

INTRODUCTION TO NATIONAL INSURANCE

National Insurance is payable at various rates, and in various circumstances.

All the rates in this document are 2006/07

Class 1

Class 1 relates to employment. Its is payable by employees (primary contributions) and employers (secondary contributions)

Current rates are:

Employees:	weekly earnings below £84	exempt
	weekly earnings £84.01 to £97	0%
	weekly earnings £97.01 to £645	11%
	weekly earnings over £645	1%
Employers:	weekly earnings below £97	exempt
	Weekly earnings over £97.01	12.8%

NB for employees, the 0% band between £84.01 and £97 is useful. There is no NI physically payable, but state pension and benefit rights are protected.

There are different rates for situations where contracted out pension schemes exist, and for certain married women (but this rate is not in common use).

As company directors are deemed to be employees, they pay NI at the above rates. To save NI, where circumstances permit, is often better for a company director to draw a dividend as a shareholder.

Class 1A and 1B

These rates are payable by employers on certain benefits in kind for employees, eg cars, vans, medical benefit, beneficial loans and similar. Almost all benefits have NI on them, although in some cases its payable by the employee via normal Class 1 arrangements. The rate is 12.8%

Class 2

This is a fixed weekly sum payable by the self employed (sole traders and partners) - £2.10 per week.

If profits from self employment are below £4,465 pa then an exemption can be applied for.

Class 4 is also due.

Class 3

Voluntary contributions, paid by those who otherwise have no NI liability - £7.55 per week.

Class 4

Payable by the self employed in addition to Class 2.

Class 4 is payable on tax adjusted annual business profits:

Profits below £4,465	nil
Profits £4,465 to £33,540	8%
Profits over £33,540	1%

Multiple sources

Special rules exist to impose annual maximum NI contributions where an individual has multiple sources of income.

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