NICs and the self-employed

Following the Spring Budget, the National Insurance treatment of the self-employed hit the headlines after it was announced the main rate of Class 4 contributions would be increased to 10% from April 2018 and to 11% from April 2019. The measure, billed as the `white van man tax', was short-lived. Amid criticism that the Government had gone back on their election promise not to increase National Insurance, they performed a U-turn a week later – giving a further promise that the Class 4 rates would remain unchanged during this Parliament. Then Theresa May announced a General Election…

So where are we now with NICs and the self-employed?

Current rules

The self-employed currently pay two Classes of National Insurance contributions – Class 2 and Class 4.

Class 2 is a flat weekly rate payable where profits exceed the small profits threshold (set at £6,025 for 2017/18) for each week of self-employment in the tax year. For 2017/18, the Class 2 rate is £2.85 per week. It is Class 2 contributions that currently earn the self-employed rights to the state pension and certain contributory benefits.

Class 4 contributions are essentially a further tax on profits. They currently confer no benefit entitlement. For 2017/18, Class 4 contributions are payable at the main rate of 9% on profits between the lower profits limit of £8,174 and the upper profits limit of £45,000, and at the additional rate of 2% on profits above £45,000.

Both Class 2 and Class 4 contributions are collected via the self-assessment system.

New rules from April 2018

National Insurance contributions for the self-employed are to be reformed from April 2018.

Class 2 National Insurance contributions are being abolished from 6 April 2018 and Class 4 reformed to take on the role of providing benefit entitlement for the self-employed.

The new-look Class 4 structure that will apply from that date will closely resemble Class 1 contributions as applied on an annual basis (as for, say, company directors). A new small profits limit will be introduced and aligned with the lower earnings limit for Class 1 purposes (£113 per week for 2017/18). A zero rate will apply to profits which fall between the small profits limit and the lower profits limit which, like the Class 1 equivalent, will earn state pension and benefit rights for self-employed earners whose profits fall in this band. As is currently the case, contributions will be payable at the main rate between the lower and upper profits limits, and at the additional rate on profits above the upper profits limit.

As at the time of writing, the plan appears to be for the main rate to remain at 9%. However, as we enter a new Parliament, the Government may be free of the shackles imposed by previous election promises and the statutory NIC lock and decide after all to raise the main rate from April 2018. It is a case of watch this space.