HM Revenue & Customs

CA44 (2017)

National Insurance contributions series

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.

Use from 6 April 2017

Help and guidance

You can get help and guidance from the following sources.

The internet

For help with your payroll, go to www.gov.uk/business-tax/paye

For wider interactive business help, go to www.gov.uk/set-up-business

Webinars are a way of learning about your payroll, such as 'Getting payroll information right'.

This webinar covers the most common errors that employees make when submitting information to HMRC. It shows you how to provide accurate data and avoid common payroll mistakes.

For more information on this and other webinars, go to www.gov.uk/government/news/webinars-emails-and-videos-on-employing-people

Any page printed from the online version of this helpbook is uncontrolled and may not be the latest version. We recommend that you always check you are referring to the latest online version.

Online services

For information and help using our online services, go to www.gov.uk/log-in-register-hmrc-online-services

For more help, contact the Online Services Helpdesk by:
- Telephone: 0300 200 3600
- Textphone: 0300 200 3603

Basic PAYE Tools

The Basic PAYE Tools is software that you download onto your computer. It will help you run your payroll throughout the year. It is designed for employers who have 9 or fewer employees, and you can use it to calculate payroll deductions and then report payroll information online in real time.

To find out more information about the Basic PAYE Tools and other HMRC recognised software, go to www.gov.uk/payroll-software

Employer helplines

If you have:
- been an employer for less than 3 years, Telephone: 0300 200 3211
- been an employer for 3 years or more, Telephone: 0300 200 3200
- a hearing or speech impairment, Textphone: 0300 200 3212

Please tell us your employer PAYE and Accounts Office references when you contact us.
You will find them on correspondence HMRC have sent to you.

Employer helpbooks and forms

Helpbooks and forms are available to download.
Go to www.gov.uk/government/collections/payroll-publications-for-employers

Yr Iaith Gymraeg

I lawrlwytho ffurflenni a llyfrynnau cymorth Cymraeg, ewch i www.gov.uk/cymraeg sgroliwch i lawr i'r pennawd 'Treth' a dilynwch y cysylltiadau 'Ffurflenni Cyllid a Thollau EM (CThEM)' ac 'Arweiniad a thaflenni gwybodaeth CThEM'.

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 Telephone: 0300 123 1074 and ask to speak to the Customer Service Team.

Education services from the Digital Delivery Team

Find out more about our live and recorded webinars, go to www.gov.uk/government/news/webinars-emails-and-videos-on-employing-people

To view our video clips, go to www.youtube.com/hmrcgovuk

Follow us on Twitter @HMRCbusiness: twitter.com/HMRCbusiness

Employer Bulletin online

Employer Bulletins contain information and news for employers. We publish these 6 times a year. Go to www.gov.uk/government/collections/hm-revenue-and-customs-employer-bulletin

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.hmrc.gov.uk/gds/payerti/forms-updates/forms-publications/register.htm

Do you use PAYE Online? Remember to keep our email address up to date

If you change your email address, don't forget to update PAYE Online to ensure you continue to receive email alerts when we have issued tax codes and generic notifications.

HM Revenue and Customs

If you have a query about your PAYE scheme:
- phone the Employer Helpline on Telephone: 0300 200 3200
- write to
  National Insurance Contributions and Employers Office
  HM Revenue and Customs
  BX9 1BX
  United Kingdom

Please tell us your employer PAYE and Accounts Office references when you contact us.
You will find them on correspondence HMRC have sent to you.

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.gov.uk/government/publications/your-charter

Contents

Introduction

1 About this booklet

This booklet:

- replaces the April 2016 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 can be found in the CWG2(2017), 'Employer Further Guide to PAYE and NICs'. Go to **www.gov.uk/government/publications/cwg2-further-guide-to-paye-and-national-insurance-contributions**

There are legal requirements that mean employers must comply with their obligations. At the time of writing, this guide sets out HMRC's view on how these legal requirements can be met. It will be updated annually and was last updated December 2016.

All the examples in this booklet:

- use the 2017 to 2018 NICs rates and limits
- are for illustration purposes only

If you are unhappy with our service
For information about our complaints procedures go to **www.gov.uk/complain-to-hm-revenue-and-customs**

2 Abolition of secondary NICs for employees under the age of 21

- From April 2015 the rate of employer Class 1 secondary NICs is 0% for employees under the age of 21 up to the 'Upper Secondary Threshold' (UST).
- Class 1 secondary NICs continue to be payable on all earnings above this threshold.
- The current way in which NICs is assessed remains unchanged.
- Employers should ensure that they hold the employee's correct date of birth.

For further information see CWG2 Chapter 3, paragraph 90.

2.1 Abolition of secondary NICs for apprentices under the age of 25

- From April 2016 the rate of Class 1 secondary NICs is 0% for apprentices under the age of 25 up to the 'Apprentice Upper Secondary Threshold' (AUST).
- Apprentices must follow a government recognised apprenticeship in the UK, one which follows government arrangements/approved frameworks, and have a written agreement, specifying the government recognised apprentice framework/standard, with a start and expected completion date. This is an agreement between the training provider, apprentice and employer and will be the evidence the employer needs to retain when applying the zero-rate of secondary Class 1 NICs for an apprentice under 25.
- Class 1 secondary NICs continue to be payable on all earnings above the AUST.
- The current way in which NICs is assessed remains unchanged.
- Employers should ensure that they hold the employee's correct date of birth.

For further information see CWG2 Chapter 3, paragraph 91.

2.2 National Insurance contributions (NICs) Employment Allowance

From 6 April 2016, you may be eligible to claim an Employment Allowance of up to £3,000. The Employment Allowance is available for businesses, charities (including community amateur sports clubs) and certain employers of care and support workers to offset against employer's secondary Class 1 NICs liability.

You can claim the Employment Allowance as part of the normal payroll process through Real Time Information (RTI) or the Basic PAYE Tools.

For more information, details of eligibility and how to claim the Employment Allowance see CWG2 Chapter 3, paragraph 89 and go to
www.gov.uk/claim-employment-allowance

2.3 Apprenticeship Levy

From April 2017 employers with annual pay bills greater than £3 million, and some connected companies and charities with pay bill less than this amount, will be required to pay the Apprenticeship Levy.
All employers (subject to the rules on connection) will have an annual levy allowance of £15,000 with which to offset against their levy liability.
This means that only employers with a pay bill of over £3 million will have to pay and report the levy. However, where the connection rules apply, a pay bill less than £3 million may attract a levy liability, depending on how the levy allowance is shared (connected companies and connected charities only have a single £15,000 levy allowance for the group).
The levy is charged at a rate of 0.5% of an employer's annual pay bill. Pay bill is defined as earnings which are liable to Class 1 secondary NICs, including earnings below the Secondary Threshold.

You will need to determine your levy liability.
For more information, see CWG2.

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 NICs purposes.

What is a company director liable for?
For NICs 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 on earnings.

5 What you should do

To assess NICs for company directors:

- use the correct NICs category letter for a director under the age of 21 - it is the responsibility of the employer to ensure they hold the director's correct date of birth and ensure they use the correct NI category letter
- use the correct NICs category letter for a director aged under 25 who is on an Approved Apprenticeship scheme - it is the responsibility of the employer to ensure they hold the director's correct date of birth and ensure they use the correct NICs category letter
- 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 1 payroll record unless this booklet tells you otherwise
- you can adapt the NICs tables to work out NICs (see paragraph 41 on page 12)
- you can use the exact percentage method to work out NICs (see paragraph 40 on page 12)

Alternatively
You can apply the arrangements for the assessment and payment of directors' NICs outlined in paragraphs 6 to 9 (see pages 3 to 8).

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 (on page 8), 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(2017), 'Employer Further Guide to PAYE and NICs'.

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 8).

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 NICs then due from the payment or, if the earnings are insufficient to cover the primary NICs 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

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 Earnings Limit (UEL)
- Upper Secondary Threshold (UST), and
- Apprentice Upper Secondary Threshold (AUST)

figures 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 2017 to 2018 tax year
Mr Armstrong is over the age of 21, is not an apprentice 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 – £490

Monthly PT – £680

Monthly ST – £680

Monthly UEL – £3,750

Monthly UST – £3,750

Monthly AUST – £3,750

Month 1

Earnings	Director's NICs	Company's NICs
£1,615	£112.20	£129.03

Record the NICs details on the payroll record.

By month 11
NICs paid are:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£17,765	£1,234.20	£1,419.33	£2,653.53

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:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£19,380	£1,345.92	£1,547.81	£2,893.73

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

NICs actually payable in month 12:

Director's NICs	Company's NICs
£111.72 (£1,345.92 – £1,234.20)	£128.48 (£1,547.81 – £1,419.33)

Mr Armstrong's final FPS for the year would show:

Data item	Description	
79	NI category	A
79A	Gross earnings for NICs year to date	£19,380
79B	Gross earnings for NICs pay period	£1,615
82	Earnings at the LEL year to date	£5,876
82A	Earnings at LEL to PT year to date	£2,288
169	Earnings at PT to UEL year to date	£11,216
86A	Employer NICs this pay period	£128.48
86Aa	Employer NICs year to date	£1,547.81
86B	Employee NICs this pay period	£111.72
86Ba	Employee NICs year to date	£1,345.92
84A	Director's method of calculation	AL/AN

Example for the 2017 to 2018 tax year
Mr Taylor is under the age of 21, is not an apprentice 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 – £490

Monthly PT – £680

Monthly ST – £680

Monthly UEL – £3,750

Monthly UST – £3,750

Monthly AUST – £3,750

Month 1

Earnings	Director's NICs	Company's NICs
£1,615	£112.20	£0

Record the NICs details on the payroll record.

By month 11
NICs paid are:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
M	£17,765	£1,234.20	£0	£1,234.20

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:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
M	£19,380	£1,345.92	£0	£1,345.92

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

NICs actually payable in month 12:

Director's NICs	Company's NICs
£111.72 (£1,345.92 – £1,234.20)	£0 (£0)

Mr Taylor's final FPS for the year would show:

Data item	Description	
79	NI category	M
79A	Gross earnings for NICs year to date	£19,380
79B	Gross earnings for NICs pay period	£1,615
82	Earnings at the LEL year to date	£5,876
82A	Earnings at LEL to PT year to date	£2,288
169	Earnings at PT to UEL year to date	£11,216
86A	Employer NICs this pay period	£0
86Aa	Employer NICs year to date	£0
86B	Employee NICs this pay period	£111.72
86Ba	Employee NICs year to date	£1,345.92
84A	Director's method of calculation	AL/AN

Example for the 2017 to 2018 tax year

Mr Morris is over the age of 21, is not an apprentice and receives a regular monthly salary of £1,160. He is also voted a bonus at the AGM on 3 June 2017 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 – £490

Monthly PT – £680

Monthly ST – £680

Monthly UEL – £3,750

Monthly UST – £3,750

Monthly AUST – £3,750

Month 1

Earnings	Director's NICs	Company's NICs
£1,160	£57.60	£66.24

Record the NICs details on the payroll record.

Month 3

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

Earnings	Director's NICs	Company's NICs
£11,160	£516.60	£1,446.24

Record the NICs details on the payroll record.

By Month 11

NICs paid are:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£22,760	£1,092.60	£2,108.64	£3,201.24

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:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£23,920	£1,890.72	£2,174.33	£4,065.05

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

NICs payable in month 12:

Director's NICs	Company's NICs
£798.12	£65.69
(£1,890.72 – £1,092.60)	(£2,174.33 – £2,108.64)

Mr Morris's final FPS for the year would show:

Data item	Description	
79	NI category	A
79A	Gross earnings for NICs year to date	£23,920
79B	Gross earnings for NICs pay period	£1,160
82	Earnings at the LEL year to date	£5,876
82A	Earnings at LEL to PT year to date	£2,288
169	Earnings at PT to UEL year to date	£15,756
86A	Employer NICs this pay period	£65.69
86Aa	Employer NICs year to date	£2,174.33
86B	Employee NICs this pay period	£798.12
86Ba	Employee NICs year to date	£1,890.72
84A	Director's method of calculation	AL/AN

Example for the 2017 to 2018 tax year

Mr Johnson is under the age of 21, is not an apprentice and receives a regular monthly salary of £1,160. He is also voted a bonus at the AGM on 3 June 2017 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 – £490

Monthly PT – £680

Monthly ST – £680

Monthly UEL – £3,750

Monthly UST – £3,750

Monthly AUST – £3,750

Month 1

Earnings	Director's NICs	Company's NICs
£1,160	£57.60	£0

Record the NICs details on the payroll record.

Month 3

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

Earnings	Director's NICs	Company's NICs
£11,160	£516.60	£1,022.58

Record the NICs details on the payroll record.

By Month 11

NICs paid are:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
M	£22,760	£1,092.60	£1,022.58	£2,115.18

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:

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
M	£23,920	£1,890.72	£0	£1,890.72

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

NICs payable in month 12:

Director's NICs	Company's NICs
£798.12	£1,022.58
(£1,890.72 – £1,1092.60)	(£0 – £1,022.58)

Mr Johnson's final FPS for the year would show:

Data item	Description	
79	NI category	M
79A	Gross earnings for NICs year to date	£23,920
79B	Gross earnings for NICs pay period	£1,160
82	Earnings at the LEL year to date	£5,876
82A	Earnings at LEL to PT year to date	£2,288
169	Earnings at PT to UEL year to date	£15,756
86A	Employer NICs this pay period	-£1,022.58
86Aa	Employer NICs year to date	£0
86B	Employee NICs this pay period	£798.12
86Ba	Employee NICs year to date	£1,890.72
84A	Director's method of calculation	AL/AN

8 What to do if the director receives a bonus or the category of NICs 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.

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
- 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, Primary Threshold (PT), Secondary Threshold (ST), Upper Earnings Limit (UEL), Upper Secondary Threshold (UST) and Apprentice Upper Secondary Threshold (AUST)

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

The director and the company pay NICs at the appropriate percentage rate on all earnings above the PT and ST respectively, up to and including the Upper Earnings Limit (UEL) , the Upper Secondary Threshold (UST) for those directors under the age of 21 or the Apprentice Upper Secondary Threshold (AUST) for those directors who are apprentices under the age of 25.

If the director's total earnings reach or exceed the UEL/UST/AUST, the director pays NICs only at a rate of 2% on any earnings which exceed the UEL/UST/AUST. The company pays NICs at the appropriate percentage rate on all earnings above the ST, including those which exceed the UEL/UST/AUST. The annual earnings limits and thresholds are the same as for other employees.

For more information about National Insurance rates and thresholds go to **www.gov.uk/national-insurance-rates-letters**

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 6 on page 3 for information regarding alternative arrangements for the assessment of director's NICs.

See paragraph 25 on page 10 for details of how to work out pro rata annual earnings limits, PT, ST and UEL/UST/AUST.

12 Primary Threshold (PT)

If the director has:

- an annual earnings period, no NICs are due from the 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 25 on page 10 for details of how to work out pro rata annual earnings limits, PT, ST and UEL/UST/AUST.

13 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 25 on page 10 for details of how to work out pro rata annual earnings limits, PT, ST and UEL/UST/AUST.

14 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.

15 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.

From April 2015, a secondary rate of 0% was introduced for those directors under the age of 21 with earnings between the ST and the UST. The secondary rate of 0% also applies from April 2016 to directors who are apprentices aged under 25 with earnings between the ST and AUST.

16 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.

For those directors above the age of 21, the company pays NICs at the appropriate percentage rate on all earnings above the ST, including those which exceed the UEL.

See paragraph 25 on page 10 for details of how to work out pro rata annual earnings limits, PT, ST and UEL/UST/AUST.

16.1 Upper Secondary Threshold (UST)

For those directors under the age of 21, the company pays secondary NICs at the rate of 0% on earnings between the ST and the UST. The standard rate of 13.8% will continue to be paid on earnings above the UST.

There is no change to the director's primary NICs.

See paragraph 25 on page 10 for details of how to work out pro rata annual earnings limits, PT, ST and UEL/UST/AUST.

16.2 Apprentice Upper Secondary Threshold (AUST)

For those directors who are apprentices under the age of 25, the company pays secondary NICs at the rate of 0% on earnings between the ST and the AUST. The standard rate of 13.8% will continue to be paid on earnings above the AUST.

There is no change to the directors primary NICs.

See paragraph 25 on page 10 for details of how to work out pro rata annual earnings limits, PT, ST and UEL/UST/AUST.

17 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

For more information about National Insurance rates and thresholds go to **www.gov.uk/guidance/rates-and-thresholds-for-employers-2017-to-2018**

18 Directors paying reduced rate NICs

If the director is a married woman or widow who is entitled to pay reduced rate NICs and wants 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.

19 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 will need to obtain sight of the director's birth certificate or passport as evidence of their date of birth, both of which can be copied and kept on file as proof that Class 1 NICs are not payable.

20 Company's NICs

The director and company pay NICs at the appropriate standard percentage rate.

If the director pays reduced rate NICs, the company pays NICs as normal at the appropriate percentage rate.

If the director is over State Pension age, the company pays NICs at the appropriate percentage rate.

If the director is under the age of 21, the rate of secondary NICs is 0% between the ST and the UST.

If the director is an apprentice under the age of 25, the rate of secondary NICs is 0% between the ST and the AUST.

21 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

22 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.

23 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 PT
- pro rata annual ST
- pro rata annual UEL
- pro rata annual UST
- pro rata annual AUST

See the 'Quick guide to pro rata annual earnings periods' on page 27.

24 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 1 week.

See the 'Quick guide to pro rata annual earnings periods' on page 27.

25 Working out the pro rata earnings limits, Primary Threshold, Secondary Threshold, Upper Earnings limit/Upper Secondary Threshold and Apprentice Upper Secondary Threshold

To work out the:

- LEL, multiply the weekly LEL by the number of tax weeks in the pro rata earnings period
- 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
- 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
- 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
- UST, divide the annual UST 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
- AUST, divide the annual AUST 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 27.

26 Director resigns during the tax year

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

27 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

28 What is included?

CWG2(2017), '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(2017), '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.

29 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.

30 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 director and the company when the payments exceed the annual (or pro rata annual) PT and ST 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 PT and ST 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) PT and ST 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 NICs 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 NICs 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(2017), '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

31 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 director and from the company if the payments exceed the annual (or pro rata annual) PT and ST respectively which applies when the fees are actually made available to the director.

Use the NICs rates which relate to that earnings period.

32 Payments under the Employment Rights Act 1996 – in Northern Ireland, Employment Rights (Nothern 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

33 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).

34 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.

35 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.

36 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

37 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 standard rate

Working out NICs

38 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.

39 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 1 of these methods for a director in a tax year or pro rata period.

40 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 by the appropriate 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) PT, up to and including the annual (or pro rata annual) UEL by the appropriate 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) 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 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, for employees over the age of 21, multiply those earnings which exceed the annual (or pro rata annual) ST up to and including the annual (or pro rata annual) UEL by the appropriate 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) UEL by the appropriate 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.

41 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.

42 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 PT, no NICs are due
  - more than the monthly PT, 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.

43 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

44 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 PT, no NICs are due
  - more than the weekly PT, 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

45 Introduction

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

46 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.

47 What to do when NICs have been paid on account

If NICs have been paid on account as in paragraph 46, pay and report those NICs in the normal way.

48 What to do if earnings do not reach expected level

If the total earnings do not reach the PT, see paragraph 61 on page 22.

More than 1 job

49 Introduction

See CWG2(2017), 'Employer Further Guide to PAYE and NICs' for the basic rules if the director:

- has more than 1 job with entirely different employers
- 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 NICs

This section describes the additional rules for directors.

50 More than 1 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
- fill in 1 payroll record

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
- fill in 2 payroll records

For more information go to **www.gov.uk/what-to-do-if-your-employee-has-more-than-1-job**

51 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 2 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
- fill in 1 payroll record

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
- fill in separate payroll records for each job

52 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 1 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 1 payment of earnings is made for all the duties, usually the parent company:
- pays the NICs
- fills in 1 payroll record

If earnings are paid by more than 1 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
- fills in 1 payroll record

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
- fill in separate payroll records for each job

53 1 payment of earnings covering more than 1 job

Consider first if the companies are carrying on business in association with each other when a director gets paid by only 1 company but is a director of:
- more than 1 company
- 1 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
- fills in 1 payroll record

Go to **www.gov.uk/what-to-do-if-your-employee-has-more-than-1-job** if payments are recorded and reported under separate payroll identities.

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
- 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 PT, work out NICs on them
- fill in a separate payroll record for each job

At the end of the tax year put:
- 'X' for the NICs category letter on any payroll record when the payment for the tax year does not reach the LEL
- the appropriate NICs category letter on any other payroll record

54 Professional advisers

Some directors have more than 1 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)
- 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
- 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.

55 HM Revenue and 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.

56 Nominee directors

Some directors have more than 1 job because they are nominated to serve on the boards of other companies as 'nominee directors'.

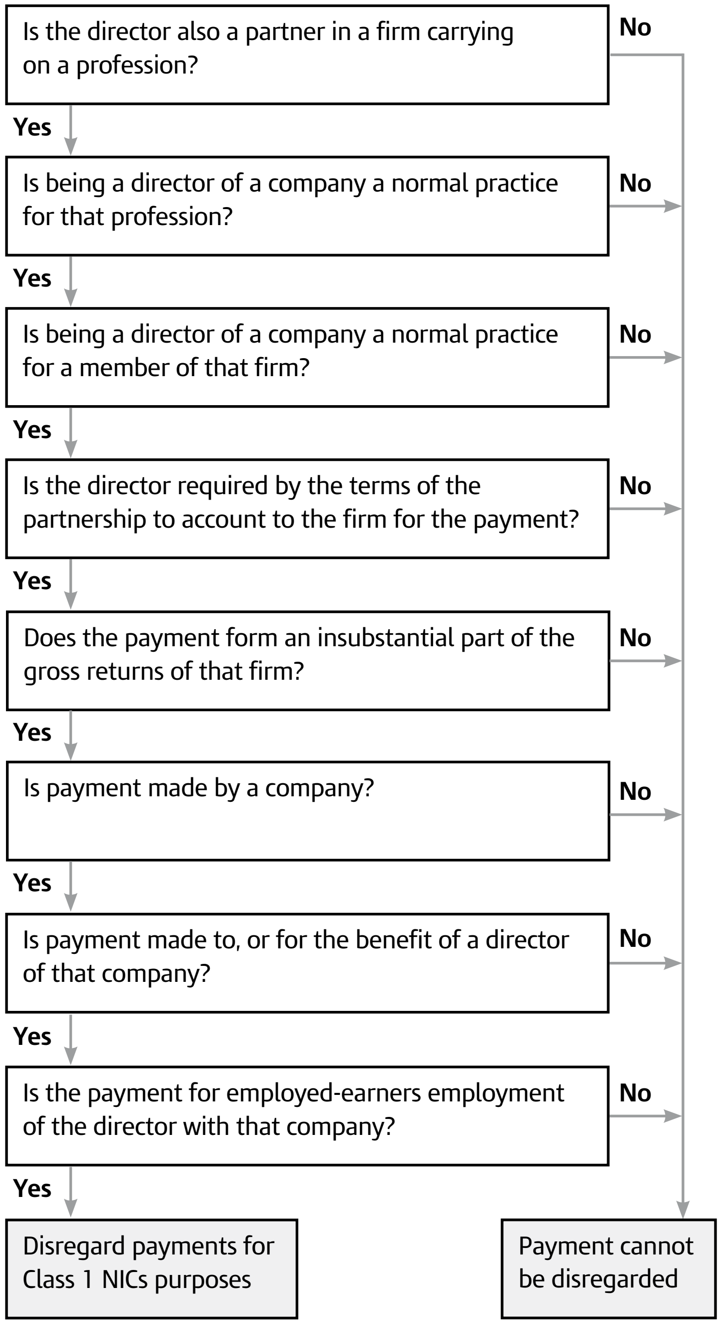
Payments made by the companies employing 'nominee directors' are not included in directors' earnings if:
- the nature of the payment satisfies certain tests (see 'The nature of payment tests' below)
- 1 of 2 sets of conditions are satisfied (see 'Set of conditions 1' or 'Set of conditions 2' on the next 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 NICs purposes, the payment must be a payment:
- by a company
- to, or for the benefit of a director of that company
- 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 16.

Set of conditions 2

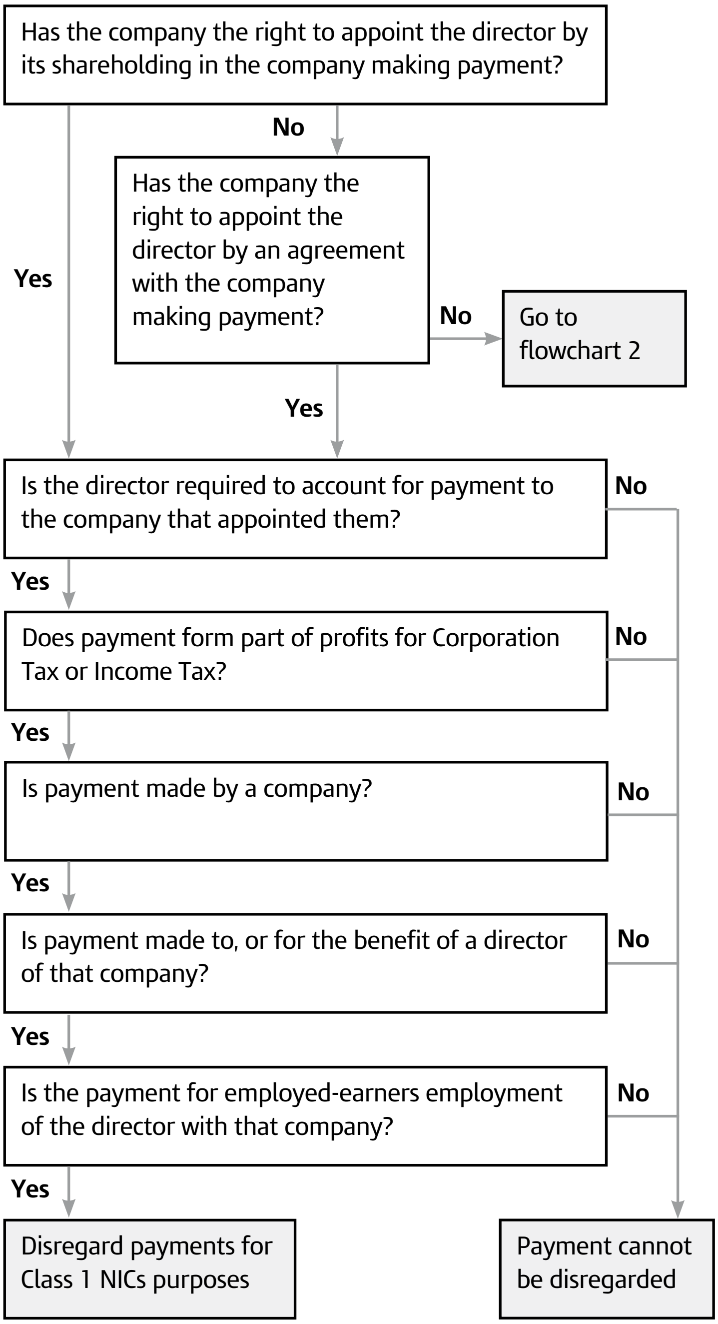
All of these conditions must be satisfied.

- 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.

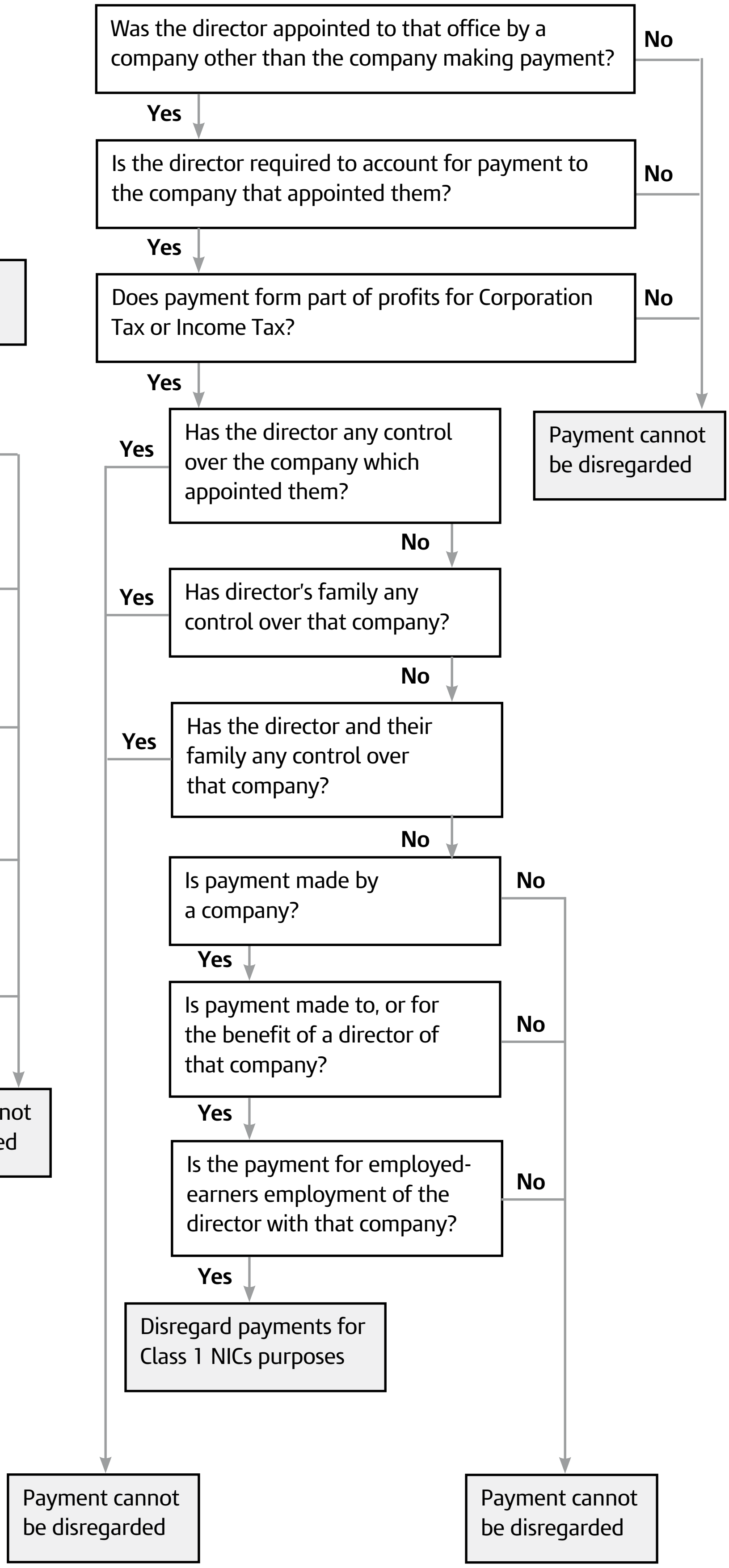
* 'Family' means spouse, civil partner, parent, child, son-in-law or daughter-in-law.

See 'Nominee director's flowchart 2' on page 16.

Nominee director's flowchart 1



Nominee director's flowchart 2



Change in category of National Insurance contributions (NICs) payable

57 Introduction

Category of NICs means the NICs category letter under which NICs are payable.

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

- reach the age of 21
- reach State Pension age
- revoke or lose the right to pay reduced rate NICs
- are an apprentice on an approved scheme who reaches the age of 25

If the category of NICs 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 NICs changes.

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

- Firstly, on earnings on which reduced rate NICs are payable under category letter B.
- Then, on earnings on which standard rate NICs are payable under category letter A, or category letter M where the director is under the age of 21, or category letter H where the director is an apprentice under the age of 25.

58 Director reaches age 21

If the director reaches the age of 21 during the tax year or pro rata period:

- the category of NICs payable will change from category letter M to category letter A
- the director pays NICs as normal throughout the tax year or pro rata period - reaching age 21 does not affect the amount of primary NICs due
- the company pays NICs on earnings paid or due to be paid
  - before the director reaches the age of 21, at 0% on earnings between the ST and the UST and then at 13.8% on earnings above the UST
  - on, or after the director reaches the age of 21, at the appropriate percentage rate(s), on earnings above the ST

58.1 Director is an apprentice on an approved scheme reaches age 25

If the director is an apprentice on an approved training scheme and reaches the age of 25 during the tax year or pro rata period:

- the category of NICs payable will change from category letter H to category letter A
- the director pays NICs as normal throughout the tax year or pro rata period - reaching age 25 does not affect the amount of primary NICs due
- the company pays NICs on earnings paid or due to be paid
  - before the director reaches the age of 25, at 0% on earnings between the ST and the AUST and then at 13.8% on earnings above the AUST
  - on, or after the director reaches the age of 25, at the appropriate percentage rate(s), on earnings above the ST

Example for the 2017 to 2018 tax year
Mr Williams was appointed a director of Heltwyll Bay on 1 June 2015. He is 21 on 13 August 2017.

Total earnings for the 2017 to 2018 tax year = £11,480.

£8,480 was paid before 13 August 2017.

Annual LEL – £5,876
Annual PT – £8,164
Annual ST – £8,164
Annual UEL – £45,000
Annual UST – £45,000
Annual AUST – £45,000
Priority should be given to the total category M earnings of £8,480. Then, to the total category A earnings of £3,000 as follows:

NICs category letter	Earnings	Director's NICs	Company's NICs
M	£5,876 (earnings up to LEL)	NIL	NIL
	£2,288 (balance of earnings between LEL and PT/ST)	@0% = NIL	@0% = NIL
	£316 (balance of earnings between PT/ST and UST)	@12% = £37.92	@0% = NIL
	Total category M NICs payable	= £37.92	= NIL
A	£3,000 (balance of earnings between PT/ST and UEL)	12% = £360	@13.8% = £414

Mr Williams's final FPS for the year would show:

Data item	Description		
79	NI category	M	A
79A	Gross earnings for NICs year to date	£8,480	£3,000
79B	Gross earnings for NICs pay period	£0	actual
82	Earnings at the LEL year to date	£5,876	£0
82A	Earnings at LEL to PT year to date	£2,288	£0
169	Earnings at PT to UEL year to date	£316	£3,000
86A	Employer NICs this pay period	actual	actual
86Aa	Employer NICs year to date	£0	£414
86B	Employee NICs this pay period	£0	actual
86Ba	Employee NICs year to date	£37.92	£360
84A	Director's method of calculation	AL/AN	

58.2 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 category letter C
- 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),
  - on, or after State Pension age, at the appropriate percentage rate

Example for the 2017 to 2018 tax year

Mr Roberts was appointed a director of Heltwyll Bay on 1 June 1980. He is 65 on 13 August 2017.

Total earnings for the 2017 to 2018 tax year = £11,480.

£8,480 was paid before 13 August 2016.

Annual LEL – £5,876
Annual PT – £8,164
Annual ST – £8,164
Annual UEL – £45,000
Annual UST – £45,000
Annual AUST – £45,000

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

NICs category letter	Earnings	Director's NICs	Company's NICs
A	£5,876 (earnings up to LEL)	NIL	NIL
	£2,288 (balance of earnings between LEL and PT/ST)	@0% = NIL	@0% = NIL
	£316 (balance of earnings between PT/ST and UEL)	@12% = £37.92	@13.8% = £43.61
	Total category A NICs payable	= £37.92	= £43.61
C	£3,000 (balance of earnings between PT/ST and UEL)	NIL	@13.8% = £414

Mr Roberts's final FPS for the year would show:

Data item	Description		
79	NI category	A	C
79A	Gross earnings for NICs year to date	£8,480	£3,000
79B	Gross earnings for NICs pay period	£0	actual
82	Earnings at the LEL year to date	£5,876	£0
82A	Earnings at LEL to PT year to date	£2,288	£0
169	Earnings at PT to UEL year to date	£316	£3,000
86A	Employer NICs this pay period	£0	actual
86Aa	Employer NICs year to date	£43.61	£414
86B	Employee NICs this pay period	£0	£0
86Ba	Employee NICs year to date	£37.92	£0
84A	Director's method of calculation	AL/AN	

59 Married woman's 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 to A.

If the total earnings paid, both before and after the change, are less than the annual (or pro rata annual) PT or ST, no NICs are due from the director or the company. 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 percentage rate(s) on all those earnings which exceed the annual (or pro rata annual) ST

Example for the 2017 to 2018 tax year

Mrs Brown, a director since 12 July 1988, revokes her election on 12 January 2018. She earns £45,000 before the change and £8,000 afterwards.

Annual LEL = £5,876
Annual PT = £8,164
Annual ST = £8,164
Annual UEL = £45,000

Priority should be given to the total category B earnings of £45,000 then, to the total category A earnings of £8,000 as follows:

NICs category letter	Earnings	Director's NICs	Company's NICs
B	£5,876 (earnings up to LEL)	NIL	NIL
	£2,288 (balance of earnings between LEL and PT/ST)	@0% = NIL	@0% = NIL
	£36,836 (balance of earnings between PT/ST and UEL)	@5.85% = £2,154.91	@13.8% = £5,083.37
	Total category B NICs payable	= £2,154.91	= £5,083.37
A	£8,000 (earnings over UEL)	@2.0% = £160	@13.8% = £1,104

Mrs Brown's final FPS for the year would show:

Data item	Description		
79	NI category	B	A
79A	Gross earnings for NICs year to date	£45,000	£8,000
79B	Gross earnings for NICs pay period	£0	actual
82	Earnings at the LEL year to date	£5,876	£0
82A	Earnings at LEL to PT year to date	£2,288	£0
169	Earnings at PT to UEL year to date	£36,836	£0
86A	Employer NICs this pay period	actual	actual
86Aa	Employer NICs year to date	£5,083.37	£1,104
86B	Employee NICs this pay period	actual	actual
86Ba	Employee NICs year to date	£2,154.91	£160
84A	Director's method of calculation	AL/AN	

The NICs under category letter A are included in the NICs under category letter B.
A separate category letter A entry is not required. Where, after recalculation, a category letter is no longer needed, any previously reported year to date figures should be zeroed out.

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, on the balance of earnings 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 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, on 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 any earnings which exceed the UEL.

The company pays NICs at the appropriate percentage rate(s) on all those earnings which exceed the annual (or pro rata annual) ST.

Example for the 2017 to 2018 tax year
Mrs Cross's marriage ends in divorce on 8 August 2017.

She earns £30,000 in the 2017 to 2018 tax year,

£10,000 paid before 8 August 2017.

Annual LEL = £5,876
Annual PT = £8,164
Annual ST = £8,164
Annual UEL = £45,000

Priority should be given to the total category B earnings of £10,000. Then, to the total category A earnings of £20,000 as follows:

NICs category letter	Earnings	Director's NICs	Company's NICs
B	£5,876 (earnings up to LEL)	NIL	NIL
	£2,288 (balance of earnings between LEL and PT/ST)	@0% = NIL	@0% = NIL
	£1,836 (balance of earnings between PT/ST and UEL)	@5.85% = £107.41	@13.8% = £253.37
	Total category B NICs payable	= £107.41	= £253.37
A	£20,000 (balance of earnings between PT/ST and UEL)	@12% = £2,400	@13.8% = £2,760

Mrs Cross's final FPS for the year would show:

Data item	Description		
79	NI category	B	A
79A	Gross earnings for NICs year to date	£10,000	£20,000
79B	Gross earnings for NICs pay period	£0	actual
82	Earnings at the LEL year to date	£5,876	£0
82A	Earnings at LEL to PT year to date	£2,288	£0
169	Earnings at PT to UEL year to date	£1,836	£20,000
86A	Employer NICs this pay period	£0	actual
86Aa	Employer NICs year to date	£253.37	£2,760
86B	Employee NICs this pay period	£0	actual
86Ba	Employee NICs year to date	£107.41	£2,400
84A	Director's method of calculation	AL/AN	

Recording NICs information

60 Introduction

The normal rules about recording NICs information can be found:

- at **www.gov.uk/topic/business-tax/paye**
- in the CWG2(2017), 'Employer Further Guide to PAYE and NICs'

61 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 earnings and NICs paid on the payroll record. If you adjust the NICs later because the earnings do not exceed the annual (or pro rata annual) PT:

- amend the final entry on the payroll record
- adjust the final payment to your accounts office
- refund the NICs paid to the director

62 Paying NICs at the time they are due

You can use 1 of 2 methods to record director's NICs information on the payroll record.

Payment-by-payment method

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

- the actual NICs due each time a payment of earnings is made
- the actual earnings details as appropriate, each time a payment of earnings is made
- all other NICs information

At the end of the tax year:

- add up the figures on the payroll record as normal
- record the totals

Cumulative method

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

- the cumulative NICs due each time a payment of earnings is made
- the cumulative earnings as appropriate, each time a payment of earnings is made
- all other cumulative NICs information at the end of the tax year record the cumulative totals

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

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

The examples in this booklet show how to record the earnings details. See 'Change in category of contribution payable', paragraph 57 on page 17.

Remember to record the other NICs and tax information on your payroll records.

64 If you use a computerised payroll system

Please make sure the total earnings have been accumulated in the appropriate data areas.

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. See 'Change in category of contribution payable', paragraph 57 on page 17 onwards.

PAYE Online for Employers

65 Do it online

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. When using the online service, you will be able to see your PAYE tax position, including Class 1 NICs payments and outstanding amounts for 2010 to 2011 and later tax years. 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
- 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

For more information go to **www.gov.uk/topic/business-tax/paye**

Forms and returns you need to send online
Almost all employers must report their payroll information online using a Full Payment Submission (FPS) for each pay period. There are however, a small number of employers who may be:

- exempt from submitting this information online
- unable due to exceptional circumstances to submit information online

There are very few exceptions. For more information about the exceptions go to **www.gov.uk/topic/business-tax/paye**

How to register for online services
If you have not yet registered for online filing, the registration process will only take you a matter of minutes. But you will need to wait for an Activation Code 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.gov.uk/paye-online**

Special circumstances

66 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

Croatia

Cyprus

Czech Republic

Denmark

Estonia

Finland

France

Germany

Greece

Hungary

Iceland

Ireland

Italy

Latvia

Liechtenstein

Lithuania

Luxembourg

Malta

Netherlands

Norway

Poland

Portugal

Romania

Slovakia

Slovenia

Spain

Sweden

Switzerland*

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

*From 1 April 2012 EC Regulation 883/2004 was extended to cover Switzerland. HMRC now treats Switzerland as being another EU member state for social security purposes.

Countries with which the UK has a reciprocal agreement on social security

Barbados

Bermuda

Canada*

Chile**

Israel

Jamaica

Japan**

Jersey and Guernsey

Korea**

Mauritius

New Zealand

Philippines

Turkey

USA

Bosnia-Herzegovina, Macedonia, Serbia, Montenegro and Kosovo

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

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

The table on page 25 shows when a director may be liable to pay UK NICs when:
- coming to the UK to work, or
- going to work abroad

<table>
<tr><td rowspan="2">Director goes to work abroad</td><td>in an EEA country,
or
a country with which the UK has a reciprocal agreement on social security</td><td>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.</td><td rowspan="2">For more information go to www.gov.uk/national-insurance-if-you-go-abroad</td></tr>
<tr><td>in a country outside the EEA, and
with which the UK does not have a reciprocal agreement on social security</td><td>If:
the employer has a place of business in the UK
the director is ordinarily resident in the UK
immediately before the start of the employment abroad the director was resident in the UK
the director will be liable for UK NICs for the first 52 weeks of the employment abroad.</td></tr>
</table>

<table>
<tr><td rowspan="2">Director comes to work in the UK</td><td>from an EEA country, or
from a country with which the UK has a reciprocal agreement on social security</td><td>The general rule is that a director will be liable to pay UK NICs unless they hold a Certificate of coverage. This is issued by the social security authority in the country from which the director has come. The Certificate of coverage will exempt the director from having to pay UK NICs.

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 Certificate of coverage from the other country. See the table headed 'Special concession' below.</td><td rowspan="2">For more information go to www.gov.uk/new-employee-coming-to-work-from-abroad or phone our Employer Helpline on 0300 200 3200</td></tr>
<tr><td>from a country outside the EEA, and
with which the UK does not have a Reciprocal Agreement on social security</td><td>If:
the employer is based in a country outside the EEA or with which the UK does not have a reciprocal agreement on social security
the director is ordinarily neither resident nor employed in the UK
the director will not be liable for UK NICs for the first 52 weeks of their employment in the UK.</td></tr>
</table>

<table>
<tr><td>Special concession</td><td>Director, who is neither resident or ordinarily resident in the UK:
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</td><td>We will not seek payment of UK NICs if:
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 2 nights
there is only 1 board meeting in a tax year and the visit to the UK during which that board meeting takes place lasts no more than 2 weeks
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.

This concession does not apply to a director who comes to work in the UK from an EEA country.</td><td>For more information go to www.gov.uk/new-employee-coming-to-work-from-abroad or phone our Employer Helpline on 0300 200 3200</td></tr>
</table>

67 Joint employment of spouses and civil partners

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

- 2 directors
- 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.

68 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, when a worker is an office-holder or would have been classed as an employee or office-holder of the client if it were not for the service company, 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.

The IR35 legislation will apply when a worker:

- has beneficial ownership of, or the ability to control, more than 5% of the ordinary share capital of the company
- has possession of, or entitlement to acquire right entitling them to receive more than 5% of any distributions made by the company
- receives, 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
- has rights that would enable them to receive or acquire more than 5% of the assets available for distribution in the event of a closed company being wound up

The company is able to make certain deductions before working out the amount which is liable for NICs as the director's deemed 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 (because they would be regarded as an employee if their limited company did not exist) 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.

The Managed Service Company legislation takes precedence over IR35 for Managed Service Companies.

Full details of the rules and how to apply IR35 legislation can be found at **www.gov.uk/ir35-find-out-if-it-applies**

69 Managed Service Companies

Legislation, commonly known as Managed Service Company 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) and Class 1 NICs 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.

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.gov.uk/hmrc-internal-manuals/employment-status-manual/esm3500**

Statutory payments

70 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 go to **www.gov.uk/browse/employing-people/time-off**

Quick guide to pro rata annual earnings periods

	Tax period							Appointed in tax week number	Number of weeks in pro rata period	Pro rata annual LEL	Pro rata annual PT	Pro rata annual ST	Pro rata annual UEL	Pro rata annual UST	Pro rata annual AUST
	T	F	S	S	M	T	W								
April	6	7	8	9	10	11	12	1	Annual earnings period applies						
	13	14	15	16	17	18	19	2	51	5763	8007	8007	44135	44135	44135
	20	21	22	23	24	25	26	3	50	5650	7850	7850	43270	43270	43270
	27	28	29	30	1	2	3	4	49	5537	7693	7693	42404	42404	42404
May	4	5	6	7	8	9	10	5	48	5424	7536	7536	41539	41539	41539
	11	12	13	14	15	16	17	6	47	5311	7379	7379	40674	40674	40674
	18	19	20	21	22	23	24	7	46	5198	7222	7222	39808	39808	39808
	25	26	27	28	29	30	31	8	45	5085	7065	7065	38943	38943	38943
June	1	2	3	4	5	6	7	9	44	4972	6908	6908	38077	38077	38077
	8	9	10	11	12	13	14	10	43	4859	6751	6751	37212	37212	37212
	15	16	17	18	19	20	21	11	42	4746	6594	6594	36347	36347	36347
	22	23	24	25	26	27	28	12	41	4633	6437	6437	35481	35481	35481
	29	30	1	2	3	4	5	13	40	4520	6280	6280	34616	34616	34616
July	6	7	8	9	10	11	12	14	39	4407	6123	6123	33750	33750	33750
	13	14	15	16	17	18	19	15	38	4294	5966	5966	32885	32885	32885
	20	21	22	23	24	25	26	16	37	4181	5809	5809	32020	32020	32020
	27	28	29	30	31	1	2	17	36	4068	5652	5652	31154	31154	31154
Aug	3	4	5	6	7	8	9	18	35	3955	5495	5495	30289	30289	30289
	10	11	12	13	14	15	16	19	34	3842	5338	5338	29424	29424	29424
	17	18	19	20	21	22	23	20	33	3729	5181	5181	28558	28558	28558
	24	25	26	27	28	29	30	21	32	3616	5024	5024	27693	27693	27693
	31	1	2	3	4	5	6	22	31	3503	4867	4867	26827	26827	26827
Sept	7	8	9	10	11	12	13	23	30	3390	4710	4710	25962	25962	25962
	14	15	16	17	18	19	20	24	29	3277	4553	4553	25097	25097	25097
	21	22	23	24	25	26	27	25	28	3164	4396	4396	24231	24231	24231
	28	29	30	1	2	3	4	26	27	3051	4239	4239	23366	23366	23366
Oct	5	6	7	8	9	10	11	27	26	2938	4082	4082	22500	22500	22500
	12	13	14	15	16	17	18	28	25	2825	3925	3925	21635	21635	21635
	19	20	21	22	23	24	25	29	24	2712	3768	3768	20770	20770	20770
	26	27	28	29	30	31	1	30	23	2599	3611	3611	19904	19904	19904
Nov	2	3	4	5	6	7	8	31	22	2486	3454	3454	19039	19039	19039
	9	10	11	12	13	14	15	32	21	2373	3297	3297	18174	18174	18174
	16	17	18	19	20	21	22	33	20	2260	3140	3140	17308	17308	17308
	23	24	25	26	27	28	29	34	19	2147	2983	2983	16443	16443	16443
	30	1	2	3	4	5	6	35	18	2034	2826	2826	15577	15577	15577
Dec	7	8	9	10	11	12	13	36	17	1921	2669	2669	14712	14712	14712
	14	15	16	17	18	19	20	37	16	1808	2512	2512	13847	13847	13847
	21	22	23	24	25	26	27	38	15	1695	2355	2355	12981	12981	12981
	28	29	30	31	1	2	3	39	14	1582	2198	2198	12116	12116	12116
Jan	4	5	6	7	8	9	10	40	13	1469	2041	2041	11250	11250	11250
	11	12	13	14	15	16	17	41	12	1356	1884	1884	10385	10385	10385
	18	19	20	21	22	23	24	42	11	1243	1727	1727	9520	9520	9520
	25	26	27	28	29	30	31	43	10	1130	1570	1570	8654	8654	8654
Feb	1	2	3	4	5	6	7	44	9	1017	1413	1413	7789	7789	7789
	8	9	10	11	12	13	14	45	8	904	1256	1256	6924	6924	6924
	15	16	17	18	19	20	21	46	7	791	1099	1099	6058	6058	6058
	22	23	24	25	26	27	28	47	6	678	942	942	5193	5193	5193
March	1	2	3	4	5	6	7	48	5	565	785	785	4327	4327	4327
	8	9	10	11	12	13	14	49	4	452	628	628	3462	3462	3462
	15	16	17	18	19	20	21	50	3	339	471	471	2597	2597	2597
	22	23	24	25	26	27	28	51	2	226	314	314	1731	1731	1731
	29	30	31	1	2	3	4	52	1	113	157	157	866	866	866
	5							53	1	113	157	157	866	866	866

Alphabetical index