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National Insurance Contributions – all change

What is changing?
How can Base52 help you?



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Chartered Management Accountants

Simplifying National Insurance for the self-employed

The government is proposing to simplify National Insurance for the self-employed.

Currently, all self-employed people are liable to pay Class 2 and Class 4 NICs, depending on their level of profits.

Class 2 NICs are payable at the rate of £2.85 per week for those earning more than £6,025 in the 2017/18 tax year. At present, self-employed individuals can voluntarily pay Class 2 NIC, even if their profit is below the Small Profits Threshold (SPT) of £6,025. This ensures that their entitlement to state benefits such as the state pension is maintained.

Class 4 NIC is payable on net profits between the Lower Profits Limit (LPL) of £8,164 and the Upper Profits Limit (UPL) of £45,000, at 9%. Net profits above the UPL of £45,000 are liable to Class 4 NIC at the rate of 2%. Class 4 NIC does not provide entitlement to contributory benefits like Class 2 NIC contributions.

What is going to change?

From April 2019 (2019/20) Class 2 NICs will be abolished.

The government will introduce a new contributory benefit test based on Class 4 NIC profits.

The government proposes the following:

- Annual profits between the SPT of £6,025 (2017/18) and the LPL of £8,164 (2017/18) will fall within a zero-rate band. Profits between the SPT and LPL will still build entitlement to certain state benefits.
- It is worth noting that the SPT and LPL thresholds may change by 2019/20. The thresholds used in this eBook relate to the current tax year; 2017/18 but will be updated when we are made aware of any changes.
- Class 4 NICs will count towards benefit entitlement (as Class 2 NIC would have previously).

How will this affect me?

Self-employed individuals with profits above £8,164 will continue to pay Class 4 NIC.

Self-employed individuals with profits between £6,025 and £8,164 will not pay any National Insurance but will be credited with contributions, meaning this group of individuals will be slightly better off.

Self-employed individuals with low profits, so below the SPT of £6,025, will not pay or be credited with Class 4 NIC. This means that if the individual wishes to pay voluntary contributions to ensure that their entitlement to state benefits is protected, they will have to pay Class 3 NIC instead (if the individual is also ineligible for National Insurance credits).

Class 3 NIC is the voluntary contribution that can be paid to make a year a qualifying year. Currently, the rate per week is £14.25 which is significantly greater than the voluntary Class 2 NIC of £2.85 per week. The result is that those with lower profits (less than £6,025) will be paying a larger amount in respect of their National Insurance contributions, or, this may be unaffordable.

National Insurance credits are available to individuals in certain circumstances and help to protect entitlement to contributory benefits. NI credits may be paid to individuals who receive Child Benefit or are in receipt of certain other benefits.

What are the options?

For self-employed individuals with profits below the SPT

1. Pay the Class 3 NIC rate to ensure that you obtain qualifying years for state benefit purposes. The government will be implementing a transitional period for individuals with lower profits.

2. Decide not to make up qualifying years by way of Class 3 NIC. This is likely to affect your entitlement to future state benefits.

Important points to consider:

- A self-employed individual can make back payments of National Insurance for the past six years to make up any gaps. It would be worthwhile checking your National Insurance record and making up any deficits before the new rules come in, as voluntary contributions are more expensive. To view your National Insurance record you will need to activate your Personal Tax Account if you have not already done so using the following link; www.gov.uk/personal-tax-account
- Review whether there is a possibility for entitlement to National Insurance credits. You may be entitled to certain benefits which would mean that you can claim NIC credits.

For self-employed individuals with profits above the SPT

Currently, assuming these new rules are fully implemented, you are not required to take any further action.

Important points to consider;

- A self-employed individual can make back payments of National Insurance for the past 6 years to make up any gaps. It would be worthwhile checking your National Insurance record to see whether you have any gaps. To view your National Insurance record you will need to activate your Personal Tax Account if you have not already done so using the following link; www.gov.uk/personal-tax-account

How can Base52 help you?

At Base52, we can:

- Clarify points mentioned in this eBook and any other concerns you may have relating to this matter.
- Put you in touch with an Independent Financial Adviser to evaluate whether voluntary contributions are a good choice for you.

If you would like Base52's advice and assistance with National Insurance Contributions, contact Carly:

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