HM Revenue
& Customs

National Insurance for company directors

This booklet gives detailed information about paying National Insurance contributions (NICs) for company directors.

It also tells you about special or unusual cases.

Use from 6 April 2024 to 5 April 2025

CA44

HMRC 03/24

Help and guidance

You can get help and guidance from the following sources.

The internet

For help with your payroll, go to www.gov.uk/business-tax/paye

For wider interactive business help, go to www.gov.uk/set-up-business

Webinars

Webinars are a way of learning about your payroll, such as 'Getting payroll information right'.

This webinar covers the most common errors that employees make when submitting information to HMRC. It shows you how to provide accurate data and avoid common payroll mistakes.

For more information about this and other webinars, go to www.gov.uk/guidance/help-and-support-for-employing-people

Any page printed from the online version of this helpbook is uncontrolled and may not be the latest version. We recommend that you always check you're referring to the latest online version.

Online services

For information and help using our online services, go to www.gov.uk/log-in-register-hmrc-online-services

For more help with our online services, contact the helpline by:
- telephone: 0300 200 3600
- textphone: 0300 200 3603

Basic PAYE Tools

The Basic PAYE Tools is software that you download onto your computer. It will help you run your payroll throughout the year. It's designed for employers who have 9 or fewer employees, and you can use it to calculate payroll deductions and then report payroll information online in real time.

To find out more information about the Basic PAYE Tools and other HMRC recognised software, go to www.gov.uk/payroll-software

Employer helplines

If you:
- are a new or existing employer, telephone 0300 200 3200
- have a hearing or speech impairment, textphone 0300 200 3212

Tell us your employer PAYE and Accounts Office references when you contact us. You'll find them on correspondence HMRC have sent to you.

Employer helpbooks and forms

Helpbooks and forms are available to download. Go to www.gov.uk/government/collections/payroll-publications-for-employers

Yr Iaith Gymraeg

I lawrlwytho ffurflenni a llyfrynnau cymorth Cymraeg, ewch i www.gov.uk/cymraeg sgroliwch i lawr i'r pennawd 'Treth' a dilynwch y cysylltiadau 'Ffurflenni Cyllid a Thollau EF (CThEF)' ac 'Arweiniad a thaflenni gwybodaeth CThEF'.

Forms and guidance in Braille, large print and audio

For details of employer forms and guidance in Braille, large print or audio, phone the Employer helpline on 0300 200 3200 and ask to speak to the Customer Service Team.

Help and support from the Webinar Delivery Team

Find out more about our live and recorded webinars.
Go to www.gov.uk/guidance/help-and-support-for-employing-people

To view our video clips, go to www.youtube.com/hmrcgovuk

Follow us on Twitter @HMRCgovuk

HMRC Community Forums

HMRC Community Forums is for you and provides the help, support and guidance you need.
Go to https://community.hmrc.gov.uk

You can ask questions, see what others are asking and get the answers and top tips you need to support you in running your business.

Employer Bulletin online

Employer Bulletins contain information and news for employers. We publish these 6 times a year.
Go to www.gov.uk/government/collections/hm-revenue-and-customs-employer-bulletin

Employer email alerts

We strongly recommend that you register to receive employer emails to prompt and direct you to:

- each new edition or news about the Basic PAYE Tools
- the Employer Bulletin
- important new information

To register, go to https://subscriptions.hmrc.gov.uk

If you use PAYE Online

Remember to keep your email address up to date. If you change your email address, update PAYE Online to make sure you continue to receive email alerts when we've issued tax codes and other notifications.

HM Revenue and Customs

If you have a query about your PAYE scheme:

- phone the Employer helpline on 0300 200 3500
- write to
  PT Operations North East England
  HM Revenue and Customs
  BX9 1BX
  United Kingdom

Tell us your employer PAYE and Accounts Office references when you contact us.
You'll find them on correspondence HMRC have sent to you.

Your rights and obligations

'HMRC Charter' explains what you can expect from us and what we expect from you.
For more information, go to www.gov.uk/government/publications/hmrc-charter

Contents

Changes for the tax year 2024 to 2025

At the time this booklet was published, the rates for the tax year 2024 to 2025 were still subject to Parliamentary approval. If we do not get Parliamentary approval, we will tell you about any further changes before 6 April 2024.

Introduction

1 About this booklet

This booklet:

- replaces the January 2024 edition of CA44, 'National Insurance for company directors'
- gives detailed information about the different National Insurance contributions (NICs) rules for company directors
- can also be used for employees who have annual or pro rata annual earnings periods

The normal rules about NICs can be found in the CWG2(2024), 'Employer Further Guide to PAYE and NICs'.
Go to www.gov.uk/government/publications/cwg2-further-guide-to-paye-and-national-insurance-contributions

There are legal requirements that mean employers must comply with their obligations.
At the time of writing, this guide sets out HMRC's view on how these legal requirements can be met.
It will be updated annually and was last updated in January 2024.

All the examples in this booklet:

- use the 2024 to 2025 NICs rates and limits
- are for illustration purposes only

If you're unhappy with our service
For information about our complaints procedures, go to www.gov.uk/complain-about-hmrc

2 Secondary NICs for employees under the age of 21

The rate of employer Class 1 secondary NICs is 0% for employees under the age of 21 up to the 'Upper Secondary Threshold' (UST). Class 1 secondary NICs continue to be payable on all earnings above this threshold. The current way in which NICs is assessed remains unchanged. Employers should make sure they hold the employee's correct date of birth. For more information read CWG2 Chapter 3, paragraph 3.9.1.

2.1 Secondary NICs for apprentices under the age of 25

The rate of Class 1 secondary NICs is 0% for apprentices under the age of 25 up to the 'Apprentice Upper Secondary Threshold' (AUST).

Apprentices must follow a government recognised apprenticeship in the UK, one which follows government arrangements or approved frameworks, and have a written agreement, specifying the government recognised apprentice framework or standard, with a start and expected completion date.

This is an agreement between the training provider, apprentice and employer and will be the evidence the employer needs to retain when applying the zero-rate of secondary Class 1 NICs for an apprentice under 25.

Class 1 secondary NICs continue to be payable on all earnings above the AUST. The current way in which NICs is assessed remains unchanged. Employers should make sure that they hold the employee's correct date of birth. For more information read CWG2 Chapter 3, paragraph 3.9.2.

2.2 Employment Allowance

You may be eligible to claim an Employment Allowance, from 6 April 2022 the rate is £5,000.
The Employment Allowance is available for businesses, charities (including community amateur sports clubs) and certain employers of care and support workers to offset against employer's secondary Class 1 NICs liability.

The Employment Allowance will not be available to employers who had qualifying Class 1 Secondary National Insurance contributions liabilities of £100,000 or more in the previous year.

You can claim the Employment Allowance as part of the normal payroll process through Real Time Information (RTI) or the Basic PAYE Tools.

For more information, details of eligibility and how to claim the Employment Allowance, read CWG2 Chapter 3, paragraph 3.9.3 and go to www.gov.uk/claim-employment-allowance

2.3 Apprenticeship Levy

Employers with annual pay bills greater than £3 million, and some connected companies and charities with pay bill less than this amount, will be required to pay the Apprenticeship Levy.
All employers (subject to the rules on connection) will have an annual levy allowance of £15,000 to offset against their levy liability.

This means that only employers with a pay bill of over £3 million will have to pay and report the levy.
However, where the connection rules apply, a pay bill less than £3 million may attract a levy liability, depending on how the levy allowance is shared (connected companies and connected charities only have a single £15,000 levy allowance for the group).

The levy is charged at a rate of 0.5% of an employer's annual pay bill. Pay bill is defined as earnings which are liable to Class 1 secondary NICs, including earnings below the Secondary Threshold. You'll need to determine your levy liability. For more information read CWG2 Chapter 3, paragraph 3.9.4.

2.4 Zero rate of secondary NICs for those employees who are armed forces veterans

A 0% rate of secondary NICs was introduced from April 2021 up to the 'Veterans Upper Secondary Threshold' (VUST) for employees who are armed forces veterans. There is no reduction in the rate of Class 1 secondary NICs above the UST.

For the tax year 2024 to 2025 this threshold is £967 weekly, £4,189 monthly, £50,270 annually. It is important to remember that this rate of secondary NICs does not remove the role of the secondary contributor. Employers are still required to fulfil any other obligations associated with paying earnings, for example, administering statutory payments.

These changes do not alter any of the rules for calculating NICs other than by using the VUST rate where appropriate.

Primary Class 1 NICs will remain unaltered.

It is the responsibility of the employer to ensure they use and report the correct category letter.

For more information, go to CWG2(2024), paragraph 3.9.6.

2.5 Zero rate of secondary NICs for eligible employees working in a Freeport or Investment Zone special tax site

A 0% rate of secondary NICs is available up to the 'Freeports Upper Secondary Threshold' (FUST) and 'Investment Zone Upper secondary Threshold' (IZUST) for eligible employers of eligible employees who meet the Freeport and Investment Zones qualifying conditions. There is no reduction in the rate of Class 1 secondary NICs above the FUST and the IZUST.

For the tax year 2024 to 2025 the FUST and IZUST are £481 weekly, £2,083 monthly, £25,000 annually. It is important to remember that this 0% rate of secondary NICs does not remove the role of the secondary contributor. Employers are still required to fulfil any other obligations associated with paying earnings, for example, administering statutory payments.

These changes do not alter any of the rules for calculating NICs other than by using the FUST and IZUST rate where appropriate. Primary Class 1 NICs will remain unaltered.

It is the responsibility of the employer to ensure they use and report the correct category letter.

For more information, go to CWG2(2024), paragraph 3.9.7.

The rules for company directors

3 Introduction

This section describes what you need to know to work out NICs for company directors.

4 Company directors

Who is a company director?

For NI purposes, Regulation 1 of the Social Security (Contributions) Regulations 2001 defines a company director as:

- a member of a board or similar body where the company is managed by a board or similar body
- a single person where the company is managed by an individual

Or, if a director as defined in either of the above is accustomed to acting under the instructions of another person, that person will be a director. This additional rule will not apply if the other person's instructions are limited to professional advice, for example, the advice given by a solicitor. Directors of building societies which have not demutualised are not normally company directors for NICs purposes.

What is a company director liable for?

For NICs purposes, a company director is classified as an office holder.

Under section 2(1) of the Social Security Contributions and Benefits Act 1992, (in Northern Ireland, section 2(1) of the Social Security Contributions and Benefits (Northern Ireland) Act 1992) an office holder is liable for Class 1 NICs on earnings.

5 What you should do

To assess NICs for company directors:

- use the correct NICs category letter for a director under the age of 21 - it's the responsibility of the employer to make sure they hold the director's correct date of birth and use the correct NI category letter
- use the correct NICs category letter for a director aged under 25 who is on an Approved Apprenticeship scheme - it's the responsibility of the employer to make sure they hold the director's correct date of birth and use the correct NICs category letter
- use the correct NICs category letter for a director whose employer is eligible for Freeports NICs relief
- use the correct NICs category letter for a director whose employer is eligible for Veterans NICs relief
- use the correct NICs category letter for a director whose employer is eligible for Investment Zone NICs relief
- use an annual (or pro rata annual) earnings period to work out NICs
- work out NICs on the total earnings paid to the director each time a payment of earnings is made
- deduct the NICs already paid, if any, to arrive at the amount of NICs now due
- include all the director's earnings when working out NICs, including fees and bonuses
- record NICs information on 1 payroll record unless this booklet tells you otherwise
- you can adapt the NICs tables to work out NICs (read paragraph 41 on page 14)
- you can use the exact percentage method to work out NICs (read paragraph 40 on pages 13 to 14)

Alternatively

You can apply the arrangements for the assessment and payment of directors' NICs outlined in paragraphs 6 to 9 (read pages 3 to 8).

Alternative arrangements for the assessment of directors' NICs

6 How it works

There are alternative arrangements for the assessment and payment of NICs for company directors.

Under Regulation 8 of the Social Security (Contributions) Regulations 2001, the earnings period for the assessment of directors' NICs remains an annual one. But, subject to the qualifying conditions in paragraph 9 (on page 8), you can, if you wish, make payments on account of directors' NICs during the tax year based on the actual intervals of payment - usually weekly or monthly - in the same way as for other employees.
If you do choose to pay NICs in this way you should apply the normal rules for assessing NICs, as set out in the CWG2(2024), 'Employer Further Guide to PAYE and NICs'. If you use the CA38 booklet to calculate the NICs due, you should use the April 2024 version.

7 Last payment of earnings in tax year (or directorship)

Normally you should assess NICs using the shorter earnings period throughout the year until the last payment of earnings in the tax year (or directorship) is being made (but read paragraph 8 on page 8).

When the final payment of the director's earnings in the tax year (or directorship) is being made, you must:

- reassess the NICs due on the director's total earnings for the tax year on the basis of an annual (or pro rata annual) earnings period, as appropriate
- either deduct the amount of primary NICs then due from the payment or, if the earnings are insufficient to cover the primary NICs then due, pay the balance yourself
- adjust the final (or, if the director leaves or dies during the year, the next) remittance in the tax year to us to take into account the reassessment

Remember, even if you use the weekly or monthly rates and limits to work out NICs throughout the year, because directors have an annual earnings period you must still reflect the annual or pro rata annual:

- Lower Earnings Limit (LEL)
- Primary Threshold (PT)
- Upper Earnings Limit (UEL)
- Upper Secondary Threshold (UST)
- Freeports Upper Secondary Threshold (FUST)
- Investment Zone Upper Secondary Threshold (IZUST)
- Apprentice Upper Secondary Threshold (AUST)
- Veterans Upper Secondary Threhold (VUST)

figures at the final reassessment. Under this particular arrangement, regardless of the method used to work out NICs during the year, you can use either the exact percentage method or adapt the NICs tables to work out the NICs at the final reassessment.

Example for the 2024 to 2025 tax year

Mr Armstrong is a director over the age of 21, is not an apprentice and receives a regular monthly salary of £1,615. An annual earnings period would normally apply for the assessment of NICs. However, as he's paid monthly, a monthly earnings period can be used to assess NICs during the tax year.

Monthly NICs due					
LEL	**ST**	**PT**	**UEL**	**UST**	**AUST**
£533	£758	£1,048	£4,189	£4,189	£4,189

Month 1

Earnings	Director's NICs	Company's NICs
£1,615	£45.36	£118.27

Record the NICs details on the payroll record.

By month 11 - NICs paid

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£17,765	£498.96	£1,300.97	£1,799.93

On the final payment of earnings in the tax year, reassess NICs on the total earnings received by reference to an annual earnings period and adjust the final remittance to us accordingly.

Month 12 - Based on an annual earnings period, NICs due on £19,380

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£19,380	£544.80	£1,418.64	£1,963.44

Earnings: £1,615. Total earnings from the directorship in the tax year (12 x £1,615) = £19,380

NICs payable in month 12

Director's NICs	Company's NICs
£45.84 (£544.80 – £498.96)	£117.67 (£1,418.64 – £1,300.97)

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

Mr Armstrong's final Full Payment Submission (FPS) for the year would show:

Data item	Description	
79	NI category	A
79A	Gross earnings for NICs year to date	£19,380.00
79B	Gross earnings for NICs pay period	£1,615.00
82	Earnings at the LEL year to date	£6,396.00
82A	Earnings at LEL to PT year to date	£6,174.00
169	Earnings at PT to UEL year to date	£6,810.00
86A	Employer NICs this pay period	£117.67
86Aa	Employer NICs year to date	£1,418.64
86B	Employee NICs this pay period	£45.84
86Ba	Employee NICs year to date	£544.80
84A	Director's method of calculation	AL

Example for the 2024 to 2025 tax year

Mr Taylor is a director under the age of 21, is not an apprentice and receives a regular monthly salary of £1,615. An annual earnings period would normally apply for the assessment of NICs. However, as he's paid monthly, a monthly earnings period can be used to assess NICs during the tax year.

Monthly NICs due				
LEL	**ST**	**PT**	**UEL**	**UST**
£533	£758	£1,048	£4,189	£4,189

Month 1

Earnings	Director's NICs	Company's NICs
£1,615	£45.36	£0.00

Record the NICs details on the payroll record.

By month 11 - NICs paid

NICs category letter	Earnings	Director's NICs	Company's NICs	Directors NICs
M	£17,765	£498.96	£0.00	£623.70

On the final payment of earnings in the tax year, reassess NICs on the total earnings received by reference to an annual earnings period and adjust the final remittance to us accordingly.

Month 12 - Based on an annual earnings period, NICs due on £19,380

NICs category letter	Earnings	Director's NICs	Company's NICs	Directors NICs
M	£19,380	£544.80	£0.00	£681.00

Earnings: £1,615. Total earnings from the directorship in the tax year (12 x £1,615) = £19,380

NICs payable in month 12

Director's NICs	Company's NICs
£45.84 (£544.80 – £498.96)	£0.00 (£0.00 – £0.00)

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

Mr Taylor's final Full Payment Submission (FPS) for the year would show:

Data item	Description	
79	NI category	M
79A	Gross earnings for NICs year to date	£19,380.00
79B	Gross earnings for NICs pay period	£1,615.00
82	Earnings at the LEL year to date	£6,396.00
82A	Earnings at LEL to PT year to date	£6,174.00
169	Earnings at PT to UEL year to date	£6,810.00
86A	Employer NICs this pay period	£0.00
86Aa	Employer NICs year to date	£0.00
86B	Employee NICs this pay period	£45.84
86Ba	Employee NICs year to date	£544.80
84A	Director's method of calculation	AL

Example for the 2024 to 2025 tax year

Mr Morris is a director over the age of 21, is not an apprentice and receives a regular monthly salary of £1,160. He's also voted a bonus at the AGM on 3 June 2024 of £10,000 to be paid with his regular June salary.
An annual earnings period would normally apply for the assessment of NICs. However, as he's paid monthly, a monthly earnings period can be used to assess NICs during the tax year.

Monthly NICs due				
LEL	**ST**	**PT**	**UEL**	**UST**
£533	£758	£1,048	£4,189	£4,189

Month 1

Earnings	Director's NICs	Company's NICs
£1,160	£8.96	£55.48

Record the NICs details on the payroll record.

Month 3

Earnings	Director's NICs	Company's NICs
£11,160	£390.70	£1,435.48

The £10,000 bonus should be included with the salary of £1,160.

By month 11 - NICs paid

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£22,760	£480.30	£1,990.28	£2470.58

On the final payment of earnings in the tax year, reassess NICs on the total earnings by reference to an annual earnings period and adjust the final remittance to us accordingly.

Month 12 - Based on an annual earnings period, NICs due on £23,920

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
A	£23,920	£908.00	£2,045.16	£2,953.16

Earnings: £1,160. Total earnings from the directorship in the tax year (12 x £1,160 +£10,000) = £23,920

NICs payable in month 12

Director's NICs	Company's NICs
£427.70 (£908.00 – £480.30)	£54.88 (£2,045.16 – £1,990.28)

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

Mr Morris's final Full Payment Submission (FPS) for the year would show:

Data item	Description	
79	NI category	A
79A	Gross earnings for NICs year to date	£23,920.00
79B	Gross earnings for NICs pay period	£1,160.00
82	Earnings at the LEL year to date	£6,396.00
82A	Earnings at LEL to PT year to date	£5,512.00
169	Earnings at PT to UEL year to date	£12,012.00
86A	Employer NICs this pay period	£54.88
86Aa	Employer NICs year to date	£2,045.16
86B	Employee NICs this pay period	£427.70
86Ba	Employee NICs year to date	£908.00
84A	Director's method of calculation	AL

Example for the 2024 to 2025 tax year

Mr Johnson is a director aged 26 whose employer is entitled to Freeport NICs relief and receives a regular monthly salary of £2,000. He's also voted a bonus at the AGM on 3 June 2024 of £10,000 to be paid with his regular June salary. An annual earnings period would normally apply for the assessment of NICs. However, as he's paid monthly, a monthly earnings period can be used to access NICs during the tax year.

Monthly NICs due							
LEL	ST	PT	FUST	VUST	UEL	UST	AUST
£533	£758	£1,048	£2,083	£4,189	£4,189	£4,189	£4,189

Month 1

Earnings	Director's NICs	Company's NICs
£2,000	£76.16	£0.00

Record the NICs details on the payroll record.

Month 3

Earnings	Director's NICs	Company's NICs
£12,000	£407.50	£1,368.55

The £10,000 bonus should be included with the salary of £2,000.
Record the details on the payroll record.

By month 11 - NICs paid

NICs category letter	Earnings	Director's NICs	Company's NICs
F	£32,000	£1,169.10	£1,368.55

On the final payment of earnings in the tax year, reassess NICs on the total earnings by reference to an annual earnings period and adjust the final remittance to us accordingly.

Month 12 - Based on an annual earnings period, NICs due on £22,902

NICs category letter	Earnings	Director's NICs	Company's NICs	Total NICs
F	£34,000	£1,714.40	£1,242.00	£2,956.40

Earnings: £2,000. Total earnings from the directorship in the tax year (12 x £2,000 + £10,000) = £34,000.

NICs payable in month 12

Director's NICs	Company's NICs
£545.30 (£1,714.40 – £1,169.10)	– £126.55 (£1,242.00 – £1,368.55)

In month 12 on the payroll record, you must record the total earnings and NICs figures for the year following the reassessment (not what falls to be due just for month 12).

Mr Johnson's final Full Payment Submission (FPS) for the year would show:

Data item	Description	
79	NI category	F
79A	Gross earnings for NICs year to date	£34,000.00
79B	Gross earnings for NICs pay period	£2,000.00
82	Earnings at the LEL year to date	£6,396.00
82A	Earnings at LEL to PT year to date	£6,174.00
169	Earnings at PT to UEL year to date	£21,430.00
86A	Employer NICs this pay period	-£126.55
86Aa	Employer NICs year to date	£1,242.00
86B	Employee NICs this pay period	£545.30
86Ba	Employee NICs year to date	£1,714.40
84A	Director's method of calculation	AL

8 What to do if the director receives a bonus or the category of NICs payable changes during the year

In many cases, directors will receive a bonus during the year. Waiting until the final payment of earnings to carry out the reassessment could lead to a disproportionate amount of primary NICs being payable at the year end.

You can, if you wish, carry out the reassessment at the time of the change. However, you must then continue to use the appropriate annual (or pro rata annual) earnings period rules, as described in this booklet, for the rest of that tax year.

9 Qualifying conditions for the alternative arrangements

You'll be able to take advantage of this arrangement if:

- the director agrees to NICs being assessed in this way
- the director normally receives his earnings in a payment pattern for which a regular earnings period can be established for the assessment of NICs
- those payments normally exceed the LEL for the pay period concerned

Applying the annual (or pro rata annual) earnings period rules

10 Earnings limits, Primary Threshold (PT), Secondary Threshold (ST), Upper Earnings Limit (UEL), Upper Secondary Threshold (UST), Freeports Upper Secondary Threshold (FUST), Investment Zone Upper Secondary Threshold (IZUST), Apprentice Upper Secondary Threshold (AUST) and Veterans Upper Secondary Threshold (VUST)

Both the director and the company are liable for Class 1, that is, employed-earners NICs when the director's total earnings reach the Lower Earnings Limit (LEL). But the director only pays NICs if the director's total earnings exceed the Primary Threshold (PT) and the company only pays NICs if the director's total earnings exceed the Secondary Threshold (ST).

The company and the director pay NICs at the appropriate percentage rate on all earnings above the ST and PT respectively, up to and including the Upper Earnings Limit (UEL), the Upper Secondary Threshold (UST) for those directors under the age of 21 or the Apprentice Upper Secondary Threshold (AUST) for those directors who are apprentices under the age of 25.

If the director's total earnings reach or exceed the UEL/UST/AUST/FUST/IZUST/VUST, the director pays NICs only at a rate of 2% on any earnings which exceed the UEL/UST/FUST/AUST/VUST. The company pays NICs at the appropriate percentage rate on all earnings above the ST, including those which exceed the UEL/UST/FUST/IZUST/AUST/VUST. The annual earnings limits and thresholds are the same as for other employees.

Where the company is entitled to Freeports or Investment Zones NICs relief the company will pay NICs if the directors total earnings exceed the Freeports Upper Secondary Threshold (FUST) or Investment Zone Upper Secondary Theshold (IZUST).

For more information about National Insurance rates and thresholds, go to www.gov.uk/national-insurance-rates-letters

11 Lower Earnings Limit (LEL)

If the director has:

- an annual earnings period, do not record the earnings details for NICs purposes until the director's total earnings for the tax year reach or exceed the annual LEL
- a pro rata annual earnings period, do not record the earnings details for NICs purposes until the total earnings paid to the director since the date of appointment reach or exceed the pro rata annual LEL

Read paragraph 6 on page 3 for information about alternative arrangements for the assessment of director's NICs.

Read paragraph 25 on page 10 to work out pro rata annual earnings limits, ST, PT, FUST, IZUST and UEL/UST/AUST/VUST.

12 Secondary Threshold (ST)

If the director has:

- an annual earnings period, no NICs are due from the company until the director's total earnings for the tax year exceed the annual ST
- a pro rata annual earnings period, no NICs are due from the company until the total earnings paid to the director since the date of appointment exceed the pro rata annual ST

Read paragraph 25 on page 10 to work out pro rata annual earnings limits, ST, PT and UEL/UST/FUST/IZUST/AUST/VUST.

13 Primary Threshold (PT)

If the director has:

- an annual earnings period, no NICs are due from the director until the director's total earnings for the tax year exceed the annual PT
- a pro rata annual earnings period, no NICs are due from the director until the total earnings paid to the director since the date of appointment exceed the pro rata annual PT

Read paragraph 25 on page 10 to work out pro rata annual earnings limits, ST, PT, FUST/IZUST and UEL/UST/AUST/VUST.

14 When total earnings exceed the Secondary Threshold (ST)

When the total earnings in the tax year or pro rata period exceed the ST, the company pays NICs on those earnings which exceed the ST.

Since April 2015, a secondary rate of 0% was introduced for those directors under the age of 21 with earnings between the ST and the UST. The secondary rate of 0% also applies from April 2016 to directors who are apprentices aged under 25 with earnings between the ST and AUST.

15 When total earnings exceed the Primary Threshold (PT)

When the total earnings in the tax year or pro rata period exceed the PT, the director pays NICs on those earnings which exceed the PT.

16 Upper Earnings Limit (UEL)

The director pays NICs on all earnings above the PT up to and including the employee's annual (or pro rata annual) UEL, but only at a rate of 2% on those earnings which exceed the UEL.

For those directors above the age of 21, the company pays NICs at the appropriate percentage rate on all earnings above the ST, including those which exceed the UEL.

Read paragraph 25 on page 10 to work out pro rata annual earnings limits, ST, PT, FUST, IZUST and UEL/UST/AUST/VUST.

16.1 Upper Secondary Threshold (UST)

For those directors under the age of 21, the company pays secondary NICs at the rate of 0% on earnings between the ST and the UST. The standard rate of 13.8% will continue to be paid on earnings above the UST.

There is no change to the director's primary NICs.

Read paragraph 25 on page 10 to work out pro rata annual earnings limits, ST, PT, FUST, IZUST and UEL/UST/AUST/VUST.

16.2 Apprentice Upper Secondary Threshold (AUST)

For those directors who are apprentices under the age of 25, the company pays secondary NICs at the rate of 0% on earnings between the ST and the AUST. The standard rate of 13.8% will continue to be paid on earnings above the AUST.

There is no change to the directors primary NICs.

Read paragraph 25 on page 10 to work out pro rata annual earnings limits, ST, PT, FUST, IZUST and UEL/UST/AUST/VUST.

16.3 Veterans Upper Secondary Threshold (VUST)

For those directors who are armed forces veterans, the company pays secondary NICs at the rate of 0% on earnings between the ST and the VUST. The standard rate of 13.8% will continue to be paid on earnings above the VUST. There is no change to the directors primary NICs. Read paragraph 25 on page 10 to work out pro rata earnings limits ST, PT, FUST, IZUST and UEL/UST/AUST/VUST.

16.4 Freeports Upper Secondary Threshold (FUST)

For those directors working on a Freeport tax site, a company pays secondary NICs at 0% on earnings between the ST and the FUST. The standard rate of 13.8% will continue to be paid on earnings above the FUST. There is no change to the directors primary NICs. Read paragraph 25 on page 10 to work out the pro rata annual earnings limits ST, PT, FUST, IZUST and UEL/UST/AUST/VUST.

16.5 Investment Zone Upper Secondary Threshold (IZUST)

For those directors working on a Investment Zone tax site, a company pays secondary NICs at 0% on earnings between the ST and the IZUST. The standard rate of 13.8% will continue to be paid on earnings above the IZUST. There is no change to the directors primary NICs. Read paragraph 25 on page 10 to work out the pro rata annual earnings limits ST, PT, FUST/IZUST and UEL/UST/AUST/VUST.

17 National Insurance contributions rates

The percentage rates you use to work out director's NICs depend on a number of factors.

The director's NICs, if any, depend on:

- the director's age
- whether the director has a married woman's or widow's election

For more information about National Insurance rates and thresholds go to www.gov.uk/guidance/rates-and-thresholds-for-employers-2024-to-2025

18 Directors paying reduced rate NICs

If the director is a married woman or widow who's entitled to pay reduced rate NICs and wants to continue paying at a reduced rate, she pays NICs at the reduced rate on all earnings above the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UEL. But she still pays at a rate of 2% on these earnings which exceed the UEL. For these directors you must hold one of these valid forms:

- CA4139
- CF383 Certificate of Election
- CF380A Certificate of Reduced Liability
  - or be working on a Freeports or Investment Zone special tax site, the rate of secondary NICs is 0% between the ST and the FUST/IZUST
  - is an amended forces veteran, the rate of secondary NICs is 0% between the ST and the VUST

19 Directors over State Pension age

If earnings are paid or are due to be paid on or after State Pension age, the director pays no NICs. You'll need to obtain sight of the director's birth certificate or passport as evidence of their date of birth, both of which can be copied and kept on file as proof that Class 1 NICs are not payable.

20 Company's NICs

The director and company pay NICs at the appropriate standard percentage rate.
If the director:

- pays reduced rate NICs, the company pays NICs as normal at the appropriate percentage rate
- is over State Pension age, the company pays NICs at the appropriate percentage rate
- is under the age of 21, the rate of secondary NICs is 0% between the ST and the UST
- is an apprentice under the age of 25, the rate of secondary NICs is 0% between the ST and the AUST
- is an armed forces veteran, the rate of secondary NICs is 0% between the ST and the VUST
- is working on a Freeport tax site, the rate of secondary NICs is 0% between the ST and the FUST
- is working on a Investment Zone tax site, the rate of secondary NICs is 0% between the ST and the IZUST

21 Earnings periods

The interval at which employees are paid is usually the earnings period but directors are different.

Even if the directors are paid weekly or monthly, their earnings period is either:

- annual
- pro rata annual

22 Annual earnings period

A person who is a director at the beginning of the tax year (6 April) has an annual earnings period for that tax year even if they cease to be a director before the tax year ends (5 April).

The annual earnings period runs from 6 April to 5 April.

23 Pro rata annual earnings period

Directors first appointed during the tax year have a pro rata annual earnings period for the remainder of that tax year.

You need to work out the:

- number of weeks in the pro rata period
- pro rata annual LEL
- pro rata annual ST
- pro rata annual PT
- pro rata annual UEL
- pro rata annual UST
- pro rata annual AUST
- pro rata annual FUST
- pro rata annual IZUST
- pro rata annual VUST

Read the 'Quick guide to pro rata annual earnings periods' on page 31.

24 Number of weeks in the pro rata annual earnings period

The number of weeks in the pro rata annual earnings period are the:

- tax week of appointment
- remaining tax weeks in the tax year

There are 53 weeks in the tax year but use 52 weeks when working out the pro rata period.
Ignore 5 April or 4 and 5 April in a leap year, which is week 53.
But if someone is appointed in week 53 the pro rata period is 1 week.

Read the 'Quick guide to pro rata annual earnings periods' on page 31.

25 Working out the pro rata earnings limits, Secondary Threshold, Primary Threshold, Upper Earnings limit, Upper Secondary Threshold, Apprentice Upper Secondary Threshold, Freeports Secondary Threshold, Investment Zone Upper Secondary Threshold and Veterans Upper Secondary Threshold

To work out the:

- LEL, multiply the weekly LEL by the number of tax weeks in the pro rata earnings period
- ST, divide the annual ST by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- PT, divide the annual PT by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- UEL, divide the annual UEL by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- UST, divide the annual UST by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- AUST, divide the annual AUST by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- FUST, divide the annual FUST by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- IZUST, divide the annual IZUST by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound
- VUST, divide the annual VUST by 52, multiply the answer by the number of tax weeks in the pro rata earnings period and round up to the next whole pound

Read the 'Quick guide to pro rata annual earnings periods' on page 31.

26 Director resigns during the tax year

If a director resigns during the tax year, the earnings period does not change.

27 Director resigns and is reappointed

If the director resigns during the tax year and is reappointed by the same company:

- in the same tax year, the earnings period is the one which applied before resignation
- at the beginning of a later tax year, the earnings period is annual for the later tax year
- during a later tax year, the earnings period is pro rata annual for the later tax year

Directors' earnings

28 What is included?

CWG2(2024), 'Employer Further Guide to PAYE and NICs' gives details of what is and what is not included in gross pay when working out NICs. CWG5(2024), 'Class 1A NICs on benefits in kind' gives details of what taxable benefits in kind attract Class 1A NICs.

The same rules apply to directors as for other employees but there are some additional rules for directors.

29 Fees and bonuses

Normally, when fees and bonuses are voted to directors, the fees or bonuses are added to all other earnings paid in the annual (or pro rata annual) earnings period and NICs are assessed on the total.

The NICs rates used are normally those which relate to the earnings period.

But there are exceptions to this rule.

30 Advance or anticipatory payments

Payments made in advance or in anticipation of the voting of fees or bonuses are earnings for NICs purposes.

NICs are due from the director and the company when the payments exceed the annual (or pro rata annual) ST and PT respectively which applies when they are made.

Use the NICs rates which relate to that earnings period.

NICs paid on advance or anticipatory payments and fees or bonuses are later voted
If NICs have been paid on advance or anticipatory payments and fees or bonuses are later voted, NICs are due on the fees or bonuses minus the advance or anticipatory payments already made.

Use the NICs rates and the earnings period which relate to when the voting takes place.

NICs not paid on advance or anticipatory payments and fees or bonuses are later voted
If NICs have not been paid on advance or anticipatory payments because they were, in total, less than the ST and PT and fees or bonuses are later voted, NICs are due on the full amount of the fees or bonuses which exceeds the annual (or pro rata annual) ST and PT which applies when the voting takes place.

Use the NICs rates which relate to that earnings period.

Fees or bonuses are less than the advance or anticipatory payments
If the fees or bonuses are less than the advance or anticipatory payments, no further NICs are due.

Fees or bonuses waived or refunded
If the fees or bonuses are waived or refunded to the company, in total or in part, after they have been voted, NICs are still due on:
- the advance or anticipatory payments
- any balance of the fees or bonuses

Director has an account with the company
If the director has an account, for example, 'loan' or 'current' with the company, NICs are:
- due when fees or bonuses are voted and the account credited - use the NICs rates and the earnings period which apply when the voting takes place
- not due when the director draws money out of the account if the account remains in credit

Director's account is overdrawn
If the director draws money out of the account and it becomes overdrawn or there is an increase in the amount by which it is overdrawn, there is:
- liability for NICs on the overdrawn amount, or the increase in the overdrawn amount, if the withdrawal is made in anticipation of an earnings payment, for example, fees or bonuses - use the NICs rates and the earnings period which apply when the withdrawal is made
- no liability for NICs on the overdrawn amount, or the increase in the overdrawn amount, if the withdrawal is made in anticipation of an introduction of funds which are not earnings, for example, dividends, matured insurance policies or other personal income - but there could be a liability for Class 1A NICs - read CWG5(2024), 'Class 1A NICs on benefits in kind'

Payment of a director's personal bills through an account with the company
Directors who have an account with their company may arrange for the company to settle their personal bills and then charge the amount to their account. If you meet a director's personal debt in this way and then debit the amount to the account, there is liability for NICs when the:
- account becomes overdrawn or there is an increase in the amount by which it is overdrawn
- debiting is made in anticipation of an earnings payment, for example, fees or bonuses

NICs are due on the overdrawn amount or the increase in the overdrawn amount.
Use the NICs rates and the earnings period which apply when the account is debited.

There is no liability for NICs if the:
- account becomes overdrawn or there is an increase in the amount by which it is overdrawn
- debit is made in anticipation of an introduction of funds which are not earnings, for example dividends, matured insurance policies or other personal income

31 No advance or anticipatory payments

If the director draws money out of the account and it becomes overdrawn or there is an increase in the amount by which it is overdrawn and the director does not normally receive advance or anticipatory payments, the amount overdrawn is not earnings unless the company authorises payment of the amounts-overdrawn.

The amount overdrawn can be authorised:
- in writing
- by the other directors agreeing verbally that they know about the situation

When the amounts overdrawn are properly authorised, NICs are due on the overdrawn amounts.

Use the NICs rates and the earnings period which apply when the authority is given.

Fees voted for a future period

If fees are voted for a future period, NICs are due from the director and from the company if the payments exceed the annual (or pro rata annual) ST and PT respectively which applies when the fees are actually made available to the director.

Use the NICs rates which relate to that earnings period.

32 Payments under the Employment Rights Act 1996 – in Northern Ireland, Employment Rights (Northern Ireland) Order 1996

If the director receives payments under the Employment Rights Act 1996:

- add these payments to the director's other earnings for the tax year in which the payment is made
- use the percentage rates and earnings limits which apply at the time of payment

33 Earnings paid for a period before appointment

Earnings paid to a person before the date on which they were appointed as a director which relate, for example, to when they were employees of your company, are not included with the earnings paid after that date when the director's NICs are assessed.

Earnings paid to a person after the date on which they were appointed as a director which relate, for example, to when they were employees of your company, are included with the other earnings paid after that date when the director's NICs are assessed. Use the director's earnings period (annual or pro rata annual).

34 Earnings paid in the same tax year after appointment ends

If earnings for the directorship are paid to a former director in the same tax year as their appointment ends:

- add these earnings to the total earnings already paid
- work out NICs on the total earnings using the director's earnings period

This applies even if the director becomes an employee of the company. For the rest of the tax year any earnings paid, including those paid as an employee, should be assessed for NICs using the annual or, if the director was appointed after the beginning of the tax year, the pro rata annual earnings period.

35 Earnings paid in a later tax year after appointment ends

If earnings for the directorship are paid to a former director in a tax year which starts after their appointment ends:

- do not add these earnings to any other earnings paid in that tax year
- work out NICs using an annual earnings period
- use the percentage rates and earnings limits in force for the tax year in which the payment is made

If the former director is working as an employee, separately work out the NICs due on their earnings as an employee using the appropriate earnings period.

36 Repayment of loans

If a director lends money to the company:

- any repayment of that loan is not earnings for NICs purposes
- NICs are not due on the repayments

37 Company pensions

If a director receives a company pension:

- the pension is not earnings for NICs purposes
- NICs are not due on the pension payments

NICs are due on any fees or bonuses or salary payments which are paid after the director has retired from the company. If the director is over State Pension age:

- no director's NICs are due
- NICs are due from the company at the standard rate

Working out NICs

38 Introduction

Directors' NICs are worked out on a cumulative basis unlike other employees whose NICs are worked out each week or each month.

NICs must therefore be worked out each time a payment of earnings is made to a director.

To work out how much you must pay:

- work out the NICs on the total earnings paid to date in the tax year or pro rata period
- deduct the NICs already paid, if any

This gives the NICs now due.

39 Methods of working out NICs

You can work out NICs:

- using the exact percentage method
- by adapting the NICs tables

You can only use one of these methods for a director in a tax year or pro rata period.

40 Exact percentage method

If you use the exact percentage method to work out directors' NICs, wait until the total earnings to date reach or exceed the annual (or pro rata annual) LEL.

To work out a director's standard rate NICs, multiply those earnings which exceed the annual (or pro rata annual) PT by the appropriate percentage rate. Round to the nearest penny, disregarding amounts of 0.5p or less.
Multiply those earnings which exceed the annual (or pro rata annual) PT, up to and including the annual (or pro rata annual) UEL by the appropriate percentage rate. Round to the nearest penny, disregarding amounts of 0.5p or less. Multiply those earnings which exceed the annual (or pro rata annual) UEL by 2%. Round to the nearest penny, disregarding amounts of 0.5p or less. Add the totals together.

This gives the NICs now due.

To work out a director's reduced rate NICs, multiply those earnings which exceed the annual (or pro rata annual) PT up to and including the UEL, by the reduced percentage rate.

Round to the nearest penny at each stage, disregarding amounts of 0.5p or less. Multiply those earnings which exceed the annual (or pro rata annual) UEL by 2%. Round to the nearest penny, disregarding amounts of 0.5p or less. Add the totals together.

This gives the NICs now due.

To work out the company's NICs, multiply those earnings which exceed the annual (or pro rata annual) ST up to and including the annual (or pro rata annual) UEL by the appropriate percentage rate. Round to the nearest penny, disregarding amounts of 0.5p or less.

Multiply those earnings which exceed the annual (or pro rata annual) UEL by the appropriate percentage rate. Round to the nearest penny, disregarding amounts of 0.5p or less. Add the totals together.

This gives the NICs now due.

To work out how much you must pay if further payments of earnings are made in the tax year or pro rata period:

- work out the NICs due on the total earnings to date - round to the nearest penny, disregarding amounts of 0.5p or less
- deduct the amount of NICs already paid

This gives the NICs now due.

41 Adapting the NICs tables

You can adapt the NICs tables to work out NICs.

You must not use the NICs tables at 'face value' because the figures shown relate to weekly or monthly earnings periods.

42 Adapting the monthly tables

If the director has an annual earnings period you can adapt the monthly tables to work out the NICs due each time earnings, including fees and bonuses, are paid.

1 Divide the total earnings to date by 12. This gives the average monthly earnings to date.

2 Look at the relevant monthly table for the average monthly earnings.

3 If the average monthly earnings are:
   - less than or equal to the monthly PT, no NICs are due
   - more than the monthly PT, multiply the NICs in the table by 12

   This gives the NICs due to date.

4 Deduct NICs already paid, if any. This gives the NICs now payable.

43 Adapting the weekly tables – annual earnings period

If the director has an annual earnings period you can adapt the weekly tables instead of the monthly tables, but:

- divide the total earnings by 52, not 12
- work out NICs on the average weekly earnings
- multiply the weekly NICs by 52, not 12

44 Adapting the weekly tables – pro rata annual earnings period

If the director has a pro rata annual earnings period, you can adapt the weekly tables to work out the NICs due each time earnings, including fees and bonuses, are paid.

1 Work out the total number of tax weeks in the pro rata annual earnings period.

2 Divide the total earnings paid to the director since the appointment began by the number of tax weeks in the pro rata annual earnings period. This gives the average weekly earnings to date.

3 Look at the relevant weekly table for the average weekly earnings.

4 If the average weekly earnings are:
   - less than or equal to the weekly PT, no NICs are due
   - more than the weekly PT, multiply the NICs on the table by the number of tax weeks in the pro rata period

   This gives the NICs due to date.

5 Deduct any NICs already paid. This gives the NICs now payable.

Paying NICs on account

45 Introduction

As directors have an annual (or pro rata annual) earnings period, NICs will only become due from the director and the company when the total earnings exceed the ST and PT respectively.

You can, if you want, pay the director's NICs 'on account' before the total earnings reach the annual (or pro rata annual) PT but you need the director's agreement to do this.

46 Paying the director's and company's NICs on account

If you expect the director's earnings to exceed the PT and the director agrees, you can pay NICs before the total earnings exceed the annual (or pro rata annual) PT.

Work out the director's and the company's NICs at the appropriate percentage rates.

47 What to do when NICs have been paid on account

If NICs have been paid on account as in paragraph 46, pay and report those NICs in the normal way.

48 What to do if earnings do not reach expected level

If the total earnings do not reach the PT, read paragraph 63 on page 25.

More than one job

49 Introduction

Read CWG2(2024), 'Employer Further Guide to PAYE and NICs' for the basic rules if the director:

- has more than one job with entirely different employers
- wants to know more about refunds of NICs paid in excess of the prescribed annual maximum
- wants to know about deferment of payment of Class 1 NICs

This section describes the additional rules for directors.

50 More than one job with the same company

If the director is also an employee of your company:

- add all the earnings together
- work out NICs on the total earnings using the director's earnings period
- fill in 1 payroll record

If the earnings from each job are separately worked out, you do not have to add them together if it's not reasonably practicable to do so. If this is the case:

- work out the NICs separately
- use the annual (or pro rata annual) earnings period for the earnings as a director
- use the employee's earnings period for the earnings as an employee
- fill in 2 payroll records

For more information, go to www.gov.uk/what-to-do-if-your-employee-has-more-than-1-job

51 Companies carrying on business in association

Companies are considered to be carrying on business in association with each other if the companies have some degree of common purpose substantiated by the sharing of things such as facilities, personnel, accommodation and customers and so on.

If 2 or more companies are carrying on business in association with each other:
- add all the earnings together
- work out NICs on the total earnings using the longer, or longest earnings period, that is, the pro rata or annual earnings period
- fill in 1 payroll record

Share the company's NICs due, as agreed between yourselves. If there is no agreement, share them in the same proportion as the earnings paid by each company.

If the earnings cannot be added together because the earnings are paid through different pay points:
- work out the NICs separately
- use the appropriate earnings period for each job
- fill in separate payroll records for each job

52 Single service contracts

Directors may be appointed to a group of companies under a single service contract or single service agreement.

This usually means that the directors of the parent company are also directors of one or more of the subsidiary companies. They are engaged under a single contract of service to perform duties for each of the companies as requested.

If one payment of earnings is made for all the duties, usually the parent company:
- pays the NICs
- fills in one payroll record

If earnings are paid by more than one of the companies, the companies involved must decide which of them will:
- add all the earnings together
- work out NICs on the total earnings using the longer or longest earnings period, that is, the pro rata or annual earnings period
- fill in 1 payroll record

If the earnings cannot be added together because the earnings are paid through different pay points:
- work out the NICs separately
- use the appropriate earnings period for each job
- fill in separate payroll records for each job

53 One payment of earnings covering more than one job

Consider first if the companies are carrying on business in association with each other when a director gets paid by only one company but is a director of:
- more than one company
- one company and an employee of another company

If the companies are carrying on business in association with each other, the company which pays the earnings:
- pays the NICs
- fills in 1 payroll record

Go to www.gov.uk/what-to-do-if-your-employee-has-more-than-1-job if payments are recorded and reported under separate payroll identities.

If the companies are not carrying on business in association with each other:
- split or 'apportion' the single payment of earnings into the payment due for each job
- any of the separate payments reach or exceed the appropriate LEL for the earnings period for that job, record the earnings details - if the payments exceed the PT, work out NICs on them
- fill in a separate payroll record for each job

At the end of the tax year put:
- 'X' for the NICs category letter on any payroll record when the payment for the tax year does not reach the LEL
- the appropriate NICs category letter on any other payroll record

54 Professional advisers

Some directors have more than one job because they are:

- partners in firms carrying on a profession, for example accountancy
- also directors of limited companies providing a service to that company

Payments made for the service to the limited company are not included in the director's earnings if:

- the nature of the payment satisfies certain tests (read 'The tests' outlined below)
- the nature of the work satisfies certain conditions (read 'The conditions' outlined below)

The tests

To be excluded from the director's earnings, the payment must be a payment:

- by a company
- to, or for the benefit of a director of that company
- for Class 1, that is, employed-earners, employment of that director with that company

The conditions

To be excluded from the director's earnings, all these conditions must be satisfied:

- the director must also be a partner in a firm carrying on a profession
- being a director of a company must be a common practice of membership of that profession and of that firm
- under the terms of the partnership, the director must account to the firm for the payment
- the payment must form an insubstantial part of the gross returns of the firm

55 HM Revenue and Customs Extra Statutory Concession (ESC) A37

Alternatively, if we've applied ESC A37 to certain payments for Income Tax purposes, those payments can also be excluded from earnings for the purposes of assessing the director's Class 1 NICs.

56 Nominee directors

Some directors have more than one job because they are nominated to serve on the boards of other companies as 'nominee directors'.

Payments made by the companies employing 'nominee directors' are not included in directors' earnings if:

- the nature of the payment satisfies certain tests (read 'The nature of payment tests' below)
- 1 of 2 sets of conditions are satisfied (read 'Set of conditions 1' or 'Set of conditions 2' on the next page)

In the sets of conditions:

- company 1 is the company which makes the nomination
- company 2 is the company to which the director is appointed as a nominee

The nature of payment tests

To be excluded from the directors' earnings for NICs purposes, the payment must be a payment:

- by a company
- to, or for the benefit of a director of that company
- for Class 1, that is, employed-earners, employment of that director with that company

Professional advisers flowchart

- Is the director also a partner in a firm carrying on a profession? **Yes** / **No**
- Is being a director of a company a normal practice for that profession? **Yes** / **No**
- Is being a director of a company a normal practice for a member of that firm? **Yes** / **No**
- Is the director required by the terms of the partnership to account to the firm for the payment? **Yes** / **No**
- Does the payment form an insubstantial part of the gross returns of that firm? **Yes** / **No**
- Is payment made by a company? **Yes** / **No**
- Is payment made to, or for the benefit of a director of that company? **Yes** / **No**
- Is the payment for employed-earners employment of the director with that company? **Yes** / **No**

Disregard payments for Class 1 NICs purposes

Payment cannot be disregarded

Set of conditions 1
All of these conditions must be satisfied.

Company 1 has the right to appoint the director of Company 2 because:

- of its shareholding in Company 2
- there is an agreement between Companies 1 and 2

The director must account for the payment made by Company 2 to Company 1.

The payments from Company 2 form part of the profits of Company 1 and are charged to:

- Corporation Tax
- Income Tax

See 'Nominee director flowchart 1' on page 19.

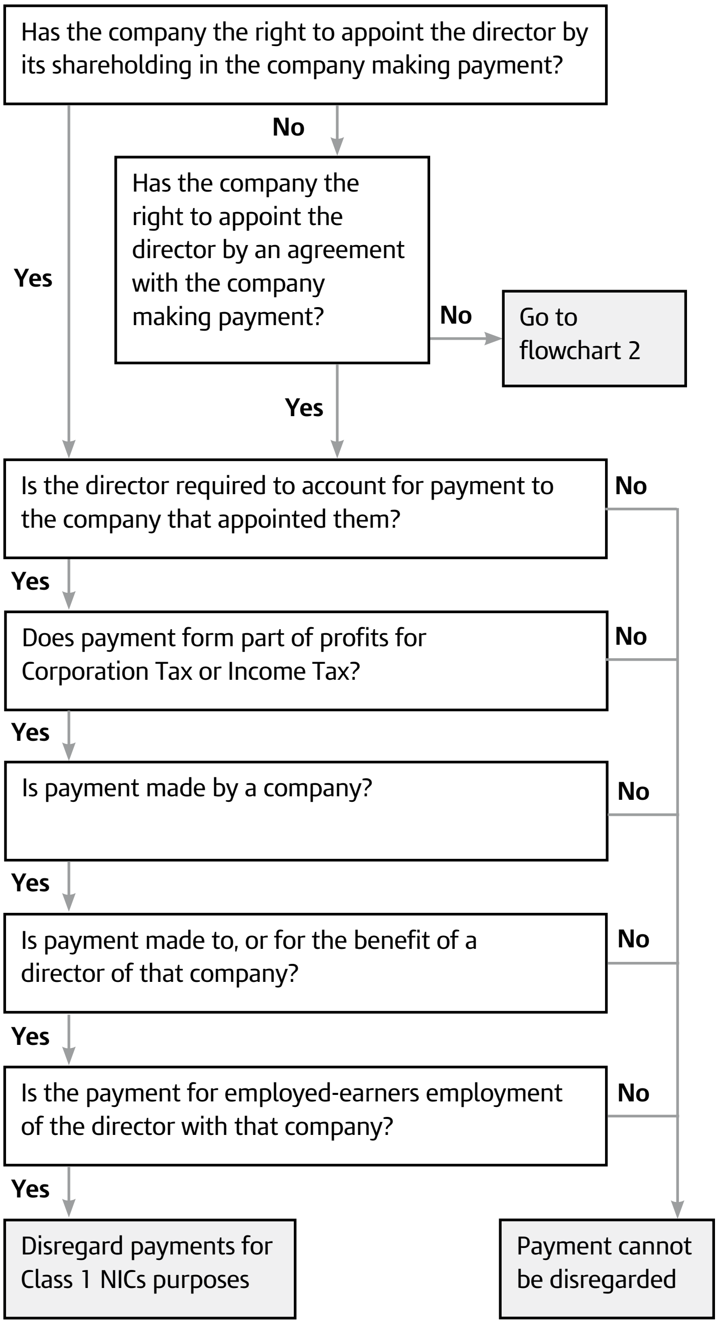
Set of conditions 2
All of these conditions must be satisfied:

- the director was appointed to Company 2 by Company 1
- the director is required to account for the payment made by Company 2 to Company 1
- the payment forms part of the profits of Company 1 and is charged to Corporation Tax
- the director has no control over Company 1
- the director's family* have no control over Company 1
- the director and their family* together have no control over Company 1

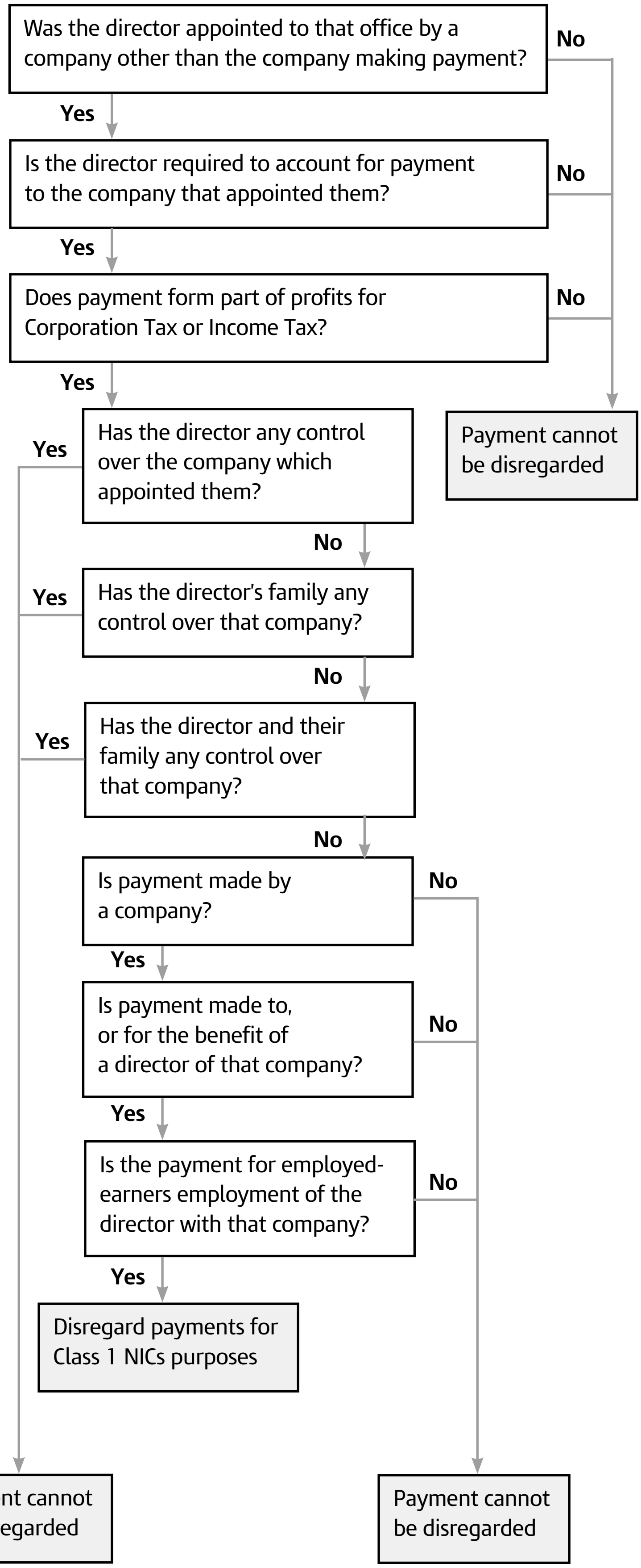
* 'Family' means spouse, civil partner, parent, child, son-in-law or daughter-in-law.

See 'Nominee director flowchart 2' on page 19.

Nominee director flowchart 1



Nominee director flowchart 2



Change in category of NICs payable

57 Introduction

Category of NICs means the NICs category letter under which NICs are payable.

The category of NICs payable may change during directors' earnings periods if they:

- reach the age of 21
- reach State Pension age
- revoke or lose the right to pay reduced rate NICs
- are an apprentice on an approved scheme who reaches the age of 25
- the eligibility conditions for the employer to receive Freeports or Investment Zones NICs relief are no longer satisfied - see CWG2(2024), paragraph 3.9.7
- the eligibility conditions for the employer to receive Armed Forces Veteran NICs relief are no longer satisfied - see CWG2(2024), paragraph 3.9.6

If the category of NICs payable changes during a director's earnings period there are some general rules which must be applied.

Earnings paid before and after the change are added together to work out NICs due.

To make sure that NICs are payable by directors on the total of their earnings which exceeds the annual (or pro rata annual) PT, the exact percentage method must be used to work out all the NICs due for the tax year (or pro rata period) in which the category of NICs changes.

The order in which to work out NICs is as follows:

- firstly, on earnings on which reduced rate NICs are payable under category letter B, E and I
- then, on earnings on which standard rate NICs are payable under category letter A, or category letter M where the director is under the age of 21, or category letter F or N for a director whose employer is eligible for Freeports or Investment Zones NICs relief, or V for a director whose employer is eligible for Veterans NICs relief or H where the director is an apprentice under the age of 25

58 Director reaches age 21

If the director reaches the age of 21 during the tax year or pro rata period:

- the category of NICs payable will change from category letter M to category letter A
- the director pays NICs as normal throughout the tax year or pro rata period - reaching age 21 does not affect the amount of primary NICs due
- the company pays NICs on earnings paid or due to be paid
  - before the director reaches the age of 21, at 0% on earnings between the ST and the UST and then at 13.8% on earnings above the UST
  - on, or after the director reaches the age of 21, at the appropriate percentage rates, on earnings above the ST

59 Director is an apprentice on an approved training scheme reaches age 25

If the director is an apprentice on an approved training scheme and reaches the age of 25 during the tax year or pro rata period:

- the category of NICs payable will change from category letter H to category letter A
- the director pays NICs as normal throughout the tax year or pro rata period - reaching age 25 does not affect the amount of primary NICs due
- the company pays NICs on earnings paid or due to be paid
  - before the director reaches the age of 25, at 0% on earnings between the ST and the AUST and then at 13.8% on earnings above the AUST
  - on, or after the director reaches the age of 25, at the appropriate percentage rates, on earnings above the ST

Example for the 2024 to 2025 tax year

Mr Williams was appointed a director on 1 June 2021. He's 21 on 13 August 2024.

Total earnings for the 2024 to 2025 tax year = £21,700.

£12,000 was paid before 13 August 2024.

Annual NICs				
LEL	**ST**	**PT**	**UEL**	**UST**
£6,396	**£9,100**	**£12,570**	**£50,270**	**£50,270**

Priority should be given to the total category M earnings of £12,000.
Then, to the total category A earnings of £9,700 which need to be reconciled at the end of the tax year as follows:

NICs category letter	Earnings	Director's NICs	Company's NICs
M	£6,396 (earnings up to LEL)	NIL	NIL
	£2,704 (balance of earnings between LEL and ST)	@0% = NIL	@0% = NIL
	£2,900 (balance of earnings between ST and PT)	@0% = NIL	@0.0% = NIL
	Total category M NICs payable	£0.00	£0.00
A	£570.00 (balance of earnings between ST and PT)	@0% = NIL	@0% = NIL
	£9,130 (balance of earnings between PT and UEL)	@8% = £730.40	@13.8% = £1,259.94
	Total category A NICs payable	£730.40	£1,259.94

Mr Williams' final Full Payment Submission (FPS) for the year would show:

Data item	Description		
79	NI category	M	A
79A	Gross earnings for NICs year to date	£12,000.00	£9,700.00
79B	Gross earnings for NICs pay period	£0.00	Actual
82	Earnings at the LEL year to date	£6,396.00	£0.00
82A	Earnings at LEL to PT year to date	£5,604.00	£570.00
169	Earnings at PT to UEL year to date	£0.00	£9,130.00
86A	Employer NICs this pay period	Actual	Actual
86Aa	Employer NICs year to date	£0.00	£1,259.94
86B	Employee NICs this pay period	Actual	Actual
86Ba	Employee NICs year to date	£0.00	£730.40
84A	Director's method of calculation	AL/AN	

60 Director reaches State Pension age

If the director reaches State Pension age during the tax year or pro rata period:

- the category of contribution payable will change to category letter C, K or S
- the director pays
  - NICs as normal on earnings paid or due to be paid before State Pension age
  - no NICs on earnings paid or due to be paid on or after State Pension age
- the company pays NICs on earnings paid or due to be paid
  - before State Pension age at the appropriate percentage rates
  - on, or after State Pension age, at the appropriate percentage rate

Example for the 2024 to 2025 tax year

Mr Roberts was appointed a director on 1 June 1990. He reached State Pension on 13 August 2024.

Total earnings for the 2024 to 2025 tax year = £30,000.

£12,000 was paid before 13 August 2024.

Annual NICs					
LEL	**ST**	**PT**	**UEL**	**UST**	**AUST**
£6,396	**£9,100**	**£12,570**	**£50,270**	**£50,270**	**£50,270**

Priority should be given to the total category A earnings of £12,000.
Then, to the total category C earnings of £18,000 which need to be reconciled at the end of the tax year as follows:

NICs category letter	Earnings	Director's NICs	Company's NICs
A	£6,396 (earnings up to LEL)	NIL	NIL
	£2,704 (balance of earnings between LEL and ST)	NIL	@ 0% = NIL
	£2,900 (balance of earnings between ST and PT)	@0% = NIL	@13.8% = £400.20
	Total category A NICs payable	£0.00	£400.20
C	£570.00 (balance of earnings between ST and PT)	NIL	@13.8% = £78.66
	£17,430 (balance of earnings between PT and UEL)	@0% = £0.00	@13.8% = £2,405.34
	Total category C NICs payable	£0.00	£2,484.00

Mr Roberts' final Full Payment Submission (FPS) for the year would show:

Data item	Description		
79	NI category	A	C
79A	Gross earnings for NICs year to date	£12,000.00	£18,000.00
79B	Gross earnings for NICs pay period	£0.00	Actual
82	Earnings at the LEL year to date	£6,396.00	£0.00
82A	Earnings at LEL to PT year to date	£5,604.00	£570.00
169	Earnings at PT to UEL year to date	£0.00	£17,340.00
86A	Employer NICs this pay period	Actual	Actual
86Aa	Employer NICs year to date	£400.20	£2,484.00
86B	Employee NICs this pay period	Actual	Actual
86Ba	Employee NICs year to date	£0.00	£0.00
84A	Director's method of calculation	AL/AN	

61 Married woman's or widow's reduced rate authority ends

Married women and widows who have the right to pay reduced rate NICs, that is, they have a valid certificate of election, pay their NICs at the reduced rate on all those earnings which exceed the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UEL, then at a rate of 2% on those earnings which exceed the UEL.

If the authority to pay reduced rate NICs ends, for example because the woman is divorced or she revokes the election, the category of contribution payable will change from B to A.

If the total earnings paid, both before and after the change, are less than the annual (or pro rata annual) ST or PT, no NICs are due from the director or the company.

If the total earnings reach the annual (or pro rata annual) UEL before the change:

- the director pays NICs at the reduced percentage rate on all those earnings which exceed the annual (or pro rata annual) PT up to and including the UEL, then at a rate of 2% on any earnings which exceed the UEL
- the company pays NICs at the appropriate percentage rates on all those earnings which exceed the annual (or pro rata annual) ST

Example for the 2024 to 2025 tax year

Mrs Brown, a director since 12 July 1988, revokes her election on 12 January 2025.
She earns £50,270 before the change and £8,000 afterwards.

Annual NICs					
LEL	**ST**	**PT**	**UEL**	**UST**	**AUST**
£6,396	**£9,100**	**£12,570**	**£50,270**	**£50,270**	**£50,270**

Priority should be given to the total category B earnings of £50,270.
Then to the total category A earnings of £8,000 as follows:

NICs category letter	Earnings	Director's NICs	Company's NICs
B	£6,396 (earnings up to LEL)	NIL	NIL
	£2,704 (balance of earnings between LEL and ST)	NIL	NIL
	£2,900 (balance of earnings between ST and PT)	NIL	@13.8% = £400.20
	£37,700 (balance of earnings between PT and UEL)	@1.85% = £697.45	@13.8% = £5,206.60
	Total category B NICs payable	£697.45	£5,206.60
A	£8,000 (earnings over UEL)	@2% = £160.00	@13.8% = £1,104.00

Mrs Brown's final Full Payment Submission (FPS) for the year would show:

Data item	Description		
79	NI category	B	A
79A	Gross earnings for NICs year to date	£50,270.00	£8,000.00
79B	Gross earnings for NICs pay period	£0.00	Actual
82	Earnings at the LEL year to date	£6,396.00	£0.00
82A	Earnings at LEL to PT year to date	£5,604.00	£0.00
169	Earnings at PT to UEL year to date	£37,700.00	£0.00
86A	Employer NICs this pay period	Actual	Actual
86Aa	Employer NICs year to date	£5,602.80	£1,104.00
86B	Employee NICs this pay period	Actual	Actual
86Ba	Employee NICs year to date	£697.45	£160.00
84A	Director's method of calculation	AL/AN	

A separate category letter A is not required where, after recalculation, a category letter is no longer needed. Any previously reported year to date figures should be zeroed out. If the total earnings exceed the annual (or pro rata annual) PT before the change, but they do not reach the UEL, the director pays NICs at the:

- reduced percentage rate on those earnings which exceed the annual (or pro rata annual) PT paid or due to be paid before the change
- standard percentage rate, on the balance of earnings up to and including the annual (or pro rata annual) UEL
- rate of 2% on any earnings which exceed the UEL

The company pays NICs at the appropriate percentage rates on all those earnings which exceed the annual (or pro rata annual) ST paid before and after the change. If the total earnings are less than the annual (or pro rata annual) PT before the change, but the total earnings for the tax year or pro rata period exceed the PT, the director pays NICs at the standard percentage rate, on those earnings which exceed the annual (or pro rata annual) PT up to and including the annual (or pro rata annual) UEL, then at a rate of 2% on any earnings which exceed the UEL. The company pays NICs at the appropriate percentage rates on all those earnings which exceed the annual (or pro rata annual) ST.

Example for the 2024 to 2025 tax year

Mrs Cross' marriage ends in divorce on 8 August 2024. As a director she earns £30,000 in the 2024 to 2025 tax year, £10,000 was paid before 8 August 2024.

Annual NICs			
LEL	**ST**	**PT**	**UEL**
£6,396	**£9,100**	**£12,570**	**£50,270**

Priority should be given to the total category B earnings of £10,000. Then to the total category A earnings of £20,000 which need to be reconciled at the end of the tax year as follows:

NICs category letter	Earnings	Director's NICs	Company's NICs
B	£6,396 (earnings up to LEL)	NIL	NIL
	£2,704 (balance of earnings between LEL and ST)	NIL	NIL
	£900 (balance of earnings between ST and PT)	NIL	@13.8% = £124.20
	Total category B NICs payable	NIL	= £124.20
A	£2,570 (balance of earnings between ST and PT)	NIL	@13.8% = £354.66
	£17,430 (balance of earnings between PT and UEL)	@8% = £1,394.40	@13.8% = £2,405.34
	Total category A NICs payable	£1,394.40	£2,760.00

Mrs Cross' final Full Payment Submission (FPS) for the year would show:

Data item	Description		
79	NI category	B	A
79A	Gross earnings for NICs year to date	£10,000.00	£20,000.00
79B	Gross earnings for NICs pay period	£0.00	Actual
82	Earnings at the LEL year to date	£6,396.00	£0.00
82A	Earnings at LEL to PT year to date	£3,604.00	£2,570.00
169	Earnings at PT to UEL year to date	£0.00	£17,430.00
86A	Employer NICs this pay period	Actual	Actual
86Aa	Employer NICs year to date	£124.20	£2,760.00
86B	Employee NICs this pay period	Actual	Actual
86Ba	Employee NICs year to date	£0.00	£1,394.40
84A	Director's method of calculation	AL/AN	

Recording NICs information

62 Introduction

The normal rules about recording NICs information can be found at www.gov.uk/topic/business-tax/paye and in the CWG2(2024), 'Employer Further Guide to PAYE and NICs'.

63 If you've paid NICs before earnings exceed Primary Threshold

If NICs are paid on account before the total earnings exceed the annual (or pro rata annual) PT record the earnings and NICs paid on the payroll record. If you adjust the NICs later because the earnings do not exceed the annual (or pro rata annual) PT:

- amend the final entry on the payroll record
- adjust the final payment to your accounts office
- refund the NICs paid to the director

64 Paying NICs at the time they are due

You can use 1 of 2 methods to record director's NICs information on the payroll record.

Payment-by-payment method

If you use the payment-by-payment method to record NICs information, record on the payroll record:

- the actual NICs due each time a payment of earnings is made
- the actual earnings details as appropriate, each time a payment of earnings is made
- all other NICs information

At the end of the tax year:

- add up the figures on the payroll record as normal
- record the totals

Cumulative method

If you use the cumulative method to record NICs information, record on the payroll record:

- the cumulative NICs due each time a payment of earnings is made
- the cumulative earnings as appropriate, each time a payment of earnings is made
- all other cumulative NICs information at the end of the tax year record the cumulative totals

Cumulative records can easily be converted to a payment-by-payment record by deducting the previous NICs information from the current NICs information.

65 Earnings added together or change in the category of NICs payable

The examples in this booklet show how to record the earnings details.
Read 'Change in category of NICs payable', paragraph 57 on page 20 onwards.
Remember to record the other NICs and tax information on your payroll records.

66 If you use a computerised payroll system

Please make sure the total earnings have been accumulated in the appropriate data areas.

If you use the cumulative method to record NICs information your system must be capable of:

- holding all the cumulative data
- producing printouts giving the NICs information on a payment-by-payment basis

The examples in this booklet show how to record the earnings details.
Read 'Change in category of NICs payable', paragraph 57 on page 20 onwards.

PAYE Online for employers

67 Do it online

Using the PAYE Online service is a simple, secure, fast and convenient way of exchanging information with us. It saves you time, cuts down on errors and can help you to reduce your administration and storage costs. When using the online service, you'll be able to see your PAYE tax position, including Class 1 NICs payments and outstanding amounts for 2010 to 2011 and later tax years. You'll also receive information such as employee tax codes quicker benefiting both you and your employees.

How to send and receive information online

There are various methods to choose from. You can use:

- a bookkeeper, agent or payroll bureau to file online on your behalf using our PAYE Online for Agents service
- our free PAYE Online for employers internet service
- Electronic Data Interchange (EDI) - this is suitable for large employers who typically have employee numbers in the thousands or very high staff turnover

For more information, go to www.gov.uk/topic/business-tax/paye

Forms and returns you need to send online
Almost all employers must report their payroll information online using a Full Payment Submission (FPS) for each pay period. There are however, a small number of employers who may be:
- exempt from submitting this information online
- unable to due to exceptional circumstances submit information online

There are very few exceptions. For more information about the exceptions, go to www.gov.uk/topic/business-tax/paye

How to register for online services
If you've not yet registered for online filing, the registration process will only take you a matter of minutes. But you'll need to wait for an activation code before you can start using the service.
We'll send you this by post within 7 days of registration.

For more information about online filing, registration and the deadlines you need to meet, go to www.gov.uk/paye-online

Special circumstances

68 Directors who go to work abroad or come to work in the UK

This section provides brief guidelines about Class 1 NICs for directors living and/or working abroad.

There are different rules if the director goes to work in, or comes to work in the UK from:
- a country (or group of countries) that the UK has a social security agreement with (sometimes known as reciprocal agreements, bilateral agreements or social security coordination agreements)
- a country that the UK does not have a social security agreement with

The social security rules in the agreements that the UK has with other countries are used to work out which country's social security scheme a director will pay into when they are from the UK working in one or more of those countries or come from one of those countries to work in the UK.

Countries with which the UK has a social security agreement

Barbados Bermuda Canada Chile The European Union (EU) The European Free-Trade Association (EFTA) - Iceland Norway and Liechtenstein Gibraltar Ireland* Isle of Man Israel	Jamaica Japan Jersey and Guernsey South Korea also known as the Republic of Korea Liechtenstein Mauritius New Zealand Philippines Switzerland Turkey USA	Republics of former Yugoslavia (Bosnia-Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia)

*Directors working in the UK and Ireland may be covered by an EU social security agreement or the 2019 UK - Ireland Social Security Convention.

EU countries covered by the agreement the UK has with the EU

Austria	France	Malta
Belgium	Germany	Netherlands
Bulgaria	Greece	Poland
Croatia	Hungary	Portugal
Cyprus	Ireland	Romania
Czech Republic	Italy	Slovakia
Denmark	Latvia	Slovenia
Estonia	Lithuania	Spain
Finland	Luxembourg	Sweden

The table below and on page 28 shows when a director may be liable to pay UK NICs when:
- going to work abroad
- coming to the UK to work

Director goes to work abroad	• in a country that the UK has a social security agreement with	The general rule is that a director will pay contributions to the social security scheme of the country in which they are working, unless they are entitled to, and hold a certificate issued by HMRC. The certificate will exempt the director from having to pay social security contributions in the other country. For more information about directors leaving the UK to work in: • the EU, Iceland, Liechtenstein, Norway or Switzerland, go to www.gov.uk/guidance/national-insurance-for-workers-from-the-uk-working-in-the-eea-or-switzerland • another country with which the UK has a social security agreement, go to www.gov.uk/national-insurance-if-you-go-abroad
	• in a country that the UK does not have a social security agreement with	If: • the employer has a place of business in the UK • the director is ordinarily resident in the UK • immediately before the start of the employment abroad the director was resident in the UK the director will be liable for UK NICs for the first 52 weeks of the employment abroad. For more information, go to www.gov.uk/national-insurance-if-you-go-abroad

Director comes to work in the UK	• from a country that the UK has a social security agreement with	The general rule is that a director will be liable to pay UK NICs unless they are entitled to, and hold a certificate issued by the social security authority in the country from which the director has come. The certificate will exempt the director from having to pay UK NICs. For more information about directors coming to the UK from: • the EU, Iceland, Liechtenstein, Norway or Switzerland, go to www.gov.uk/guidance/social-security-contributions-for-workers-coming-to-the-uk-from-the-eea-or-switzerland • another country with which the UK has a social security agreement, go to www.gov.uk/guidance/new-employee-coming-to-work-from-abroad
	• from a country that the UK does not have a social security agreement with	The general rule is that a director will be liable to pay UK NICs unless all the following apply: • they are not ordinarily resident in the UK • they normally work outside the UK for a foreign employer • they are sent to work in the UK by that foreign employer • when in the UK they continue to work for that employer (even if their foreign employer has a place of business in the UK) then the director will not be liable for UK NICs for the first 52 weeks of their employment in the UK. Directors not covered by the above may still be exempt from paying UK NICs. Read the table headed 'Special concession' below.

Special concession	A director, who is neither resident nor ordinarily resident in the UK: • comes to the UK from a country with which the UK does not have a social security agreement • the only work the director does in the UK is to attend board meetings	We'll not seek payment of UK NICs if: • they attend no more than 10 board meetings in a tax year and each visit to the UK during which a board meeting takes place lasts no more than 2 nights • there is only 1 board meeting in a tax year and the visit to the UK during which that board meeting takes place lasts no more than 2 weeks If the director's attendance for board meetings does not fit the criteria above, the special concession will not apply.

For more information, go to www.gov.uk/guidance/new-employee-coming-to-work-from-abroad and www.gov.uk/national-insurance-if-you-go-abroad or phone our Employer Helpline on 0300 200 3200.

69 Joint employment of spouses and civil partners

A spouse or civil partner may get a joint payment of earnings as:

- 2 directors
- a director and an employee

Earnings can be apportioned

If the earnings are divided or apportioned for Income Tax under employment income, divide or apportion the earnings for NICs purposes in the same way.

Earnings cannot be apportioned

If the earnings cannot be divided or apportioned, for example because there is no employment Income Tax scheme or the split is considered unreasonable or doubtful, contact us for advice.

70 Director supplying services through a limited company

Legislation, commonly known as 'IR35', came into effect on 6 April 2000 at Chapter 8, Part 2 ITEPA 2003. This legislation affects individuals including directors who use an intermediary (such as a limited company) to provide their services to clients. Under this legislation, when an individual is an office-holder of the client, or would be classed as an employee or office-holder of the client if it were not for the limited company, the intermediary is required to pay NICs on the amounts paid to it from the client, less certain deductions.

The 'IR35' rules were amended under off-payroll working reform at Chapter 10, Part 2 ITEPA 2003 with effect from 6 April 2017 for engagements where the client is a Public Authority, and from 6 April 2021 for engagements where the client is a medium or large-sized non-Public Sector entity. Engagements which fall under this legislation are subject to different rules for payments made after the relevant date. The deemed employer is now responsible for deducting NICs from the deemed direct payment before paying the intermediary where the rules apply. It is the client who now decides whether the rules apply.

There are still situations where the rules at Chapter 8 will apply and the intermediary will be responsible for calculating and deducting NICs, such as where a client is wholly overseas or does not meet the conditions to be medium or large-sized.

An engagement will be within scope of the off-payroll working legislation where the conditions of liability are met. The conditions of liability where a director provides their services to an end client through their own limited company are that the director:

- has beneficial ownership of, or the ability to control, more than 5% of the ordinary share capital of the company,
- has possession of, or entitlement to acquire right entitling them to receive more than 5% of any distributions made by the company
- has rights that would allow them to receive or acquire more than 5% of the assets available for distribution in the event of a closed company being wound up
- has some interest, but not a material interest in the intermediary and receives a chain payment from the intermediary which does not wholly constitute employment income

The company is able to make certain deductions before working out the amount which is liable for NICs as the director's deemed earnings. The company must work out at the end of the tax year, 5 April, just how much income received from contracts with clients has not been subjected to NICs and make the deductions then. This is known as the worker's attributable earnings for the year.

Where the new off-payroll working rules apply, the deemed employer is responsible for calculating and deducting NICs from the deemed direct payment each time a payment is made, therefore the intermediary will not have to calculate NICs due from payments received which have already been subject to deduction. The deemed direct payment is calculated by deducting an amount for VAT and allowable expenses from the deemed payment.

The rules for determining whether a director of their own Personal Service Company is subject to the legislation (because they would be regarded as an employee if their limited company did not exist) rely upon the existing factors used to determine a person's employment status. These factors, which have been established by the courts, determine whether an individual should be treated as employed or self-employed.

The factors which most people would recognise include whether the individual:

- is required to carry out the work personally
- is subject to the engager's control to a sufficient degree
- is in business on their own account

Each engagement must be looked at in the light of all the facts.

The new off-payroll working rules take precedence over the Managed Service Company (MSC) legislation, however the MSC legislation continues to take precedence over the IR35 legislation at Chapter 8, Part 2 ITEPA 2003.

For full details of the rules and how to apply IR35 legislation, go to www.gov.uk/ir35-find-out-if-it-applies

Guidance on the new off-payroll working rules can be found at www.gov.uk/hmrc-internal-manuals/employment-status-manual/esm10000

71 Managed Service Companies (MSC)

Legislation, commonly known as Managed Service Company legislation, affects workers who provide their services through an MSC.

An MSC is a form of intermediary company through which workers provide their services to end clients. For this legislation to apply a scheme provider who promotes the use of these companies and provides the structure to workers must be involved. The worker (although a shareholder) may or may not exercise control over the company.

The MSC legislation takes precedence over IR35 legislation at Chapter 8, Part 2 ITEPA 2003, however, the new off-payroll working legislation at Chapter 10, Part 2 ITEPA 2003 now takes precedence over MSC legislation.

Where the MSC legislation applies, all payments received by the person providing their services through such companies must be treated by the MSC as earnings from employment. The effect of this will be as follows:

- Income Tax (PAYE) and Class 1 NICs will be due on all payments received by individuals providing their services through such companies
- for the purpose of working out travel expenses the individual is treated as if they are working for the client - this means that travel expenses to the individual's place of work are not allowable tax-free

Under the legislation, where an MSC incurs a PAYE or NICs debt that cannot be recovered from the company, we may transfer the debt to the Managed Service Company Provider or a director of this Provider personally.

For more information, go to www.gov.uk/hmrc-internal-manuals/employment-status-manual/esm3500

Statutory payments

72 Introduction

Directors of limited companies are treated like other employees for statutory payment purposes.
However, there are special rules to working out their average weekly earnings.

For general information on how to operate the schemes go to www.gov.uk/browse/employing-people/time-off

Quick guide to pro rata annual earnings periods

	Tax period Thu	Fri	Sat	Sun	Mon	Tue	Wed	Appointed in tax week number	Number of weeks in pro rata period	Pro rata annual LEL	Pro rata annual PT	Pro rata annual ST	Pro rata annual FUST/ IZUST	Pro rata annual UEL	Pro rata annual UST	Pro rata annual AUST
April	6	7	8	9	10	11	12	1	Annual earnings period applies							
	13	14	15	16	17	18	19	2	51	6273	12329	8925	24520	49304	49304	49304
	20	21	22	23	24	25	26	3	50	6150	12087	8750	24039	48337	48337	48337
	27	28	29	30	1	2	3	4	49	6027	11845	8575	23558	47370	47370	47370
May	4	5	6	7	8	9	10	5	48	5904	11604	8400	23077	46404	46404	46404
	11	12	13	14	15	16	17	6	47	5781	11362	8225	22597	45437	45437	45437
	18	19	20	21	22	23	24	7	46	5658	11120	8050	22116	44470	44470	44470
	25	26	27	28	29	30	31	8	45	5535	10878	7875	21635	43503	43503	43503
	1	2	3	4	5	6	7	9	44	5412	10637	7700	21154	42537	42537	42537
June	8	9	10	11	12	13	14	10	43	5289	10395	7525	20674	41570	41570	41570
	15	16	17	18	19	20	21	11	42	5166	10153	7350	20193	40603	40603	40603
	22	23	24	25	26	27	28	12	41	5043	9911	7175	19712	39636	39636	39636
	29	30	1	2	3	4	5	13	40	4920	9670	7000	19231	38670	38670	38670
July	6	7	8	9	10	11	12	14	39	4797	9428	6825	18750	37703	37703	37703
	13	14	15	16	17	18	19	15	38	4674	9186	6650	18270	36736	36736	36736
	20	21	22	23	24	25	26	16	37	4551	8945	6475	17789	35770	35770	35770
	27	28	29	30	31	1	2	17	36	4428	8703	6300	17308	34803	34803	34803
	3	4	5	6	7	8	9	18	35	4305	8461	6125	16827	33836	33836	33836
Aug	10	11	12	13	14	15	16	19	34	4182	8219	5950	16347	32869	32869	32869
	17	18	19	20	21	22	23	20	33	4059	7978	5775	15866	31903	31903	31903
	24	25	26	27	28	29	30	21	32	3936	7736	5600	15385	30936	30936	30936
	31	1	2	3	4	5	6	22	31	3813	7494	5425	14904	29969	29969	29969
Sept	7	8	9	10	11	12	13	23	30	3690	7252	5250	14424	29002	29002	29002
	14	15	16	17	18	19	20	24	29	3567	7011	5075	13943	28036	28036	28036
	21	22	23	24	25	26	27	25	28	3444	6769	4900	13462	27069	27069	27069
	28	29	30	1	2	3	4	26	27	3321	6527	4725	12981	26102	26102	26102
Oct	5	6	7	8	9	10	11	27	26	3198	6285	4550	12500	25135	25135	25135
	12	13	14	15	16	17	18	28	25	3075	6044	4375	12020	24169	24169	24169
	19	20	21	22	23	24	25	29	24	2952	5802	4200	11539	23202	23202	23202
	26	27	28	29	30	31	1	30	23	2829	5560	4025	11058	22235	22235	22235
Nov	2	3	4	5	6	7	8	31	22	2706	5319	3850	10577	21269	21269	21269
	9	10	11	12	13	14	15	32	21	2583	5077	3675	10097	20302	20302	20302
	16	17	18	19	20	21	22	33	20	2460	4835	3500	9616	19335	19335	19335
	23	24	25	26	27	28	29	34	19	2337	4593	3325	9135	18368	18368	18368
	30	1	2	3	4	5	6	35	18	2214	4352	3150	8654	17402	17402	17402
Dec	7	8	9	10	11	12	13	36	17	2091	4110	2975	8174	16435	16435	16435
	14	15	16	17	18	19	20	37	16	1968	3868	2800	7693	15468	15468	15468
	21	22	23	24	25	26	27	38	15	1845	3626	2625	7212	14501	14501	14501
	28	29	30	31	1	2	3	39	14	1722	3385	2450	6731	13535	13535	13535
Jan	4	5	6	7	8	9	10	40	13	1599	3143	2275	6250	12568	12568	12568
	11	12	13	14	15	16	17	41	12	1476	2901	2100	5770	11601	11601	11601
	18	19	20	21	22	23	24	42	11	1353	2660	1925	5289	10635	10635	10635
	25	26	27	28	29	30	31	43	10	1230	2418	1750	4808	9668	9668	9668
Feb	1	2	3	4	5	6	7	44	9	1107	2176	1575	4327	8701	8701	8701
	8	9	10	11	12	13	14	45	8	984	1934	1400	3847	7734	7734	7734
	15	16	17	18	19	20	21	46	7	861	1693	1225	3366	6768	6768	6768
	22	23	24	25	26	27	28	47	6	738	1451	1050	2885	5801	5801	5801
	29	1	2	3	4	5	6	48	5	615	1209	875	2404	4834	4834	4834
March	7	8	9	10	11	12	13	49	4	492	967	700	1924	3867	3867	3867
	14	15	16	17	18	19	20	50	3	369	726	525	1443	2901	2901	2901
	21	22	23	24	25	26	27	51	2	246	484	350	962	1934	1934	1934
	28	29	30	31	1	2	3	52	1	123	242	175	481	967	967	967
	4	5						53	1	123	242	175	481	967	967	967

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