cohen arnold
Chartered Accountants
Registered Auditors

New Burlington House
1075 Finchley Road
Temple Fortune
London NW11 0PU

Tel: 020 8731 0777
Fax: 020 8731 0778
mail@cohenarnold.com
www.cohenarnold.com

Partners:
A. J. Cohen FCA CTA
D. S. Davis FCCA CTA
D. M. Birns FCA CTA
J. N. Schwarz FCA
D. B. Myers FCA
J. A. Neumann FCA
D. Goldberg FCA DchA
D. Yu
B. Leigh ACA CTA
D. Z. Harris ACA
A. Sternlicht FCA CTA
M. Broner-Cohen ACA

Associates:
J. A. England FCA
R. P.S. Gill FCCA
M. Hool ACA FCCA
K. A. Sussman FCA

Consultant:
J. Schonberg FCA

Changes to National Insurance

The Government has unveiled a number of changes to the national insurance regime in recent months, including the introduction of the new Employment Allowance, together with some other key measures for the future affecting employers and individuals. This factsheet provides an overview of the changes, as well as offering advice on a range of strategies to help minimise your national insurance bill.

The New Employment Allowance

In the 2013 Budget, Chancellor George Osborne announced plans to introduce a new Employment Allowance designed to reduce the employer national insurance liability for businesses and charities, and to encourage businesses to expand and take on new staff.

From April 2014 most businesses, charities and Community Amateur Sports Clubs in the UK are entitled to claim up to £2,000 off their employer national insurance contributions (NICs) bill.

How it works

The new Employment Allowance is delivered through standard payroll software and the HM Revenue & Customs (HMRC) Real Time Information (RTI) system.

To confirm their eligibility and claim the allowance, employers must notify HMRC by completing the yes/no indicator on the RTI Employer Payment Summary. They will only need to do this once. The employer's payroll software will then automatically offset the allowance against each monthly employer NICs payment that is due to be made to HMRC, until the allowance is fully claimed or the tax year ends.

For the following tax year, it is proposed that the allowance will continue to be available as an offset against the same employer's NICs liability as it arises during the tax year. A similar process is available to those few employers who still submit their returns on paper.

The Employment Allowance applies per employer and can only be claimed once, irrespective of how many PAYE schemes the employer chooses to operate. It is up to the individual employer to decide which PAYE scheme to claim it against.

Who will benefit

The Government estimates that up to 1.25 million businesses and charities will benefit from the measure, while around 450,000 businesses are expected to be taken out of paying employer national insurance altogether in 2014/15. 90% of the benefits are expected to be seen by small businesses with fewer than 50 employees.

Exclusions

It is not possible to claim the Employment Allowance in the following circumstances:

- You employ an individual for personal, household or domestic work (e.g. a nanny or a gardener).
- You already claim the allowance through a connected company or charity
- You are a public authority, including local, district, town and parish councils
- You carry out functions wholly or mainly of a public nature (unless you have charitable status).

Personal Service Companies and Managed Service Companies who do not pay a wage or salary may not be able to claim the Employment Allowance. Service companies can only claim if they pay earnings and have an employer Class 1 NICs liability on those earnings.

If you need guidance on this area please do get in touch so that we can offer specific advice.

SCRAPPING NICs FOR UNDER-21s

In the 2013 Autumn Statement, the Government announced plans to scrap employer NICs for most workers aged under 21, with effect from April 2015.

How it works

In a bid to encourage businesses to employ younger workers, 6 April 2015 will see the removal of the requirement for employers to pay employer NICs on earnings paid to most employees under the age of 21.

Under the current rules, employers are liable to pay NICs on earnings paid to employees above the secondary threshold (currently £153 per week). This applies to all employees over the age of 16.

Following the changes, employers who employ or engage employees under the age of 21 on or after 6 April 2015 will not be required to pay employer NICs on the earnings they pay to those employees, subject to the Upper Earnings Limit which in 2015/16 is expected to be £813 per week (£42,285 annual equivalent). Beyond this point, employers are liable to pay the usual NIC rate of 13.8%.

The new rules apply to both existing employees and employers taking on new staff. They do not affect an individual's entitlement to the State Pension or contributions based benefits such as Statutory Sick Pay or Statutory Maternity Pay. The employee NICs due are unaffected and remain payable by the employee.

Who will benefit

The change is expected to lift around 1.5million young people out of employer NICs completely, with an average saving of £355 per employee. The rules mean that employing someone on £12,000 will become £500 cheaper, while paying an individual £16,000 will cost £1,000 less.

NEW CLASS 3A NICs

From 6 April 2016, a new single-tier State Pension will replace the existing two-part system plus various means-tested benefits, for those reaching State Pension Age on or after 6 April 2016.

The reforms will see a merging of the State Second Pension with the basic State Pension. They will also signal the end of derived entitlement to the basic State Pension, which is currently based on the national insurance record of a spouse or civil partner's contributions.

In the 2013 Autumn Statement, the Government announced plans to introduce a new class of voluntary NICs, known as Class 3A, to allow existing pensioners and those reaching State Pension Age before 6 April 2016 an opportunity to top up their Additional State Pension.

How it works

Each Class 3A contribution made will acquire a unit of extra pension, increasing the additional State Pension by between £1 and £25 per week. The price of Class 3A will be based on an actuarially fair rate.

Those wishing to take advantage of the Class 3A contribution must meet the following conditions:

- They must be entitled to the basic State Pension or Additional State Pension
- They must reach State Pension Age before 6 April 2016.

The facility will apply from 12 October 2015 until 1 April 2017, for eligible individuals.

The new Class 3A contribution will not replace the existing Class 3, and those taking up the new Class 3A will be advised to consider making Class 3 contributions where appropriate.

Applications and payments relating to Class 3A contributions will be dealt with by HMRC.

Who will benefit

The transitional measures are likely to be of particular benefit to those with low earnings, particularly women and carers, who tend to have low Additional State Pension entitlement, and also the self-employed who are excluded from the State Earnings Related Pension Scheme (SERPS) and the State Second Pension.

Please note that receiving extra Additional State Pension could impact on certain state benefits. It is important to consider a number of areas when deciding whether to make Class 3A contributions.

MINIMISING NICs

We can work with you on ideas for saving employer and/or employee NICs.

Dividends instead of salary/bonus

For limited companies you should consider paying dividends rather than salary/bonus. Where directors are in receipt of a salary/bonus 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 is complex because doing so 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 you may also want to consider:

- 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 – this is a specialist area. Please get in touch for advice)
- Salary sacrifice arrangements in respect of tax-free benefits in kind, such as the provision of childcare

For further advice on minimising your liabilities, please contact us. We have expertise in all areas of running a business and would be delighted to assist you.

This article is based on the legislation available at the time of printing. For further advice and strategies to help keep your tax liability to a minimum, please contact us.