

NICs

Things that we know:

- From **6th April 2022**
 - A new **Health and Social Care uplift** was applied to the rates of National Insurance, **increasing all rates by 1.25%**
 - The original proposal was that from 2023/24 onwards, the uplift would go, but it would be replaced by a separate Health and Social Care Levy of 1.25%
- In the **March 2022** Spring statement
 - It was announced that the primary threshold for Class 1 NICs, along with the earnings threshold for Class 4 NICs, was changing with effect from **6th July 2022**
 - So, the **primary threshold**
 - was **£190 p.w.** (£9,880 p.a.) for the **first 13 weeks** of the tax year
 - changed to **£242 p.w.** (£12,570 p.a.) for **the rest of the year.**
- Following the mini budget and the mini-U-turn budget in September / October 2022:
 - Effective from **6th November 2022**, the **1.25%** uplift was removed the introduction of the Health and Social Care Levy was scrapped.
 - From **6th November 2022** until the end of the tax year, the % rates went back down by 1.25%:

• Employee main rate	13.25% reduced to 12%
• Employee additional rate	3.25% reduced to 2%
• Employer rate	15.05% reduced to 13.8%
• Self-employed main profit rate	10.25% reduced to 9%
• Self-employed additional rate	3.25% reduced to 2%

So, we have rates changing during the year and thresholds changing during the year but at different times!

Looking at Primary Class 1:

	April 22	May 22	June 22	July 22	Aug 22	Sept 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23
Primary Threshold	£190 p.w. to 6 th July			£242 p.w.								
Upper Earnings Limit	£967 p.w.											
Rate PT to UEL	13.25% to 6 th November							12%				
Rate over UEL	3.25% to 6 th November							2%				

So, as an example, an **employee earning £1,000 pw would be liable to weekly NICs as follows:**

First 13 weeks (6th April – 5th July)

- The first £190 (up to the PT) would be charged at 0%
- The next £777 (from the PT to the UEL) would be charged at 13.25%: **This equals £102.95**
- The final £33 (the amount above the UEL) would be charged at 3.25%: **This equals £1.07**
- The weekly NIC amount would be £102.95 + £1.07 = **£104.02**

Next 17.57 (yes, it involves percentages of a week!) weeks from (6th July – 5th November)

- The first £242 (up to the new PT) would be charged at 0%
- The next £725 (from the new PT to the UEL) would be charged at 13.25%: **This equals £96.06**
- The final £33 (the amount above the UEL) would be charged at 3.25%: **This equals £1.07**
- The weekly NIC amount would be £96.06 + £1.07 = **£97.13**

Remaining 21.43 weeks from (6th November – 5th April)

- The first £242 (up to the new PT) would be charged at 0%
- The next £725 (from the new PT to the UEL) would be charged at the rate of 12%: **This equals £87**
- The final £33 (the amount above the UEL) would be charged at 2%: **This equals £0.66**
- The weekly NIC amount would be £87 + £0.66 = **£87.66**

If we were then to look at this for the full year this would be

- 13 weeks x £104.02 = £1,354.60
- 17.57 weeks x £97.13 = £1,706.57
- 21.43 weeks x £87.66 = £1,878.55
- Total = **£4,939.72**

Due to the complexities of the system caused by these changes, HMRC have come up with some ‘average’ figures that can be used that will get pretty close and will result in the calculation only having to be done once.

The average thresholds

To allow for the fact that one threshold was used for 13 weeks and another for the remaining 39 weeks of the year the new averaged primary thresholds are

- £229 per week
- £11,908 per annum

The average rate charged

Allowing for the fact that the rates charged changed, with one set of rates for 30 weeks and 4 days, and a further rate for the remaining 21 weeks and three days, the averaged rates are:

- Main band rate 12.73%
- Additional rate 2.73%

We then have to factor in that the CII test changes around 3 months after them being introduced, and the fact that Directors use annualised rates!

So, for R03 it’s a case of:

- understanding how the system works
- reading the question to see if they are expecting you to use the ‘per-period’ rates or the averaged rates (we’d be surprised if they go down the per-period route)
- not investing too much time on this, as there is only likely to be 1 calculation NIC question, if at all. For calculations, **usually** the info in the tax tables is enough, as the examiner expects you to be able to apply the rules rather than just remember them.

As at 4th Jan 2023, the CII tax tables show this:

NATIONAL INSURANCE CONTRIBUTIONS		
Class 1 Employee		per week
Lower Earnings Limit (LEL)		£123
Primary threshold		£242
Upper Earnings Limit (UEL)		£967
Class 1	Employee	Employer
NICs rate	12%	13.8%
No NICs on the first (per week)*	£242	£175**
NICs rate charged up to (per week)	£967	No limit
2% NIC charged on earnings over	£967	n/a
<p><i>*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners’ rights to contributory State benefits e.g. the new State Pension.</i></p> <p><i>**Secondary earnings threshold.</i></p>		
Class 2 (self-employed)	Flat rate per week £3.15 where profits exceed £6,725 per annum.	
Class 3 (voluntary)	Flat rate per week £15.85.	
Class 4 (self-employed)	9.73% on profits between £11,908 and £50,270.	
	2.73% on profits above £50,270.	