



The Contractors Guide to National Insurance



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Strictly speaking, National insurance is not a tax. It is only payable by certain people and your contributions go towards an array of benefits, such as the NHS and the state pension. However, it has been noticed over recent years that where income tax rates have remained stable in line with political promises, there have been increases in National Insurance contributions to fund general Government spending.

The system is divided into various classes:

- Class 1 is payable on earnings from employment
- Class 2 and 4 are payable on the profits gained from self-employment

EMPLOYEE NICs

Class 1 NICs are payable on any salaried income you receive, regardless of the business structure you work under. It applies to both employed and self-employed workers above the age of 16 and below the statutory retirement age (currently 65 for men and 63 for women but this is due to rise to 66 for both men and women by 2020).

EMPLOYEES (CLASS 1 PRIMARY)

Earnings in 2016/17	NI Contribution
Amounts under £155 per week	0%
Amounts between £155 and £827 per week (£672 to £3,583 a month)	12%
Anything above £827 per week (£3,583 a month)	2%

EMPLOYER NICs

Employers pay 'secondary' Class 1 NI contributions on their employees' earnings. Employers can also benefit from the employment allowance which reduces the amount of employer NICs payable up to the allowance limit (£3,000 per year from April 2016).

If you are the only director and paid employee in the company and your monthly wage is greater than £676 (£8,112/year), the company will have to pay 13.8% Class 1 Employer's NI. In such instances, where you employ no one else through the business but yourself, your company cannot claim the £3,000 Employment Allowance.

EMPLOYERS (CLASS 1 SECONDARY)

Earnings in 2016/17	NI Contribution
Under £156 per week (£676 a month)	0 %
Anything above £156 a week (£676 a month)	13.8%

OPERATING THROUGH A LIMITED COMPANY

If you're working via an umbrella company or on a PAYE basis with an agency, NICs will be deducted at source along with your income tax and paid to HMRC on your behalf.

The main difference to permanent employment that contractors have to factor in is that if you work through an Umbrella Company, the Employers (or class 1 secondary) NIC still needs to be paid. As a result this is also deducted from your assignment income. The rate you are offered for your contract work should be adjusted to allow for this if you decide to operate through an umbrella company.



— CONTRACTING THROUGH A LIMITED COMPANY

If you trade through a Limited Company then your company will need to pay Class 1 NICs on any salary payments. However the main advantage of operating via your own personal service company is that your directors' income is not subject to minimum wage legislation. This means you have more flexibility over the amount of salary you pay yourself and can therefore minimise your NIC liabilities.

The other appeal of a limited company is that NICs are not payable on company dividends. Instead they are treated as a return on your investment in the shares of the company.

Many contractors use a combination of salary and dividends to pay themselves ensuring they have full NIC entitlements but aren't paying over and above in income tax and national insurance.



If you would like to discuss any of the information supplied in this document please get in contact with a member of the Contracting Scout team.