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# National Insurance contributions for employed people

## *Class 1 National Insurance contributions*

You must pay Class 1 National Insurance contributions if

- you work as an employee in Great Britain or Northern Ireland, and
- you are 16 or over and under State Pension age (currently 60 for women, 65 for men), and
- your earnings exceed the employee's Earnings Threshold of £89 per week or £385 per month, or equivalent amount if you are paid at other intervals.

## *How much you should pay*

Class 1 National Insurance contributions are made up of two parts

- primary contributions from employees
- secondary contributions from employers.

In his April 2002 Budget, the Chancellor announced that from 6 April 2003, an additional 1% Class 1 National Insurance contribution will be due on all earnings above the National Insurance contributions Earnings Threshold of £89 per week. This means that existing National Insurance rates are increased by 1% on all earnings between the Earnings Threshold and the Upper Earnings Limit with an additional 1% due on all earnings above the Upper Earnings Limit.

For the 2003/2004 tax year, Class 1 contributions have to be paid in each employment in which you earn above

- £89 per week
- £385 per month, or
- equivalent amounts if you are paid at other intervals.

You may be entitled to defer paying contributions in some of your employments if you pay primary Class 1 contributions

- in more than one employment, and
- you expect your earnings in one or more of these employments to exceed the Upper Earnings Limit of £595 per week or £2579 per month or equivalent.

You can find out more about Class 1 contributions in leaflet CA01 *National Insurance contributions for employees*.

## *When you can defer*

If you have more than one employment and expect to pay primary Class 1 contributions on earnings of at least £595 per week, or equivalent throughout the whole tax year

- in any one employment, or
- in a combination of employments

you can ask to defer payment of contributions in any other employments you have.

## *How does deferment work?*

### **Example 1**

- You have two employments in the 2003/2004 tax year and it is expected that in one of those employments you will pay Class 1 National Insurance contributions on earnings of at least the weekly Upper Earnings Limit of £595 (£2579 monthly) throughout the tax year. In these circumstances deferment may be allowed in the other employment.

If you do not pay enough Class 1 contributions, you may have to pay further contributions.

### **Example 2**

- You have three employments in the 2003/2004 tax year and it is expected that your earnings in one of those employments amount to at least the weekly Upper Earnings Limit of £595 (£2579 monthly) throughout the tax year, or earnings in two of those employments amount to at least £684 weekly (£2964 monthly) (i.e. the equivalent of the

weekly Upper Earnings Limit of £595 (£2579 monthly) and the weekly Earnings Threshold of £89 (£385 monthly)) throughout the tax year.

In these circumstances deferment may be allowed in the other employment(s).

If by the end of the year you have paid too much, you will normally be entitled to a refund of any overpayment of contributions.

### **Example 3**

- You have four employments in the 2003/2004 tax year and it is expected that earnings in one of those employments amount to at least the weekly Earnings Limit of £595 (£2579 monthly) throughout the tax year, or earnings in two of those employments amount to at least £684 weekly (£2964 monthly) (i.e. the equivalent of the weekly Upper Earnings Limit of £595 (£2579 monthly) and the weekly Earnings Threshold of £89 (£385 monthly)) throughout the tax year, or earnings in three of those employments amount to at least £773 weekly (£3349 monthly) (i.e. the equivalent of the weekly Upper Earnings Limit of £595 (£2579 monthly) and twice the weekly Earnings Threshold of £89 (£385 monthly)) throughout the tax year. In these circumstances deferment may be allowed in the other employment(s).

Deferment is not normally allowed for the tax year in which you reach State Pension age (currently 60 for women , 65 for men). However deferment can be allowed if you are able to show that you would pay maximum National Insurance contributions for the tax year in your paying employment(s) by the time you reach State Pension age. For example, if you

are a director of a company and qualify for an Annual Earnings period you may pay enough Class 1 contributions before retirement age. If this applies to you the deferment of Class 1 contributions may be considered.

### *Changes to Class 1 deferment from 6 April 2003*

If you are granted Class 1 deferment, you will be required to pay Class 1 National Insurance contributions at a rate of 1% on all earnings above the Earnings Threshold in all of your deferred employments.

#### **Appropriate Personal Pension/ Appropriate Personal Pension Stakeholder Pension schemes**

If you hold an Appropriate Personal Pension/ Appropriate Personal Pension Stakeholder Pension Plan, or you are thinking of taking one out, you should consider the following:

- when making payments of 'minimum contributions' to an individual's Appropriate Personal Pension/Appropriate Personal Pension Stakeholder Pension arrangement, the Inland Revenue only takes into account earnings from employments in which A Rate (standard rate) Class 1 contributions have been paid
- if possible, bearing in mind the information provided in previous paragraphs, you should pay contributions for any employment(s) for which A Rate (standard rate) Class 1 contributions are appropriate in preference to other employments which attract different rates of contributions
- if you apply for deferment and our records show that you have an Appropriate Personal Pension/Appropriate Personal Pension

Stakeholder Pension arrangement, we will look at ways of deferring your contributions in a way which will not affect your pension. If we cannot do this deferment will not be granted.

### *Contracted-out Money Purchase/Contracted-out Money Purchase Stakeholder scheme*

If your earnings from any employments attract deductions under these schemes, those employments will be given preference, wherever possible, as a main employment over Contracted-out Salary Related schemes and State Earnings Related Pension Scheme employments. If any employments do attract Contracted-out Money Purchase/Contracted-out Money Purchase Stakeholder deductions this should be noted in the appropriate box on the deferment application form CA72A which is attached to this leaflet.

Contracted-out Money Purchase/Contracted-out Money Purchase Stakeholder deductions do not take preference over employments attracting Appropriate Personal Pension/Appropriate Personal Pension Stakeholder deductions but, with this taken into consideration, Deferment Services will look at ways of deferring your contributions in a way which will not affect your pension.

### *How to apply for deferment of Class 1 contributions*

If you wish to apply for deferment of Class 1 contributions for the 2003/2004 tax year, you should fill in form CA72A *Application for deferment of payment of Class 1 contributions for the year 6 April 2003 to 5 April 2004* at the back of this leaflet.

When you have completed this form, sign it and send it to Deferment Services. Their address is on page 20 of this leaflet.

When you apply for deferment, Deferment Services may ask you to send them some pay slips. After that they will

- decide in which of your employments contributions can be deferred, and
- try to make sure that deferments are allowed for contributions which will not affect your main pension rights.

### **Timescales**

**You should send your completed form to Deferment Services as soon as possible before 6 April 2003, but in any event, before 14 February 2004.**

If you send your form in after 14 February 2004, you will not normally be allowed deferment of Class 1 contributions for the 2003/2004 year. This is because there would not be enough time to process your application, and for your employer to issue a refund before they complete their returns for the end of the tax year.

In special cases applications after 14 February 2004 will be accepted, but **only** with the agreement of your employer.

### **What we will do**

If your contributions are deferred Deferment Services will

- tell you for which of your employments they have allowed deferment of contributions

- send a deferment certificate to those employers where deferment has been granted telling them to deduct Class 1 contributions at a rate of 1% on all of your earnings that exceed the Earnings Threshold (£89 per week or £385 per month) during the 2003/2004 tax year
- ask those employers to adjust the amount of contributions you have paid during the 2003/2004 tax year. Your employer will refund to you any overpayment that may have occurred
- automatically send you a fresh application form in January/February 2004 for the 2004/2005 tax year if appropriate
- **not** give your employer any information about your other employment(s).

## **Reporting changes**

You must let Deferment Services know at once if

- any employment for which you are actually paying contributions ends
- you have employment which is currently not contracted-out but which becomes contracted-out employment during the tax year
- you start a new employment and you need a new deferment certificate
- you take out an Appropriate Personal Pension/Appropriate Personal Pension Stakeholder Pension
- you move home.

You can find Deferment Services telephone numbers on page 19 of this leaflet.

# National Insurance contributions for self-employed people

## *Class 2 National Insurance contributions*

You must pay Class 2 National Insurance contributions for every week, including holiday periods, if you

- are normally self-employed, and
- are 16 or over and under State Pension age (currently 60 for women, 65 for men), and
- have not been excepted from liability to pay, and
- are not a married woman or widow with reduced liability.

## *How much you should pay*

The contribution rates for the 2003/2004 tax year are:

- Class 2 self-employed            £2.00 per week
- Class 2 Share Fishermen        £2.65 per week
- Class 2 Volunteer  
  Development Worker            £3.85 per week

If you expect your earnings from self-employment to be less than the small earnings exception limit (£4095 for 2003/2004), you may not need to claim deferment because you may not have to pay any Class 2 contributions. For more information about this, see leaflet CA02 *National Insurance contributions for self-employed people with small earnings*.

## **If you are newly self-employed**

When you start working for yourself you must notify the Inland Revenue within 3 months, otherwise you may incur a £100 penalty. If you do not register and are not paying tax, you will be breaking the law and could be liable to further penalties. You can notify the Inland Revenue in one of the following ways:

- call the Helpline for the Newly Self-Employed on 08459 15 45 15. Open 8am to 8pm seven days a week. Calls will be charged at local rates. Please note your calls may be monitored or recorded to improve the quality of our service. If you do not want your call to be recorded, please tell the operator. These procedures comply with the OFTEL regulations
- fill in form CWF1 *Becoming self-employed and registering for Class 2 National Insurance contributions*, which can be found within leaflet P/SE/1 *Thinking of working for yourself?* Either return the form by post to

Inland Revenue  
National Insurance Contributions Office  
Self Employment Services  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ

or

- take the completed form CWF1 to your nearest Inland Revenue office.

Leaflet P/SE/1 *Thinking of working for yourself?* is available from any Inland Revenue office or by calling the Helpline for the Newly Self-Employed on 08459 15 45 15.

You can also find out more about Class 2 National Insurance contributions liability, in leaflet CWL2 *National Insurance contributions for self-employed people. Class 2 and Class 4.*

## *Class 4 National Insurance contributions*

Anyone who

- is self-employed, and/or
- pays income tax under schedule D

will have to pay Class 4 contributions provided their profits and gains are over a certain amount. Self-employed contributors have a liability for Class 4 contributions as well as Class 2 contributions. Class 4 contributions are profits related. They are normally self assessed and collected with Schedule D income tax.

### **Exceptions from liability to pay Class 4 contributions**

You are automatically exempt from Class 4 contributions and do not need to make an application for exception if you are

- aged 60 (women) or 65 (men) or over at the beginning of the year of assessment (including if your 60/65th birthday falls on 6 April). But if you reach age 60/65 during the year of assessment, you will still be liable for contributions for the whole of the year to the following 5 April, or
- not resident in the UK for income tax purposes, or
- a trustee, executor or administrator (in some cases only), or

- a sleeping partner - that is, you supply capital and take a share of the profits but take no active part in running the business, or
- a diver or diving supervisor working in connection with exploration or exploitation activities on the UK continental shelf or in UK territorial waters, and have your earnings assessed for tax under Schedule D.

If you are assessed for Class 4 contributions and you think you should have been excepted under one of the categories above, inform your Inspector of Taxes.

### **How payment is calculated**

Class 4 contributions for 2003/2004 are based on profit or gains between

- the lower limit £4615 per year, and
- the upper limit £30940 per year.

Contributions are calculated at 8% of profit or gains between the Lower and Upper Profit Limits, and 1% of profit or gains above the Upper Profit Limit.

You can find out more about your Class 4 liability in leaflet CWL2 *National Insurance contributions for self-employed people. Class 2 and Class 4.*

## *Deferring Class 2 and/or Class 4 contributions*

You may be able to defer payment of your Class 2 and/or Class 4 contributions until your true liability has been worked out at the end of the tax year, if you

- expect to be employed and self-employed during the 2003/2004 tax year, and
- believe that you will pay too much in National Insurance contributions.

Some of your Class 4 contributions may be deferred if you can show that you are likely to pay too much Class 1, Class 2 and Class 4 contributions. Your Class 2 contributions may also be deferred if you are likely to pay Class 1 contributions on earnings of at least £595 per week for the whole year.

If your contributions are deferred, assessment and collection of Class 2 and/or Class 4 contributions will be made by Deferment Services who will make a calculation of liability taking into account your profits and gains, and other contributions already paid.

## *Changes to Class 2 and Class 4 deferment from 6 April 2003*

If you are granted Class 2 and Class 4 deferment and pay sufficient Class 1 contributions in your other employments, you will still be required to pay Class 4 National Insurance contributions at a rate of 1% on all your profits or gains above the Lower Profits Limit. Although Deferment Services will calculate whether you need to pay any additional Class 2 or Class 4 contributions on your total profits or gains, you should still pay Class 4 contributions at a rate of 1% when you pay your Schedule D income tax.

## *How to apply for deferment of Class 2 and/or Class 4 contributions*

If you wish to apply for deferment of Class 2 and or Class 4 contributions for the 2003/2004 tax year, you should fill in form CA72B *Application for deferment of payment of Class 2 and Class 4 contributions for the year 6 April 2003 to 5 April 2004* at the back of this leaflet.

When you have completed this form, sign it and send it to Deferment Services. Their address is on page 20 of this leaflet.

When you apply for deferment, Deferment Services may ask you to send them further information, such as past wage slips, before a decision on your application can be made.

When you have been granted deferment, you will be sent a fresh application form in January/February 2004 for the 2004/2005 tax year, if appropriate.

## *Timescales*

To have your Class 2/4 contribution liability deferred for 2003/2004 you should apply before 6 April 2003. If you apply after this date Deferment Services will only consider granting deferment of Class 2/4 contributions for the current tax year.

As Class 2 contributions should be paid during the contribution year in which self-employed work is carried out, deferment of Class 2 contributions cannot be granted for any year prior to the current tax year.

Therefore, any applications received for any year prior to the current tax year will only be considered for deferment of Class 4 contributions, and only if your Class 4 assessment is

- not fully paid, or
- under enquiry.

### *Class 1 contributions on Schedule D earnings*

Some people pay Class 1 (employed earner's) contributions on income which is assessed for tax by the Inland Revenue under Schedule D. No Class 4 National Insurance contributions are due on any earnings from employed earner's employment where these are statutorily chargeable to tax under Schedule D as profits or gains. Although there is no liability for Class 4 National Insurance contributions on these earnings, Class 4 National Insurance contributions may still be due if the person has other income chargeable to Schedule D. If this applies to you, you can either

- apply for deferment of Class 4 contributions (see *Deferring Class 2 and/or Class 4 contributions*, on page 14 of this leaflet), or
- apply for a refund of Class 4 contributions at the end of the tax year. You can do this by writing to Deferment Services. Their address is on page 20 of this leaflet.

## *National Insurance contribution liability for entertainers*

Where an entertainer is wholly employed with **all** earnings subject to Class 1 National Insurance contributions, but taxed under Schedule D, there is a liability to pay Class 1 contributions only. In these instances the individual is classed as self-employed for tax purposes and an employee for National Insurance purposes. There would, therefore, be no separate liability for Class 2 or Class 4 contributions. As there is no liability for Class 4 NICs on any earnings received as an employee, such individuals will no longer need to apply for deferment of these contributions.

However, fees received are classified as self-employed income for National Insurance purposes and would therefore attract a liability to pay Class 2 and Class 4 contributions.

## *National Insurance contributions for share fishermen*

There are specific conditions which apply to share fishermen who are also employees. Share fishermen who have not made arrangements for someone to record and collect Class 4 contributions on their behalf must apply for deferment of Class 4 contributions. In this case you should write to Deferment Services at the address on page 20 of this leaflet.

You can find out more about National Insurance contributions liability for share fishermen in leaflet CA11 *National Insurance contributions for share fishermen*.

## *Refunding National Insurance contributions*

If you did not apply for deferment in time and you have paid more than £3.71 over the prescribed annual maximum contributions for the tax year 2003/2004, you may be able to get a refund

- if you have paid Class 1 contributions at the standard rate, on annual earnings of at least £31535 you may be able to get a refund of any overpaid Class 1 contributions
- if you have paid Class 1 contributions and Class 2 contributions, you may be able to get a refund of overpaid Class 2 contributions
- if you have paid Class 1, Class 2 and Class 4 contributions, you may be able to get a refund of overpaid Class 4 contributions.

It must be noted however that a refund of Class 4 contributions cannot be claimed until the Class 4 Self Assessment for the year has been finalised and fully paid.

Primary Class 1 contributions will be taken into account to determine if you have paid too much. Your employers Class 1 contributions are not counted.

To apply for a refund of overpaid Class 4 contributions, you can get the appropriate refund claim form CA5610 by writing to Deferment Services. Their address is on page 20 of this leaflet. Alternatively you can get the refund claim form by telephoning Deferment Services using the relevant telephone number shown on page 19 of this leaflet.

Please let them know why you think a refund is due.

To apply for a refund of overpaid Class 1 and, or Class 2 contributions contact Refunds Group, their address is

Inland Revenue  
National Insurance Contributions Office  
Refunds Group  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ

Please let them know why you think a refund is due.

## Further information and advice

### *General information about deferring contributions*

If you or your accountant have any queries about your deferment, please note the last two numbers of your National Insurance number and call the number shown below.

For example, if your National Insurance number is **AB 12 34 56 C** you could call **084591 55653** as this is one of the two telephone numbers applicable to your National Insurance number. Please quote your full National Insurance number.

*Your NI number    Call 084591,  
(last two numbers)    followed by*

**00 - 33    55651/55006/ 55425    Fax no. 59595**

**34 - 66    59703/55653/57227    Fax no. 59224**

**67 - 99    59383/59463/55654    Fax no. 59224**

Calls will be charged at local rates. Deferment Services business hours are 8.30am to 5.00pm Monday to Thursday, and 8.30am to 4.30pm Friday.

Alternatively, you can contact Deferment Services at the following address

Inland Revenue  
National Insurance Contributions Office  
Deferment Services  
Benton Park View  
Newcastle upon Tyne  
NE98 1ZZ

Deferment Services is committed to providing and developing good relationships with customers. The group is continually striving to improve its standards of service. Any comments or suggestions on how service can be improved are most welcome.

### *Customers with alternative requirements*

We will do everything possible to make our services available to everyone, including leaflets in Braille, audio, large print and Welsh. For details of any of these services, or if you have any other specific requirements please let us know.

### *If you are unhappy with our service*

If you are dissatisfied with any aspect of the service you have received from an Inland Revenue (National Insurance Contributions) office, you should complain to the manager at the office you have been dealing with.

### *Data Protection*

The Inland Revenue is a Data Controller under the Data Protection Act. We hold information for the purposes specified in our notification made to the Data Protection Commissioner, and may use this information for any of them.

We may get information about you from others, or we may give information to them. If we do it will only be as the law permits, to check accuracy of information, prevent or detect crime, or protect public funds.

We may check information we receive about you with what is already in our records. This can include information provided by you as well as by others such as other government departments and agencies and overseas tax authorities. We will not give information about you to anyone outside the Inland Revenue unless the law permits us to do so.

## Glossary of terms

**Appropriate Personal Pension (APP)** A scheme you can join in place of the State Second Pension scheme or your employer's contracted-out pension scheme. If you are a member of an APP scheme both you and your employer will pay National Insurance contributions at the full not contracted-out rate. The Inland Revenue will then pay minimum contributions (see page 23) direct to your APP scheme after the end of the tax year to which they relate.

**Appropriate Personal Pension Stakeholder Pension scheme (APPSHP)** An Appropriate Personal Pension scheme, which operates on the same basis as a Contracted-out Money Purchase scheme but with Stakeholder status.

**Contracted-out employment** You are in contracted-out employment if you are a member of an occupational pension scheme (company pension) that is contracted-out of the State Second Pension scheme.

### **Contracted-out Money Purchase scheme**

A contracted-out employment scheme where benefits received are dependent on the investment yield from contributions paid to the scheme. This scheme is also known as a Defined Contribution scheme.

### **Contracted-out Money Purchase Stakeholder Pension scheme**

A contracted-out occupational pension scheme which operates on the same basis as a Contracted-out Money Purchase scheme but with Stakeholder status.

### **Contracted-out Mixed Benefit scheme**

This type of scheme has been available since April 1997 and allows employers to run a Contracted-out Salary Related and Contracted-out Money Purchase section under one scheme. The benefit you will eventually receive will depend upon which section you belong to.

### **Contracted-out Salary Related scheme**

A contracted-out occupational pension scheme which provides members with a pension related to their earnings and is also known as a Defined Benefit scheme.

**Earnings Threshold** This is the amount your earnings must exceed before you and your employer must pay National Insurance contributions. Contributions are due at the % appropriate to the table letter of all earnings between the Earnings Threshold and the Upper Earnings Limit. Contributions are also due on all earnings above the Upper Earnings Limit at 1% for the employee and 12.8% for the employer.

**Lower Earnings Limit** The minimum level of earnings needed to qualify for benefit. If your earnings from an employer reach or exceed the Lower Earnings Limit, currently £77 per week, but do not exceed the Employee's Earnings Threshold, you will be treated as having paid Class 1 contributions for benefit purposes.

**Minimum contributions** Contributions payable to an APP/APPSHP scheme by the Inland Revenue in respect of a member who is contracted-out. The contributions consist of a payment which increases with age (age related rebate), and basic rate tax relief on the employee's share of the rebate. For further information see leaflet CA17, *Employee's Guide to minimum contributions*.

**Reduced liability** This applies to married women and widows who have the right to pay reduced rate Class 1 National Insurance contributions when employed and no Class 2 contributions when self-employed, although Class 4 contributions are still payable in full. To be entitled to pay the reduced rate a woman had to be married before 6 April 1977 and make the election to pay at the reduced rate before 11 May 1977.

**Schedule D** Section 18 of the Income and Corporation Taxes Act 1988 (ICTA 1988). This refers to the taxation of profits or gains from self-employment.

**Small earnings exception limit** The limit on earnings from self-employment below which people may, if they apply, be excepted from liability for Class 2 contributions. The limit for 2003/2004 is £4095.

**State Pension age** The age at which people, if they meet the National Insurance contributions requirements, are entitled to draw a State Pension. This is currently 60 for women 65 for men. As a result of changes introduced by the Pensions Act 1995, in Northern Ireland it is known as Pensions (Northern Ireland) order 1995, the State Pension age will be equalised at 65 for both men and women from April 2020.

The change from 60 to 65 for women will be phased in over a 10 year period from 2010 to 2020. This means that the State Pension age for

- men remains 65
- women born on or before 5 April 1950 remains 60
- women born on or after 6 April 1955 will be 65
- women born after 5 April 1950 but before 6 April 1955, State Pension age is 60 plus one month for each month (or part month) that their date of birth falls after 1950.

**Tax year** Starts on 6th April and ends on 5th April the following year.

**Upper Earnings Limit** If you work for an employer, you have to pay Class 1 National Insurance contributions at the appropriate % rates on all earnings between the Earnings Threshold and a level called the Upper Earnings Limit. You will also pay 1% on all earnings above the Upper Earnings Limit. The Upper Earnings Limit for 2003/2004 is £595 per week (£2579 per month or equivalent if you are paid at other intervals).