Q&A for Employers

Cessation of National Insurance Rebate from April 2016

Employers need to be aware of and planning for increases in the amount of National Insurance (NI) they will be paying from April 2016. The amount could be significant, will require changes to payrolls and may need additional budgetary provision for 2016-17 onwards.

The following questions and answers aim to help you understand why ~~your~~ the employers' NI contributions will increase and by how much.

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Q1. Why is NI changing?

A1. From 6 April 2016 the government will introduce a new state pension which will replace the current multi-tier arrangement for people who reach State Pension Age ~~on or~~ after 5~~6~~ April 2016~~new pensioners~~. Currently the basic state pension is supplemented by either the Additional State Pension (ASP) paid for by NI contributions or by occupational 'contracted out' pension schemes such as the Teachers' Pension Scheme (TPS), the Local Government Pension Scheme (LGPS), the National Health Service Pension Scheme (NHSPS), the Firefighters Pension Scheme (FPS) and the Police Pension Scheme (PPS).

In return for the employer providing an occupational pension scheme in place of the whole or part of the ASP, both employers and employees currently receive a rebate on their NI contributions[1]. The result of the introduction of the new state pension means there is no requirement for an alternative to ASP so 'contracted out' status ceases and the NI rebate stops (both for employees and employers).

Q2. Who is affected by the change?

A2. All employers with employees who are members of contracted out occupational schemes are affected. As such schemes include the TPS, LGPS, NHSPS, FPS and PPS, all employers who have employees in any of those scheme (including local authorities and fire authorities) will face an increase in NI.

Q3. How much will ~~my~~ an employer's NI go up by?

[1] Except where the employee is over State Pension Age or is paying the Married Woman's / Widow's Reduced Rate of National Insurance contributions.

A3. The current employers' NI rebate is 3.4% (for employees it is 1.4%) on earnings between £5,824 and £40,040 per year~~certain pay thresholds~~. In order to assess the extent of ~~your~~ the employer's increased NI bill ~~you~~ the employer will need to calculate the NI payable in respect of each employee who is a member of a contracted out occupational without the rebate being applied.

For example, Ms Smith is a member of the Teachers' Pension Scheme, is over age 21 and earns £48,000 per annum (£4,000 per month).

Her NI is currently calculated as follows:

Pay this month:	£4,000
National Insurance Category Letter:	**D**
Lower earnings limit (per month)	£486
Primary threshold (per month)	£672
Secondary threshold (per month)	£676
Upper accruals point (per month)	£3,337
Upper earnings limit (per month)	£3,532
Earnings above the lower earnings limit up to and including the secondary~~primary~~ threshold -	£~~186~~190.00
Earnings above the secondary~~primary~~ threshold up to and including the upper accrual point -	£2,661~~5~~.00
Earnings above the upper accrual point ~~up to and including the upper earnings limit~~ -	£663~~195~~.00
Employer's NI contributions -	**£362**
Employee's NI contributions due -	*£313*

From April 2016[2] the calculation will be as follows:

Pay this month:	£4,000
National Insurance Category Letter:	**A**
Lower earnings limit (per month)	£486
Primary threshold (per month)	£672
Secondary threshold (per month)	£676
Upper accruals point (per month)	£3,337
Upper earnings limit (per month)	£3,584~~32~~
Earnings above the secondary~~primary~~ threshold ~~up to and including the upper accrual point~~ -	£3,324~~2,665~~.00
Employer's NI contributions -	**£459**
Employee's NI contributions due -	*£358~~3~~*

[2] ~~The Government's policy is to increase the lower earnings limit, primary threshold and upper earnings limit by the Consumer Price Index (CPI) each year. For the purposes of this example, we have assumed a CPI rate in line with the most recently announced figure of 0.0% (June 2015). The upper accruals point has in recent years been static at an annual rate of £40,040.~~Based on confirmed figures for 2016/17 published on Gov.uk.

For Ms Smith the loss of the rebate adds around £97 per month (£1,163 per annum) to the employers' NI bill and around £~~40~~45 per month (£~~479~~ 541 per annum) to the employees' NI bill.

~~The figures in the Eexamples were calculated calculated using http://nicecalculator.hmrc.gov.uk/Class1NICs1.aspx~~

A more detailed version of the~~is~~ example shown above is available here.

Q4. What should ~~I~~ an employer be doing to plan for this change?

A4. ~~You will~~An employer will need to determine which employees are affected by the change i.e. those who are members of a contracted out occupational pension scheme. All public service pension schemes, including the TPS, LGPS, NHSPS, FPS or PPS, are contracted out but if ~~you~~ the employer has~~have~~ any doubt about the status of any other scheme please contact the scheme administrator.

~~Your~~ The employer's payroll provider should be instructed to change the table letter for these employees with effect from 6th April 2016. In most cases the change will be from D to A but check the Gov.uk website https://www.gov.uk/national-insurance-rates-letters/contribution-rates for the correct table letter to use.

~~You~~ The employer should assess the total impact on ~~your~~ their ~~employer's~~ NI contribution in respect of the employees affected and add that to ~~your~~ their pay budget for 2016-17 and onwards.

Q5. Will ~~my~~ the employer's occupational pension scheme change because of this?

A5. Not unless ~~you have~~the employer has employees who are members of private sector pension schemes. The government has provided legislation to enable changes to be made to occupational pension schemes in the private sector to offset the increase in NI contributions payable. However, the same legislation specifically prevents changes to public service pension schemes including the TPS, LGPS, NHSPS, FPS and PPS to offset the increased cost. Employers ~~The LGA is and has been working with Government to try to find mechanisms to reduce the impact of the additional NI contributions payable by employees and employers from April 2016. Notwithstanding the outcome of these discussions employers~~ participating in public service pension schemes should be budgeting for this additional cost for the 2016/17 year and onwards.

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