

National Insurance for Company Directors

This booklet gives detailed information about paying National Insurance contributions (NICs) for company directors.

It also tells you about special or unusual cases.

Help and guidance

Help and guidance is available from the following sources.

The Internet

Go to www.businesslink.gov.uk/paye

Online services

For more information about online services go to www.hmrc.gov.uk/online

For help using our online services contact the Online Service Helpdesk by:

- email helpdesk@ir-efiles.gov.uk or
- phone **0845 60 55 999**.

Basic PAYE Tools (formerly the Employer CD-ROM)

The Basic PAYE Tools contains a number of calculators and most of the forms you will need to help you run your payroll throughout the year including:

- a P11 Calculator that will work out and record your employee's tax, NICs and Student Loan deductions every payday, with a linked P32 *Employer Payment Record* that works out what you need to pay us
- a range of other calculators to work out Student Loan deductions and statutory payments and a learning zone to help you understand these and other payroll topics
- an employer database to record your employees' details
- interactive forms such as the P11D Working Sheets.

If you use the P11 Calculator in the Basic PAYE Tools you can:

- file your starter and leaver information P45 (Part 1), P45 (Part 3), P46 and P46 (Expat) online
- file your Employer Annual Return online if you have up to and including nine employees on the P11 Calculator at 5 April.

To download the Basic PAYE Tools, go to www.businesslink.gov.uk/basicpayetools

Employer helplines

- Employer for **less than 3 years**, phone **0845 60 70 143**.
- Employer for **more than 3 years**, phone **08457 143 143**.
- If you have a hearing or speech impairment and use a textphone, phone **0845 602 1380** (you need specialist equipment such as Minicom to use this service).

Employer helpbooks and forms

Helpbooks and forms are available to download. Go to www.businesslink.gov.uk/payeformsandpublications

Exceptionally, if you don't have access to the Internet, copies are available from the Employer Orderline on **08457 646 646**.

Yr Iaith Gymraeg

I lawrlwytho ffurflenni a llyfrynnau cymorth Cymraeg, ewch i www.hmrc.gov.uk/cymraeg/employers/emp-pack.htm

Os, yn eithriadol, nad oes gennych gysylltiad i'r rhyngwyd, ffoniwch **0845 302 1489** er mwyn archebu ffurflenni a llyfrynnau cymorth Cymraeg.

Forms and guidance in Braille, large print and audio

For details of employer forms and guidance in Braille, large print or audio, phone the Employer Orderline on **08457 646 646** and ask to speak to the Customer Service Team.

In person

We offer free workshops covering all payroll topics. These workshops are available at locations nationwide.

For more information:

- go to www.hmrc.gov.uk/bst or
- phone our Advice Team on **0845 603 2691**.

Employer Bulletin online

Information and news for employers, published several times a year.

Go to www.businesslink.gov.uk/employerbulletin

Employer email alerts

We strongly recommend that you register to receive employer emails to prompt and direct you to:

- each new edition or news about the Basic PAYE Tools
- the Employer Bulletin
- important new information.

To register, go to

www.businesslink.gov.uk/hmrcemployeremailalerts

Your HM Revenue & Customs (HMRC) office

Your own HMRC office can also help you if you have a query about your PAYE scheme. All our office contact details are on our website. Go to

www.hmrc.gov.uk/local/employers/index.htm

Please tell us your employer reference when you contact us. You will find it on correspondence from your HMRC office.

Your rights and obligations

Your Charter explains what you can expect from us and what we expect from you. For more information go to

www.hmrc.gov.uk/charter

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Introduction

1 About this booklet

This booklet:

- replaces the April 2010 edition of CA44 *National Insurance for Company Directors*
- gives detailed information about the different National Insurance contributions (NICs) rules for company directors
- can also be used for employees who have annual or pro rata annual earnings periods.

The normal rules about NICs are in the:

- Employer helpbooks
- CWG2(2011) *Employer Further Guide to PAYE and NICs*.

This booklet is for guidance only, and should not be regarded as a complete and authoritative statement of the law.

All the examples in this booklet:

- use the 2011-12 NICs rates and limits, and
- are for illustration purposes only.

2 If you are unhappy with our service

If you are unhappy with any aspect of the service you have received from us, you should complain to the manager at the office you have been dealing with.

The rules for company directors

3 Introduction

This section describes what you need to know to work out NICs for company directors.

4 Company directors

Who is a company director?

For NI purposes, Regulation 1 of the Social Security (Contributions) Regulations 2001 defines a company director as:

- a member of a board or similar body where the company is managed by a board or similar body
- a single person where the company is managed by an individual.

Or, if a director as defined in either of the above is accustomed to acting under the instructions of another person, that person will be a director. This additional rule will not apply if the other person's instructions are limited to professional advice, for example, the advice given by a solicitor.

Directors of building societies which have not demutualised are not normally company directors for NI purposes.

What is a company director liable for?

For NI purposes, a company director is classified as an office holder.

Under *Section 2(1) of the Social Security Contributions and Benefits Act 1992, (In Northern Ireland, Section 2(1) of the Social Security Contributions and Benefits (Northern Ireland) Act 1992)* an office holder is liable for Class 1 NICs provided the earnings received from that office are chargeable to Income Tax as employment income.

5 What you should do

To assess NICs for company directors:

- use an annual (or pro rata annual) earnings period to work out NICs
- work out NICs on the total earnings paid to the director each time a payment of earnings is made
- deduct the NICs already paid, if any, to arrive at the amount of NICs now due
- include all the director's earnings when working out NICs, including fees and bonuses
- record NICs information on one form P11 *Deductions Working Sheet* and one form P14 *End of Year Summary* unless this booklet tells you otherwise
- you can adapt the NICs tables to work out NICs (see paragraph 42 on page 14)
- you can use the exact percentage method to work out NICs (see paragraph 41 on page 14).

Alternatively

You can apply the arrangements for the assessment and payment of directors' NICs outlined in paragraphs 6 to 9 (see pages 4 to 7).

Alternative arrangements for the assessment of directors' NICs

6 How it works

Since 6 April 1999 we have operated alternative arrangements for the assessment and payment of NICs for company directors.

Under Regulation 8 of the *Social Security (Contributions) Regulations 2001*, the earnings period for the assessment of directors' NICs remains an annual one. But, subject to the qualifying conditions in paragraph 9, you can, if you wish, make payments on account of directors' NICs during the tax year based on the actual intervals of payment - usually weekly or monthly - in the same way as for other employees.

If you do choose to pay NICs in this way you should apply the normal rules for assessing NICs, as set out in the CWG2(2011) *Employer Further Guide to PAYE and NICs* and the Employer helpbooks.

7 Last payment of earnings in tax year (or directorship)

Normally you should assess NICs using the shorter earnings period throughout the year until the last payment of earnings in the tax year (or directorship) is being made (but see paragraph 8 on page 7).

When the final payment of the director's earnings in the tax year (or directorship) is being made, you must:

- reassess the NICs due on the director's total earnings for the tax year on the basis of an annual (or pro rata annual) earnings period, as appropriate
- either deduct the amount of primary contributions then due from the payment or, if the earnings are insufficient to cover the primary contributions then due, pay the balance yourself
- adjust the final (or, if the director leaves or dies during the year, the next) remittance in the tax year to us to take into account the reassessment
- fill in the director's form P14 *End of Year Summary* to reflect the NICs due for the year based on the reassessment.

Remember, even if you use the weekly or monthly rates and limits to work out NICs throughout the year, because directors have an annual earnings period you must still reflect the annual or pro rata annual:

- Lower Earnings Limit (LEL)
- Primary Threshold (PT)
- Upper Accrual Point (UAP), and
- Upper Earnings Limit (UEL)

figures on form P14 at the final reassessment. Under this particular arrangement, regardless of the method used to work out NICs during the year, you can use either the exact percentage method or adapt the NICs tables to work out the NICs at the final reassessment.

Example for the 2011-12 tax year

Mr Armstrong is in not contracted-out employment and receives a regular monthly salary of £1,615. An annual earnings period would normally apply for the assessment of NICs. However, as he is paid monthly, a monthly earnings period can be used to assess NICs during the tax year.

NICs due

Monthly LEL – £442

Monthly ST – £589

Monthly PT – £602

Monthly UAP – £3,337

Monthly UEL – £3,540

Month 1

Earnings	Director's NICs	Company's NICs
£1,615	£121.56	£141.58

Record the NICs details on form P11 but do not record in columns 1a to 1d the earnings on which employee's contributions are payable.

By month 11

NICs paid are:

NIC Table letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£17,765	£1,337.16	£1,557.38	£2,894.54

On the final payment of earnings in the tax year, reassess NICs on the total earnings received by reference to an annual earnings period and adjust the final remittance to us accordingly.

Month 12

Earnings: £1,615

Total earnings from the directorship in the tax year (12 x £1,615) = £19,380

Based on an annual earnings period NICs due on £19,380 are:

NIC Table letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£19,380	£1,458.60	£1,698.50	£3,157.10

In month 12 of form P11 you must record the total earnings in columns 1a to 1d and NICs figures for the year following the reassessment (not what falls to be due just for month 12). Record these figures on form P14 *End of Year Summary*.

NICs actually payable in month 12:

Director's NICs	Company's NICs
£121.44 (£1,458.60 - £1,337.16)	£141.12 (£1,698.50 - £1,557.38)

Mr Armstrong's P14 End of Year Summary would show:

National Insurance contributions in this employment				(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11	
	1a	1b	1c	1d	1e	1f	
	£	£	£	£	£ . p	£ . p	
A	5,304	1,921	12,155	0	3,157.10	1,458.60	

Example for the 2011–12 tax year

Mr Morris is in not contracted-out employment and receives a regular monthly salary of £1,160. In addition, he is voted a bonus at the AGM on 3 June 2011 of £10,000 to be paid with his regular June salary. An annual earnings period would normally apply for the assessment of NICs. However, as he is paid monthly, a monthly earnings period can be used to assess NICs during the tax year.

NICs due

Monthly LEL – £442

Monthly ST – £589

Monthly PT – £602

Monthly UAP – £3,337

Monthly UEL – £3,540

Month 1

Earnings	Director's NICs	Company's NICs
£1,160	£66.96	£78.79

Record the NICs details on form P11 but do not record in columns 1a to 1d the earnings on which employee's contributions are payable.

Month 3

The £10,000 bonus should be included with the salary of £1,160.

Earnings	Director's NICs	Company's NICs
£11,160	£504.96	£1458.79

Record the NICs details on form P11 but do not record in columns 1a to 1d the earnings on which employee's contributions are payable.

By Month 11

NICs paid are:

NIC Table letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£22,760	£1,174.56	£2,246.69	£3,421.25

On the final payment of earnings in the tax year, reassess NICs on the total earnings by reference to an annual earnings period and adjust the final remittance to us accordingly.

Month 12

Earnings: £1,160

Total earnings from the directorship in the tax year
(12 x £1,160 + £10,000) = £23,920

Based on an annual earnings period, NICs due on £23,920 are:

NIC Table letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£23,920	£2,003.40	£2,325.02	£4,328.42

In month 12 on form P11, you must record the total earnings in columns 1a to 1d and NICs figures for the year following the reassessment (not what falls to be due just for month 12). Record these figures on form P14 End of Year Summary.

NICs payable in month 12:

Director's NICs	Company's NICs
£828.84	£78.33
(£2,003.40 – £1,174.56)	(£2,325.02 – £2,246.69)

Mr Morris's P14 End of Year Summary would show:

National Insurance contributions in this employment				(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11	
	1a	1b	1c	1d	1e	1f	
	£	£	£	£	£ . p	£ . p	
A	5,304	1,921	16,695	0	4,328.42	2,003.40	

8 What to do if the director receives a bonus or the category of contribution payable changes during the year

In many cases, directors will receive a bonus during the year. Waiting until the final payment of earnings to carry out the reassessment could lead to a disproportionate amount of primary NICs being payable at the year end.

Similarly, directors changing from not contracted-out to contracted-out employment, for example during the year, may mean that any refund of NICs due will not be paid until the reassessment takes place at the end of the year.

In these circumstances you can, if you wish, carry out the reassessment at the time of the change. However, you must then continue to use the appropriate annual (or pro rata annual) earnings period rules, as described in this booklet, for the rest of that tax year.

9 Qualifying conditions for the alternative arrangements

You will be able to take advantage of this arrangement if:

- the director agrees to NICs being assessed in this way, and
- the director normally receives his earnings in a payment pattern for which a regular earnings period can be established for the assessment of NICs, and
- those payments normally exceed the LEL for the pay period concerned.

Applying the annual (or pro rata annual) earnings period rules

10 Earnings limits, Secondary Threshold (ST), Primary Threshold (PT) and Upper Accrual Point (UAP)

Both the company and the director are liable for Class 1, that is, employed-earners NICs when the director's total earnings reach the Lower Earnings Limit (LEL). But the company only pays NICs if the director's total earnings exceed the Secondary Threshold (ST) and the director only pays NICs if the director's total earnings exceed the Primary Threshold (PT).

The company and the director pay NICs at the appropriate contracted-out or not contracted-out percentage rate on all earnings above the ST and PT respectively, up to and including the Upper Accrual Point (UAP). They then pay at the appropriate not contracted-out percentage rate on earnings above the UAP up to the Upper Earnings Limit (UEL).

If the director's total earnings reach or exceed the UEL, the director pays NICs only at a rate of 2% on any earnings which exceed the UEL. The company pays NICs at the appropriate not contracted-out percentage rate on all earnings above the UAP, including those which exceed the UEL.

The annual earnings limits, thresholds and Upper Accrual Point are the same as for other employees and are in the National Insurance contributions (NICs) Tables CA37 to CA43.

11 Lower Earnings Limit (LEL)

If the director has:

- an annual earnings period, do not record the earnings details for NICs purposes until the director's total earnings for the tax year reach or exceed the annual LEL
- a pro rata annual earnings period, do not record the earnings details for NICs purposes until the total earnings paid to the director since the date of appointment reach or exceed the pro rata annual LEL.

See paragraph 26 on page 10 for details of how to work out pro rata annual earnings limits, Secondary Threshold, Primary Threshold and Upper Accrual Point.

12 Secondary Threshold (ST)

If the director has:

- an annual earnings period, no NICs are due from the company until the director's total earnings for the tax year exceed the annual ST
- a pro rata annual earnings period, no NICs are due from the company until the total earnings paid to the director since the date of appointment exceed the pro rata annual ST.

See paragraph 26 on page 10 for details of how to work out pro rata annual earnings limits, Secondary Threshold, Primary Threshold and Upper Accrual Point.

13 Primary Threshold (PT)

If the director has:

- an annual earnings period, no NICs are due from the director until the director's total earnings for the tax year exceed the annual PT
- a pro rata annual earnings period, no NICs are due from the director until the total earnings paid to the director since the date of appointment exceed the pro rata annual PT

See paragraph 26 on page 10 for details of how to work out pro rata annual earnings limits, Secondary Threshold, Primary Threshold and Upper Accrual Point.

14 When total earnings exceed the Secondary Threshold (ST)

When the total earnings in the tax year or pro rata period exceed the ST, the company pays NICs on those earnings which exceed the ST.

15 When total earnings exceed the Primary Threshold (PT)

When the total earnings in the tax year or pro rata period exceed the PT, the director pays NICs on those earnings which exceed the PT.

16 Upper Accrual Point (UAP)

The company and the director pay NICs at the appropriate contracted-out or not contracted-out percentage rate on all earnings above the ST and PT respectively, up to and including the UAP. They then pay at the appropriate not contracted-out percentage rate on earnings above the UAP up to the UEL.

See paragraph 26 on page 10 for details of how to work out pro rata annual earnings limits, Secondary Threshold, Primary Threshold and Upper Accrual Point.

17 Upper Earnings Limit (UEL)

The director pays NICs on all earnings above the PT up to and including the employee's annual (or pro rata annual) UEL, but only at a rate of 2% on those earnings which exceed the UEL.

The company pays NICs at the appropriate contracted-out or not contracted-out percentage rate on all earnings above the ST, up to and including the UAP, then at the not contracted-out percentage rate on those earnings which exceed the UAP, including those which exceed the UEL.

See paragraph 26 on page 10 for details of how to work out pro rata annual earnings limits, Secondary Threshold, Primary Threshold and Upper Accrual Point.

18 National Insurance contributions rates

The percentage rates you use to work out director's NICs depend on a number of factors.

The director's NICs, if any, depend on:

- the director's age
- whether the director has a married woman's or widow's election
- whether the director is a member of the company's contracted-out Occupational Pension Scheme.

The company's NICs depend on whether the director is a member of the company's contracted-out Occupational Pension Scheme.

The NICs rates are the same as for other employees and are in the NICs Tables CA37 to CA43.

19 Directors paying reduced rate NICs

If the director is a married woman or widow who is entitled to pay reduced rate NICs and wishes to continue paying at a reduced rate, she pays NICs at the reduced rate on all earnings above the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UEL. But she still pays at a rate of 2% on these earnings which exceed the UEL. You **must** hold a valid form:

- CA4139, or
- CF383 *Certificate of Election*, or
- CF380A *Certificate of Reduced Liability* for these directors.

20 Directors over State Pension age

If earnings are paid or are due to be paid on or after State Pension age, the director pays no NICs. You **must** hold a valid CA4140 or form CF384 *Certificate of Age Exception* for these directors or have seen the birth certificate or passport to confirm that the director has actually reached State Pension age.

21 Company's NICs

The percentage which you use to work out the company's NICs depends if the director's employment is:

- not contracted-out, that is, the director belongs to the State Second Pension, previously known as the State Earnings Related Pension Scheme (SERPS) or has an Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension, or
- contracted-out, that is, the director belongs to the company's Contracted-out Salary Related or Contracted-out Money Purchase or Contracted-out Money Purchase Stakeholder Pension Scheme.

If the director pays reduced rate NICs, the company pays NICs as normal at the appropriate not contracted-out or contracted-out rate(s).

If the director is over State Pension age, the company pays NICs at the appropriate not contracted-out percentage rate even if the director was contracted-out before State Pension age.

22 Earnings periods

The interval at which employees are paid is usually the earnings period but directors are different.

Even if the directors are paid weekly or monthly, their earnings period is:

- annual, or
- pro rata annual.

23 Annual earnings period

A person who is a director at the beginning of the tax year (6 April) has an annual earnings period for that tax year even if they cease to be a director before the tax year ends (5 April).

The annual earnings period runs from 6 April to 5 April.

24 Pro rata annual earnings period

Directors first appointed during the tax year have a pro rata annual earnings period for the remainder of that tax year.

You need to work out the:

- number of weeks in the pro rata period
- pro rata annual LEL
- pro rata annual ST
- pro rata annual PT
- pro rata annual UAP
- pro rata annual UEL.

See the 'Quick guide to pro rata annual earnings periods' on page 42.

25 Number of weeks in the pro rata annual earnings period

The number of weeks in the pro rata annual earnings period is:

- the tax week of appointment, and
- the remaining tax weeks in the tax year.

There are 53 weeks in the tax year but use 52 weeks when working out the pro rata period. Ignore 5 April or 4 and 5 April in a leap year, which is week 53. But if someone is appointed in week 53 the pro rata period is one week.

See the 'Quick guide to pro rata annual earnings periods' on page 42.

26 Working out the pro rata limits, Secondary Threshold, Primary Threshold and Upper Accrual Point

To work out the:

- LEL, multiply the weekly LEL by the number of tax weeks in the pro rata earnings period
- ST, divide the annual ST by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- PT, divide the annual PT by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- UAP, multiply the weekly UAP by the number of tax weeks in the pro rata earnings period
- UEL, divide the annual UEL by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound.

See the 'Quick guide to pro rata annual earnings periods' on page 42.

27 Director resigns during the tax year

If a director resigns during the tax year, the earnings period does not change.

28 Director resigns and is reappointed

If the director resigns during the tax year and is reappointed by the same company:

- in the same tax year, the earnings period is the one which applied before resignation
- at the beginning of a later tax year, the earnings period is annual for the later tax year
- during a later tax year, the earnings period is pro rata annual for the later tax year.

Directors' earnings

29 What is included?

CWG2(2011) *Employer Further Guide to PAYE and NICs* gives details of what is and what is not included in gross pay when working out NICs. CWG5(2011) *Class 1A NICs on benefits in kind* gives details of what taxable benefits in kind attract Class 1A NICs.

The same rules apply to directors as for other employees but there are some additional rules for directors.

30 Fees and bonuses

Normally, when fees and bonuses are voted to directors, the fees or bonuses are added to all other earnings paid in the annual (or pro rata annual) earnings period and NICs are assessed on the total.

The NICs rates used are normally those which relate to the earnings period.

But there are exceptions to this rule.

31 Advance or anticipatory payments

Payments made in advance or in anticipation of the voting of fees or bonuses are earnings for NICs purposes.

NICs are due from the company and the director when the payments exceed the annual (or pro rata annual) ST and PT respectively which applies when they are made.

Use the NICs rates which relate to that earnings period.

NICs paid on advance or anticipatory payments and fees or bonuses are later voted

If NICs have been paid on advance or anticipatory payments and fees or bonuses are later voted, NICs are due on the fees or bonuses minus the advance or anticipatory payments already made.

Use the NICs rates and the earnings period which relate to when the voting takes place.

NICs not paid on advance or anticipatory payments and fees or bonuses are later voted

If NICs have not been paid on advance or anticipatory payments because they were, in total, less than the ST and PT and fees or bonuses are later voted, NICs are due on the full amount of the fees or bonuses which exceeds the annual (or pro rata annual) ST and PT which applies when the voting takes place.

Use the NICs rates which relate to that earnings period.

Fees or bonuses are less than the advance or anticipatory payments

If the fees or bonuses are less than the advance or anticipatory payments, no further NICs are due.

Fees or bonuses waived or refunded

If the fees or bonuses are waived or refunded to the company, in total or in part, after they have been voted, NICs are still due on:

- the advance or anticipatory payments

- any balance of the fees or bonuses.

Director has an account with the company

If the director has an account, for example, 'loan' or 'current' with the company, NICs are:

- due when fees or bonuses are voted and the account credited. Use the NIC rates and the earnings period which apply when the voting takes place
- not due when the director draws money out of the account if the account remains in credit.

Director's account is overdrawn

If the director draws money out of the account and it becomes overdrawn or there is an increase in the amount by which it is overdrawn, there is:

- liability for NICs on the overdrawn amount, or the increase in the overdrawn amount, if the withdrawal is made in anticipation of an earnings payment, for example, fees or bonuses. Use the NIC rates and the earnings period which apply when the withdrawal is made
- no liability for NICs on the overdrawn amount, or the increase in the overdrawn amount, if the withdrawal is made in anticipation of an introduction of funds which are not earnings, for example, dividends, matured insurance policies or other personal income. But there could be a liability for Class 1A NICs. See CWG5(2011) *Class 1A NICs on benefits in kind*.

Payment of a director's personal bills through an account with the company

Directors who have an account with their company may arrange for the company to settle their personal bills and then charge the amount to their account. If you meet a director's personal debt in this way and then debit the amount to the account, there is liability for NICs when:

- the account becomes overdrawn or there is an increase in the amount by which it is overdrawn, and
- the debiting is made in anticipation of an earnings payment, for example, fees or bonuses.

NICs are due on the overdrawn amount or the increase in the overdrawn amount. Use the NICs rates and the earnings period which apply when the account is debited.

There is no liability for NICs if:

- the account becomes overdrawn or there is an increase in the amount by which it is overdrawn, and
- the debit is made in anticipation of an introduction of funds which are not earnings, for example dividends, matured insurance policies or other personal income.

32 No advance or anticipatory payments

If the director draws money out of the account and it becomes overdrawn or there is an increase in the amount by which it is overdrawn and the director does not normally receive advance or anticipatory payments, the amount overdrawn is not earnings unless the company authorises payment of the amount(s) overdrawn.

The amount overdrawn can be authorised:

- in writing, or
- by the other directors agreeing verbally that they know about the situation.

When the amount(s) overdrawn are properly authorised, NICs are due on the overdrawn amount(s). Use the NICs rates and the earnings period which apply when the authority is given.

Fees voted for a future period

If fees are voted for a future period, NICs are due from the company and from the director if the payments exceed the annual (or pro rata annual) ST and PT respectively which applies when the fees are actually made available to the director.

Use the NICs rates which relate to that earnings period.

33 Payments under the Employment Rights Act 1996 (in Northern Ireland, Employment Rights (Northern Ireland) Order 1996)

If the director receives payments under the Employment Rights Act 1996:

- add these payments to the director's other earnings for the tax year in which the payment is made
- use the percentage rates and earnings limits which apply at the time of payment.

34 Earnings paid for a period before appointment

Earnings paid to a person **before** the date on which they were appointed as a director which relate, for example, to when they were employees of your company, **are not** included with the earnings paid after that date when the director's NICs are assessed.

Earnings paid to a person **after** the date on which they were appointed as a director which relate, for example, to when they were employees of your company, **are** included with the other earnings paid after that date when the director's NICs are assessed. Use the director's earnings period (annual or pro rata annual).

35 Earnings paid in the same tax year after appointment ends

If earnings for the directorship are paid to a former director in the same tax year as their appointment ends:

- add these earnings to the total earnings already paid
- work out NICs on the total earnings using the director's earnings period.

This applies even if the director becomes an employee of the company. For the rest of the tax year any earnings paid, including those paid as an employee, should be assessed for NICs using the annual or, if the director was appointed after the beginning of the tax year, the pro rata annual earnings period.

If the former director was in contracted-out employment and the payment of earnings is made more than six weeks after the appointment ends, work out NICs using the equivalent not contracted-out rate. See 'Change in category of contribution payable', paragraph 60 on page 23 onwards.

36 Earnings paid in a later tax year after appointment ends

If earnings for the directorship are paid to a former director in a tax year which starts after their appointment ends:

- do not add these earnings to any other earnings paid in that tax year
- work out NICs using an annual earnings period
- use the percentage rates and earnings limits in force for the tax year in which the payment is made.

If the former director is working as an employee, separately work out the NICs due on their earnings as an employee using the appropriate earnings period.

If the former director was in contracted-out employment and the payment of earnings is made more than six weeks after the appointment ends, work out NICs using the equivalent not contracted-out rate. See 'Change in category of contribution payable', paragraph 60 on page 23 onwards.

37 Repayment of loans

If a director lends money to the company:

- any repayment of that loan is not earnings for NICs purposes
- NICs are not due on the repayments.

38 Company pensions

If a director receives a company pension:

- the pension is not earnings for NICs purposes
- NICs are not due on the pension payments.

NICs are due on any fees or bonuses or salary payments which are paid after the director has retired from the company. If the director is over State Pension age:

- no director's NICs are due
- NICs are due from the company at the not contracted-out rate.

Working out NICs

39 Introduction

Directors' NICs are worked out on a cumulative basis unlike other employees whose NICs are worked out each week or each month.

NICs must therefore be worked out each time a payment of earnings is made to a director.

To work out how much you must pay:

- work out the NICs on the total earnings paid to date in the tax year or pro rata period
- deduct the NICs already paid, if any.

This gives the NICs now due.

40 Methods of working out NICs

You can work out NICs:

- using the exact percentage method, or
- by adapting the NICs tables.

You can only use one of these methods for a director in a tax year or pro rata period.

41 Exact percentage method

If you use the exact percentage method to work out directors' NICs wait until the total earnings to date reach or exceed the annual (or pro rata annual) LEL.

To work out a director's standard rate NICs, multiply those earnings which exceed the annual (or pro rata annual) PT, up to and including the annual (or pro rata annual) UAP by the appropriate not contracted-out or contracted-out percentage rate. Round to the nearest penny, rounding down exact amounts of 0.5p. Multiply those earnings which exceed the annual (or pro rata annual) UAP, up to and including the annual (or pro rata annual) UEL by the appropriate not contracted-out percentage rate. Round to the nearest penny, rounding down exact amounts of 0.5p. Deduct any employee's contracted-out NIC rebate to which the director is entitled. Multiply those earnings which exceed the annual (or pro rata annual) UEL by 2%. Round to the nearest penny, rounding down exact amounts of 0.5p. Add the totals together.

This gives the NICs now due.

To work out a director's reduced rate NICs, multiply those earnings which exceed the annual (or pro rata annual) PT, up to and including the annual (or pro rata annual) UAP and from the annual (or pro rata annual) UAP up to and including the annual (or pro rata annual) UEL by the reduced percentage rate.

Round to the nearest penny at each stage, rounding down exact amounts of 0.5p. Multiply those earnings which exceed the annual (or pro rata annual) UEL by 2%. Round to the nearest penny, rounding down exact amounts of 0.5p. Add the totals together.

This gives the NICs now due.

To work out the company's NICs, multiply those earnings which exceed the annual (or pro rata annual) ST, up to and including the annual (or pro rata annual) PT and from the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UAP by the appropriate not contracted-out or contracted-out percentage rate. Round at each stage to the nearest penny, rounding down exact amounts of 0.5p. Multiply those earnings which exceed the annual (or pro rata annual) UAP, up to and including the annual (or pro rata annual) UEL by the appropriate not contracted-out percentage rate. Round to the nearest penny, rounding down exact amounts of 0.5p.

Deduct any employer's and, if appropriate, any employee's contracted-out NICs rebate to which the company is entitled. Multiply those earnings which exceed the annual (or pro rata annual) UEL by the appropriate not contracted-out percentage rate. Round to the nearest penny, rounding down exact amounts of 0.5p. Add the totals together.

This gives the NICs now due.

To work out how much you must pay if further payments of earnings are made in the tax year or pro rata period:

- work out the NICs due on the total earnings to date. Round to the nearest penny, rounding down exact amounts of 0.5p
- deduct the amount of NICs already paid.

This gives the NICs now due.

42 Adapting the NICs tables

You can adapt the NICs tables to work out NICs.

You must not use the NICs tables at 'face value' because the figures shown relate to weekly or monthly earnings periods.

43 Adapting the monthly tables

If the director has an annual earnings period you can adapt the monthly tables to work out the NICs due each time earnings, including fees and bonuses, are paid.

- Divide the total earnings to date by 12. This gives the average monthly earnings to date.
- Look at the relevant monthly table for the average monthly earnings.
- If the average monthly earnings are
 - less than or equal to the monthly ST, no NICs are due
 - more than the monthly ST, multiply the NICs in the table by 12. This gives the NICs due to date.
- Deduct NICs already paid, if any.

This gives the NICs now payable.

44 Adapting the weekly tables – annual earnings period

If the director has an annual earnings period you can adapt the weekly tables instead of the monthly tables, but:

- divide the total earnings by 52, not 12
- work out NICs on the average weekly earnings
- multiply the weekly NICs by 52, not 12.

45 Adapting the weekly tables – pro rata annual earnings period

If the director has a pro rata annual earnings period, you can adapt the weekly tables to work out the NICs due each time earnings, including fees and bonuses, are paid.

- Work out the total number of tax weeks in the pro rata annual earnings period.
- Divide the total earnings paid to the director since the appointment began by the number of tax weeks in the pro rata annual earnings period. This gives the average weekly earnings to date.
- Look at the relevant weekly table for the average weekly earnings.
- If the average weekly earnings are
 - less than or equal to the weekly ST, no NICs are due
 - more than the weekly ST, multiply the NICs on the table by the number of tax weeks in the pro rata period. This gives the NICs due to date
- Deduct any NICs already paid.

This gives the NICs now payable.

Paying NICs on account

46 Introduction

As directors have an annual (or pro rata annual) earnings period, NICs will only become due from the company and the director when the total earnings exceed the ST and PT respectively.

You can, if you want, pay the director's NICs 'on account' before the total earnings reach the annual (or pro rata annual) PT but you need the director's agreement to do this.

47 Paying the director's and company's NICs on account

If you expect the director's earnings to exceed the PT and the director agrees, you can pay NICs before the total earnings exceed the annual (or pro rata annual) PT. Work out the director's and the company's NICs at the appropriate percentage rates.

48 What to do when NICs have been paid on account

If NICs have been paid on account as in paragraph 47 (see above):

- pay those NICs to your Accounts Office in the normal way
- do not record the earnings details in columns 1a to 1d of form P11 until the actual earnings exceed the PT.

49 What to do if earnings do not reach expected level

If the total earnings do not reach the PT, see paragraph 65 on page 33.

More than one job

50 Introduction

See CWG2(2011) *Employer Further Guide to PAYE and NICs* for the basic rules if the director:

- has more than one job with entirely different employers
- is both employed and self-employed
- wants to know more about refunds of NICs paid in excess of the prescribed annual maximum
- wants to know about deferment of payment of Class 1 or Class 2 and Class 4 NICs.

This section describes the additional rules for directors.

51 More than one job with the same company

If the director is also an employee of your company:

- add all the earnings together
- work out NICs on the total earnings using the director's earnings period
- complete one form P11 and one form P14.

If the earnings from each job are separately worked out, you do not have to add them together if it is not reasonably practicable to do so. If this is the case:

- work out the NICs separately
- use the annual (or pro rata annual) earnings period for the earnings as a director
- use the employee's earnings period for the earnings as an employee
- complete two forms P11 and two forms P14.

52 Companies carrying on business in association

Companies are considered to be carrying on business in association with each other if the companies have some degree of common purpose substantiated by the sharing of things such as facilities, personnel, accommodation and customers and so on.

If two or more companies are carrying on business in association with each other:

- add all the earnings together
- work out NICs on the total earnings using the longer, or longest earnings period, that is, the pro rata or annual earnings period
- complete one form P11 and one form P14.

But, see paragraph 55 on page 18 if any of the jobs are contracted-out.

Share the company's NICs due, as agreed between yourselves. If there is no agreement, share them in the same proportion as the earnings paid by each company.

If the earnings cannot be added together because the earnings are paid through different pay points:

- work out the NICs separately
- use the appropriate earnings period for each job
- complete separate forms P11 and P14 for each job.

53 Single service contracts

Directors may be appointed to a group of companies under a single service contract or single service agreement.

This usually means that the directors of the parent company are also directors of one or more of the subsidiary companies. They are engaged under a single contract of service to perform duties for each of the companies as requested.

If one payment of earnings is made for all the duties, usually the parent company:

- pays the NICs
- completes one form P11 and one form P14.

If earnings are paid by more than one of the companies, the companies involved must decide which of them will:

- add all the earnings together
- work out NICs on the total earnings using the longer or longest earnings period, that is, the pro rata or annual earnings period
- complete one form P11 and one form P14.

But, see paragraph 55 on page 18 if any of the jobs are contracted-out.

If the earnings cannot be added together because the earnings are paid through different pay points:

- work out the NICs separately
- use the appropriate earnings period for each job
- complete separate forms P11 and forms P14 for each job.

54 One payment of earnings covering more than one job

Consider first if the companies are carrying on business in association with each other when a director gets paid by only one company but is a director of:

- more than one company, or
- one company and an employee of another company.

If the companies are carrying on business in association with each other, the company which pays the earnings:

- pays the NICs
- completes one form P11 and one form P14.

But see paragraph 55 if any of the jobs are contracted-out.

If the companies are not carrying on business in association with each other:

- split or 'apportion' the single payment of earnings into the payment due for each job, and
- any of the separate payments reach or exceed the appropriate LEL for the earnings period for that job, record the earnings details. If the payments exceed the ST, work out NICs on them
- complete a separate form P11 for each job.

At the end of the tax year put:

- 'X' in the NIC Table letter box on any forms P11 and P14 when the payment for the tax year does not reach the LEL
- the appropriate NIC Table letter in the NIC Table letter boxes on any other forms P11 and P14.

55 Earnings from contracted-out and not contracted-out jobs added together

If earnings from more than one job are added together, or apportioned, use the longer or longest earnings period.

The order in which to work out reduced rate NICs is as follows.

- First, on earnings on which NICs are payable under Table letter G if the director belongs to the company's Contracted-out Money Purchase Scheme or Contracted-out Money Purchase Stakeholder Pension Scheme.
- Then, on earnings on which NICs are payable under Table letter E if the director belongs to the company's Contracted-out Salary Related Scheme.
- Finally, on earnings on which NICs are payable under Table letter B if the director is in a not contracted-out employment.

The order in which to work out standard rate NICs is as follows.

- First, on earnings on which NICs are payable under Table letter A if the director has an Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension.
- Then, on earnings on which NICs are payable under Table letter F if the director belongs to the company's Contracted-out Money Purchase Scheme or Contracted-out Money Purchase Stakeholder Pension Scheme.
- Then, on earnings on which NICs are payable under Table letter D if the director belongs to the company's Contracted-out Salary Related scheme.
- Finally, on earnings on which NICs are payable under Table letter A if the director does not have an Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension.

For more information see CWG2(2011) *Employer Further Guide to PAYE and NICs* under 'Employees with more than one job'.

Example for the 2011–12 tax year

Three companies, Allsorts Ltd, Sortsall Ltd and Rotsalls Ltd carry on business in association with each other.

Mrs Trollass has been:

- 1 a director of Allsorts Ltd, a job with a Contracted-out Money Purchase Scheme, since 15 August 1986. She receives a monthly salary of £3,250 from this job
- 2 a director of Sortsall Ltd, a not contracted-out, no Appropriate Personal Pension job since 18 May 1989. She receives fees of £2,995 from this job on 31 March 2012
- 3 part-time employee of Rotsalls Ltd, a contracted-out job, same scheme as Allsorts, since 15 August 1986. She receives a monthly salary of £150.

Annual LEL – £5,304

Annual ST – £7,072

Annual PT– £7,225

Annual UAP – £40,040

Annual UEL – £42,475

Priority should be given to the total category F earnings of £40,800. Then, to the total category A earnings of £2,955 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
F	£5,304 (earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	@0% = NIL	@12.4% = £18.97
	£32,815 (balance of earnings between PT and UAP)	@10.4% = £3,412.76	@12.4% = £4,069.06
	£760 (balance of earnings between UAP and UEL)	@12% = £91.20	@13.8% = £104.88
	Less rebates on £1,768	@1.6% = £28.29	@1.4% = £24.75
	Less employee only rebate on £153	@1.6% = £2.45	
	Total category F NICs payable	= £3,473.22	= £4,168.16
A	£1,675 (balance of earnings up to UEL)	@12% = £201.00	@13.8% = £231.15
	£1,280 (earnings over UEL)	@2.0% = £25.60	@13.8% = £176.64

Mrs Trollass's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
F	5,304	1,921	32,815	760	7,641.38	3,473.22
A	0	0	0	1,675	634.39	226.60

56 Professional advisers

Some directors have more than one job because they are:

- partners in firms carrying on a profession, for example accountancy
- also directors of limited companies providing a service to that company.

Payments made for the service to the limited company are not included in the director's earnings if:

- the nature of the payment satisfies certain tests (see 'The tests' outlined below), and
- the nature of the work satisfies certain conditions (see 'The conditions' outlined below).

The tests

To be excluded from the director's earnings, the payment must be a payment:

- by a company
- to, or for the benefit of a director of that company, and
- for Class 1, that is, employed-earners, employment of that director with that company.

The conditions

To be excluded from the director's earnings, all these conditions must be satisfied.

- The director must also be a partner in a firm carrying on a profession.
- Being a director of a company must be a common practice of membership of that profession and of that firm.
- Under the terms of the partnership, the director must account to the firm for the payment.
- The payment must form an insubstantial part of the gross returns of the firm.

57 HM Revenue & Customs Extra Statutory Concession (ESC) A37

Alternatively, if we have applied ESC A37 to certain payments for Income Tax purposes, those payments can also be excluded from earnings for the purposes of assessing the director's Class 1 NICs.

58 Nominee directors

Some directors have more than one job because they are nominated to serve on the boards of other companies as 'nominee directors'.

Payments made by the companies employing 'nominee directors' are not included in directors' earnings if:

- the nature of the payment satisfies certain tests (see 'The nature of payment tests' below), and
- one of two sets of conditions are satisfied (see 'Set of conditions 1' or 'Set of conditions 2' on the next page).

In the sets of conditions:

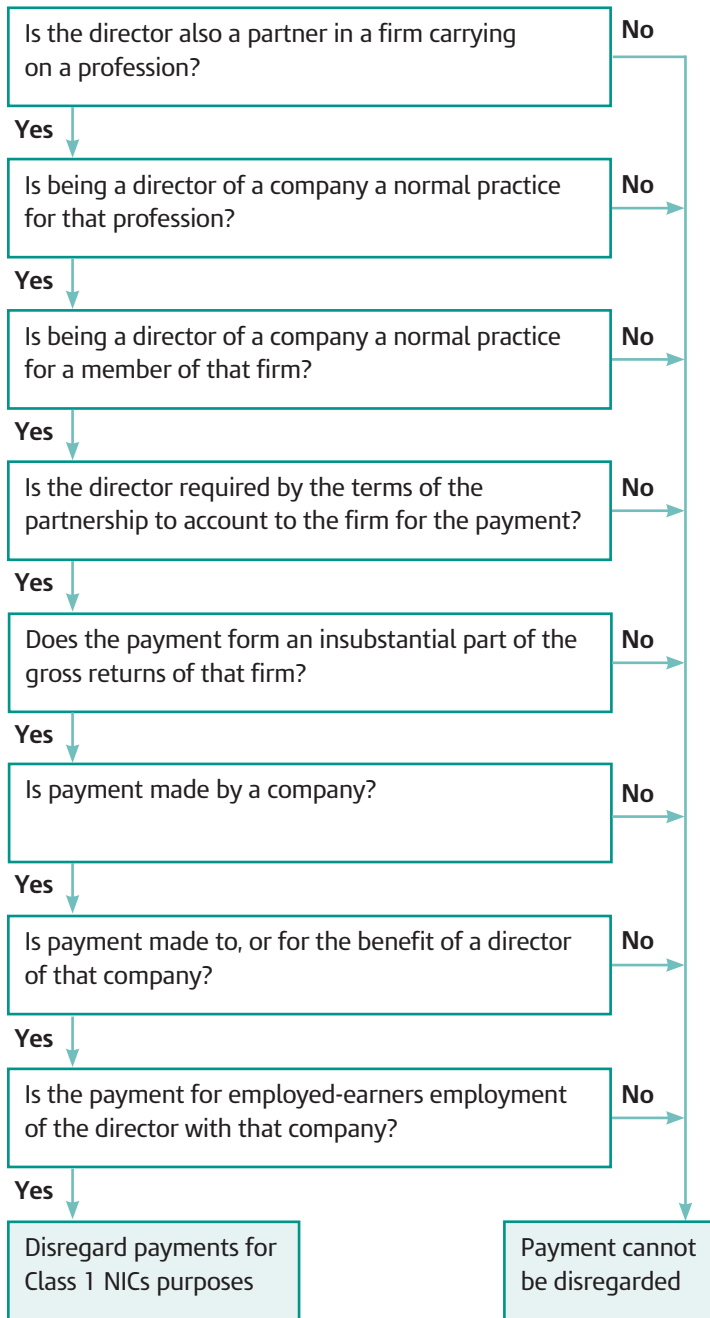
- Company 1 is the company which makes the nomination
- Company 2 is the company to which the director is appointed as a nominee.

The nature of payment tests

To be excluded from the directors' earnings for NIC purposes, the payment must be a payment:

- by a company
- to, or for the benefit of a director of that company, and
- for Class 1, that is, employed-earners, employment of that director with that company.

Professional advisers' flowchart



Set of conditions 1

All of these conditions must be satisfied.

Company 1 has the right to appoint the director of Company 2 because:

- of its shareholding in Company 2, or
- there is an agreement between Companies 1 and 2.

The director must account for the payment made by Company 2 to Company 1.

The payments from Company 2 form part of the profits of Company 1 and are charged to:

- Corporation Tax, or
- Income Tax.

See Nominee director's flowchart 1 on page 22.

Set of conditions 2

All of these conditions must be satisfied.

- The director was appointed to Company 2 by Company 1.
- The director is required to account for the payment made by Company 2 to Company 1.
- The payment forms part of the profits of Company 1 and is charged to Corporation Tax.
- The director has no control over Company 1.
- The director's family* have no control over Company 1.
- The director and their family* together have no control over Company 1.

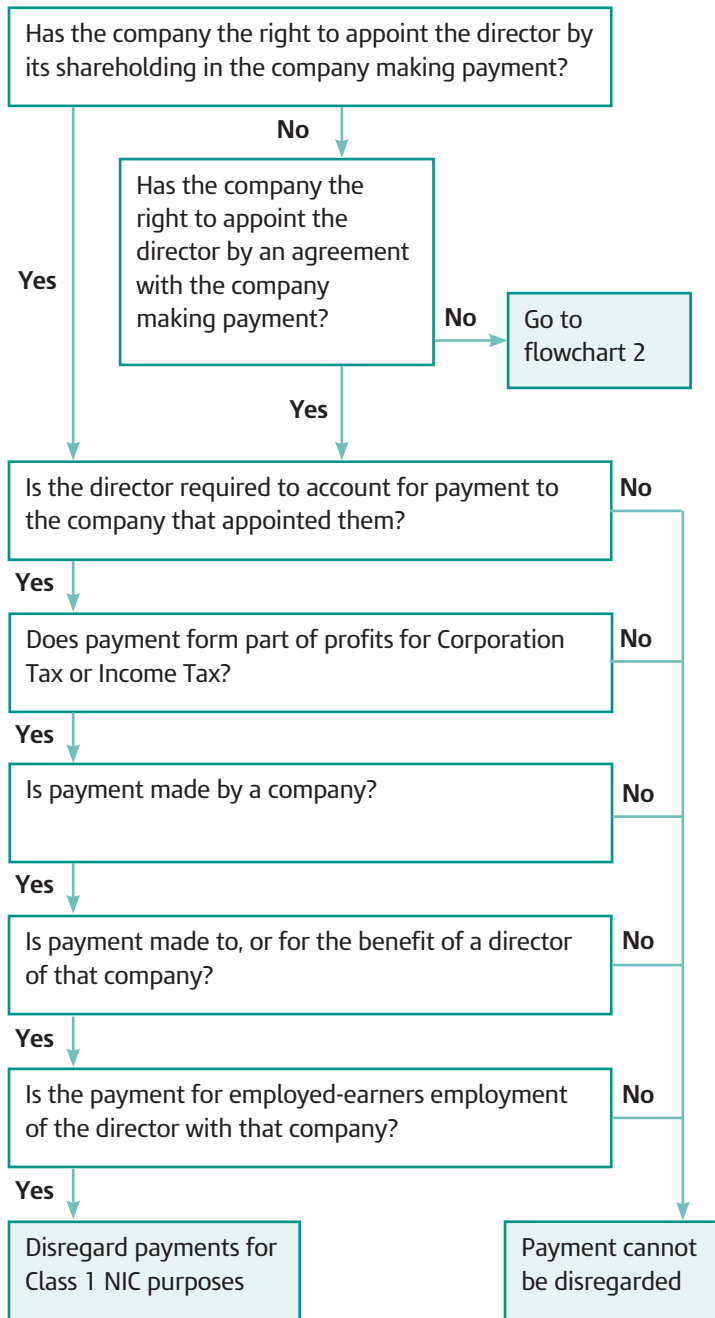
* 'Family' means spouse, civil partner, parent, child, son-in-law or daughter-in-law.

See 'Nominee director's flowchart 2' on page 22.

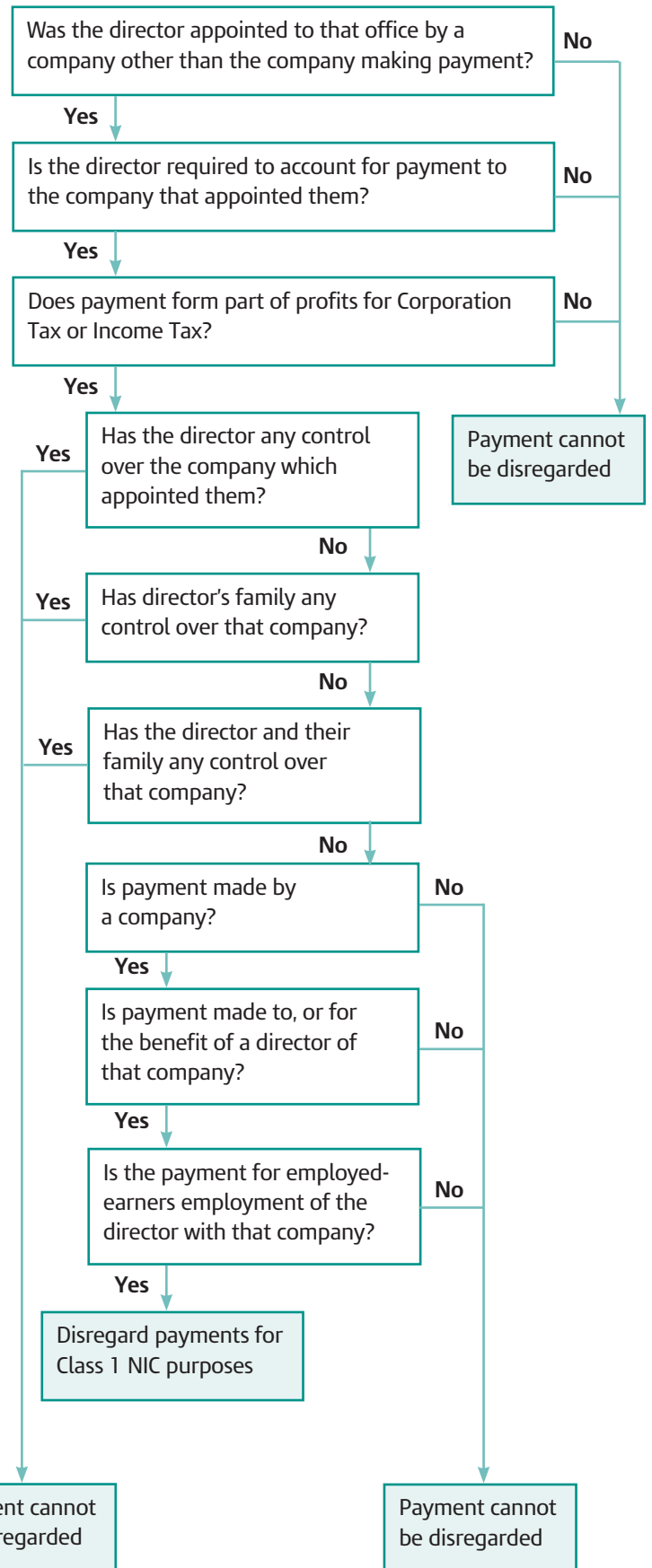
59 HM Revenue & Customs Extra Statutory Concession (ESC) A37

Alternatively, if we have applied ESC A37 to certain payments for Income Tax purposes, those payments can also be excluded from the director's earnings for NICs purposes.

Nominee director's flowchart 1



Nominee director's flowchart 2



Change in category of contribution payable

60 Introduction

Category of contribution means the NIC Table letter under which NICs are payable.

The category of contribution payable may change during directors' earnings periods if they:

- reach State Pension age
- revoke or lose the right to pay reduced rate NICs
- leave the company's contracted-out Occupational Pension Scheme
- join the company's contracted-out Occupational Pension Scheme, or
- take out an Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension.

If the category of contribution payable changes during a director's earnings period there are some general rules which must be applied.

Earnings paid before and after the change are added together to work out NICs due.

To ensure that NICs are payable by directors on the total of their earnings which exceeds the annual (or pro rata annual) PT, the exact percentage method must be used to work out all the NICs due for the tax year (or pro rata period) in which the category of contribution changes.

The order in which to work out NICs is as follows.

- First, on earnings on which reduced rate NICs are payable in a contracted-out employment under Table letter G where the director belongs to the company's Contracted-out Money Purchase Scheme or Contracted-out Money Purchase Stakeholder Pension Scheme.
- Then, on earnings on which reduced rate NICs are payable in a contracted-out employment under Table letter E where the director belongs to the company's Contracted-out Salary Related Scheme.
- Then, on earnings on which reduced rate NICs are payable in a not contracted-out employment under Table letter B.
- Then, on earnings on which standard rate NICs are payable in a not contracted-out employment under Table letter A where the director has an Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension.
- Then, on earnings on which standard rate NICs are payable in a contracted-out employment under Table letter F where the director belongs to the company's Contracted-out Money Purchase Scheme or Contracted-out Money Purchase Stakeholder Pension Scheme.

- Then on earnings on which standard rate NICs are payable in a contracted-out employment under Table letter D where the director belongs to the company's Contracted-out Salary Related Scheme.
- Finally, on earnings on which standard rate NICs are payable in a not contracted-out employment under Table letter A if the director does not have an Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension.

61 Director reaches State Pension age

If the director reaches State Pension age during the tax year or pro rata period:

- the category of contribution payable will change to Table letter C, not contracted-out
- the director pays
 - NICs as normal on earnings paid or due to be paid before State Pension age
 - no NICs on earnings paid or due to be paid on or after State Pension age
- the company pays NICs on earnings paid or due to be paid
 - before State Pension age at the appropriate percentage rate(s), either not contracted-out or contracted-out
 - on, or after State Pension age, at the not contracted-out percentage rate.

Example for the 2011-12 tax year

Mr Roberts was appointed a director of Heltwyll Bay on 1 June 1980. He is 65 on 13 August 2011.

Total earnings for the 2011-12 tax year = £11,480.

£8,480 was paid before 13 August 2011.

He was contracted-out before 13 August 2011 in a Contracted-out Salary Related Scheme.

Annual LEL – £5,304

Annual ST – £7,072

Annual PT – £7,225

Annual UAP – £40,040

Annual UEL – £42,475

Priority should be given to the total category D earnings of £8,480. Then, to the total category C earnings of £3,000 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
D	£5,304 (earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	@0% = NIL	@10.1% = £15.45
	£1,255 (balance of earnings between PT and UAP)	@10.4% = £130.52	@10.1% = £126.75
	Less rebates on £1,768	@1.6% = £28.29	@3.7% = £65.42
	Less employee only rebate on £153	@1.6% = £2.45	
	Total category D NICs payable	= £99.78	= £76.78
C	£3,000 (balance of earnings between PT and UAP)	NIL	@13.8% = £414.00

Mr Roberts's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
D	5,304	1,921	1,255	0	176.56	99.78
C	0	0	3,000	0	414.00	0.00

62 Married women or widow's reduced rate authority ends

Married women and widows who have the right to pay reduced rate NICs, that is, they have a valid certificate of election, pay their NICs at the reduced rate on all those earnings which exceed the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UEL, then at a rate of 2% on those earnings which exceed the UEL. If the authority to pay reduced rate NICs ends, for example because the woman is divorced or she revokes the election, the category of contribution payable will change from B, G or E to A, F or D.

If the total earnings paid, both before and after the change, are less than the annual (or pro rata annual) ST, no NICs are due from the company or the director. If the total earnings reach the annual (or pro rata annual) UEL before the change:

- the director pays NICs at the reduced percentage rate on all those earnings which exceed the annual (or pro rata annual) PT up to and including the UEL, then at a rate of 2% on any earnings which exceed the UEL
- the company pays NICs at the appropriate not contracted-out or contracted-out percentage rate(s) on all those earnings which exceed the annual (or pro rata annual) ST.

Example for the 2011–12 tax year

Mrs Brown, a director since 12 July 1988, revokes her election on 14 January 2012. She earns £42,475 before the change and £8,000 afterwards. The employment becomes contracted-out on 14 January 2012 in a Contracted-out Salary Related Scheme.

Annual LEL – £5,304

Annual ST – £7,072

Annual PT – £7,225

Annual UAP – £40,040

Annual UEL – £42,475

Priority should be given to the total category B earnings of £42,475. Then, to the total category D earnings of £8,000 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
B	£5,304 (earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	@0% = NIL	@13.8% = £21.11
	£32,815 (balance of earnings between PT and UAP)	@5.85% = £1,919.68	@13.8% = £4,528.47
	£2,435 (balance of earnings between UAP and UEL)	@5.85% = £142.45	@13.8% = £336.03
D	£8,000 (earnings over UEL)	@2.0% = £160.00	@13.8% = £1,104.00

Mrs Brown's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
B	5,304	1,921	32,815	2,435	8,211.74	2,222.13

The NICs under Table letter D are included in the contributions under Table letter B. A separate Table letter D entry is not required.

If the total earnings exceed the annual (or pro rata annual) PT before the change, but they do not reach the UEL, the director pays NICs at the:

- reduced percentage rate on those earnings which exceed the annual (or pro rata annual) PT paid or due to be paid before the change
- standard percentage rate, not contracted-out or contracted-out as appropriate, on the balance of earnings up to and including the annual (or pro rata annual) UAP and from the annual (or pro rata annual) UAP up to and including the annual (or pro rata annual) UEL
- rate of 2% on any earnings which exceed the UEL.

The company pays NICs at the appropriate not contracted-out or contracted-out percentage rate(s) on all those earnings which exceed the annual (or pro rata annual) ST paid before and after the change.

If the total earnings are less than the annual (or pro rata annual) PT before the change, but the total earnings

for the tax year or pro rata period exceed the PT, the director pays NICs at the standard percentage rate, not contracted-out or contracted-out as appropriate, on those earnings which exceed the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UAP and from the annual (or pro rata annual) UAP up to and including the annual (or pro rata annual) UEL, then at a rate of 2% on any earnings which exceed the UEL.

The company pays NICs at the appropriate not contracted-out or contracted-out percentage rate(s) on all those earnings which exceed the annual (or pro rata annual) ST.

Example for the 2011-12 tax year

Mrs Cross's marriage ends in divorce on 8 January 2012.

The employment is contracted-out in a Contracted-Out Money Purchase Scheme.

She earns £42,475 in the 2011-12 tax year,

£41,000 paid before 8 January 2012.

Annual LEL – £5,304

Annual ST – £7,072

Annual PT – £7,225

Annual UAP – £40,040

Annual UEL – £42,475

Priority should be given to the total category G earnings of £41,000. Then, to the total category F earnings of £1,475 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
G	£5,304 (earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	@0% = NIL	@12.4% = £18.97
	£32,815 (balance of earnings between PT and UAP)	@5.85% = £1,919.68	@12.4% = £4,069.06
	£960 (balance of earnings between UAP and UEL)	@5.85% = £56.16	@13.8% = £132.48
	Less employer only rebate on £1,768		@1.4% = £24.75
	Total category G NICs payable	= £1,975.84	= £4,195.76
F	£1,475 (balance of earnings between UAP and UEL)	@12% = £177.00	@13.8% = £203.55

Mrs Cross's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
G	5,304	1,921	32,815	960	6,171.60	1,975.84
F	0	0	0	1,475	380.55	177.00

Example for the 2011–12 tax year

Mrs Davies revokes her election on 14 May 2011.

The employment is contracted-out in a Contracted-Out Salary Related Scheme.

She earns £2,680 before the change and £24,538 after.

Annual LEL – £5,304

Annual ST – £7,072

Annual PT – £7,225

Annual UAP – £40,040

Annual UEL – £42,475

Priority should be given to the total category E earnings of £2,680. Then, to the total category D earnings of £24,538 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
E	£2,680 (earnings up to LEL)	NIL	NIL
	£2,624 (balance of earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	@0% = NIL	@10.1% = £15.45
	£19,993 (balance of earnings between PT and UAP)	@10.4% = £2,079.27	@10.1% = £2,019.29
	Less rebates on £1,768	@1.6% = £28.29	@3.7% = £65.42
	Less employee only rebate on £153	@1.6% = £2.45	
	Total Category D NICs payable	= £2,048.53	= £1,969.32

Mrs Davies's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col. 1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col. 1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col. 1d on P11	Total of employee's and employer's contributions From col. 1e on P11	Employee's contributions due on all earnings above the PT From col. 1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
D	5,304	1,921	19,993	0	4,017.85	2,048.53

63 Joining or leaving a contracted-out pension scheme

The rules you must apply are exactly the same if the director's category of contribution payable changes from:

- contracted-out to not contracted-out, that is, from F or D to A
- not contracted-out to contracted-out, that is, from A to F or D.

If the total earnings paid both before and after the change are less than the annual (or pro rata annual) ST and PT, no NICs are payable by the company or the director.

No Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension

The contracted-out earnings take priority over the not contracted-out earnings.

If the earnings from the contracted-out employment reach or exceed the annual (or pro rata annual) UEL the director pays NICs at the appropriate contracted-out percentage rate on those earnings which exceed the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UAP then at the appropriate not contracted-out percentage rate on those earnings which exceed the annual (or pro rata annual) UAP up to and including the annual (or pro rata annual) UEL then at a rate of 2% on any earnings which exceed the UEL.

The company pays NICs at the:

- appropriate contracted-out percentage rate on all those earnings which exceed the annual (or pro rata annual) ST up to and including the annual (or pro rata annual) PT and from the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UAP
- appropriate not contracted-out percentage rate on the remainder of the total earnings.

Example for the 2011-12 tax year

Mr Evans is appointed a director of A N Other and Company Limited on 13 May 2011.

He joins the company's Contracted-out Money Purchase Scheme on 2 August 2011.

Earnings paid before the change are £6,479 and earnings paid after the change £38,426.

Pro rata annual LEL – £4,794

Pro rata annual ST – £6,392

Pro rata annual PT– £6,531

Pro rata annual UAP – £36,190

Pro rata annual UEL – £38,391

Priority should be given to the total category F earnings of £38,426. Then, to the total category A earnings of £6,479 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
F	£4,794 (earnings up to LEL)	NIL	NIL
	£1,598 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£139 (balance of earnings between ST and PT)	@0% = NIL	@12.4% = £17.24
	£29,659 (balance of earnings between PT and UAP)	@10.4% = £3,084.54	@12.4% = £3,677.72
	£2,201 (balance of earnings between UAP and UEL)	@12% = £264.12	@13.8% = £303.74
	Less rebates on £1,598	@1.6% = £25.57	@1.4% = £22.37
	Less employee only rebate on £139	@1.6% = £2.22	
	Category F NICs payable on earnings up to UEL	= £3,320.87	= £3,976.33
	(£35 earnings over UEL to be included with category A earnings)		
A	£6,514 (earnings over UEL, including £35 category F earnings)	@2% = £130.28	@13.8% = £898.93

Mr Evans's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
F	4,794	1,737	29,659	2,201	8,326.41	3,451.15

The NICs under Table letter A are included in the contributions under Table letter F.

A separate Table letter A entry is not required.

If the earnings from the contracted-out employment are less than the annual (or pro rata annual) ST but the total earnings exceed the ST:

- the director pays NICs at the appropriate not contracted-out percentage rate on those earnings which exceed the annual (or pro rata annual) PT up to and including the UEL, then at a rate of 2% on any earnings which exceed the UEL
- the company pays NICs at the appropriate not contracted-out percentage rate on those earnings which exceed the annual (or pro rata annual) ST.

If the earnings from the contracted-out employment are less than the annual (or pro rata annual) PT but the total earnings exceed the PT:

- the director pays NICs at the appropriate not contracted-out percentage rate on those earnings which exceed the annual (or pro rata annual) PT up to and including the UEL, then at a rate of 2% on any earnings which exceed the UEL
- the company pays NICs at the appropriate contracted-out percentage rate on those earnings which exceed the annual (or pro rata annual) ST, up to and including the annual (or pro rata annual) PT, then at the appropriate not contracted-out percentage rate on those earnings which exceed the annual (or pro rata annual) PT.

Example for the 2011-12 tax year

Mr Francis, a director of Spratt's Fat Ltd since 6 April 1975, leaves his company's Contracted-Out Salary Related pension scheme in 2011-12.

Earnings paid before the change are £1,520 and earnings paid after the change are £15,760.

Annual LEL – £5,304

Annual ST – £7,072

Annual PT – £7,225

Annual UAP – £40,040

Annual UEL – £42,475

Priority should be given to the total category D earnings of £1,520. Then, to the total category A earnings of £15,760 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
D	£1,520 (earnings up to LEL)	NIL	NIL
A	£3,784 (balance of earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	@0% = NIL	@13.8% = £21.11
	£10,055 (balance of earnings between PT and UAP)	@12% = £1,206.60	@13.8% = £1,387.59

Mr Francis's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
A	5,304	1,921	10,055	0	2,615.30	1,206.60

If the earnings from the contracted-out employment are between the annual (or pro rata annual) PT and the UAP the director pays NICs at the:

- appropriate contracted-out percentage rate on those contracted-out earnings which exceed the annual (or pro rata annual) PT, and
- appropriate not contracted-out percentage rate on the not contracted-out earnings until the total earnings reach the UEL, then
- rate of 2% on any earnings which exceed the UEL.

The company pays NICs at the:

- appropriate contracted-out percentage rate on those contracted-out earnings which exceed the annual (or pro rata annual) ST, and
- appropriate not contracted-out percentage rate on the not contracted-out earnings.

If the earnings from the contracted-out employment are between the annual (or pro rata annual) UAP and the UEL the director pays NICs at the:

- appropriate contracted-out percentage rate on those contracted-out earnings between the annual (or pro rata annual) PT and the annual (or pro rata annual) UAP, and

- appropriate not contracted-out percentage rate on those contracted-out earnings which exceed the annual (or pro rata annual) UAP, and
- appropriate not contracted-out percentage rate on the not contracted-out earnings until the total earnings reach the UEL, then
- rate of 2% on any earnings which exceed the UEL.

The company pays NICs at the:

- appropriate contracted-out percentage rate on those contracted-out earnings between the annual (or pro rata annual) ST and the annual (or pro rata annual) UAP, and
- appropriate not contracted-out percentage rate on those contracted-out earnings which exceed the annual (or pro rata annual) UAP, and
- appropriate not contracted-out percentage rate on the not contracted-out earnings.

Director has Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension

If the director has an Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension under Table letter A, the Appropriate Personal Pension or Appropriate Personal Pension Stakeholder Pension earnings take priority over the contracted-out earnings.

Example for the 2011–12 tax year

Mr Griffiths, a director of CHIPS plc since 30 November 1990, joins his company's Contracted-out Money Purchase pension scheme on 3 May 2011. Earnings paid before the change are £315 and earnings paid after the change are £41,660. He resigns on 1 October 2011 but is reappointed on 1 December 2011 and gets a bonus of £500 but he does not rejoin the company's contracted-out pension scheme.

Annual LEL – £5,304

Annual ST – £7,072

Annual PT – £7,225

Annual UAP – £40,040

Annual UEL – £42,475

Priority should be given to the total category F earnings of £41,660. Then, to the total category A earnings of £815 as follows:

NIC table letter	Earnings	Director's NICs	Company's NICs
F	£5,304 (earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	@0% = NIL	@12.4% = £18.97
	£32,815 (balance of earnings between PT and UAP)	@10.4% = £3,412.76	@12.4% = £4,069.06
	£1,620 (balance of earnings between UAP and UEL)	@12% = £194.40	@13.8% = £223.56
	Less rebates on £1,768	@1.6% = £28.29	@1.4% = £24.75
	Less employee only rebate on £153	@1.6% = £2.45	
	Total category F NICs payable	= £3,576.42	= £4,286.84
A	£815 (balance of earnings between UAP and UEL)	@12% = £97.80	@13.8% = £112.47

Mr Griffiths's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
F	5,304	1,921	32,815	1,620	7,863.26	3,576.42
A	0	0	0	815	210.27	97.80

Example for the 2011-12 tax year

If Mr Evans (see page 28) has an Appropriate Personal Pension, priority should be given to the total category A earnings of £6,479. Then, to the total category F earnings of £38,426 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
A	£4,794 (earnings up to LEL)	NIL	NIL
	£1,598 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£87 (balance of earnings between ST and PT)	@0% = NIL	@13.8% = £12.01
F	£52 (balance of earnings between ST and PT)	@0% = NIL	@12.4% = £6.45
	£29,659 (balance of earnings between PT and UAP)	@10.4% = £3,084.54	@12.4% = £3,677.72
	£2,201 (balance of earnings between UAP and UEL)	@12% = £264.12	@13.8% = £303.74
	Less employee only rebate on £52	@1.6% = £0.83	
	Category F NICs payable on earnings up to UEL	= £3,347.83	= £3,987.91
	£6,514 (earnings over UEL)	@2% = £130.28	@13.8% = £898.93

Mr Evans's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
A	4,794	1,685	0	0	12.01	0.00
F	0	52	29,659	2,201	8,364.95	3,478.11

Example for the 2011-12 tax year

If Mr Griffiths (see pages 30 - 31) has an Appropriate Personal Pension, priority should be given to the total category A earnings of £815. Then, to the total category F earnings of £41,660 as follows:

NIC Table letter	Earnings	Director's NICs	Company's NICs
A	£815 (earnings up to LEL)	NIL	NIL
F	£4,489 (balance of earnings up to LEL)	NIL	NIL
	£1,768 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£153 (balance of earnings between ST and PT)	0% = NIL	@12.4% = £18.97
	£32,815 (balance of earnings between PT and UAP)	@10.4% = £3,412.76	@12.4% = £4,069.06
	£2,435 (balance of earnings between UAP and UEL)	@12% = £292.20	@13.8% = £336.03
	Less rebates on £1,768	@1.6% = £28.29	@1.4% = £24.75
	Less employee only rebate on £153	@1.6% = £2.45	
	Total category F NICs payable	= £3,674.22	= £4,399.31

Mr Griffiths's P14 End of Year Summary would show:

National Insurance contributions in this employment			(Note: LEL = Lower Earnings Limit, PT = Primary Threshold, UAP = Upper Accrual Point, UEL = Upper Earnings Limit)			
NIC Table letter	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £s) From col. 1a on P11	Earnings above the LEL, up to and including the PT (whole £s) From col.1b on P11	Earnings above the PT, up to and including the UAP (whole £s) From col.1c on P11	Earnings above the UAP, up to and including the UEL (whole £s) From col.1d on P11	Total of employee's and employer's contributions From col.1e on P11	Employee's contributions due on all earnings above the PT From col.1f on P11
	1a £	1b £	1c £	1d £	1e £ . p	1f £ . p
F	5,304	1,921	32,815	2,435	8,073.53	3,674.22

Recording NICs information

64 Introduction

The normal rules about recording NICs information are in the Employer helpbooks.

65 If you have paid NICs before earnings exceed Primary Threshold

If NICs are paid on account before the total earnings exceed the annual (or pro rata annual) PT:

- record the NICs paid on form P11
- leave columns 1a to 1d of form P11 blank.

When the total earnings exceed the annual (or pro rata annual) PT, put the earnings details in columns 1a to 1d.

If you adjust the NICs later because the earnings do not exceed the annual (or pro rata annual) PT:

- amend the final entry on form P11
- if form P14 has been completed, destroy it and prepare another form P14
- adjust the final payment to your Accounts Office
- refund the NICs paid to the director.

66 If you pay NICs at the time they are due

You can use one of two methods to record director's NICs information on form P11.

Payment-by-payment method

If you use the payment-by-payment method to record NICs information, record on form P11:

- the actual NICs due each time a payment of earnings is made
- the actual earnings details in columns 1a to 1d, as appropriate, each time a payment of earnings is made
- all other NICs information.

In a contracted-out employment, depending on the level of the director's earnings and the NICs rebates due, it is possible for the amount of the company's NICs to be a negative figure. Under this particular method, if a further payment of earnings is subsequently made, adjust the company's NICs figure to reflect the actual amount now due after taking into account any previously 'over-recovered' rebate.

At the end of the tax year:

- add up the figures on form P11 as normal
- put the totals in the appropriate boxes on forms P11 and P14.

See the example of a completed form P11 on page 38.

Cumulative method

If you use the cumulative method to record NICs information, record on form P11:

- the cumulative NICs due each time a payment of earnings is made
- the cumulative earnings details in columns 1a to 1d, as appropriate, each time a payment of earnings is made
- all other cumulative NIC information. At the end of the tax year record the cumulative totals in the appropriate boxes on form P11.

Cumulative records can easily be converted to a payment-by-payment record by deducting the previous NIC information from the current NIC information.

See the example of a completed form P11 on page 40.

67 Earnings added together or change in the category of contribution payable

The examples in this booklet show how to record the earnings details in columns 1a to 1d of forms P11 and P14. See 'Change in category of contribution payable', paragraph 60 on page 23.

Remember to record the other NICs and tax information on forms P11 and P14.

68 If you use a computerised payroll system

Please make sure the total earnings have been accumulated in the data areas corresponding with columns 1a to 1d, as appropriate, of form P14.

If you use the cumulative method to record NICs information your system must be capable of:

- holding all the cumulative data
- producing printouts giving the NICs information on a payment-by-payment basis.

The examples in this booklet show how to record the earnings details in columns 1a to 1d of forms P11 and P14. See 'Change in category of contribution payable', paragraph 60 on page 23 onwards.

If columns 1a to 1d on form P14 should be left blank, record zeros in these data areas.

69 Do it online

PAYE Online for Employers

Using the PAYE online service is a simple, secure, fast and convenient way of exchanging information with us. It saves you time, cuts down on errors and can help you to reduce your administration and storage costs. You will also receive information such as employee tax codes quicker benefiting both you and your employees.

How to send and receive information online

There are various methods to choose from. You can use:

- a bookkeeper, agent or payroll bureau to file online on your behalf using our PAYE Online for Agents service
- a commercial software package which is capable of sending forms online. We have awarded a Payroll Standard accreditation to software products that meet our minimum standards.
(For a list of our accredited products go to www.hmrc.gov.uk/ebu/acclist.htm)
- our free PAYE Online for Employers Internet service
- Electronic Data Interchange (EDI). This is suitable for large employers who typically have employee numbers in the thousands or very high staff turnover.

If you have used the P11 Calculator on your Basic PAYE Tools to work out your payroll and have nine employees or fewer at 5 April, you can file your Employer Annual Return (P35 and P14s) online directly from the Tools. And, from 6 April, those same employers can send employee starter and leaver forms (P45, P46 and P46(Expat)) directly from the Tools.

Forms and returns you need to send online

Employers with 50 or more employees are already sending their employee starter and leaver forms (P45, P46, P46(Pen), P46(Expat)) online.

From April 2011 employers with fewer than 50 employees will also have to send their employee starter and leaver information online.

Almost all employers are required to file their Employer Annual Return (P35 and P14s) online, unless you are exempt. There are very few exceptions to this (see Employer Helpbook E10 *Finishing the tax year up to 5 April 2011* for more information). If you do not file your return online when required to do so, we may charge you a penalty.

How to register for online services

If you have still not filed online, the registration process will only take you a matter of minutes. But you will need to wait for an Activation PIN before you can start using the service. We will send you this by post within seven days of registration.

For more information about online filing, registration and the deadlines you need to meet, go to www.hmrc.gov.uk/payefile-or-payfileonline/intro.htm

Special circumstances

70 Directors who go to work abroad or come to work in the UK

This section provides brief guidelines about Class 1 NICs for directors living and/or working abroad.

There are different rules if the director goes to work in, or comes to work in the UK from:

- a European Economic Area (EEA) country or a country with which the UK has a Reciprocal Agreement with social security, or
- a country that is outside the EEA and with which the UK does not have a Reciprocal Agreement on social security.

European Economic Area countries

Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Italy
Latvia
Liechtenstein
Lithuania
Luxembourg
Malta
Netherlands
Norway
Poland
Portugal
Republic of Ireland
Romania
Slovakia
Slovenia
Spain
Sweden
Switzerland*

United Kingdom, including Gibraltar but not the Channel Islands or the Isle of Man.

**Switzerland is not a member of the EEA but has applied the European Community Regulations on social security since 1 June 2002.*

Countries with which the UK has a Reciprocal Agreement on social security

Barbados
Bermuda
Canada*
Israel
Jamaica
Japan**
Jersey and Guernsey
Korea**
Mauritius
New Zealand
Philippines
Turkey
USA
Bosnia-Herzegovina, Croatia, Macedonia and Serbia

**The Double Contributions Convention for Canada also covers benefit provisions.*

***The Double Contributions Conventions for Japan and the Republic of Korea only cover social security liability and do not cover benefits.*

The table opposite shows when a director may be liable to pay UK NICs when:

- coming to the UK to work, or
- going to work abroad. See the example of a completed form P11 on page 40.

Director goes to work abroad	<ul style="list-style-type: none"> • in an EEA country, or • a country with which the UK has a Reciprocal Agreement on social security 	<p>The general rule is that a director will pay contributions to the social security scheme of the country in which they are working. But, there are certain exceptions to this rule that mean the director could remain liable to pay UK NICs during the period of employment abroad.</p>	<p>For advice, please write to us at the following address</p> <p>HM Revenue & Customs National Insurance Contributions & Employer Office International Caseworker Room BP1301 Benton Park View Newcastle upon Tyne NE98 1ZZ</p> <p>Or, phone our helpline on:</p> <ul style="list-style-type: none"> • 0845 915 4811 if phoning from inside the UK, or • +44 191 203 7010 if phoning from abroad.
	<ul style="list-style-type: none"> • in a country outside the EEA, and • with which the UK does not have a Reciprocal Agreement on social security 	<p>If:</p> <ul style="list-style-type: none"> • the employer has a place of business in the UK • the director is ordinarily resident in the UK, and • immediately before the start of the employment abroad the director was resident in the UK <p>the director will be liable for UK NICs for the first 52 weeks of the employment abroad.</p>	

Director comes to work in the UK	<ul style="list-style-type: none"> • from an EEA country, or • from a country with which the UK has a Reciprocal Agreement on social security 	<p>The general rule is that a director will be liable to pay UK NICs unless they hold a <i>Certificate of coverage</i>. This is issued by the social security authority in the country from which the director has come. The <i>Certificate of coverage</i> will exempt the director from having to pay UK NICs.</p> <p>However, under certain circumstances, where the director has arrived from a country with which the UK has a Reciprocal Agreement on social security, they may be exempt from paying UK NICs even if they don't have a <i>Certificate of coverage</i> from the other country. See the table headed 'Special concession' below.</p>	<p>For advice, please phone our Individuals helpline on 0845 302 1479</p>
	<ul style="list-style-type: none"> • from a country outside the EEA, and • with which the UK does not have a Reciprocal Agreement on social security 	<p>If:</p> <ul style="list-style-type: none"> • the employer has a place of business in the UK • the director is ordinarily resident in the UK, and • immediately before the start of the employment abroad the director was resident in the UK <p>the director will be liable for UK NICs for the first 52 weeks of the employment abroad.</p>	

Special concession	<p>Director, who is neither resident or ordinarily resident in the UK:</p> <ul style="list-style-type: none"> • comes to work for a company in the UK • from a country outside the EEA, and • the only work the director does in the UK is to attend board meetings 	<p>We will not seek payment of UK NICs if:</p> <ul style="list-style-type: none"> • they attend no more than ten board meetings in a tax year and each visit to the UK during which a board meeting takes place lasts no more than two days, or • there is only one board meeting in a tax year and the visit to the UK during which that board meeting takes place lasts no more than two weeks. <p>This is not an example. If the director's attendance for board meetings does not fit the criteria above, the special concession will not apply.</p> <p>This concession does not apply to a director who comes to work in the UK from an EEA country.</p>	<p>For advice, please phone our Individuals helpline on 0845 302 1479</p>
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71 Joint employment of spouses and civil partners

A spouse or civil partner may get a joint payment of earnings as:

- two directors, or
- a director and an employee.

Earnings can be apportioned

If the earnings are divided or apportioned for Income Tax under employment income, divide or apportion the earnings for NICs purposes in the same way.

Earnings cannot be apportioned

If the earnings cannot be divided or apportioned, for example because there is no employment Income Tax scheme or the split is considered unreasonable or doubtful, contact us for advice.

72 Director supplying services through a limited company

Legislation, commonly known as 'IR35' legislation, came into effect on 6 April 2000 which affects directors who use a limited company to provide their service or services of others to clients. Under the legislation, a worker who would have been classed as an employee of the client if it were not for the service company, is required to pay NICs on the amounts earned by the company from the client (less certain deductions) even if the director draws those earnings from the service company as a dividend.

A company director is treated as a worker for the purposes of the legislation if they:

- have beneficial ownership of, or the ability to control, more than 5% of the ordinary share capital of the company, or
- have possession of, or entitlement to acquire right entitling them to receive more than 5% of any distributions made by the company, or
- receive, or could receive payments or benefits from the company which are not salary but could reasonably be taken to represent payment for the services they provide to clients.

The company is able to make certain deductions before working out the amount which is liable for NICs as the director's earnings. The company must work out at the end of the tax year, 5 April, just how much income received from contracts with clients has not been subjected to NICs and make the deductions then. This is known as the worker's attributable earnings for the year. The rules for determining whether a company director is subject to the legislation rely upon the existing factors used to determine a person's employment status. These factors, which have been established by the courts, determine whether an individual should be treated as employed or self-employed.

The factors which most people would recognise include whether the individual:

- risks their capital
- provides substantial equipment and materials
- works a fixed number of hours on the client's premises, under the direction of a manager and so on.

No single factor is conclusive and each engagement has to be looked at in the light of all the facts.

Full details of the rules are given on our website at www.hmrc.gov.uk which also explains how to account on forms P11 and P14 for any additional NICs payable under the legislation.

73 Managed Service Companies

Legislation, commonly known as Managed Service Company Legislation, came into effect on 6 April 2007. The legislation affects workers who provide their services through Managed Service Companies.

A Managed Service Company is a form of intermediary company through which workers provide their services to end clients. In essence, a scheme provider promotes the use of these companies and provides the structure to workers. The worker (although a shareholder) does not exercise control over the company.

The legislation does not apply to directors working through Personal Service Companies. However, these companies must consider IR35.

The Managed Service Company Legislation takes precedence over IR35 for Managed Service Companies. From 6 April 2007 a Managed Service Company must treat all payments received by the person providing their services through such companies as earnings from employment. The effect of this will be as follows.

- Income Tax (PAYE) will be due on all payments received by individuals providing their services through such companies.
- For the purpose of working out travel expenses the individual is treated as if they are working for the client. This means that travel expenses to the individual's place of work are not allowable tax-free.
- Class 1 NICs will also be due on all payments received by individuals in such companies.

Under the legislation, where a Managed Service Company incurs a PAYE or NICs debt that cannot be recovered from the company, we may transfer the debt to the Managed Service Company director personally, or to the person who provided the company to the worker. For more information go to

www.hmrc.gov.uk/employment-status/msc.htm

Statutory payments

74 Introduction

Directors of limited companies are treated like other employees for statutory payment purposes. However, there are special rules to working out their average weekly earnings.

For general information on how to operate the schemes, with check sheets for working out the average weekly earnings, see the helpbooks:

- E14(2011) *Employer Helpbook for Statutory Sick Pay*
- E15(2011) *Employer Helpbook for Statutory Maternity Pay*
- E16(2011) *Employer Helpbook for Statutory Adoption Pay*
- E19(2011) *Employer Helpbook for Ordinary and Additional Statutory Paternity Pay.*

Examples of PAYE form P11

Form P11 showing the payment-by-payment method of recording NICs. In the following example the director is paid a monthly salary of £1,425 in a Contracted-out Salary Related Scheme and you use the exact percentage method to work out the NICs due.

		National Insurance contributions																		
		Earnings details								Contribution details										
		Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the PT		Earnings above the PT, up to and including the UAP		Earnings above the UAP, up to and including the UEL		Total of employee's and employer's contributions - <i>mark minus amounts 'R'</i>		Employee's contributions due on all earnings above the PT								
Total earnings paid to date	Month number	Week number	1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p	1f	£	p	
	1	1																		
		2																		
		3																		
		4																		
	2	5																		
		6																		
		7																		
		8																		
	3	9																		
		10																		
		11																		
		12																		
		13																		
5700	4	14																		
		15																		
		16																		
		17	5304		396'00			0'00			0'00				R 20'99			0'00		
	5	18																		
		19																		
7125		20																		
		21			1425'00			0'00			0'00				R 133'64			0'00		
	6	22																		
		23																		
		24																		
8550		25																		
		26			100'00			1325'00			0'00				345'54			107'06		
	7	27																		
		28																		
		29																		
9975		30						1425'00			0'00				292'13			148'20		
			Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd			

If the contribution Table letter changed during this part of the tax year, please see Note 2 above.

If more than one contribution Table letter has been used during this employment, steps (1) to (4) should be applied separately to each Table letter.

(1) Add all amounts of NICs **not** marked 'R'.
 (2) Add all amounts of NICs marked 'R'.
 (3) Take away (2) from (1).
 (4) If (3) is a minus amount, mark the amount 'R' and carry forward to page 2.

P11 (2011-12)

National Insurance contributions

Note: LEL = Lower Earnings Limit; PT = Primary Threshold;
UAP = Upper Accrual Point; UEL = Upper Earnings Limit.

Total earnings paid to date	Month number	Week number	Earnings details				Contribution details							
			Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the PT		Earnings above the PT, up to and including the UAP		Earnings above the UAP, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'		Employee's contributions due on all earnings above the PT	
			1a	£	1b	£ p	1c	£ p	1d	£ p	1e	£ p	1f	£ p
	Bt/fwd Mth 7	Bt/fwd Wk 30	Bt/fwd		Bt/fwd		Bt/fwd		Bt/fwd		Bt/fwd		Bt/fwd	
		31												
		32												
		33												
11400	8	34												
		35			1425	00		0	00	292	12	148	20	
		36												
		37												
		38												
12825	9	39			1425	00		0	00	292	13	148	20	
		40												
		41												
		42												
14250	10	43			1425	00		0	00	292	12	148	20	
		44												
		45												
		46												
15675	11	47			1425	00		0	00	292	13	148	20	
		48												
		49												
		50												
17100	12	51			1425	00		0	00	292	12	148	20	
		52												
		§												

§ Complete this line if pay day falls on 5 April (in leap years 4 and 5 April)

End of Year Summary

Enter NI contribution Table letter here (see Note 2 overleaf)

Round down the annual total of the earnings recorded in columns 1b, 1c and 1d to the nearest whole pound

- (1) Add all amounts of NICs **not** marked 'R'.
 - (2) Add all amounts of NICs marked 'R'.
 - (3) Take away (2) from (1).
 - (4) Enter (3) in column 1e below - if this is a minus amount mark the entry as 'R'.
- If more than one contribution Table letter has been used during this employment, steps (1) to (4) should be applied separately to each Table letter.

	1a	£	1b	£	1c	£	1d	£	1e	£	p	1f	£	p
D	5304		1921		9875		0		1943	66		996	26	

P11(2011-12)

Form P11 showing the cumulative method of recording NICs. In the following example the director is paid a monthly salary of £1,500 in a not contracted-out employment and you adapt the monthly NICs tables to work out the NICs due.

		National Insurance contributions																		
		Earnings details								Contribution details										
		Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the PT		Earnings above the PT, up to and including the UAP		Earnings above the UAP, up to and including the UEL		Total of employee's and employer's contributions - <i>mark minus amounts 'R'</i>		Employee's contributions due on all earnings above the PT								
Total earnings paid to date	Month number	Week number	1a	£	1b	£	p	1c	£	p	1d	£	p	1e	£	p	1f	£	p	
	1	1																		
		2																		
		3																		
		4																		
	2	5																		
		6																		
		7																		
		8																		
	3	9																		
		10																		
		11																		
		12																		
		13																		
6000	4	14																		
		15																		
		16																		
		17	5304		696	00		0	00		0	00		0	00		0	00		0
7500	5	18																		
		19																		
		20																		
		21	5304		1921	00		275	00		0	00		89	64		31	68		
9000	6	22																		
		23																		
		24																		
		25																		
		26	5304		1921	00		1775	00		0	00		485	88		216	00		
10500	7	27																		
		28																		
		29																		
		30	5304		1921	00		3275	00		0	00		869	76		394	56		
			Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd		Total c/fwd			

If the contribution Table letter changed during this part of the tax year, please see Note 2 above.

If more than one contribution Table letter has been used during this employment, steps (1) to (4) should be applied separately to each Table letter.

(1) Add all amounts of NICs **not** marked 'R'.
 (2) Add all amounts of NICs marked 'R'.
 (3) Take away (2) from (1).
 (4) If (3) is a minus amount, mark the amount 'R' and carry forward to page 2.

P11 (2011-12)

National Insurance contributions

Note: LEL = Lower Earnings Limit; PT = Primary Threshold; UAP = Upper Accrual Point; UEL = Upper Earnings Limit.

Total earnings paid to date

		Month number	Week number	Earnings details				Contribution details							
				Earnings at the LEL (where earnings are equal to or exceed the LEL)		Earnings above the LEL, up to and including the PT		Earnings above the PT, up to and including the UAP		Earnings above the UAP, up to and including the UEL		Total of employee's and employer's contributions - mark minus amounts 'R'		Employee's contributions due on all earnings above the PT	
				1a	£	1b	£ p	1c	£ p	1d	£ p	1e	£ p	1f	£ p
		Bt/fwd		Bt/fwd		Bt/fwd		Bt/fwd		Bt/fwd		Bt/fwd			
		Bt/fwd Mth 7		Bt/fwd Wk 30		Bt/fwd Mth 7		Bt/fwd Wk 30		Bt/fwd Mth 7		Bt/fwd Wk 30			
			31												
			32												
			33												
			34												
12000		8	35	5304	1921 00	4775 00	0 00	1253 64	573 12						
			36												
			37												
			38												
13500		9	39	5304	1921 00	6275 00	0 00	1637 64	751 68						
			40												
			41												
			42												
15000		10	43	5304	1921 00	7775 00	0 00	2033 88	936 00						
			44												
			45												
			46												
16500		11	47	5304	1921 00	9275 00	0 00	2417 76	1114 56						
			48												
			49												
			50												
18000		12	51	5304	1921 00	10775 00	0 00	2801 64	1293 12						
			52												
			§												

§ Complete this line if pay day falls on 5 April (in leap years 4 and 5 April)

End of Year Summary

Enter NI contribution Table letter here (see Note 2 overleaf)

Round down the annual total of the earnings recorded in columns 1b, 1c and 1d to the nearest whole pound

- (1) Add all amounts of NICs **not** marked 'R'.
 - (2) Add all amounts of NICs marked 'R'.
 - (3) Take away (2) from (1).
 - (4) Enter (3) in column 1e below - if this is a minus amount mark the entry as 'R'.
- If more than one contribution Table letter has been used during this employment, steps (1) to (4) should be applied separately to each Table letter.

		1a	£	1b	£	1c	£	1d	£	1e	£	p	1f	£	p
A		5304		1921		10775		0		2801 64			1293 12		

P11(2011-12)

Quick guide to pro rata annual earnings periods

		Tax period						Appointed in tax week	No of weeks in pro rata period	Pro rata annual LEL	Pro rata annual ST	Pro rata annual PT	Pro rata annual UAP	Pro rata annual UEL	
		W	T	F	S	S	M								T
April		6	7	8	9	10	11	12	1	<i>Annual earnings period applies</i>					
		13	14	15	16	17	18	19	2	51	5202	6936	7087	39270	41659
		20	21	22	23	24	25	26	3	50	5100	6800	6948	38500	40842
		27	28	29	30	1	2	3	4	49	4998	6664	6809	37730	40025
May		4	5	6	7	8	9	10	5	48	4896	6528	6670	36960	39208
		11	12	13	14	15	16	17	6	47	4794	6392	6531	36190	38391
		18	19	20	21	22	23	24	7	46	4692	6256	6392	35420	37575
		25	26	27	28	29	30	31	8	45	4590	6120	6253	34650	36758
June		1	2	3	4	5	6	7	9	44	4488	5984	6114	33880	35941
		8	9	10	11	12	13	14	10	43	4386	5848	5975	33110	35124
		15	16	17	18	19	20	21	11	42	4284	5712	5836	32340	34307
		22	23	24	25	26	27	28	12	41	4182	5576	5697	31570	33490
July		29	30	1	2	3	4	5	13	40	4080	5440	5558	30800	32674
		6	7	8	9	10	11	12	14	39	3978	5304	5419	30030	31857
		13	14	15	16	17	18	19	15	38	3876	5168	5280	29260	31040
		20	21	22	23	24	25	26	16	37	3774	5032	5141	28490	30223
Aug		27	28	29	30	31	1	2	17	36	3672	4896	5002	27720	29406
		3	4	5	6	7	8	9	18	35	3570	4760	4863	26950	28589
		10	11	12	13	14	15	16	19	34	3468	4624	4725	26180	27773
		17	18	19	20	21	22	23	20	33	3366	4488	4586	25410	26956
Sept		24	25	26	27	28	29	30	21	32	3264	4352	4447	24640	26139
		31	1	2	3	4	5	6	22	31	3162	4216	4308	23870	25322
		7	8	9	10	11	12	13	23	30	3060	4080	4169	23100	24505
		14	15	16	17	18	19	20	24	29	2958	3944	4030	22330	23688
Oct		21	22	23	24	25	26	27	25	28	2856	3808	3891	21560	22872
		28	29	30	1	2	3	4	26	27	2754	3672	3752	20790	22055
		5	6	7	8	9	10	11	27	26	2652	3536	3613	20020	21238
		12	13	14	15	16	17	18	28	25	2550	3400	3474	19250	20421
Nov		19	20	21	22	23	24	25	29	24	2448	3264	3335	18480	19604
		26	27	28	29	30	31	1	30	23	2346	3128	3196	17710	18788
		2	3	4	5	6	7	8	31	22	2244	2992	3057	16940	17971
		9	10	11	12	13	14	15	32	21	2142	2856	2918	16170	17154
Dec		16	17	18	19	20	21	22	33	20	2040	2720	2779	15400	16337
		23	24	25	26	27	28	29	34	19	1938	2584	2640	14630	15520
		30	1	2	3	4	5	6	35	18	1836	2448	2501	13860	14703
		7	8	9	10	11	12	13	36	17	1734	2312	2363	13090	13887
Jan		14	15	16	17	18	19	20	37	16	1632	2176	2224	12320	13070
		21	22	23	24	25	26	27	38	15	1530	2040	2085	11550	12253
		28	29	30	31	1	2	3	39	14	1428	1904	1946	10780	11436
		4	5	6	7	8	9	10	40	13	1326	1768	1807	10010	10619
Feb		11	12	13	14	15	16	17	41	12	1224	1632	1668	9240	9802
		18	19	20	21	22	23	24	42	11	1122	1496	1529	8470	8986
		25	26	27	28	29	30	31	43	10	1020	1360	1390	7700	8169
		1	2	3	4	5	6	7	44	9	918	1224	1251	6930	7352
March		8	9	10	11	12	13	14	45	8	816	1088	1112	6160	6535
		15	16	17	18	19	20	21	46	7	714	952	973	5390	5718
		22	23	24	25	26	27	28	47	6	612	816	834	4620	4901
		29	1	2	3	4	5	6	48	5	510	680	695	3850	4085
March		7	8	9	10	11	12	13	49	4	408	544	556	3080	3268
		14	15	16	17	18	19	20	50	3	306	408	417	2310	2451
		21	22	23	24	25	26	27	51	2	204	272	278	1540	1634
		28	29	30	31	1	2	3	52	1	102	136	139	770	817
	4	5						53	1	102	136	139	770	817	

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