

*These notes refer to the National Insurance Contributions and Statutory
Payments Act 2004 (c.3) which received Royal Assent on 13 May 2004*

NATIONAL INSURANCE CONTRIBUTIONS AND STATUTORY PAYMENTS ACT 2004

EXPLANATORY NOTES

ANNEX B: OVERVIEW OF NATIONAL INSURANCE CONTRIBUTIONS¹

There are six classes of contributions.

- **Class 1** contributions which are paid by both employees and employers on the employee's earnings – the employee's share is known as the *primary contribution*, the employer's as the *secondary contribution*. Class 1 contributions are payable on all gross earnings including commissions and bonuses, on readily convertible assets given to employees and on employees' liabilities paid by employers. Primary contributions are payable at 11% of earnings above £91 up to £610 per week (£4,732 to £31,720 per year) and 1% of income above this limit. Secondary contributions are payable at 12.8% of all earnings above £91 per week. There are arrangements for reducing the rates of both primary and secondary contributions where the employee has contracted out of the State Second Pension. Class 1 contributions are normally collected monthly by the Inland Revenue along with PAYE income tax.
- **Class 1A** contributions are payable by employers on all taxable benefits in kind other than the provision of child care. Class 1A contributions are collected annually by the Inland Revenue.
- **Class 1B** contributions are payable annually by employers on non-cash items which are dealt with under a PAYE Settlement Agreement.
- **Class 2** contributions are paid by the self-employed at a flat rate of £2.05 per week – a self-employed person can be exempted from liability where earnings are below £4,215 per year. Class 2 contributions are paid either monthly or quarterly.
- **Class 3** contributions are paid on a voluntary basis by people who fall outside the scope of Class 1 and 2 contributions at a flat rate of £7.15 per week.
- **Class 4** contributions are paid annually by the self-employed on Schedule D Case I or II profits at a rate of 8% on profits between £4,745 and £31,720 and 1% of profits above £31,720.

1 AMOUNTS AND RATES ARE FOR THE 2004/5 TAX YEAR