National Insurance Planning

Class 1

A two-part payment by both the employee and employer, the contributions are based on a percentage of earnings including most benefits. The employees' contributions are deducted from wages and salaries together with PAYE deductions, but are not allowable against income tax. The employer's contribution is eligible for tax relief.

The principal difference between 'earnings' for national insurance contribution purposes and 'pay' for income tax purposes is that for NI there is no deduction in respect of contributions to a pension scheme. Earnings include:

- commissions
- salaries
- bonuses
- certain benefits in kind

The following items are specifically excluded:

- reimbursed business expenses actually incurred by the employee, and for which a proper receipt is available
- redundancy payments
- use of employer-owned or leased assets, e.g. houses
- medical insurance (e.g. BUPA) arranged by the employer

Class 1 national insurance contributions are payable for 2010-11 as follows (not contracted out rates):

Payment Period	**Weekly**	**Monthly**	**Yearly**
Employees	**£**	**£**	**£**
Nil on first	97	420	5,044
0%* on next	13	56	671
11% on next	660	2,861	34,325
11%** on next	74	319	3,835
1% over	844	3,656	43,875

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Employers			
Nil on first	110	476	5,715
12.8% on balance		(no upper limit)	

*Earnings between the lower earnings limit and the earnings threshold protect an entitlement to basic state pension and other contributory benefits without incurring any actual national insurance liability. Details of such earnings must be kept on form P11 and reported at the end of the year on a form P14.

** Earnings between the upper accrual point and the upper earnings limit do not count towards State Second Pension and contracted-out rebates.

Class 1A

Special rules, and a special class of NICs, apply to benefits in kind. Class 1A contributions are payable by employers only. These contributions apply to those taxable benefits which do not attract Class 1 contributions in respect of 'P11D employees' (employees earning £8,500 or more per annum (including benefits) and directors).

The charge is worked out on an annual basis using the cash equivalent of the benefit (as for income tax). The amount of Class 1A contributions is calculated by using information recorded on Forms P11D and applying the Class 1 employers' contribution rate for the relevant year (12.8% for 2010-11).

Once the amount of Class 1A contributions has been calculated it must be declared using form P11D(b). This form, and the related payment, must be received by HM Revenue & Customs by 19 July following the end of the tax year to which it relates. In most cases special Class 1A payslips will be sent to relevant employers in the first week of April.

Dividends instead of salary

You should consider paying dividends rather than salary. Where directors are in receipt of a salary from a company, the NIC cost may be such that part of the payment could be more cost effectively made as a dividend. There are special rules for some companies providing personal services.

The decision on whether to pay a dividend or not is complex because the payment of a dividend may influence the value of the company's shares and therefore increase the liability to capital gains tax and inheritance tax. There is also a maximum amount that may be paid, based on the company's results.

Further strategies for minimising national insurance

Clearly there is more need than ever to mitigate NICs. Strategies are limited, but we can help you with ideas for saving employer and/or employee NICs including:

- increasing the amount the employer contracts to contribute to company pension schemes

- share incentive plans (shares bought out of pre-tax and pre-NIC income)
- for small companies, disincorporation and instead operating as a sole trader or partnership
- paying less by way of salary, more as a bonus to reduce employee (not director) contributions
- paying dividends instead of bonuses to owner-directors (this strategy requires careful consideration in view of the possibility of challenge by HM Revenue & Customs)
- provision of childcare

Actions unlikely to save NICs:

- Giving employees benefits in kind, except for ‘non P11D’ employees
- Round sum allowances - any profit element will attract NIC
- Employees contributions to pension schemes

Please call us if you would like further help or information on this subject.