings between £153 and £805 to 5 April 2015 – from 6 April 2015 this rate applies to earnings between £155 and £815
- 2% on any weekly earnings over £805 to 5 April 2015 – from 6 April 2015 this rate applies to earnings over £815

It is worth mentioning that the above rates apply to each employment, so if you have two jobs and earn £150 per week from each, you will not suffer deduction of any Class 1 NICs.

If you are paying National Insurance on more than one employment and earn more than the upper threshold on at least one of those jobs, you can apply for deferral. This is done using form CA72A available on the HMC website.

If successful, National Insurance on your second, or additional employments, will then be deferred until after the end of the tax year. HMRC will assess the total amount of NICs suffered during the year and ask you to pay any further amounts due.

You will pay less National Insurance if you are in a contracted out workplace pension, or if you are a married woman or widow with a valid 'certificate of election' (until April 1977 married women could choose to pay a reduced rate of National Insurance – you might still be paying the reduced rate if you made that election).

If your earnings are below the threshold, you will still build up rights to state benefits, providing that you earn at least £111 per week in the current year, or £112 per week from 6 April 2015. Anybody who earns between £111 (£112) and £153 (£155) per week is given National Insurance credits, which count towards earnings periods for state pension and certain state benefits.

NB There are different rules for directors – NICs are calculated on their annual income, rather than what they earn in each pay period.

Class 2 National Insurance Contributions

If you are self-employed (or a partner in a partnership business), when you register for self assessment the process registers you for both tax and National Insurance. Class 2 National Insurance for self-employed individuals is sometimes referred to as the 'weekly stamp'.

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Class 2 NICs count towards:

- State Pension
- Employment and Support Allowance
- Bereavement benefits
- Maternity Allowance

Class 2 National Insurance is paid at a weekly rate of £2.75 per week for the year to 5 April 2015 and £2.80 from 6 April 2015.

Class 2 Contributions are currently paid in a number of ways – at the Post Office, at a bank, by Direct Debit, or by post. From April 2015 this changes and Class 2 NICs will be collected through the self assessment tax system.

The change to the collection method of Class 2 NICs brings a change to the small earnings exception. For the year to 5 April 2015, if your annual profit was expected to be less than £5,885, you may have applied for a small earnings exception.

From April 2015 if your annual profits are less than £5,965 you will not pay Class 2 NICs unless you voluntarily choose to do so. Many individuals will wish to pay voluntarily in order to protect their entitlements to state benefits and state pension.

Class 4 National Insurance Contributions

Class 4 National Insurance is an additional charge for self-employed individuals (and partners in a partnership) based on the net annual profit. The amount charged is:-

Rate band	2014-15	2015-16
Nil rate band	Profits less than £7,965	Profits less than £8,060
Standard 9% rate	Profits £7,965 to £41,865	Profits £8,060 to £41,865
Upper 2% rate	Profits over £41,865	Profits over £41,865

The Class 4 liability is calculated on the annual self assessment tax return and paid over with any income tax due.

Unlike other classes of National Insurance, Class 4 does not give any entitlement to contributory state benefits.

Class 3 Voluntary National Insurance Contributions

Class 3 voluntary NICs can be useful if you have gaps in your National Insurance record, which can mean that you have not got enough qualifying years of NICs to get the full state pension. If you think that you may have some gaps in your contributions, you can check your records on the HMRC website: <https://www.gov.uk/check-national-insurance-record>.

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Voluntary contributions don't just help with the state pension entitlement – you may want to increase the bereavement benefits your spouse or civil partner gets if you die.

Class 3 NICs are paid at a weekly rate for the year to 5 April 2015 and increase to £14.10 from 6 April 2015.

State Pension Top-up

If you are a man born before 6 April 1951 or a woman born before 6 April 1953, there is an option to top-up your state pension by up to £25 per week, but this option is only available until 5 April 2017.

You can choose to top up your pension by anything between £1 and £25 per week and the amount you will need to contribute depends on how much extra pension you want to get and how old you are when you make the contribution.

The pension calculator can be accessed here: <https://www.gov.uk/state-pension-topup>.

What happens if you are both employed and self-employed?

If you have income from both employment and self-employment, you will suffer Class 1 contributions on your employment income (assuming it is above the lower threshold) but may also be asked to pay Classes 2 and 4. In the past this had resulted in some people overpaying National Insurance.

People with both employment and self-employment income used to have to apply annually for deferment of Class 2, Class 4 or both if they believed they would otherwise overpay National Insurance. From April 2015, the system is changing with Class 2 contributions being collected through the self assessment system. This means that there will no longer be a need to defer contributions. Once your self assessment return has been filed, HMRC will review your National insurance records and calculate how much, if any you must pay in Class 2 and Class 4.

Need help?

If you believe you may have overpaid National Insurance in earlier years, or have any questions relating to NICs, Waveney Tax Solutions can help. Call us on 01502 370620 or 07919 924273, or alternatively you can email us at nina@waveneytaxsolutions.co.uk.