



## **Class 2 National Insurance Contributions**

---

### **Who is likely to be affected?**

Self-employed people who may be liable to pay income tax and National Insurance Contributions (NICs).

### **General description of the measure**

The measure will change the mechanism for collecting Class 2 NICs. It will enable self-employed customers to pay their Class 2 NICs through Self Assessment (SA) alongside income tax and Class 4 NICs.

The measure will also change the structure of Class 2 NICs so that only those with profits (chargeable to tax under Chapter 2, Part 2 Income Tax (Trading and Other Income) Act 2005) above a profits threshold will be liable - those without profits or with profits below this threshold will be able to pay Class 2 NICs voluntarily.

### **Policy objective**

As part of a long-term trend, the number of self-employed individuals in the UK is growing, with more people having multiple jobs and moving in and out of self-employment. Having two separate collection methods for Class 2 and Class 4 NICs causes confusion and extra work for both the self-employed and HM Revenue & Customs (HMRC). The policy objective is to modernise the way Class 2 NICs is assessed and collected, making the system simpler and more straight-forward and reducing administrative burdens on the self-employed and HMRC.

### **Background to the measure**

The Office of Tax Simplification recommended that the Government review the National Insurance processes for the self-employed and in particular, recommended collecting Class 2 NICs through SA.

In 2013 the Government consulted on this proposal to improve processes and simplify the way that Class 2 NICs are collected and received strong support to collect Class 2 NICs through the SA system.

The Government published its Summary of Responses in December 2013 and announced this measure at Budget 2014.

## **Detailed proposal**

### **Operative date**

The measure will have effect from April 2015. Class 2 NICs will be collected through SA from April 2016, for the 2015-16 tax year onwards. The current six monthly billing system will cease from April 2015.

## Current law

Section 2(1)(b) of the Social Security Contributions and Benefits Act 1992 (and its Northern Ireland equivalent) define a “self-employed earner” for the purposes of paying Class 2 NICs. Section 11 of the Act defines those that are liable to pay class 2 NICs including those that are excepted from paying and may pay voluntarily.

## Proposed revisions

Legislation will be introduced in the NICs Bill 2014 to ensure that from April 2015 liability to pay Class 2 NICs will arise at the end of each year (currently Class 2 NICs liability arises on a weekly basis).

Those with no profits chargeable to tax (under Chapter 2, Part 2 ITTOIA 2005) or profits below the new Small Profits Threshold (equivalent to the current Small Earnings Exception level) will no longer have to apply in advance for an exception from paying Class 2 NICs. Instead they will have the option to pay Class 2 NICs voluntarily at the end of the year as liability will not automatically arise.

The amount of Class 2 NICs due, which will still be calculated based on the number of weeks of self-employment in the year, will be determined when the individual completes their SA return and paid alongside their income tax and Class 4 NICs. For those that wish to spread the cost of their Class 2 NICs, HMRC will retain a facility for them to make regular payments throughout the year.

There are a small number of customers who do not have to report their income through the self-employed section of the SA process. HMRC will be retaining a process to allow these groups to continue paying Class 2 NICs under the new arrangements.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2014-15	2015-16	2016-17	2017-18	2018-19
	-	negligible	negligible	negligible	negligible
	This measure is expected to have a negligible impact on the Exchequer.				
<b>Economic impact</b>	The measure is not expected to have any significant economic impacts.				
<b>Impact on individuals and households</b>	Moving the collection of Class 2 NICs into SA does not create any monetary winners or losers. This change represents a positive impact on the self-employed in terms of simplifying the collection process for Class 2 NICs.				
<b>Equalities impacts</b>	This aim of this measure is to have a positive impact on those who pay Class 2 NICs and will be neutral in respect of equalities impacts.				
<b>Impact on business including civil society organisations</b>	This change is aimed at simplifying NICs for the self-employed and small businesses, for example sole traders, partnerships and unincorporated businesses, by enabling them to report their Class 2 NICs liability and pay it through their SA, thus reducing the administrative burden of two separate collection mechanisms that currently exist.				

Government expect that around 5 million self-employed people will benefit from this measure. It is expected that the resulting reduction in administrative burden placed on self-employed people will be around £19 million per year.

There are 1.4m businesses currently paying their Class 2 NICs liability through direct debit payments. We anticipate a small number may want to continue to make their Class 2 NIC payments through a regular payment option. A cost of £90,000 has been attributed to this group and this cost is included in the 'one off compliance cost' figure of £15m.

Estimates of this one-off cost are shown in the table below, including an estimate of total saving for a five year period at present value PV.

Impact on Administrative Burden (included in Net Compliance Benefit)		
	Cost	Time Period
<b>Compliance Cost</b>		
One-Off Costs	£15m	N/A
Average Annual Cost	N/A	N/A
Total Costs (PV)	£15m	N/A
Compliance Benefits	N/A	N/A
One-off Benefit	N/A	N/A
Average Annual Benefit	£19m	5
Total Benefit (PV)	£89m	5
Net Compliance Benefit (NPV)	£74m	5
<b>Impact on Administrative Burden (included in Net Compliance Benefit)</b>		
Increase	Decrease	Net Impact
£0	£19m	£-19m

The above table shows a net saving figure of **£74m** over the five year period.

**Operational impact (£m) (HMRC or other)**

HMRC Impacts: The HMRC costs of implementing the changes are estimated to be in the region of £5 million for IT changes. HMRC estimates that once the new process is fully implemented there will be administrative savings of around £6 million per year.

Department for Work & Pensions (DWP) Impacts: DWP will also incur implementation costs estimated to be in the region of £300,000 with additional annual running costs in the region of £100,000 are estimated in respect of processing benefit claims that are impacted by the changes.

<b>Other impacts</b>	<p><u>Small and micro business assessment:</u> This measure is aimed at reducing the administrative burden on the self-employed and small businesses, for example, sole traders, partnerships and unincorporated enterprises. This measure is likely to have a positive impact on this group as they will now be able to assess their Class 2 NICs liability and pay it through the operation of SA. It will not impact the way in which NICs is collected for the people they may employ.</p> <p>The self-employed and small businesses should ultimately save time by being able to deal with their tax and NICs in one go, although they will have to familiarise themselves with this new process to collect Class 2 NICs through SA. This will be facilitated by HMRC updating the SA form and accompanying guidance and other internal and external guidance to staff and customers.</p> <p>Other impacts have been considered but none have been identified.</p>
----------------------	---

### **Monitoring and evaluation**

The measure will be evaluated on an on-going basis leading up to and following implementation. HMRC's NICs team, in collaboration with delivery partners, including DWP, will support customers affected by this change through amending internal and external guidance and making customers aware of changes through routine marketing, publicity and other communication methods.

HMRC will also use its partnership with intermediary and representative groups and organisations to cascade changes, as appropriate.

### **Further advice**

If you have any questions about this change, please contact Shell Makwana on 03000 586480 (email: shell.makwana@hmrc.gsi.gov.uk)

### **Declaration**

David Gauke MP, Financial Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.