Employment practices review

From:
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Self Employed NIC's Additional effect on Class 2 voluntary contributions and Self employed peoples state pensions.

I work in the Pensions industry. The raising of the Class 4 self employed NIC's rate in the budget will mean any self employed person with profit in a tax year over 16k having to pay more class 4 NI contributions. That effect of the budget changes on the self employed has been well recognised by politicians and the media.

However, there also will be an additional large negative impact from the Chancellors Budget changes on the state pension of self employed people who earn below £6025 profits and the additional impact has not been picked up by anybody in the media or the politicians.

In the budget the chancellor has stopped the payment of class 2 weekly national insurance contributions by any self employed person from April 2018.

Class 2 self employed NI contributions are currently paid at the rate of 2.80 per week and it is mandatory for a self employed person to pay class 2 if they earn more than about 6000 in a tax year. Currently paying 52 weeks of class 2 gives the self employed person a qualifying year towards their state pension. Currently 35 qualifying years are required to get a full state pension.

A self employed person earning less than 6k in the tax year does not have to pay class 2 weekly contributions on a compulsory basis as they fall within the small earnings threshold exception. A self employed person earning under the 6k threshold can currently however opt to pay the class 2 weekly contributions of £2.80 on a voluntary basis in order to keep up their state pension record.

Paying class 2 self employed voluntary contributions for a year to get a qualifying year for state pension costs the person £146 which is far cheaper than the class 3 voluntary contributions which an employed person has to pay to buy a year. Class 3 voluntary contributions are currently 14.10 per week or £733 for 52 weeks, to buy a qualifying year.

There will currently be hundreds of thousands of self employed people earning under 6k in profits for the year who will be opting to pay class 2 voluntary contributions to preserve their state pension record.

Phillip Hammond was clearly hoping no one would pick up on the detriment to low earning self employed people of doing away with their option to pay class 2 contributions on a voluntary basis to preserve their state pension record. The measure will save the government a lot of money in future state pension payouts, however a lot of self employed people earning under 6k a year will lose out because of it.

A person can currently go back up to 10 years to pay class 2 voluntary contributions or class 3 voluntary contributions if they were employed to plug any holes in their Ni record where there are deficient tax years for state pension purposes.

Incidentally UK citizens living abroad and wanting to maintain their pension record while overseas can also pay the much lower class 2 rate of voluntary contributions while abroad even though they are not self employed and they will also be adversely effected by the doing away of class 2 NI contributions.

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