

## **Class 2 National Insurance Contributions (NIC) – a new system for determining liability and payment**

We are writing to you to make sure you are aware of the revised system for the calculation and collection of Class 2 NIC. The good news is that the new system should be an improvement on the current system. However the dates by which you will need to pay Class 2 NIC will change as a result and, if you have been making monthly payments, these will stop. It will be possible to re-apply to make payments by direct debit but HMRC have not yet finalised the online process for doing this.

### **The current system - 2014/15**

Technically liability for Class 2 arises in respect of each week that an individual has 'earnings from a self-employed employment'. Earnings are similar to trading profits but are not always the same.

Class 2 NIC have been payable twice a year, with an option to pay the liability by direct debit.

If paid twice a year the due dates are the same as for the payment of income tax and Class 4 contributions for profits assessable in 2014/15:

First payment due	31 January 2015
Second payment due	31 July 2015

Alternatively it is possible to pay by monthly or six monthly direct debit with HMRC advising individuals of the precise dates by which payments are taken from bank accounts.

### **The new system – 2015/16**

For the 2015/16 tax year, Class 2 NIC will change from being a weekly liability to an annual liability which is triggered by the amount of profits which are declared to HMRC through the self assessment system. The amount of Class 2 NIC will still be calculated based on the number of weeks of self-employment in the year. This makes the system easier as the Class 2 NIC is one simple calculation based on the same figure of profits being used for income tax.

For example, a 2015/16 tax return is submitted by an individual in October 2016 showing trading profits of £30,000. The Class 2 liability is therefore £2.80 for each week the individual was self-employed in 2015/16.

The Class 2 liability will be due no later than 31 January 2017 and will be shown as part of the self assessment statement which details the income tax and Class 4 liabilities due on 31 January 2017. The Class 2 liability will not however be included in the calculation of payments on account of income tax and Class 4 for 2017/18.

In practical terms there is a big gap between the final payment of Class 2 for 2014/15 (July 2015) and the one payment for 2015/16 (January 2017).

If you would prefer to pay in instalments, there will be an option to use a budget payment plan. HMRC will provide further details nearer the time of how to apply for this option. However unlike the current system in which monthly payments are made in arrears, payments made under a budget payment plan are made in advance of the due date.

### **Special circumstances – low profits**

Under the existing system, individuals expected to have a low amount of earnings for the tax year could apply for a Small Earnings Exception certificate. This is no longer needed under the new system. If the assessable trading profits submitted to HMRC are below the Small Profits Threshold (£5,965 for 2015/16),

no Class 2 NIC is due. An individual can however pay voluntary Class 2 NIC in order to maintain a contribution record for contributory benefits (for example the State Pension).

### **Special circumstances – employed and self-employed income**

Under the current system, individuals who are self-employed but also have employment income are eligible to apply for deferment of Class 2 NIC.

This process is no longer required under the new system as HMRC will calculate whether any Class 2 NIC are due when the tax return is submitted.

Please contact us if you require any further information or advice.