

electronic business

NI Guidance for Software Developers

Effective from the tax year commencing

April 2002-2003

Format for National Insurance calculations



NI GUIDANCE FOR SOFTWARE DEVELOPERS 2002/2003

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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 ¹	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 UP to whole pounds.
LEL	Annual Lower Earnings Limit
UEL	Annual Upper Earnings Limit
<i>R</i>	Round at this point
ET	Annual Earnings Threshold
EER	Employee's Percentage Rate appropriate to contributions Table letter
ERR	Employer's Percentage Rate appropriate to contributions Table letter
EE'RR	Rebate % rate on employee's NICs appropriate to contributions Table letter
ER'RR	Rebate % rate on employer's NICs appropriate to contributions Table letter
ptd	Paid to date
ER'CO % R	Employer's contracted-out percentage rate appropriate to contributions Table letter
ER'NCO % R	Employer's not contracted-out percentage rate appropriate to contributions Table letter
c	Before the change

1. INTRODUCTION

- 1.1 This specification sets out the calculation format for National Insurance Contributions (NICs) for 2002/2003. Changes to NICs, which were announced in the 1998 Budget statement, have now been completed. There will therefore be no change to the format for 2002/2003.
- 1.2 It also contains some basic information on SSP and SMP. A detailed specification on SSP is on the Internet at <http://www.inlandrevenue/ebu/ssp_spec.pdf>. A detailed specification on SMP will follow as soon as possible once all the changes for 2003 have been decided. Once these publications are available information on SSP and SMP will not be included in this publication.
- 1.3 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 2002/2003 which details the format of the return.
- 1.4 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 Employers (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 office. Employers should be encouraged to read the Employer's Annual Pack thoroughly to ensure all aspects of their annual returns are fully understood.
- 1.5 This specification includes the information previously issued in the Summary for Computer Users, and provides guidance for those who wish to develop software that calculates NICs by the Tables method.
- 1.6 The method of calculation preferred by the Inland Revenue National Insurance Contributions Office is the Exact Percentage Method.
- 1.7 Please note that the manual NIC Tables are designed for the convenience of the manual user, incorporating various roundings that 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 contributions to be deducted, for an employee, by both methods within one tax year by the same payroll.
- 1.8 This specification gives instructions for weekly/monthly paid or multiples of weeks or months i.e. 3, 4, 5 weeks etc.

- 1.9 You may wish to contact one of our Business Support Teams, who could offer further help and assistance. Business Support Teams are located strategically throughout the country and can be contacted through your nearest Inland Revenue office. The address and telephone number can be found in the Phone Book.
- 1.10 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. NATIONAL INSURANCE CONTRIBUTIONS INFORMATION FOR TAX YEAR COMMENCING APRIL 2002

2.1 The changes first announced in the Chancellor's 1998 Budget Statement in relation to National Insurance contributions (NICs) calculations have now been completed. There will be no change to the NICs format for 2002/2003.

Other changes within the Guide are:

- a split in the booklet with the main part being issued earlier and the section containing worked examples issued as a supplement. This will be issued after the Chancellor's Pre Budget Report in November when the new rates and percentages are announced.
- the inclusion of a section on Contracted-out Minimum Payment calculations (Section 5).
- the inclusion of information about the Inland Revenue Payroll Standard (Section 6, para 6.3).
- clarification of third decimal place rounding (para 7.2)

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 (using 2001/02 LEL and ET figures)

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

Form P11

	1a	1b	1c	1d	1e	1f	1g
£89	72	15	2	0.35	0.17	0.17	0.52

Employee's NIC Rebate is $15 \times 1.6\% = 0.24$

Employer's NIC Rebate is $15 \times 3\% = 0.45$

The employee is entitled to £0.17 of their NIC Rebate and the employer is entitled to the balance of £0.07, 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 (2002/2003)

- 3.1 The deductions working sheet - Form P11 - has the same format for 2002/2003 as the 2001/2002 year. 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 Contracted-out Rebate percentage rate.
 - 1g** Earnings in column 1b multiplied by Employer's Contracted-out 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 10.

5. CALCULATION OF MINIMUM PAYMENTS FOR EMPLOYERS WITH CONTRACTED OUT MONEY PURCHASE SCHEMES

(Figures used relate to the 2001/2002 year. These should be substituted for the rates and percentages for 2002/2003 when available)

5.1 HOW TO WORK OUT MINIMUM PAYMENTS USING THE EXACT PERCENTAGE METHOD

Minimum payments are the difference between the not contracted-out and the contracted-out rates of National Insurance contributions (NIC) on earnings between Lower Earnings Limit (LEL) and the Upper Earnings Limit (UEL). The difference is known as the **contracted-out rebate**.

The total minimum payment is 2.2%, which is made up of:

employee share 1.6% of earnings between the LEL and the UEL, **less** any employee's NIC rebate made available to the employer,

employer share 0.6% of earnings between the LEL and the UEL, **plus** any employee's NIC rebate made available to the employer

When the employer has had the benefit of either part or all of the employee's NIC rebate, then the employer is also liable for an equivalent amount in addition to 0.6% of earnings between the LEL and the UEL.

The 2001/2002 earnings limits are:

weekly	Lower Earnings Limit	£72
	Earnings Threshold	£87
	Upper Earnings Limit	£575
monthly	Lower Earnings Limit	£312
	Earnings Threshold	£378
	Upper Earnings Limit	£2492

Employer Pays Employee's share of Minimum Payment

The employer must pay the full Minimum Payment to the scheme i.e. 2.2% of earnings between the LEL and the UEL.

Employer Deducts Employee's Share of Minimum Payment from Employee

If you deduct the employee's share of the Minimum Payment from the employee you must work out the employee's and employer's share of the minimum payment separately, then make an adjustment to reflect any amount of NIC rebate not available to the employee.

Employee's share

1. If the employee's gross pay is:
 - i. Equal to or less than the UEL, subtract the LEL from their exact gross pay
 - ii. Above the UEL, subtract the LEL from the UEL
2. Multiply by 1.6%. Round the resulting amount to the nearest penny, 0.5p rounded down.
3. Deduct any NIC rebate not available to the employee.

Employer's share

4. If the employee's gross pay is:
 - i. Equal to or less than the UEL, subtract the LEL, from their exact gross pay
 - ii. Above the UEL, subtract the LEL from the UEL
5. Multiply by 0.6%. Round the resulting amount to the nearest penny, 0.5p rounded down.
6. Add any employee's NIC rebate made available to the employer.

Total Minimum Payment

7. Add together the results of steps 3 and 6.

EXAMPLE 1 - Total weekly earnings = £89.00

Employee's share:

£89.00 - £72.00 = £17.00

£17.00 x 1.6% = £0.27 **less** £0.07* NIC rebate not available to employee = £0.20

Employer's share:

£89.00 - £72.00 = £17.00

£17.00 x 0.6% = £0.10 **plus** £0.07* employee's NIC rebate made available to employer = £0.17

Total Minimum Payment = £0.20 + £0.17 = £0.37

* (see example on page 6 para 2.2)

EXAMPLE 2 - Total weekly earnings = £181.00

Employee's share:

£181.00 - £72.00 = £109.00

£109.00 x 1.6% = £1.74

(no deduction of NIC rebate as employee is entitled to all NIC rebate).

Employer's share:

£181.00 - £72.00 = £109.00

£109.00 x 0.6% = £0.65

(no addition as employer is not entitled to any of the employee's NIC rebate).

Total Minimum Payment = £1.74 + £0.65 = £2.39

The Employer's Further Guide to PAYE and NIC's, CWG2, shows you how to work out the Lower and Upper Earnings Limits if the employee is not paid weekly or monthly.

Important - please note these examples are calculated using the exact percentage method. The COMP minimum payment Tables have been calculated using the mid-points between each step.

6. VALIDATION CHECKS

- 6.1 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.
- 6.2 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 not contain all spaces.
Employer's Address	Encouraged completion field - Field must not contain all spaces.
Employer's Contracting-Out Number (ECON)	A 9 character serial number which must 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 must 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 must 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.

DATA	SPECIFICATION
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.
Sex	Encouraged completion field - Must be M or F. This field should contain cross validation with the category letters B,E,G and K 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 10 days from Inland Revenue National Insurance Contributions office. The form can be accessed on the Internet , page http://www.inlandrevenue.gov.uk/pdfs/emp2001/ca6855_2000.pdf (Adobe Acrobat must be used) or call the EMPLOYER'S Orderline (0845 7 646 646) 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 at Appendix 1. The NI number must be in one of the following formats: <u>Standard Format</u> characters 1 and 2 must both be in the range A to Z (see Appendix 1) characters 3 to 8 must be numeric character 9 must be in the range A to D or a space.

DATA	SPECIFICATION
NI Number (cont.)	<p><u>Temporary Number Format</u> Please note use of temporary numbers is discouraged</p> <p>characters 1 and 2 must be TN</p> <p>characters 3 to 8 must be numeric and be identical to employee's date of birth (DDMMYY).</p> <p>character 9 must be M, F (to denote male or female) or a space if unknown.</p> <p>Alert Employer to obtain proper NINO.</p>
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.
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, G, K and O contributions	An error message should be displayed by the system if category B, E, G, K or O is input to the account of a male employee, or an unmarried/divorced female.
Category B, E, G, K and O contributions	If category B, E, G, K or O is entered the system should prompt the user to confirm that a valid reduced rate 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.
Categories C contracted-out, D, E, F, G, H, K, N, O, S and V	NIC rebates must only be recorded for these category letters.
Categories C contracted-out, D, E, F, G, H, K, N, O, S and V	If categories C contracted-out, D, E, F, G, H, K, N, O, S 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.

DATA	SPECIFICATION
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 not contracted-out C rate).
Categories F, G, H, K, S and V	If categories F, G, H, K, S and V 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, S and V	The system should alert the user when categories F, G, H, K, S and V are used and a SCON has not been recorded.
Category H, K, N, O, R, T, V and W	If categories H, K, N, O, R, T, V and W are recorded the system should alert the user that these categories are used for mariners only.
Category P	This category is no longer valid (since April 1999) although employers have up to six years from that date to make a claim. A warning message should be displayed if user attempts to enter category P with tax year 1999/2000 onwards.
Category X	This category should be used for NIL contributions and NIL earnings only. An error message should be displayed if figures other than zeros are recorded against this category.
Category Y	No longer valid since 6 April 2000. A warning message should be displayed if user attempts to use 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 absence</i> is recorded.

DATA	SPECIFICATION
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	A warning 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.

6.3 INLAND REVENUE PAYROLL STANDARD

The Inland Revenue Payroll Standard was introduced in March 2000 followed in September 2000 by an Accreditation Scheme evaluating payroll packages against the Payroll Standard. The Standard gives clear guidelines to ensure payroll packages cover all aspects essential for accurate calculation of PAYE, NICs and Tax Credits.

The Payroll Support Unit evaluates payroll packages and if they successfully meet the Standard, they are awarded the Inland Revenue logo for use on their product, marketing and advertising.

Names of all accredited packages are posted on the IR website at www.inlandrevenue.gov.uk/ebu/acclist.htm and are also listed in Employers Bulletin which is issued to 1.5 million employers three times a year.

Test data is also available free of charge on the IR website at www.inlandrevenue.gov.uk/ebu/testdata.htm to allow testing of packages before submission for formal accreditation.

For further information the Payroll Support Unit Helpline number is **0845 9159146**.

7. RULES FOR ROUNDING

GENERAL NI CONTRIBUTIONS

- 7.1 The Social Security (Contributions) Regulations 2001 provide specific rules for rounding in the calculation of National Insurance contributions.

Regulation 12(1)(b) provides that:

“primary and secondary Class 1 contributions shall be calculated to the nearest penny and any amount of a halfpenny or less shall be disregarded”.

- 7.2 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:

£67.5558 the NIC payable would be £67.55, but if the NIC payable came to £67.5568 the NIC payable would be £67.56.

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

Class 1A NICs

- 7.4 Regulation 39 of the Social Security (Contributions) Regulations 2001 provides the same rounding rules for Class 1A NICs.

SSP/SMP

- 7.5 **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.

- 7.6 **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.

7.7 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.

7.8 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.

7.9 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.

8. NIC CALCULATION FORMULAE

8.1 Changes to NI announced in the Budget statement in March 2000 are incorporated in the calculation formulae that follow. **The format for 2002/2003 remains the same as that for 2001/2002.**

8.2 Where it has been considered appropriate both a narrative and a mathematical version of the calculations has been given.

EXACT PERCENTAGE METHOD

8.3 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.

8.4 EMPLOYEE CONTRIBUTION CALCULATION

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

* If answer is negative treat as zero.

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

p¹ 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.

8.5 EMPLOYER NOT CONTRACTED-OUT CONTRIBUTION CALCULATION

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

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

p¹ 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.

8.6 EMPLOYER CONTRACTED-OUT CONTRIBUTION CALCULATION

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

- * If answer is zero or negative no employer's NIC due.
- # If answer is negative treat as zero.
- p¹ 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.

8.7 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.
- p¹ 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.

8.8 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.
- p¹ 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.

9. DIRECTOR'S NIC CALCULATION FORMULAE

- 9.1 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 holders fall into the definition of 'employed earner'. As such, provided their earnings reach appropriate levels, they are liable for Class 1 NICs.
- 9.2 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.
- 9.3 This applies regardless of the actual interval between payments.
- 9.4 Under Regulation 8(6) of the Social Security (Contributions) Regulations 2001, 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.
- 9.5 Further general information about Directors can be found in Booklet CA44 which can be obtained from the Employer's Orderline (0845 7 646 646).
- 9.6 The following calculation formulae set out the basic calculations for Directors NICs.

DIRECTOR'S CALCULATIONS

9.7 DIRECTOR'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

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

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

If answer is negative treat as zero.

R Round at this point

9.8 EMPLOYER'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

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

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

9.9 DIRECTOR'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

Rebate on Director's NICs

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

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

Director's NIC

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

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

9.10 EMPLOYER'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

Rebate on Employer's NICs

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

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

Employer's NIC

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

- * 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

- 9.11 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.
- 9.12 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:

18 x £72	=	£1296 (pro rata LEL)
18 x £575	=	£10350 (pro rata UEL)
£4535 ÷ 52 x 18	=	£1570 (pro rata ET rounded up to next whole £)

The new rates for 2002/2003 will be given in the Supplement to be issued in December 2001. This will contain the worked examples using the new rates which will be announced in the Chancellor's Pre Budget Report.

10. NIC CALCULATION FORMULAE

TABLES METHOD

10.1 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.

10.2 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.

(This example refers to thresholds for the 2001/2002 year and will be updated when the December supplement is issued.)

10.3 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.

10.4 **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).

10.5 Earnings Above UEL

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

11. STATUTORY MATERNITY PAY (SMP)

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

11.2 To qualify for SMP an employee must:

- have been continuously employed for at least 26 weeks by the first day of the 15th week (qualifying week) before the baby is due.
- still be pregnant at the 11th 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 her 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 within 21 days of starting her Maternity Pay Period.
- 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

11.3 Firstly the ‘relevant period’, must be established over which her 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 normal paydays. However the relevant period cannot be less than eight weeks long.

11.4 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 day after 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.

Once this is established the frequency of pay must be considered.

Employees Paid Weekly

11.5 Where an employee is paid weekly or in multiples of a week:

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

Weekly (or multiples of weekly) payments paid early or late

11.6 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.

11.7 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 or where the woman has had unpaid leave within the relevant period.

11.8 Where earnings have been paid early, or late within the relevant period, for employees paid once a week or in multiples of a week e.g. fortnightly, three, four and/or five weekly:-

- add together the gross earnings paid 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

11.9 For employees paid calendar monthly:

- add together the gross earnings paid in the relevant period

and
- divide the total by the number of calendar months in the relevant period, (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.

11.10 There are no special provisions for calculating the average weekly earnings if calendar monthly payments are made early or late.

Employees paid at irregular intervals

11.11 For employees paid at irregular intervals:

- add together the gross earnings paid in the relevant period and
- divide by the number of days in the relevant period and multiply by 7 to give the average weekly earnings.

Other information on average weekly earnings

11.12 Other information on average weekly earnings:

- if an employee receives a backdated pay rise that affects the earnings in the relevant period then her average weekly earnings must be recalculated and the extra SMP paid to her
- if an employee does not qualify for SMP because her earnings are too low, but she has received some payments in the relevant period that are covered by a PAYE Settlement Agreement you may need to recalculate her average weekly earnings including these payments.

See the SMP Manual for Employers CA29 for more information.

How much SMP to pay

11.13 SMP is payable at two rates:

- the higher rate is 9/10ths, or 90%, 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.

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

Paying SMP where employee is paid calendar monthly

11.15 When paying SMP to an employee who is paid calendar monthly, the number of weeks of SMP to pay is the number of Saturdays in the month.

For example:

The employee is paid on the 15th of each month.

She starts her Maternity Pay Period (MPP) on Sunday 25 November 01

15 December 01	3 weeks SMP is due for weeks ending 1st, 8th and 15th December
15 January 02	4 weeks SMP is due for weeks ending 22nd and 29th December and 5th and 12th January
15 February 02	4 weeks SMP is due for weeks ending 19th and 26th January and 2nd and 9th February
15 March 02	4 weeks SMP is due for weeks ending 16th and 23rd February and 2nd and 9th March
15 April 02	3 weeks SMP is due for weeks ending 16th, 23rd and 30th March

30 March is the end of the MPP.

Recovering Statutory Maternity Pay

- 11.16 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 less than the Small Employers Relief Threshold (NB this figure is changing in 2002 - details will be provided in the Supplement issued after the Pre Budget Report) 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].
- 11.17 If the employer does qualify for Small Employers' Relief he can:
- recover 100% of the Statutory Maternity Pay paid

and

 - claim compensation at the appropriate percentage rate of the gross Statutory Maternity Pay paid (details will be provided in the Supplement issued after the Pre Budget Report).
- 11.18 Further detailed information and examples of calculations of SMP can be found in booklet CA29 - Statutory Maternity Pay Manual for employers.

Remember, a week for SMP purposes always runs from Sunday to Saturday.

12. STATUTORY SICK PAY (SSP)

12.1 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 Periods of Incapacity for Work (PIW) can be found in the Statutory Sick Pay manual for employers, CA30.

12.2 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 relevant period, often 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

12.3 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.

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

Average Pay Calculation

- 12.5 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.

How much SSP to pay

- 12.6 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. The daily rate should be left unrounded.
- 12.7 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 (using 2001/02 rates) divided by 6 = £10.3667 (using the tables in CA35) multiplied by 4 = £41.4668 which is then rounded up to £41.47.
- 12.8 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

- 12.9 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 payments in a tax month with 13% of their total gross Class 1 NIC liability 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, whether or not they claim it back in that tax month, before working out the 13%. They can recover the amount by which SSP payments exceed the 13% figure.
- 12.10 Remember tax months start on the 6th of each month and finish on the 5th of each month.
- 12.11 Small employers who can make their payments of NICs and PAYE quarterly should calculate the amount they are entitled to recover monthly.

13. CLASS 1A CONTRIBUTIONS

CLASS 1A CONTRIBUTIONS ON TAXABLE BENEFITS

13.1 From April 2000, Class 1A NICs are payable on most taxable benefits provided to employees by reason of their employment.

13.2 Employers pay Class 1A NICs. There is no employee contribution payable.

13.3 Class 1A NICs are calculated using information reported on forms P11D or substitutes.

13.4 Employers calculate Class 1A NICs by adding together the cash equivalent of each benefit reported in a brown Class 1A NICs indicator box on forms P11D (or substitute) and multiplying the total by the Class 1A NICs percentage rate.

13.5 Class 1A NICs are due on taxable 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

13.6 Employers will:

- declare Class 1A NICs on P11D(b)
- pay Class 1A NICs separately to their PAYE/NICs reference at the Accounts Office.

13.7 The main dates for Class 1A NICs due for the tax year 2001/2002 are:

6 July 2002 - for P11D(b) return

19 July 2002 - for payment

13.8 If you are a new employer or are providing benefits to your employees for the first time 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.

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

14. NIC HOLIDAY

14.1 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.

14.2 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 started work, and
- agreed to participate.

14.3 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.

14.4 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

BA BB BE BH BK BL BM BT

CA CB 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 LM LP LR LS LT LW LX LY LZ

MA MW MX

NA NB NE NH NL NM NP NR NS NW NX NY NZ

OA OB OE OH OK OL OM OP OR OS OX

PA PB PC PE PG PW PX PY PH

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

SA SB 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 6 Validation Checks under heading 'NI Number' for an explanation on format).

Forthcoming prefixes are:

PJ PK PL PM PN PP PR PS PT

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

Update on prefix introduction dates:

- PH is currently in use (since July 2001)
- PJ is now expected in late 2002
- SC is expected to commence late 2001/early 2002 and last through 2002/2003

This leaflet gives general guidance only
and should not be treated as a complete
and authoritative statement of the law.

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