

Part 3 – Working out Class 1A NICs

This part explains how to work out Class 1A NICs. The rules described in this section should be used for all benefits.

If you provide company cars to your employees, you will need to read booklet CA33 *Class 1A National Insurance contributions on Car and Fuel Benefits*. It also gives details of how Class 1A NICs are calculated in special or unusual cases, including shared cars and cars provided by more than one employer.

9 How are Class 1A NICs calculated?

Class 1A NICs are calculated as a percentage of the cash equivalent of a benefit. The cash equivalent figure used to work out Class 1A NICs is the same figure which you report for tax purposes on form P11D *Expenses and benefits* (or substitute).

The rules for working out the cash equivalent of a benefit are given in booklet 480(2011) *Expenses and benefits – A tax guide* and in various optional working sheets provided with forms P11D.

So that you do not have to work out Class 1A NICs on each cash equivalent, the total amount of Class 1A NICs payable is calculated by:

- adding together each cash equivalent figure recorded on individual P11D forms to get a single figure, and
- multiplying the total figure by the Class 1A percentage rate.

The percentage rate at which Class 1A NICs are worked out is the employer's not contracted-out Class 1 NICs rate for the tax year in which the benefit is made available. For the tax year 2010-11, the Class 1A percentage rate is 12.8%.

If the employee is in contracted-out employment, the Class 1A NICs percentage rate used is still that for not contracted-out Class 1 NICs.

Example

During the tax year 2010-11, you provide health care and company cars to 25 of your employees. The Class 1A NICs percentage rate for the 2010-11 tax year is 12.8%.

The cash equivalent figures reported on each employee's P11D are £150 health care and £3,000 car benefit.

To calculate the Class 1A NICs due

Step 1 Add the total cash equivalent figures together

$$\begin{aligned}£150 \times 25 &= £3,750 \\£3,000 \times 25 &= £75,000 \\ &= £78,750\end{aligned}$$

Step 2 Multiply the figure from Step 1 by the Class 1A percentage rate

$$£78,750 \times 12.8\% = £10,080.00$$

Class 1A NICs due – £10,080.00

Once you have worked out the amount of Class 1A NICs due you may need to adjust the figure. See paragraph 18 for instances where this may be necessary.

10 Record-keeping for Class 1A NICs purposes

As Class 1A NICs are calculated using information you provide on forms P11D for tax purposes, you do not need to keep any additional records on how you have calculated the cash equivalent of a benefit for Class 1A NICs purposes.

You may be asked to produce evidence of how you have worked out Class 1A NICs. If you have used an alternative to the P11D for recording Class 1A NICs, it is important that you keep records which show this information, either in paper form or on computer. In either case, these records must be made available to us on request.

If you provide company cars or vans and fuel it may be to your advantage to keep detailed records of these particular benefits to calculate the amount of Class 1A NICs due.

See booklet CA33 *Class 1A National Insurance contributions on Car and Fuel Benefits*.

11 Can the way in which benefits are provided affect their NICs treatment?

Sometimes, the way in which you provide benefits to your employees can decide whether Class 1 or Class 1A NICs are due on them. It is important that you look carefully at how you provide benefits to your employees, as this will affect what class of NICs you are liable to pay.

Example

If you meet your employee's personal liability (such as paying for or reimbursing private health insurance that your employee has taken out) that amount should be treated as gross pay on which Class 1 NICs will be due.

If, on the other hand, you take out a contract with a provider to provide an employee with private health insurance, then that will normally be a benefit recorded on the employee's P11D and Class 1A NICs will be due.

12 Are Class 1A NICs due on benefits provided only for business use?

Where a benefit is provided, but for tax purposes the employee is entitled to a fully matching deduction, no Class 1A NICs will be due. For example, a benefit provided:

- necessarily for use by employees wholly and exclusively in the performance of their duties
- in the course of qualifying business travel.

See booklet 490 *Employee travel – A tax and NICs guide for employers*.

If you provide such benefits and have entered them on the employee's P11D because you do not have a dispensation for them, see paragraph 18 about using

the adjustment boxes on the P11D(b) to exclude them from the amount of Class 1A NICs you are due to pay.

13 Are Class 1A NICs due where there is a mixed business and private use by the employee?

In most cases, Class 1A NICs will be due on the full amount of a benefit that is made available to an employee for both private and business purposes.

This means that you can use the figures you record on your employees' P11Ds to work out the amount of Class 1A NICs due, without having to find out whether your employees are entitled to claim a tax deduction after the end of the tax year.

Where an employee reimburses the full cost of any private use before the due date for payment of Class 1A NICs (see paragraph 15), no Class 1A NICs are due.

Where certain benefits are provided for business use but the employee uses the benefit for private purposes, but that private use is not significant, you will not need to report this on form P11D and no Class 1A NICs are due. See paragraph 7 for more information.

How are the Class 1A NICs calculated – where there is mixed use?

Liability for Class 1A NICs is calculated based on the amount of the benefit as determined for tax purposes. See example 1.

Example 1

It is an integral part of an employee's duties of employment to be able to make and receive business calls at home. The employer agrees to provide and pay for a phone which is available for business and private use.

To determine the Class 1A liability you must first determine the amount of the benefit chargeable to tax. The phone is available for business and private use for 365 days a year and the total cost of line rental and all calls is £1,000. Business calls amount to £550, the line rental is £150 and private calls amount to £300. Unless the employee makes good the cost of all private calls and the full cost of the line rental by the due date for payment, Class 1A NICs are due on the full cost to the employer for the whole year. This is the amount of the benefit as determined for tax purposes, in this example, £1,000.

For tax purposes, the employee can claim a deduction of £550 for the business use, which reduces the taxable benefit to £450.

The deduction of £550 is not taken into account for Class 1A NICs purposes.

However, there are also situations where an asset or service is used primarily by the business itself for business purposes and not by the employee.

The contractual responsibility for paying for the asset or service lies with the employer but the employee may derive a benefit from using part of that asset or service.

In those circumstances, the full amount of the benefit

provided to the employee, on which Class 1A NICs will be due, is calculated where applicable only on the part of the asset(s) or service(s) that have been used by the employee for business and private purposes. See example 2 below.

Example 2

The owner of a golf club provides living accommodation for the club steward above the clubhouse.

Mains gas and electricity are supplied to the business premises which includes a block of showers and changing facilities for golf club members, the clubhouse, the pro shop, a driving range and the accommodation provided for the club steward.

One meter monitors the gas and electricity used for all buildings.

While the club steward does have the use of gas and electricity all year round in the accommodation provided for him, he clearly derives no personal benefit from the electricity and gas supplied to any of the other buildings.

To determine the Class 1A liability you must first determine the amount chargeable to tax. The amount chargeable to tax is based on the cost to the employer of providing gas and electricity to the employee for both business and private use. Where it excludes the proportion of the services provided solely for the purpose of running the business, liability for Class 1A will follow. In this example, 75% of the electricity and gas used relates solely to the running of the business so the amount chargeable to tax and on which Class 1A NICs is due is the remaining 25%. The club steward may claim that a proportion of that 25% was also related to his business use of the provided accommodation. For tax purposes, a deduction may therefore be due. However, irrespective of any deductions allowed for tax purposes Class 1A NICs are due on the full 25%. This is illustrated below:

Total electricity and gas charges	£5,000
Proportion relating solely to the business (75%)	£3,750
Proportion relating to availability for business and private use by the employee (25%)	£1,250
Full amount chargeable to tax before deductions and on which Class 1A NICs is payable	£1,250

If the club steward claims that there was mixed business and private use of the gas and electricity used in the provided accommodation and claims say a 15% deduction for business use, this is allowed for tax purposes, but is not taken into account for Class 1A NICs purposes.

So, where there is mixed business and private use by the employee of a benefit, Class 1A NICs are due on the full amount chargeable to tax ignoring any deductions the employee may be able to claim for tax purposes. However, see paragraph 12 where a fully matching deduction is available.

Any part of an asset(s) or service(s) that is used exclusively to facilitate the employer's business and from which the employee derives no benefit, should not be taken into account when calculating the amount of the benefit chargeable to tax. This is the amount on which Class 1A NICs will be due. The rules for determining the amount of a benefit are explained in the Employment Income Manual (EIM21102) at www.hmrc.gov.uk/manuals/eimanual/EIM21102.htm

Calculating Class 1A NICs – an example where there is no mixed use.

There are situations where an asset or service is bought and used primarily for business purposes but where there is occasional private use by an employee. For example, a business buys a limousine for the purpose of chauffeuring overseas visitors to and from airports and business meetings. When the limousine is used for this purpose it is not available for any of the employees' or directors' use, either business or private. But for two weeks a year the car is not needed for this purpose and is placed at the disposal of the Managing Director for private use. In these circumstances there is no mixed business and private use by the director, because the car is exclusively available for private use but only for the two weeks. The amount of benefit chargeable to tax, and on which Class 1A NICs is therefore due, will be calculated based on the two weeks that the car was available for private use only.

14 How does form P11D help me to work out Class 1A NICs?

Form P11D will help you to identify which benefits are liable for Class 1A NICs. These are shown in brown boxes and have a '1A' indicator. Only those benefits that have this indicator box should be included in your Class 1A NICs calculation.

Those benefits which attract a Class 1 NICs liability but are recorded on the P11D for tax purposes will have no Class 1A indicator box and you **should not** include those benefits in your Class 1A NICs calculation.

As Class 1A NICs are worked out using information recorded on form P11D, it is important that these forms are completed correctly. This will make sure that you pay the correct amount of Class 1A NICs.

Appendix 1 shows you where specific benefits should be recorded on form P11D.

Example 1

Shown below are the correct entries on form P11D in respect of example 1 in paragraph 13. The cost of the business calls must not be deducted from the cash equivalent figure.

Section K Services supplied

Cost to the employer	£1,000
Amount made good or from which tax deducted	£0
Cash equivalent (Class 1A indicator box)	£1,000

Example 2

Shown below are the correct entries on form P11D in respect of example 2 in paragraph 13. The cost to the employer is the cost of the services made available to the employee for private and business use. If the club steward claims that there was mixed business and private use of the services in the provided accommodation, this must not be deducted from the cash equivalent figure.

Section K Services supplied

Cost to the employer	£1,250
Amount made good or from which tax deducted	£0
Cash equivalent (Class 1A indicator box)	£1,250

A copy of the 2010-11 P11D(2011) is shown on pages 22 and 23 of this guide.