

# National Insurance Contributions (NICs)

Significant reforms and rates cut for millions of workers

National Insurance is a cornerstone of the welfare and benefits system. As a citizen, your contributions will likely play a significant role in funding state provisions such as pensions, maternity leave and bereavement support. If you're over 16, under the State Pension age and either employed or self-employed, chances are you're making National Insurance Contributions (NICs).

The amount of NICs you're required to pay is contingent upon your earnings and employment status. In other words, your contribution is calculated based on how much you earn and whether you're an employee or run your own business. This system ensures that everyone contributes fairly to the welfare system based on their financial capabilities.

## CLASSIFYING CONTRIBUTIONS

National Insurance rates are segmented into 'classes', each corresponding to a specific earnings range and employment status. Typically, employees fall under Class 1, while self-employed individuals are categorised as Class 4. This classification helps streamline the process and accurately calculates each individual's contributions.

Once you've reached the State Pension age, your obligation to contribute to the National Insurance pool ceases. This means you can enjoy your retirement without worrying about further deductions from your income for National Insurance.

## AUTUMN STATEMENT 2023

In the Autumn Statement 2023 last November, Chancellor Jeremy Hunt announced significant reforms to National Insurance. This is the third change to National Insurance since 2022. But despite these cuts, the tax burden is still expected to remain at a record high.

Mr Hunt cut the main rate of Class 1 employee NICs from 12% to 10%. This took effect on 6 January 2024. There will also be a cut in the main rate of Class 4 self-employed NICs from 9% to 8%. This will

take effect from 6 April 2024. From 6 April 2024, Mr Hunt said no one will be required to pay Class 2 self-employed NICs.

## Details of the National Insurance Contributions (NICs) changes are:

- From 6 April 2024, self-employed people with profits above £12,570 will no longer be required to pay Class 2 NICs but will continue to receive access to contributory benefits, including the State Pension.
- Those with profits between £6,725 and £12,570 will continue to get access to contributory benefits, including the State Pension, through a National Insurance credit without paying NICs as they do currently.
- Those with profits under £6,725 and others who pay Class 2 NICs voluntarily to get access to contributory benefits, including the State Pension, will continue to be able to do so. The government will set out the next steps for Class 2 reform next year. As part of this reform, the government will protect the interests of lower-paid self-employed people who currently pay Class 2 NICs voluntarily to build entitlement to certain contributory benefits, including the State Pension.

## NATIONAL MINIMUM & LIVING WAGE UPRATING

From 1 April 2024, the National Living Wage (NLW) will rise by 9.8% to £11.44 an hour for eligible workers aged 21 and over across the UK. Young people and apprentices on the National Minimum Wage (NMW) will also see a wage increase. ■

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