

**Inland Revenue  
NI Contributions Office**

**NI GUIDANCE FOR SOFTWARE  
DEVELOPERS FOR 2001/2002.**

## **NI GUIDANCE FOR SOFTWARE DEVELOPERS 2001/2002**

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## GLOSSARY OF TERMS

GP	Gross Pay for NI purposes
EE	Employee
ER	Employer
w/m	Number of weeks or months in tax year i.e. 52 weeks or 12 months.
p	Number of weeks/months in Pay Period. Round result of calculation at this point up to nearest whole pound.
p <sup>1</sup>	Number of weeks/months in Pay Period. If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round <b>UP</b> to whole pounds.
LEL	Annual Lower Earnings Limit
UEL	Annual Upper Earnings Limit
R	Round at this point
ET	Annual Earnings Threshold
EER	Employee's Percentage Rate appropriate to Table Letter
ERR	Employer's Percentage Rate appropriate to Table Letter
EE'RR	Rebate % rate on employee's NICs appropriate to Table Letter
ER'RR	Rebate % rate on employer's NICs appropriate to Table Letter
ptd	Paid to date
ER'CO % R	Employer's contracted-out percentage rate appropriate to Table Letter
ER'NCO % R	Employer's not contracted-out percentage rate appropriate to Table Letter
c	Before the change

## INTRODUCTION

- 1.1 This specification sets out the calculation format for National Insurance Contributions (NICs) for 2001/2002. It incorporates the changes to NICs for 2001/2002 which were announced in the 1999 Budget statement. It also clarifies some points on Statutory Maternity Pay (SMP) and Statutory Sick Pay (SSP), although an in depth specification will be available early in 2001.
- 1.2 If the End of Year information is to be provided on Magnetic Media (MM), this specification should be read in conjunction with the MM specification CA51/52 2001/2002 which details the format of the return.
- 1.3 This specification augments the information contained in the Employers Helpcards (CWG1) and the Employers Further Guide to PAYE and NICs (CWG2), Statutory Maternity Pay Manual for Employer's (CA29), Statutory Sick Pay Manual for Employers (CA30), Class 1A National Insurance contributions on Cars and Fuel Benefits (CA33) and Class 1A National Insurance contributions on Benefits in Kind (CWG 5), all available from either the Employer's Orderline on 0845 7 646 646, or from your nearest Inland Revenue (National Insurance Contributions) office. Employers should be encouraged to read the Pack thoroughly to ensure all aspects of their annual returns are fully understood.
- 1.4 This specification includes the information previously issued in the Summary For Computer Users, and provides guidance for those who wish to develop software which calculates NICs by the table method.
- 1.5 The method of calculation preferred by the Inland Revenue National Insurance Contributions Office is the Exact Percentage Method.
- 1.6 Please note that the manual NIC Tables are designed for the convenience of the manual user, incorporating various roundings which make for possible differences to the calculations undertaken by computerised NIC routines. Software packages which use a mixture of NIC Tables and the Exact Percentage Method must not allow National Insurance to be deducted, for an employee, by both methods within one tax year by the same payroll.
- 1.7 This specification gives instructions for weekly/monthly paid or multiples of weeks or months i.e., 3, 4, 5 weeks etc.
- 1.8 You may wish to contact one of our Business Support Teams, who would be pleased to offer further help and assistance. Business Support Teams are located strategically throughout the country and can be contacted through your nearest Inland Revenue (National Insurance Contributions) office. The address and telephone number can be found in the Phone Book.

1.9 Alternatively, you can contact the Employer's Helpline. For the cost of a local call, you can now telephone one number to obtain expert guidance in all aspects of National Insurance including Statutory Sick Pay and Statutory Maternity Pay, general PAYE inclusive of P11D, Tax Credits, Student Loan repayments and basic VAT registration.

Call now on: **0845 7 143 143**

The service is available for PAYE, P11D, Tax Credits and Student Loan repayment enquiries:

Monday to Friday from 8.00 to 20.00.

Saturdays, Sundays and Bank Holidays from 8.00 to 17.00.  
(Except Christmas Day, Boxing Day and New Year's Day)

Service is available for National Insurance, Statutory Sick Pay and Statutory Maternity Pay enquiries:

Monday to Friday from 8.30 to 17.00.

Customers with hearing and/or speech difficulties, who have a telephone, can call on **0845 7 419 402**

Monday to Friday from 8.30 to 17.00.

Random calls are listened to/recorded for training purposes and maintaining standards. These tapes are erased after use. If you do not want to have your call recorded, please tell the operator. These procedures comply with OFTEL regulations.

## 2. IMPORTANT CHANGES TO NATIONAL INSURANCE CONTRIBUTIONS FROM APRIL 2001

2.1 In his Budget Statement of 21<sup>st</sup> March 2000, the Chancellor of the Exchequer announced changes to the way in which NICs will be recorded and reported from 6<sup>th</sup> April 2001. These changes are as follows: -

- The alignment of the Employee's Earnings Threshold with the Employer's Earnings Threshold. This will now be known as the Earnings Threshold.
- A 0% rate of NICs for employees on earnings above the Lower Earnings Limit (LEL), up to and including the Earnings Threshold (ET).

### 2.2 ACCOUNTING FOR NIC REBATES

NIC Rebates are only appropriate for Contracted-out contributions. Employers are entitled to NIC Rebates for contribution Table letters D,E, contracted-out C, F,G, S and Mariner's equivalents. Employees are only entitled to NIC Rebates for contribution Table letters D, F and Mariner's equivalents.

#### Employee's NIC Rebate

The employee's NIC Rebate is calculated on earnings between the LEL and the ET. The employee is entitled to that portion of his rebate that can be offset against his NICs; this will be recorded in column 1f of Form P11. The employer is entitled to any balance of the employee's NIC Rebate that cannot be offset against his NICs.

#### Employer's NIC Rebate

The employer's NIC Rebate is also calculated on earnings between the LEL and the ET; this is recorded in column 1g of Form P11, together with any employee's NIC Rebate to which the employer is entitled.

#### Example

An employee earning £89 per week (Contribution Table letter D)

#### Form P11

	1a	1b	1c	1d	1e	1f	1g
£89	72	15	2	0.43	0.21	0.21	0.48

Employee's NIC Rebate is            15 x 1.6%    = 0.24  
 Employer's NIC Rebate is            15 x 3%       = 0.45

The employee is entitled to £0.21 of their NIC Rebate and the employer is entitled to the balance of £0.03, PLUS their own NIC Rebate of £0.45.

- 2.3 The employer will deduct the rebate from their monthly or quarterly payments of PAYE and NICs before making payment to the Accounts Office.

### **3. COMPLETING FORM P11 (2001/2002)**

- 3.1 The deductions working sheet - Form P11 - has a revised format for 2001/2002. This format is reflected in the following paragraphs.
- 3.2 Earnings - Columns 1a to 1c should contain whole pounds only if NICs are calculated using the tables method. If NICs are calculated using the exact percentage method, column 1a should contain whole pounds only, and column 1b to 1c should contain pounds and pence.
- 3.3 All references to LEL, ET and UEL in this section are the rates appropriate to the earnings period, i.e. weekly, monthly or multiples thereof.
- 1a** Populate with LEL as soon as earnings reach or exceed LEL. Even when no NICs due.
- 1b** Earnings above the LEL up to and including the ET.
- 1c** Earnings above ET up to and including UEL.
- 3.4 Contributions - Columns 1d and 1e should contain pounds and pence
- 1d** All earnings above ET multiplied by the appropriate Employer's percentage rate, plus all earnings above ET up to and including UEL multiplied by the Employee's percentage rate.
- 1e** All earnings above ET up to and including UEL multiplied by the Employee's percentage rate.
- 3.5 NIC Rebates - Columns 1f and 1g should contain pounds and pence.
- 1f** Earnings in column 1b multiplied by Employee's Rebate percentage rate.
- 1g** Earnings in column 1b multiplied by Employer's Rebate percentage rate plus any balance of the employee's NIC Rebate.

### **4. DESCRIPTION OF THE DIFFERENCES BETWEEN CALCULATING NICs USING THE TABLES AND THE EXACT PERCENTAGE METHOD**

- 4.1 The difference between the figures shown in the Manual NIC Tables and the Exact Percentage Method of calculation is because the NIC figures shown in the Tables are calculated on the mid-point between the earnings figure they relate to, and the next highest earnings figure. Further information is provided at section 9.

## VALIDATION CHECKS

- 5.1 The following validation checks should be built into the routines. This will ensure that the information, if required, will be correct and help to eliminate errors.
- 5.2 Appropriate cross referencing within these fields will let the user know an error has been made. This could be when a field is completed with information that is incompatible with another field, or requires the completion of another field, e.g. contracted-out contributions but no ECON entered, or SMP field completed for a male employee.

DATA	SPECIFICATION
Identity details :	
Employer's Name	Mandatory field - Field must <b>not</b> contain <b>all</b> spaces.
Employer's Address	Encouraged completion field - Field should <b>not</b> contain <b>all</b> spaces.
Employer's Contracting-Out Number (ECON)	A 9 character serial number which should be in the format: character 1 must be E characters 2 to 8 must be in the range 3000000 to 3999999 Character 9 must be alpha. ECON mandatory if contracted-out contributions are paid and should produce error message if not in correct format.
Scheme Contracted-Out Number (SCON)	A 9 character serial number which should be in the format: character 1 must be S characters 2 - 8 must be numeric character 9 must be alpha Mandatory field if contracted-out contributions have been paid and the category letter is F, G, H, K, S or V, SCON <b>must</b> be present and error message should be produced if in the incorrect format.
Employee's Surname	Mandatory field - Error message should be displayed if omitted.
Employee's Forename(s)	Mandatory field - Error message should be displayed if omitted. Should not contain titles i.e. Mr, Mrs etc.
Initials (If applicable)	Encouraged completion field - Error message should be displayed if initials used differ from Forename(s) field.
Employee address	Encouraged completion field - Error message should be displayed if address is omitted.
Date of birth	Encouraged completion field – 8 digit number i.e., DDMMCCYY. Error message should be displayed if omitted.

DATA	SPECIFICATION
Sex	Encouraged completion field - Must be M or F. This field should contain cross validation with the category letters B,E, K and G to ensure Married Woman Reduced Rate contributions are not paid by a male employee.
Marital status	Encouraged completion field - Error message should be displayed if S (single), M (married), W (widowed) or D (divorced) are omitted.
NI Number	Mandatory field - Error message should be displayed if omitted. If NI number is not known complete form CA6855 to obtain it within 5 days from Inland Revenue National Insurance Contributions office. The form can be accessed on the <b>Internet</b> , page <a href="http://www.inlandrevenue.gov.uk/offices-contact/specialised/nic/nitrace.htm">http://www.inlandrevenue.gov.uk/offices-contact/specialised/nic/nitrace.htm</a> (Adobe Acrobat must be used) <b>or</b> call the <b>EMPLOYER'S Orderline (0845 7 646 646)</b> for supplies.
NI Number	Mandatory field - Error message should be displayed if NINO is not in the correct format. A list of feasible NINO prefixes is shown in the appendices. The NI number should be in one of the following formats:  <u>Standard Format</u> characters 1 and 2 should both be in the range A to Z (see Appendix 1) characters 3 to 8 should be numeric character 9 should be in the range A to D or a space.  <u>Temporary Number Format</u> <b>Please note use of temporary numbers is discouraged</b> characters 1 and 2 must be TN characters 3 to 8 should be numeric and be identical to employee's date of birth (DDMMYY). character 9 should be M, F (to denote male or female) or a space if unknown. Alert Employer to obtain proper NINO.
NI Contributions	Earnings must be recorded when the LEL is reached even when no NICs are payable.
NI Contributions	No Employee NIC is due on earnings at or below the Earnings Threshold.
NI Contributions	No Employee NIC is due on earnings above the UEL.
NI Contributions	Employer NIC is due on earnings above the UEL.

DATA	SPECIFICATION
NI Contributions	NIC will not be due for employees under age 16.
NI Contributions	No Employer NIC is due on earnings at or below the Earnings Threshold.
Category B, E, K, O and G contributions	An error message should be displayed by the system if category B, E, K, O or G is input to the account of a male employee, or an unmarried/divorced female.
Category B, E, K, O and G contributions	If category B, E, K, O or G is entered the system should prompt the user to confirm that a valid certificate is held for the employee.
Category C contracted-out, S and V contributions	If category C contracted-out, S or V is entered, the system should prompt the user to confirm that a valid certificate of deferment is held, and that the person is under state pension age.
Categories C contracted - out, D,E,F,G,S,N,O,H,K and V	NIC rebates must only be recorded for these category letters.
Categories C contracted - out, D,E,F,G,S,N,O,H,K and V	If categories C contracted-out, D, E, F, G, S, N, O, H, K and V are recorded an error message should be displayed if the ECON is omitted.
Category C not contracted-out	If category C not contracted-out is recorded for an employee who is state pension age or over the system should prompt the user to confirm that proof of pension age is held.
Categories C not contracted-out, C contracted-out, S and V	If categories C not contracted-out, C contracted-out, S or V is recorded, no figures should be in the employee field for NI.
Category C contracted-out	An error message should be displayed if an attempt to enter category C contracted-out contributions is made for any pension scheme other than a contracted-out salary related scheme (COSR).
Categories S, V and C contracted-out	If categories S, V or C contracted-out is recorded an error message should be displayed if the employee is state pension age or over (must revert to <b>not</b> contracted-out C rate).
Categories F, G, H, K,V and S	If categories F, G, H, K, V and S are recorded an error message should be displayed if an attempt is made for this category to be payable on any pension scheme other than Money Purchase schemes.
Categories F,G,H,K,V and S	The system should alert the user when categories F, G, H, K, V and S are used and a SCON has not been recorded.
Category H,V,K,R,T,W,N and O	If categories H, V, K, R, T, W, N and O are recorded the system should alert the user that these categories are used for mariners only.

DATA	SPECIFICATION
Category X	This category should be used for NIL contributions <u>and</u> NIL earnings only. An error message should be displayed if figures other than zeros are recorded against this category.
SMP	An error message should be displayed if the user attempts to pay SMP to a male employee.
SMP	An error message should be displayed if the user attempts to input SSP and SMP for the same dates.
SMP	A warning message should be displayed if SMP is paid to a female over age 50.
SMP	An error message should be displayed if SMP is paid and <i>no period of maternity</i> absence is recorded.
SMP	An error message should be displayed if SMP is paid and <i>no expected week of confinement (EWC)</i> is displayed.
SMP	An error message should be displayed if SMP is not paid at 90% of calculated average weekly earnings for the first 6 weeks of payment.
SMP	An error message should be displayed to confirm that the employer holds a <i>valid</i> certificate of confinement (Mat B1) provided by the employee
SSP	An error message should be displayed if SSP is paid and <i>no period of sick absence of at least 4 days in a row</i> is recorded.
SSP	An error message should be displayed if SSP is paid to an employee over age 65.
SSP	An error message should be displayed if the total amount paid <i>exceeds more than 28 times the weekly rate</i> of SSP in a single period of sick absence.

## **6. RULES FOR ROUNDING**

### **GENERAL NI CONTRIBUTIONS**

- 6.1 The Social Security (Contributions) Regulations 1979 provide specific rules for rounding in the calculation of National Insurance contributions.

Regulation 9(1)(b) provides that:

“each such calculation shall be to the nearest £0.01 and any amount of £0.005 or less shall be disregarded”.

- 6.2 As the law requires that £0.005 or less is disregarded, we only look at the third decimal place in calculating NICs due where such calculation results in more than two decimal places.

If it is 5 or less round down.

If it is 6 or more round up.

For example, if the NIC calculated was to result in:

£67.555 the NIC payable would be £67.55, but if the NIC payable came to

£67.556 the NIC payable would be £67.56.

- 6.3 Where rounding is required within the body of the calculation this has been indicated in the formulae with the symbol (R).

### **Class 1A NICs**

- 6.4 The Social Security Act 1998 Regulation 22H, with effect from April 1999, aligned the rules for the rounding of Class 1A contributions to those for Class 1 NICs as shown at 6.1 to 6.3 above.

### **SSP/SMP**

- 6.5 Average weekly earnings  
There is no rounding in the calculation of average weekly earnings, for example an employee with average weekly earnings of £71.99999 in 2001/02 would not qualify for SSP/SMP.
- 6.6 SSP payment  
Daily calculations are always taken to the fourth decimal place without rounding. The final total is then rounded up to the next penny.
- 6.7 SMP payment  
The higher rate of SMP should be calculated on the unrounded average weekly earnings figure and then rounded up to the next penny.

6.8 SSP Recovery under Percentage Threshold Scheme

The percentage of your Class 1 NI liability each tax month should be rounded down to the nearest penny.

6.9 SMP Recovery

The percentage of SMP you are entitled to recover, and if you qualify for Small Employers' Relief the percentage of SMP compensation, should be rounded up to the nearest penny.

## 7. NIC CALCULATION FORMULAE

- 7.1 Changes to NI announced in the Budget statement in March 2000 will take effect from 6 April 2001 and are incorporated in the calculation formulae that follow.
- 7.2 Where it has been considered appropriate both a narrative and a mathematical version of the calculations has been given.

### EXACT PERCENTAGE METHOD

#### 7.3 BASIC CALCULATION

For all Employee Contribution Calculations, if  $GP \leq ET =$  No NI Due.

For all Employer Contribution Calculations (including director calculations), if  $GP \leq ET =$  No NI Due.

#### 7.4 EMPLOYEE CONTRIBUTION CALCULATION

$$\left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^* \right] \times EER = \text{Employee's NIC for the period}$$

\* If answer is negative treat as zero.

# If answer is zero or negative no employee's NIC due.

$p^1$  If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$p$  Round result of calculation at this point up to nearest whole pound.

#### 7.5 EMPLOYER NOT CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^* \times ERR = \text{Employer's NIC for the period}$$

\* If answer is zero or negative no employer's NIC due.

$p^1$  If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

## 7.6 EMPLOYER CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left[ \left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^* - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^{\#} \right] \times ERR_R \right] + \left[ \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^{\#} \right] \times ER'NCO RATE_R = \text{Employer's NIC for the period}$$

\* If answer is zero or negative no employer's NIC due.

# If answer is negative treat as zero.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

P Round result of calculation at this point up to nearest whole pound.

## 7.7 EMPLOYEE CONTRACTED-OUT REBATE CALCULATION

$$\left[ \left( GP - \left( \frac{LEL \times p}{w/m} \right) \right)^* - \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times EE'RR_R = \text{Employee's Rebate}$$

\* If answer is zero or negative no employee's rebate due.

# If answer is negative treat as zero.

P Round result of calculation at this point up to nearest whole pound.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

## 7.8 EMPLOYER CONTRACTED-OUT REBATE CALCULATION

$$\left[ \left( GP - \left( \frac{LEL \times p}{w/m} \right) \right)^* - \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times ER'RR_R = \text{Employer's Rebate}$$

\* If answer is zero or negative no employer's rebate due.

# If answer is negative treat as zero.

P Round result of calculation at this point up to nearest whole pound.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

## 8. DIRECTOR'S NIC CALCULATION FORMULAE

- 8.1 For National Insurance purposes, Company Directors are classified as office holders and, under Section 2(1) of the Social Security Contributions and Benefits Act 1992, office holder's fall into the definition of 'employed earner'. As such, provided their earnings reach appropriate levels, they are liable for Class 1 NICs.
- 8.2 The earnings period for calculating NICs is usually determined by the interval between payments. For example an employee who is monthly paid will have a monthly earnings period. However, to calculate NICs for directors you must use either:
- an annual earnings period, or
  - a pro-rata annual earnings period.
- 8.3 This applies regardless of the actual interval between payments.
- 8.4 Under the Social Security Act 1998, contributions can now be deducted on a weekly/monthly basis and the annual calculation completed at the end of the tax year to confirm the correct amount has been paid. Any subsequent amendments are then made to the Deductions Working Sheet, Form P11 or Substitute.
- 8.5 Further general information about Directors can be found in Booklet CA44 which can be obtained from the Employer's Orderline (0845 7 646 646).
- 8.6 The following calculation formulae set out the basic calculations for Directors NICs.

### DIRECTOR'S CALCULATIONS

#### 8.7 DIRECTOR'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[ \left( GP_{\text{ptd}} - ET \right)^* - \left( GP_{\text{ptd}} - UEL \right)^{\#} \right] \times EE'R_R - EE'NIC_{\text{ptd}} = EE's \text{ NIC due this period}$$

\* If answer is zero or negative no employee NICs due.

# If answer is negative treat as zero.

R Round at this point

#### 8.8 EMPLOYER'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[ \left( GP_{\text{ptd}} - ET \right)^* \times ER'R_R \right] - ER'NIC_{\text{ptd}} = ER's \text{ NIC due this period}$$

\* If answer is zero or negative no employer's NIC due.

R Round at this point

## 8.9 DIRECTOR'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

### Rebate on Director's NICs

$$\left\lfloor \left\lfloor (GP_{\text{ptd}} - LEL)^* - (GP_{\text{ptd}} - ET)^{\#} \right\rfloor \times EE'R_R \right\rfloor - \text{Rebate}_{\text{ptd}} = \text{EE's rebate due this period}$$

- \* If answer is zero or negative no rebate due.
- # If answer is negative treat as zero.
- R Round at this point

### Director's NIC

$$\left\lfloor \left\lfloor (GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right\rfloor \times EE'R_R \right\rfloor - \text{EE'NIC}_{\text{ptd}} = \text{EE's NIC due this period}$$

- \* If answer is zero or negative no director's NIC due.
- # If answer is negative treat as zero.
- R Round at this point

## 8.10 EMPLOYER'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

### Rebate on Employer's NICs

$$\left\lfloor \left\lfloor (GP_{\text{ptd}} - LEL)^* - (GP_{\text{ptd}} - ET)^{\#} \right\rfloor \times ER'RR_R \right\rfloor - \text{ER'Rebate}_{\text{ptd}} = \text{ER's rebate due this period}$$

- \* If answer is zero or negative no rebate due.
- # If answer is negative treat as zero
- R Round at this point

### Employer's NIC

$$\left\lfloor \left\lfloor \left\lfloor (GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right\rfloor \times ER'CO\%R_R \right\rfloor + \left\lfloor (GP_{\text{ptd}} - UEL)^{\#} \times ER'NCO\%R_R \right\rfloor - \text{ER'NIC}_{\text{ptd}} \right\rfloor = \text{ER's NIC due this period}$$

- \* If answer is zero or negative no employer's NIC due.
- # If answer is negative treat as zero
- R Round at this point

## PRO-RATA DIRECTOR

8.11 For Pro-rata Director, replace the Annual LEL, UEL and Earnings Threshold with the pro-rata LEL, UEL and Earnings Threshold and follow the previous formulae.

8.12 The following example shows the Pro-rata earnings limits for someone who becomes a Director during the 2001/2002 tax year with 18 weeks from and including the week of appointment to the end of the tax year:

$$\begin{aligned} 18 \times \text{£}72 &= \text{£}1296 \text{ (pro rata LEL)} \\ 18 \times \text{£}575 &= \text{£}10350 \text{ (pro rata UEL)} \\ \text{£}4535 \div 52 \times 18 &= \text{£}1570 \text{ (pro rata ET rounded up to next whole £)} \end{aligned}$$

## 9 NIC CALCULATION FORMULAE

### TABLES METHOD

#### 9.1 Weekly Tables

Earnings in the weekly tables are shown in whole pounds only, with the gross pay being rounded down to the nearest whole pound.

#### 9.2 Monthly Tables

The monthly tables are also shown in whole pounds only, but are in bands of four pounds starting at the LEL. Gross pay should be rounded down to the nearest band. However, at the earnings threshold, where liability for primary and secondary NI arises, there must be a band at the threshold, i.e. 312, 316, 320, .....372,376, 378, 380,384, .....2488, 2492.

#### 9.3 Mid-Point Calculations

NI contributions in the tables are usually calculated on the “mid-point” between the earnings steps. The weekly tables are in steps of £1, therefore the mid-point between each step is the lower step plus £0.50. Similarly, the monthly tables increase mainly in steps of four pounds, therefore the mid-point is the lower step plus £2.00.

#### 9.4 **Please note** that although not all steps within the monthly tables increase by four pounds, the calculation of the NIC is always based on the mid-point. i.e. if the step was three pounds, the mid-point would be the lower step plus £1.50. This is with the exception of the UEL and the earnings threshold, where the NIC is calculated on the exact earnings (whole pounds).

#### 9.5 Earnings Above UEL

Employer’s NICs are due on earnings above the UEL, and are calculated on whole pounds.

## **10 STATUTORY MATERNITY PAY (SMP)**

10.1 SMP is the minimum level of maternity pay an employer must pay to most employees who are off work and are either pregnant or have had a baby.

10.2 To qualify for SMP an employee must:

- have been continuously employed for at least 26 weeks by the end of the 15<sup>th</sup> week (qualifying week) before the baby is due.
- still be pregnant at the 11<sup>th</sup> week before the baby is due, or have had the baby by that time.
- have average weekly earnings of not less than the National Insurance contributions Lower Earnings Limit in the relevant period. She does not need to have paid any NICs to qualify for SMP.
- have given her employer medical evidence of the date the baby is due/born.
- tell her employer when she is planning to stop work.
- have stopped working – SMP is not payable for any week in which an employee has done some work.

### **Average Pay Calculation**

10.3 Firstly the 'relevant period', must be established over which the average earnings are to be calculated. In most cases this is eight weeks up to and including the last payday before the end of the qualifying week, but the 'relevant period' can be different depending on the employee's paydays.

10.4 The 'relevant period' is defined in Regulations as:

- the last normal payday before the end of the qualifying week i.e. on or before the Saturday of the qualifying week,
- and
- the last normal payday falling at least eight weeks before the payday above.

Regulations also define a normal payday as either:

- the payday specified in the contract or
- the day on which the employee is usually paid if:
- they have no contract or
- their contract does not specify a payday.

10.5 Once this is established the frequency of pay must be considered:-

SMP is payable at two rates:

- the higher rate is 9/10ths of the employees calculated average weekly earnings and is payable for the first 6 weeks of payment
- the lower rate is payable for the remaining weeks of the maternity pay period, i.e. up to 12 weeks.

10.6 NB: Where the 90% figure is less than the Lower Rate of SMP, the higher of the two should be paid.

### **Employees Paid Weekly**

10.8 Where an employee is paid weekly, or in multiples of weeks, and a normal payment has been made early so that the relevant period contains more, or less, than the eight weeks pay, or is not an exact number of weeks, then payments should be divided by the number of weeks covered by the payments rather than the number of weeks in the period.

10.9 This change applies only to regular payments of earnings and does not affect other payments made within the relevant period, such as bonus payments or commission.

10.10 For employees paid once a week or in multiples of a week e.g. fortnightly, three, four and/or five weekly:-

- establish the 'relevant period'
- add together the gross earnings in the 'relevant period' and
- divide the total by the number of weeks covered by the payments to give the average gross weekly earnings.

## **Employees Paid Calendar Monthly**

10.11 For employees paid calendar monthly:

- establish the 'relevant period'
- add together the gross earnings paid in the relevant period and
- divide the total by the number of calendar months covered by the payments, (if this is not a whole number, round to the nearest whole number), multiply by 12 and divide by 52 to give the average gross weekly earnings.

10.12 Employees paid calendar monthly already have legislative provision for their 'relevant period' to be rounded up or down to the nearest whole month. Likewise, employees paid yearly or irregularly have legislative provision for their earnings to be divided by the number of days in their relevant period.

## **Recovering Statutory Maternity Pay**

10.13 92% of the Statutory Maternity Pay paid to the employee can be recovered if the employer does not qualify for Small Employers' Relief (to qualify the employer should have been liable to pay £20,000 or less in gross Class 1 NICs, employee and employer, in the tax year prior to the qualifying week. Class 1A and Class 1B are not included. Employers paying contracted-out NICs should remember to deduct their contracted-out rebate for the year when checking whether they qualify).

10.14 If the employer does qualify for Small Employers' Relief he can:

- recover 100% of the Statutory Maternity Pay
- and
- claim compensation at the appropriate percentage rate of the gross Statutory Maternity Pay paid (details in the Statutory Maternity Pay Tables, CA36).

10.15 Further detailed information and examples of calculations of SMP can be found in booklet CA29 - Statutory Maternity Pay Manual for employers.

## 11. STATUTORY SICK PAY (SSP)

11.1 SSP is the minimum level of sick pay you must pay to most employees who are off work sick for 4 or more calendar days in a row. It is paid for qualifying days (after an employee has served 3 waiting days which must also be qualifying days) for employees with calculated average weekly earnings of not less than the LEL for National Insurance purposes. Qualifying days are usually the days of the week an employee works.

Further information about Qualifying days and Period of Incapacity for Work (PIW) can be found in the Statutory Sick Pay manual for employers, CA30.

11.2 SSP should be paid to the majority of employees who on the first day of a Period of Incapacity for Work (PIW):

- are aged 16 or over and under 65
- are off work sick for 4 or more calendar days in a row. This is a Period of Incapacity for Work (PIW) and
- in the 8 weeks prior to being off work, have calculated average weekly earnings of not less than the LEL for National Insurance purposes.

They do not need to have paid any NICs to qualify for SSP.

11.3 SSP does not have to be paid if, on the first day of the PIW, an employee:

- does not satisfy the previous 3 conditions
- has already received 28 weeks SSP in the PIW
- has not yet done any work for the current employer
- is within the disqualifying period of her pregnancy, or
- has claimed Social Security benefit that links with the PIW.

11.4 For details of more unusual circumstances in which SSP is not payable refer to SSP Manual CA30 under 'Employees who cannot get SSP'.

11.5 Average Pay Calculation

First the "relevant period" must be established over which average earnings are calculated. In most cases this is the eight weeks up to and including the last payday before the start of the Period of Incapacity for Work, but the "relevant period" can be different depending on the employee's paydays.

11.6 The "relevant period" is defined in Regulations as:

- 11.6.1 the last normal payday before the start of the Period of Incapacity for Work and
- 11.6.2 the last normal payday falling at least eight weeks before the payday at 11.6.1.
- 11.7 Regulations also define a normal payday as either:
- the payday specified in the contract or
  - the day on which the employee is usually paid if:
  - they have no contract or
  - their contract does not specify a payday.
- 11.8 For most employees it will be obvious if their earnings are high enough. If you need to calculate their earnings see the Statutory Sick Pay Manual for employers, CA30."
- 11.9 Remember tax months start on the 6th of each month and finish on the 5th of each month.
- 11.10 Each week, commencing Sunday, that the employee is sick is treated as a separate pay period for SSP purposes. The daily rate of SSP is the weekly rate of SSP divided by the number of qualifying days (QDs) in the week, beginning Sunday, for which SSP is paid.
- 11.11 The daily rate should be left unrounded. To calculate the amount of SSP due in a week, multiply the daily rate by the number of qualifying days for which the employee is incapable of work. Fractions should then be rounded up to the nearest penny. For example an employee with 6 qualifying days is due 4 days SSP. £62.20 divided by 6 = £10.3667 (using the tables in CA35 multiplied by 4 = £41.4668 which is then rounded up to £41.47).
- 11.12 Further detailed information and examples of calculation of SSP can be found in booklet CA30 - Statutory Sick Pay Manual for employers.

### **Recovering Statutory Sick Pay**

- 11.13 Unless an employer qualifies for reimbursement under the Percentage Threshold Scheme (PTS) there is no entitlement to recover any of the SSP paid to an employee. To check whether an employer does qualify they must compare their total SSP liability in a tax month with 13% of their total gross Class 1 NIC for the same tax month. Class 1A and Class 1B NICs should not be included. Employers paying contracted-out NICs should remember to deduct their contracted-out rebate for that month before working out the 13%. They can recover the amount by which SSP liability exceeds the 13% figure.

## **12. CLASS 1A CONTRIBUTIONS**

### **CLASS 1A CONTRIBUTIONS ON TAXABLE BENEFITS**

- 12.1 Class 1A contributions became payable on the benefit of providing a car to an employee for private use and for providing fuel for private use in that car from April 1991.
- 12.2 From April 2000, Class 1A liability was extended to most taxable benefits provided to an employee by reason of their employment.
- 12.3 Only employers pay Class 1A contributions, there is no employee contribution payable.
- 12.4 The extended Class 1A scheme has been designed around the existing P11D reporting procedures so as to minimise employer's administrative work.
- 12.5 Liability for Class 1A will now affect all employers who provide taxable benefits which are reportable on form P11D (or substitute)
- 12.6 Employers will calculate Class 1A by adding together the cash equivalent of each benefit reported on forms P11D (or substitute) and multiplying the total by the Class 1A percentage rate.
- 12.7 Class 1A contributions are due on benefits provided to:
- directors
  - employees who are paid at the rate of £8,500 a year or more, including taxable benefits and taxable expenses
  - members of the families or households of the above, including spouses, children and their spouses, parents, dependants, servants and guests
- 12.8 Employers will:
- declare Class 1A on a modified P11D(b)
  - pay Class 1A separately to their PAYE/NICs reference at the Accounts Office.
- 12.9 The main dates for Class 1A contributions due for the tax year 2000/2001 are:
- 6 July 2001 - for first P11D(b)
- 19 July 2001 - for first payment

12.10 **Please note** from 6 April 2000 Class 1A will no longer be payable via PAYE. Category Y **must not** be recorded on P14s for 2001/2002.

12.11 If you are a new employer or are providing benefits to your employees the following Inland Revenue publications will help you:

- Booklet 480 – Expenses and Benefits – A Tax Guide
- Booklet 490 – Employee Travel – A tax and NICs guide for employers
- Leaflet CA33 – Class 1A National Insurance Contributions on Car and Fuel Benefits
- Leaflet CWG 5 – Class 1A NICs on Benefits in Kind.

They can be obtained from the Employer's Orderline on 0845 7 646 646.

12.12 For more information contact the Employer's Helpline on 0845 7 143 143 or your local Inland Revenue office or Inland Revenue Enquiry Office.

## **13 NIC HOLIDAY**

- 13.1 The NIC Holiday scheme allowed an employer to claim back an amount equal to the employer's share of NICs due on an employee's earnings for up to one year.
- 13.2 It applied only to new employees who started work on or after 6 April 1996 and before March 1999 who met the following qualifying conditions. The employee must have:
- Started work for the employer on or after 6 April 1996, and before March 1999
  - been out of work and receiving certain benefits for two years or more, and
  - been employed by the employer for a period of at least 13 weeks, and
  - been under State Pension Age (SPA) on the day they start work, and
  - agreed to participate.
- 13.3 If the scheme was operated by an employer the money must be claimed by reducing the money paid over to the Inland Revenue by the amount of NIC Holiday due for each employee for whom a certificate is held. Although the scheme ceased in March 1999, an employer has up to six years to claim any money back.
- 13.4 Further information on this subject can be obtained from the Employer's Helpline on 0845 7 143 143.

**VALID NATIONAL INSURANCE NUMBER PREFIXES**

AA AB AE AH AK AL AM AP AR AS AT AW AX AY AZ

BABB BE BH BK BL BM BT

CACB CE CH CK CL CR

EA EB EE EH EK EL EM EP ER ES ET EW EX EY EZ

GY

HA HB HE HH HK HL HM HP HR HS HT HW HX HY HZ

JA JB JC JE JG JH JJ JK JL JM JN JP JR JS JT JW JX JY JZ

KA KB KE KH KK KL KM KP KR KS KT KW KX KY KZ

LA LB LE LH LK LL LMLP LR LS LT LW LX LY LZ

MA MW MX

NANB NE NH NL NM NP NR NS NW NX NY NZ

OA OB OE OH OK OL OM OP OR OS OX

PAPB PC PE PG PW PX PY

RARB RE RH RK RM RP RR RS RT RW RX RY RZ

SASB SM SW

TA TB TE TH TK TL TM TP TR TS TT TW TX TY TZ

WA WB WE WK WL WM WP

YA YB YE YH YK YL YM YP YR YS YT YW YX YY YZ

ZA ZB ZE ZH ZK ZL ZM ZP ZR ZS ZT ZW ZX ZY

The characters D, F, I, Q, U and V are not used as either the first or second letter of a NINO prefix.

The letter O is not used as the second letter of a prefix.

TN (Temporary Number) is also feasible but should only be used as a temporary measure until a correct National Insurance number is obtained

(please see Section 5 Validation Checks under heading 'NI Number' for an explanation on format).

**Forthcoming prefixes are:-**

PH PJ PK PL PM PN PP PR PS PT

SC SE SG SH SJ SK SL SP SR SS ST SX SY SZ

**It is estimated that:**

- SC will be introduced early/mid 2001
- PH will be introduced mid 2001
- PJ will be introduced early 2002

**EXAMPLE 1**

An Employee earns £75.00 a week and pays standard not contracted-out NICs

**EMPLOYEE CONTRIBUTION CALCULATION**

$$\left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^* \right] \times EER = \text{Employee's NIC for the period}$$

- \* If answer is negative treat as zero.
- # If answer is zero or negative no employee's NIC due.
- p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.
- P Round result of calculation at this point up to nearest whole pound.

$$\left[ \left( 75.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} - \left( 75.00 - \left( \frac{29900 \times 1}{52} \right) \right)^* \right] \times 10\% = \text{£}0.00$$

**EMPLOYER NOT CONTRACTED-OUT CONTRIBUTION CALCULATION**

$$\left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^* \times ERR = \text{Employer's NIC for the period}$$

- \* If answer is zero or negative no employer's NIC due.
- p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$$\left( 75.00 - \left( \frac{4535 \times 1}{52} \right) \right)^* \times 11.9\% = \text{£}0.00$$

Although no NICs are due, as earnings have reached or exceeded the LEL they must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
A	£72	£3	£0	£0	£0	£0	£0

## APPENDIX 2 cont'd

### EXAMPLE 2

An Employee earns £89.00 a week and pays standard not contracted-out NICs

#### EMPLOYEE CONTRIBUTION CALCULATION

$$\left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^* \right] \times EER = \text{Employee's NIC for the period}$$

\* If answer is negative treat as zero.

# If answer is zero or negative no employee's NIC due.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

P Round result of calculation at this point up to nearest whole pound.

$$\left[ \left( 89.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} - \left( 89.00 - \left( \frac{29900 \times 1}{52} \right) \right)^* \right] \times 10\% = \text{£}0.20$$

#### EMPLOYER NOT CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^* \times ERR = \text{Employer's NIC for the period}$$

\* If answer is zero or negative no employer's NIC due.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$$\left( 89.00 - \left( \frac{4535 \times 1}{52} \right) \right)^* \times 11.9\% = \text{£}0.24$$

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
A	£72	£15	£2	£0.44	£0.20		

## APPENDIX 2 cont'd

### EXAMPLE 3

An Employee earns £93.00 a week and pays standard contracted-out NICs (COSR)

#### EMPLOYEE CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^* \right] \times EER = \text{Employee's NIC for the period}$$

\* If answer is negative treat as zero.

# If answer is zero or negative no employee's NIC due.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

P Round result of calculation at this point up to nearest whole pound.

$$\left[ \left( 93.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} - \left( 93.00 - \left( \frac{29900 \times 1}{52} \right) \right)^* \right] \times 8.4\% = \text{£}0.50$$

#### EMPLOYER CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left[ \left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^* - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^{\#} \right] \times ERR_{(R)} \right] + \left[ \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^{\#} \times ER's \text{ NCO RATE}_{(R)} \right] = \text{Employer's NIC for the period}$$

\* If answer is zero or negative no employer's NIC due.

# If answer is negative treat as zero.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

P Round result of calculation at this point up to nearest whole pound.

$$\left[ \left[ \left( 93.00 - \left( \frac{4535 \times 1}{52} \right) \right)^* - \left( 93.00 - \left( \frac{29900 \times 1}{52} \right) \right)^{\#} \right] \times 8.9\% \right] + \left[ \left( 93.00 - \left( \frac{29900 \times 1}{52} \right) \right)^{\#} \times 11.9\% \right] = \text{£}0.53$$

## APPENDIX 2 cont'd

### EMPLOYEE CONTRACTED-OUT REBATE CALCULATION

$$\left[ \left( GP - \left( \frac{LEL \times p}{w/m} \right) \right)^* - \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times EE'RR = \text{Employee's Rebate}$$

\* If answer is zero or negative no employee's rebate due.

# If answer is negative treat as zero.

P Round result of calculation at this point up to nearest whole pound.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$$\left[ \left( 93.00 - \left( \frac{3744 \times 1}{52} \right) \right)^* - \left( 93.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} \right] \times 1.6\% = \text{£}0.24$$

### EMPLOYER CONTRACTED-OUT REBATE CALCULATION

$$\left[ \left( GP - \left( \frac{LEL \times p}{w/m} \right) \right)^* - \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times ER'RR = \text{Employer's Rebate}$$

\* If answer is zero or negative no employer's rebate due.

# If answer is negative treat as zero.

P Round result of calculation at this point up to nearest whole pound.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$$\left[ \left( 93.00 - \left( \frac{3744 \times 1}{52} \right) \right)^* - \left( 93.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} \right] \times 3\% = \text{£}0.45$$

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
D	£72	£15	£6	£1.03	£0.50	£0.24	0.45

## APPENDIX 2 cont'd.

### EXAMPLE 4

An Employee earns £510.00 a week and pays standard contracted-out NICs (COMP)

#### EMPLOYEE CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left[ \left( GP - \left( \frac{ET \times p}{w/m} \right) \right)^{\#} - \left( GP - \left( \frac{UEL \times p^1}{w/m} \right) \right)^* \right] \times EER = \text{Employee's NIC for the period}$$

\* If answer is negative treat as zero.

# If answer is zero or negative no employee's NIC due.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

P Round result of calculation at this point up to nearest whole pound.

$$\left[ \left( 510.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} - \left( 510.00 - \left( \frac{29900 \times 1}{52} \right) \right)^* \right] \times 8.4\% = \text{£}35.53$$

#### EMPLOYER CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left[ \left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^* - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^{\#} \right] \times ERR_{(R)} \right] + \left[ \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^{\#} \times ER'NCO \text{ RATE}_{(R)} \right] = \text{Employer's NIC for the period}$$

\* If answer is zero or negative no employer's NIC due.

# If answer is negative treat as zero.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

P Round result of calculation at this point up to nearest whole pound.

$$\left[ \left[ \left( 510.00 - \left( \frac{4535 \times 1}{52} \right) \right)^* - \left( 510.00 - \left( \frac{29900 \times 1}{52} \right) \right)^{\#} \right] \times 11.3\% \right] + \left[ \left( 510.00 - \left( \frac{29900 \times 1}{52} \right) \right)^{\#} \times 11.9\% \right] = \text{£}47.80$$

## APPENDIX 2 cont'd

### EMPLOYEE CONTRACTED-OUT REBATE CALCULATION

$$\left[ \left( GP - \left( \frac{LEL \times p}{w/m} \right) \right)^* - \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times EE'RR = \text{Employee's Rebate}$$

\* If answer is zero or negative no employee's rebate due.

# If answer is negative treat as zero.

P Round result of calculation at this point up to nearest whole pound.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$$\left[ \left( 510.00 - \left( \frac{3744 \times 1}{52} \right) \right)^* - \left( 510.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} \right] \times 1.6\% = \text{£}0.24$$

### EMPLOYER CONTRACTED-OUT REBATE CALCULATION

$$\left[ \left( GP - \left( \frac{LEL \times p}{w/m} \right) \right)^* - \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times ER'RR = \text{Employer's Rebate}$$

\* If answer is zero or negative no employer's rebate due

# If answer is negative treat as zero.

P Round result of calculation at this point up to nearest whole pound.

p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$$\left[ \left( 510.00 - \left( \frac{3744 \times 1}{52} \right) \right)^* - \left( 510.00 - \left( \frac{4535 \times 1}{52} \right) \right)^{\#} \right] \times 0.6\% = \text{£}0.09$$

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
F	£72	£15	£423	£83.33	£35.53	£0.24	£0.09

**EXAMPLE 5**

An employee paid £450 for a 2 week work period and pays reduced rate not contracted-out NIC.

**EMPLOYEE NOT CONTRACTED-OUT CONTRIBUTION CALCULATION**

$$\left[ \left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^{\#} - \left( GP - \left( \frac{UEL \times p}{w/m} \right) \right)^* \right] \times EER = \text{Employee's NIC}$$

- \* If answer is negative treat as zero.
- # If answer is zero or negative no employee's NIC due.
- p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.
- P Round result of calculation at this point up to nearest whole pound.

$$\left[ \left( 450.00 - \left( \frac{4535 \times 2}{52} \right) \right)^{\#} - \left( 450.00 - \left( \frac{29900 \times 2}{52} \right) \right)^* \right] \times 3.85\% = \text{£}10.59$$

**EMPLOYER NOT CONTRACTED-OUT CONTRIBUTION CALCULATION**

$$\left( GP - \left( \frac{ET \times p^1}{w/m} \right) \right)^* \times ERR = \text{Employer's NIC for the period}$$

- \* If answer is zero or negative no employer's NIC due.
- p<sup>1</sup> If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

$$\left( 450.00 - \left( \frac{4535 \times 2}{52} \right) \right)^* \times 11.9\% = \text{£}32.72$$

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
B	£144	£31	£275	£43.31	£10.59		

## APPENDIX 2 cont'd

### EXAMPLE 6

A Director for the whole of the year earns £30,000 and pays contracted-out NIC (COSR Scheme). Has paid no NIC to date.

### DIRECTOR'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

#### Director's NIC

$$\left[ \left[ (GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right] - EE' \text{NIC}_{\text{ptd}} = EE' \text{'s NIC due this period}$$

\* If answer is zero or negative no director's NIC due.

# If answer is negative treat as zero.

R Round at this point

$$\left[ \left[ (30,000 - 4535)^* - (30,000 - 29,900)^{\#} \right] \times 8.4\% \right] - 0 = £2,130.66$$

#### Rebate on Director's NICs

$$\left[ \left[ (GP_{\text{ptd}} - LEL)^* - (GP_{\text{ptd}} - ET)^{\#} \right] \times EE'RR_R \right] - \text{Rebate}_{\text{ptd}} = EE' \text{'s rebate due this period}$$

\* If answer is zero or negative no rebate due.

# If answer is negative treat as zero.

R Round at this point

$$\left[ \left[ (30,000 - 3744)^* - (30,000 - 4535)^{\#} \right] \times 1.6\% \right] - 0 = £12.66$$

### EMPLOYER'S CONTRACTED-OUT CALCULATION FORMULAE

#### Employer's NIC

$$\left[ \left[ \left[ (GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right] \times ER'CO\%R_R \right] + \left[ (GP_{\text{ptd}} - UEL)^{\#} \times ER'NCO\%R_R \right] \right] - ER' \text{NIC}_{\text{ptd}} = ER' \text{'s NIC due this period}$$

\* If answer is zero or negative no employer's NIC due.

# If answer is negative treat as zero

R Round at this point

$$\left[ \left[ \left[ (30,000 - 4535)^* - (30,000 - 29900)^{\#} \right] \times 8.9\% \right] + \left[ (30,000 - 29900)^{\#} \times 11.9\% \right] \right] - 0 = £2269.38$$

## APPENDIX 2 cont'd

### Rebate on Employer's NICs

$$\left[ \left( (GP_{\text{ptd}} - LEL)^* - (GP_{\text{ptd}} - ET)^{\#} \right) \times ER'RR_R \right] - ER' \text{Rebate}_{\text{ptd}} = ER' \text{'s Rebate due this period}$$

\* If answer is zero or negative no rebate due.

# If answer is negative treat as zero

R Round at this point

$$\left[ (30,000 - 3744)^* - (30,000 - 4535)^{\#} \right] \times 3\% \Big| - 0 = \text{£}23.73.$$

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
D	3744	791	25365	4400.04	2130.66	12.66	23.73

## APPENDIX 2 cont'd

### EXAMPLE 7

Director from 6<sup>th</sup> December 2001 earns £35,000 in the rest of the tax year.  
Pays standard rate not contracted-out NIC.

Pro rata Limits

LEL	72 x 18	=	£1296
UEL	575 x 18	=	£10350
ET	4535 ÷ 52 x 18	=	£1570

### DIRECTOR'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[ \left( (GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right) \times EE'R_R \right] - EE'NIC_{\text{ptd}} = EE's \text{ NIC due this period}$$

\* If answer is zero or negative no employee NICs due.

# If answer is negative treat as zero.

R Round at this point

$$\left[ (35,000 - 1570)^* - (35,000 - 10350)^{\#} \right] \times 10\% - 0 = £878.00$$

### EMPLOYER'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[ (GP_{\text{ptd}} - ET)^* \times ER'R_R \right] - ER'NIC_{\text{ptd}} = ER's \text{ NIC due this period}$$

\* If answer is zero or negative no employer's NIC due.

R Round at this point

$$\left[ (35,000 - 1570)^* \times 11.9\% \right] - 0 = £3978.17$$

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
A	1296	274	8780	4856.17	878.00		

## APPENDIX 2 cont'd

### EXAMPLE 8

A Director for the whole of the year has an APP, joins COSR on 1<sup>st</sup> August 2001. Earnings paid before the change £5000.00 and after the change £25,000. Not contracted-out earnings take priority.

#### DIRECTOR'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left\{ \left[ (GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right\} - EE'NIC_{\text{ptd}} = EE's \text{ NIC due this period}$$

\* If answer is zero or negative no employee NICs due.

# If answer is negative treat as zero.

R Round at this point

$$\left\{ \left[ (5,000 - 4535)^* - (5,000 - 29900)^{\#} \right] \times 10\% \right\} - 0 = £46.50$$

#### EMPLOYER'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[ (GP_C - ET)^* \times ER'R_R \right] - ER'NIC_{\text{ptd}} = ER's \text{ NIC due this period}$$

\* If answer is zero or negative no employer's NIC due.

R Round at this point

$$\left[ (5,000 - 4535)^* \times 11.9\% \right] - 0 = £55.33.$$

#### DIRECTOR'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

##### Director's NIC

$$\left\{ \left[ (GP_{\text{ptd}} - GP_C) - (ET - GP_C)^{\#} - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right\} - EE'NIC_{\text{ptd}} \\ = EE's \text{ NIC due this period}$$

# If answer is negative treat as zero.

R Round at this point

$$\left\{ \left[ (30,000 - 5000) - (4535 - 5000)^{\#} - (30,000 - 29900)^{\#} \right] \times 8.4\% \right\} - 0 = £2091.60$$

##### Rebate on Director's NICs

$$(ET - GP_C) = \text{If answer is zero or negative no rebate due}$$

## APPENDIX 2 cont'd

### EMPLOYER'S CONTRACTED-OUT CALCULATION FORMULAE

#### Employer's NIC

$$\left[ \left[ \left[ (GP_{\text{ptd}} - GP_C) - (ET - GP_C)^{\#} - (GP_{\text{ptd}} - UEL)^{\#} \right] \times ER'CO\%R_R \right] + \left[ (GP_{\text{ptd}} - UEL)^{\#} \times ER'NCO\%R_R \right] \right] - ER'NIC_{\text{ptd}}$$

= Employer's NIC due this period

# If answer is negative treat as zero

R Round at this point

$$\left[ \left[ (30,000 - 5,000) - (4535 - 5000)^{\#} - (30,000 - 29900)^{\#} \right] \times 8.9\% \right] + \left[ (30,000 - 29900)^{\#} \times 11.9\% \right] - 0 = \text{£}2228.00$$

#### Rebate on Employer's NICs

$(ET - GP_C)$  = If answer is zero or negative no rebate due

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
A	3744	791	465	101.83	46.50		
D			24900	4319.60	2091.60		

## APPENDIX 2 cont'd

### EXAMPLE 9

A director for the whole tax year joins the company's contracted-out salary related occupational pension scheme on 1<sup>st</sup> May 2001. He earned £4000.00 before the change and £24,000 after. He does not have an Appropriate Personal Pension, therefore contracted-out contributions take priority.

### DIRECTOR'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

#### Director's NIC

$$\left\{ \left[ (GP_C - ET)^* - (GP_C - UEL)^{\#} \right] \times EE'R_R \right\} - EE'NIC_{ptd} = EE's \text{ NIC due this period.}$$

\* If answer is zero or negative no director's NIC due.

# If answer is negative treat as zero.

R Round at this point

$$\left\{ \left[ (24,000 - 4535)^* - (24,000 - 29900)^{\#} \right] \times 8.4\% \right\} - 0 = \pounds 1635.06$$

#### Rebate on Director's NICs

$$\left\{ \left[ (GP_{Cd} - LEL)^* - (GP_C - ET)^{\#} \right] \times EE'RR_R \right\} - \text{Rebate}_{ptd} = EE's \text{ Rebate due this period}$$

\* If answer is zero or negative no rebate due.

# If answer is negative treat as zero.

R Round at this point

$$\left\{ \left[ (24,000 - 3744)^* - (24,000 - 4535)^{\#} \right] \times 1.6\% \right\} - 0 = \pounds 12.66$$

### EMPLOYER'S CONTRACTED-OUT CALCULATION FORMULAE

#### Employer's NIC

$$\left[ \left[ \left[ (GP_C - ET)^* - (GP_C - UEL)^{\#} \right] \times ER'CO\%R_R \right] + \left[ (GP_C - UEL)^{\#} \times ER'NCO\%R_R \right] \right] - ER'NIC_{ptd} = ER's \text{ NIC due this period}$$

\* If answer is zero or negative no employer's NIC due.

# If answer is negative treat as zero

R Round at this point

$$\left[ \left[ \left[ (24,000 - 4535)^* - (24,000 - 29900)^{\#} \right] \times 8.9\% \right] + \left[ (24,000 - 29900)^{\#} \times 11.9\% \right] \right] - 0 = \pounds 1732.38$$

## APPENDIX 2 cont'd

### Rebate on Employer's NICs

$$\left\{ \left[ (GP_C - LEL)^* - (GP_C - ET)^{\#} \right] \times ER'RR_R \right\} - ER' \text{Rebate}_{\text{ptd}} = ER' \text{'s Rebate due this period}$$

\* If answer is zero or negative no rebate due.

# If answer is negative treat as zero

R Round at this point

$$\left\{ \left[ (24,000 - 3744)^* - (24,000 - 4535)^{\#} \right] \times 3\% \right\} - 0 = \text{£}23.73.$$

### DIRECTOR'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

#### Director's NIC

$$\left\{ \left[ (GP_{\text{ptd}} - GP_C) - (ET - GP_C)^{\#} - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right\} - EE' \text{NIC}_{\text{ptd}}$$

= EE's NIC due this period

$$\left\{ \left[ (28,000 - 24,000) - (4535 - 24,000)^{\#} - (28,000 - 29900)^{\#} \right] \times 10\% \right\} - 0 = \text{£}400.00$$

### EMPLOYER'S NOT CONTRACTED-OUT CALCULATION FORMULAE

#### Employer's NIC

$$\left\{ \left[ (GP_{\text{ptd}} - GP_C) - (ET - GP_C)^{\#} \right] \times ER' \text{NCO}\%R_R \right\} - ER' \text{NIC}_{\text{ptd}} = ER' \text{'s NIC due}$$

\* If answer is zero or negative no employer's NIC due.

# If answer is negative treat as zero

R Round at this point

$$\left\{ \left[ (28,000 - 24,000) - (4385 - 24,000)^{\#} \right] \times 11.9\% \right\} - 0 = \text{£}476.00$$

\* If answer is zero or negative no director's NIC due.

# If answer is negative treat as zero.

R Round at this point

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
D	3744	791	19465	3367.44	1635.06	12.66	23.73
A			4000	876.00	400.00		

## APPENDIX 2 cont'd

### EXAMPLE 10

A director first appointed on 5<sup>th</sup> May 2001 has an APP. He joins his company's contracted out COSR scheme on 11<sup>th</sup> November 2001 and reaches age 65 on 15<sup>th</sup> January 2002. He earns £15,000 from 5<sup>th</sup> May 2001 to 11<sup>th</sup> November 2001, £10,000 from 11<sup>th</sup> November 2001 to 15<sup>th</sup> January 2002 and £5,000 from 15<sup>th</sup> January 2002 to the end of the tax year. The APP earnings take priority over the contracted-out earnings (COSR scheme). There are 48 tax weeks left in the 2001/2002 tax year from 5<sup>th</sup> May 2001 to 5<sup>th</sup> April 2002.

Pro rata Limits

LEL	72 x 48	=	£3456
UEL	575 x 48	=	£27600
ET	4535 ÷ 52 x 48	=	£4187

### DIRECTOR'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[ \left[ (GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right] - EE'NIC_{\text{ptd}} = EE's \text{ NIC due this period}$$

\* If answer is zero or negative no employee NICs due.

# If answer is negative treat as zero.

R Round at this point

$$\left[ \left[ (15000 - 4187)^* - (15000 - 27600)^{\#} \right] \times 10\% \right] - 0 = £1081.30$$

### EMPLOYER'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[ (GP_{\text{ptd}} - ET)^* \times ER'R_R \right] - ER'NIC_{\text{ptd}} = ER's \text{ NIC due this period}$$

\* If answer is zero or negative no employer's NIC due.

R Round at this point

$$\left[ (15,000 - 4187)^* \times 11.9\% \right] - 0 = £1286.75.$$

### DIRECTOR'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

#### Director's NIC

$$\left[ \left[ (GP_{\text{ptd}} - GP_C) - (ET - GP_C)^{\#} - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right] - EE'NIC_{\text{ptd}} \\ = EE's \text{ NIC due this period}$$

\* If answer is zero or negative no director's NIC due.

# If answer is negative treat as zero.

R Round at this point

## APPENDIX 2 cont'd

$$\left[ \left[ (25,000 - 15,000) - (4187 - 15,000)^{\#} - (25,000 - 27,600)^{\#} \right] \times 8.4\% \right] - 0 = \text{£}840.00$$

### Rebate on Director's NICs

$(ET - GP_C)$  = If answer is zero or negative no rebate due

### EMPLOYER'S CONTRACTED-OUT CALCULATION FORMULAE

#### Employer's NIC

$$\left[ \left[ \left[ (GP_{ptd} - GP_C) - (ET - GP_C)^{\#} - (GP_{ptd} - UEL)^{\#} \right] \times ER'CO\%R_R \right] + \left[ (GP_{ptd} - UEL)^{\#} \times ER'NCO\%R_R \right] \right] - ER'NIC_{ptd}$$

= ER's NIC due this period

- \* If answer is zero or negative no employer's NIC due.
- # If answer is negative treat as zero
- R Round at this point

$$\left[ \left[ \left[ (25,000 - 15,000) - (4187 - 15,000)^{\#} - (25,000 - 27,600)^{\#} \right] \times 8.9\% \right] + \left[ (25,000 - 27,600)^{\#} \times 11.9\% \right] \right] - 0 = \text{£}890.00$$

### Rebate on Employer's NICs

$(ET - GP_C)$  = If answer is zero or negative no rebate due

### EMPLOYER'S NOT CONTRACTED-OUT CALCULATION FORMULAE

#### Employer's NIC

$$\left[ (GP_{ptd} - GP_C) - (ET - GP_C)^{\#} \right] \times ER'NCO\%R_R - ER'NIC_{ptd} = \text{ER's NIC due}$$

- \* If answer is zero or negative no employer's NIC due.
- # If answer is negative treat as zero
- R Round at this point

$$\left[ (30,000 - 25,000) - (4187 - 25,000)^{\#} \right] \times 11.9\% - 0 = \text{£}595.00$$

NICs must be recorded on the P11 as follows:

	<b>1a</b>	<b>1b</b>	<b>1c</b>	<b>1d</b>	<b>1e</b>	<b>1f</b>	<b>1g</b>
A	3456	731	10813	2368.05	1081.30		
D			10000	1730.00	840.00	00.00	00.00
C				595.00			