

Part 2 – Exemptions from Class 1A NICs

In some cases no Class 1A NICs are due. You may have to pay Class 1 NICs on some benefits and Class 1A NICs on others. But Class 1 and Class 1A NICs will never be due on the same benefit.

You need to find out whether it is Class 1 or Class 1A NICs which are due on the benefits you provide so that you can work out how much Class 1A NICs you have to pay.

If you are not sure whether Class 1 or Class 1A NICs are due on a particular benefit, contact any HM Revenue & Customs Enquiry Centre or the Employer's Helpline for advice.

7 When are Class 1A NICs not due?

You do not have to pay Class 1A NICs on benefits which are:

- **exempt from Income Tax**
SSCBA 92, S10(1)(a)

Class 1A NICs are payable only where the benefit provided is chargeable to Income Tax under ITEPA 2003 on an amount of general earnings as defined at Section 7(3) ITEPA 2003. Where no tax is chargeable because of a tax exemption, no Class 1A NICs are due.

Full details of those benefits exempt from Income Tax are included in booklet 480(2009) *Expenses and Benefits – A tax guide*.
- **returned on form P9D**
SSCBA 92, S10(1)(b)

Form P9D is used to report to HM Revenue & Customs benefits you provide to employees who are earning at a rate of less than £8,500 a year.
No Class 1A NICs are payable on the benefits you provide to those employees.
- **exempt from Class 1A NICs**
Part 3 of the SS(C)R 2001

Sometimes tax, but not Class 1A NICs, may be due on a benefit where the benefit is excluded from Class 1A NICs.

Details of these special exclusions are given in Part 5.
- **covered by a dispensation**
ITEPA 2003 Sections 65 and 96

No Class 1A NICs are payable on benefits included in a dispensation. See paragraph 48 for more information.
- **covered by an extra-statutory concession published by HM Revenue & Customs**
SS(C)R 2001, R40(7)

No Class 1A NICs are payable where a benefit is not chargeable to tax because of an extra-statutory concession published by HM Revenue & Customs.

See paragraph 51 for more information.
- **included in a PAYE Settlement Agreement**
SSCBA 92, S10(6)

No Class 1A NICs are payable on benefits included in a PAYE Settlement Agreement.

See paragraph 53 for more information.
- **provided for business use but not significant private use is allowed**
ITEPA 2003, S316

No Class 1A NICs are payable where you provide, on your premises, benefits to your employees to allow them to carry out their duties but there is also some private use by the employee, but that private use is not significant.

Also, no Class 1A NICs are payable when you provide benefits off your premises, as long as your sole purpose in providing the benefit is so that the employee can carry out his or her duties.
Examples where this exemption will apply include
 - a fax machine provided for use by an employee working from home, which is occasionally used for private purposes
 - a telephone provided to allow an employee to receive or make business calls, on which occasional private calls are permitted.This exemption does not apply where the benefit provided
 - is a motor vehicle, boat or aircraft, or
 - involves an improvement or extension to living accommodation.If this exemption does not apply *for instance if the private use is not significant, or the benefit is a motor vehicle, boat, aeroplane or an improvement to living accommodation* Class 1A NICs will be due and the benefit must continue to be reported on form P11D whatever the amount of business use.
- **already liable for Class 1 NICs**
SSCBA 92, S10(1)(c)

No Class 1A NICs are payable on benefits which are liable for Class 1 NICs. See Appendix 1 for those benefits on which Class 1 NICs are due.
- **exempt from Class 1 NICs**
SS(C)R 2001, R40

No Class 1A NICs are payable on certain payments which are also exempt from Class 1 NICs.
Examples include
 - certain payments out of retirement benefits schemes
 - redundancy payments
 - payments of, or contributions towards, specific and distinct expenses actually incurred by an employee in carrying out the employment.For example, if you reimburse an employee for the cost of washing a uniform worn at work.

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8 Quick guide to working out whether Class 1A NICs are due

There is more information on pages 3 and 4.

See Part 6 for details of benefits awarded by third parties.

