

National Insurance Overview

National Insurance contributions (NIC) are paid so that the recipients can claim social security benefits, pensions and other government allowances.

- Class 1 Contributions.

Paid by the employer and the employee. Calculated, and collected, by the employer from the employees' payroll. Paid monthly to the government with PAYE, (or quarterly for payrolls less than £1500 per month).

The contributions are limited for employed women from age 60 and men from age 65. Employers' contributions are still payable.

Contribution rates are based upon earnings above a minimum earnings threshold and collected via the employers' payroll (£110 per week 2010/11).

An employer can contract out of the State Second Scheme (previously State Earnings Related Pension scheme), provided there is an approved alternative occupational scheme. There are reductions in the contributions rates to compensate both employer and employee.

Current rates are: -

Employees	£110.01 - £770 per week	11%
	> £770 per week	1%
Employers	£110.01 per week	12.8%

- Class 1 A

Paid only by the employer annually by the 19th July each year.

Contributions are payable on the taxable benefits provided by an employer, and are included on the employees [P11D](#).

- Class 1 B

Payable by an employer in respect of benefits provided by the employer under a PAYE Settlement Agreement, whereby the employer agrees to pay the National Insurance Contributions.

Examples are relocation expenses and where the employer agrees to pay the income tax for the employee.

Calculated and payable only by an employer with PAYE monthly or quarterly.

- **Class 2**

Paid monthly or quarterly by self-employed individuals, or partners, at a current rate of £2.40 per week (2010/11)

Class 2 is not tax deductible and should not be included as a business expense within a set of accounts.

There is an exception limit for small earnings (£5075 p.a. 2010/11) and this must be applied for [National Insurance Class 2 Exceptions](#).

Deferment can be applied for, if a self-employed individual is also paying the class 1 contributions on earnings greater than £43875 pa 2010/11).

- **Class 3**

This is a voluntary contribution and is paid to ensure that an individual will qualify for National Insurance Benefits.

The few people that might be liable to pay are non-employed persons or voluntary workers receiving no remuneration.

Payments are by monthly or quarterly settlement £12.05 p.w. (2010/11).

- **Class 4**

This is paid by the self-employed and partners.

Class 4 NIC is not a business expenses and is not tax deductible.

Class 4 is paid annually and is part of the Self Assessment Tax Return and is calculated on the taxable earnings declared.

Contribution rate is 8% on earnings from £5715 to £43875 and thereafter at 1% (2010/11).

Deferment can be applied for if the self employed person is also paying Class 1 contributions on earnings up to £43875 (2010/11).

All the NIC booklets can be downloaded from

<http://www.hmrc.gov.uk/leaflets/nic.htm>