



What are National Insurance Contributions (NICs)?

National Insurance contributions (NICs) enable you to qualify for the State Pension as well as certain benefits such as maternity allowance, jobseeker's allowance and bereavement benefits. There are 4 classes of NICs and the class you pay depends on your employment status, how much you earn and whether you have any gaps in your National Insurance record.

NIC Classes

Class 1 are applicable if you are employed and earn more than £162 a week (and under State Pension age). Your NICs are automatically deducted by your employer.

Class 1A or 1B are paid directly by your employer on your expenses or benefits (if relevant).

Class 2 are applicable if you are self-employed (and under State Pension age) and your annual profits are £6,205 or more per year. It is a fixed amount of £2.95 a week. If you earn below this amount then you do not have to pay, although you can chose to pay voluntary contributions (see Class 3).

Class 3 are voluntary contributions which can be paid to fill or avoid gaps in your National Insurance record.

Class 4 are applicable for self-employed people earning profits over the lower profits limit (LPL) of £8,424 a year. The upper profits limit (UPL) is £46,350. The rate between the LPL and UPL is charged at 9% and the rate above the UPL is charged at 2%. You stop paying these from 6 April (start of the tax year) after you reach State Pension age.

(These figures are applicable to the 2018/19 tax year, see GOV.UK for more information)

If you are self-employed then it is your responsibility to pay the NICs applicable. Failure to do so can result in heavy fines. The majority of self-employed people pay their Class 2 and 4 NICs through their self-assessment tax return and their accountant can give any advice needed to be compliant.

Gaps in your National Insurance record

To get the full basic State Pension you need a total of 30 qualifying years of National Insurance contributions or credits. However, you may acquire gaps in your National Insurance record if, for example, you were employed but had low earnings, were

unemployed and not claiming benefits, self-employed but did not pay contributions due to small profits or you may have lived abroad. If this is applicable to you, it may be worth checking your National Insurance record. You may also be eligible for National Insurance credits if you claim benefits because you are unable to work, are unemployed or caring for someone full-time.

If you have gaps you may be eligible to pay Class 3 voluntary contributions - but it is advisable to contact the Future Pension Centre (see GOV.UK) or your accountant before deciding to make voluntary contributions as they may not always increase your State Pension.

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