

NI GUIDANCE FOR SOFTWARE DEVELOPERS 2008/2009

Table of Contents		Page No.
	Glossary of Terms	2
	Important Changes to National Insurance Contributions From April 2008	3
1.	Introduction	4
2.	National Insurance Contributions Information For Tax Years From April 2003	5
3.	Completing Form T11 (2008/2009)	7
4.	Description of the Differences Between Calculating NICs Using the Tables and the Exact Percentage Method	8
5.	Calculation of Minimum Payments for Employers with Contracted Out Money Purchase Schemes	8
6.	Validation Checks	10
7.	Rules for Rounding	13
8.	NIC Calculation Formulae - Exact percentage method	14
9.	Director's NIC Calculation Formulae	16
10.	NIC Calculation Formulae	19
11.	Calculation of NICs on Holiday Pay	20

APPENDICIES

Appendix 1 Earnings limits for National Insurance Contributions

Appendix 2 Not contracted-out Contributions Rates

Appendix 3 Contribution Rates for Contracted-out Salary Related Schemes

Appendix4 Contribution Rates for Contracted-out Money Purchase Schemes

GLOSSARY OF TERMS

GP	Gross Pay for NI purposes
EE	Employee
ER	Employer
w/m	Number of weeks or months in tax year i.e. 52 weeks or 12 months.
p	Number of weeks/months in Pay Period. Round result of calculation at this point up to nearest whole pound.
p ¹	Number of weeks/months in Pay Period. If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round UP to whole pounds.
LEL	Annual Lower Earnings Limit
UEL	Annual Upper Earnings Limit
R	Round at this point
ET	Annual Earnings Threshold
EER	Employee's Percentage Rate appropriate to Table Letter
ERR	Employer's Percentage Rate appropriate to Table Letter
EE'RR	Rebate % rate on employee's NICs appropriate to Table Letter
ER'RR	Rebate % rate on employer's NICs appropriate to Table Letter
ptd	Paid to date
ER'CO % R	Employer's contracted-out percentage rate appropriate to Table Letter
ER'NCO % R	Employer's not contracted-out percentage rate appropriate to Table Letter
c	Before the change

Information for Payroll Software Developers

Important Change to National Insurance Contributions From April 2008

Since April 2003 the Isle of Man has used different rates of National Insurance for employees to those used in the United Kingdom. With effect from April 2008 the Isle of Man will be adopting a different Upper Earnings Limit from that used in the United Kingdom. Therefore it is imperative that payroll developers producing payroll programs for the Isle of Man do not refer either to Software guidance issued by the United Kingdom's Inland Revenue, or use information available on their website.

Please refer to pages 21 to 24 of this guide for the rates and limits to be used for the 2008/09 tax year.

Continuous T14 stationery

From 6th April 2008 we will no longer supply continuous T14 stationery.

Substitute T14s

If you provide substitute T14 forms then you must have the form approved by the Treasury, Income Tax Division. For further details on the approval of substitute T14 forms, please contact the Income Tax Division on 01624 685420.

Electronic submission of an employer's return

This Department along with the Treasury, Income Tax Division have the facility to accept employer returns in an electronic format. For further details on how to submit your annual return in this format please contact the Income Tax Division on 685388.

Please note that electronic submission of employer returns is the preferred method of both this Department and the Treasury, Income Tax Division.

1. INTRODUCTION

1.1 This specification sets out the calculation format for National Insurance Contributions (NICs) for **2008/2009**.

1.2 The method of calculation preferred by the Department is the Exact Percentage Method.

1.3 Please note that the manual NIC Tables are designed for the convenience of the manual user, incorporating various roundings which make for possible differences to the calculations undertaken by computerised NIC routines. Software packages which use a mixture of NIC Tables and the Exact Percentage Method must not allow National Insurance to be deducted, for an employee, by both methods within one tax year by the same payroll.

1.4 This specification gives instructions for weekly/monthly paid or multiples of weeks or months i.e., 3, 4, 5 weeks etc.

1.5 If you want to contact the Department's Contributions Section on (01624) 685046, we would be pleased to offer further help and assistance.

2. NATIONAL INSURANCE CONTRIBUTIONS INFORMATION FOR TAX YEARS FROM APRIL 2003

2.1

- The employer's rate of NICs was increased by 1% to 12.8%
- NIC rebates will be offset against the NICs due and the net figure will be recorded on the T11 & T14. In some cases the Rebate maybe more than the NICs due resulting in a minus figure. This is covered in more detail in section 8.
- The Department re-named category C contracted-out to differentiate between category C not contracted-out. The three new table letters for employees with a valid certificate of deferment will be:

J Not contracted-out (previously not contracted-out C)

L Contracted-out (previously contracted-out C)

Q Mariner's not contracted-out (previously not contracted-out W)

It should noted that table letter C for employees over state pension age will remain as category letter C not contracted-out.

2.2 ACCOUNTING FOR NIC REBATES

Employees and employers in contracted-out employment are entitled to a reduction in their NICs on earnings between the LEL to the UEL. NICs are paid on earnings above the ET. The term 'NICs rebate' is used to describe the reduction in NICs on the earnings between the LEL and ET on which no NICs are due.

NIC rebates are only appropriate for contracted-out contributions:

- Employers are entitled to NIC rebates for contribution table letters D, E, L, F, G, S and mariners' equivalents.
- Employees are only entitled to NIC rebates for contribution table letters D, F, L & S and mariners' equivalents.

Employees in contracted-out employment pay NICs at 8.4% on earnings between the ET and the UEL. They are also entitled to a NIC rebate of 1.6% on earnings between the LEL and ET.

Employee's NIC Rebate

The employee's NIC Rebate is calculated on earnings between the LEL and the ET. The employee is entitled to that portion of his rebate that can be offset against his NICs. The employer is entitled to any balance of the employee's NIC Rebate that cannot be offset against the employee's NICs.

Employer's NIC Rebate

The employer's NIC Rebate is also calculated on earnings between the LEL and the ET. The employer is entitled to his own rebate plus any balance of employees NIC rebate not offset.

Example

An employee earning £106 per week (Contribution Table letter D)

Employee's NICs = £1 x 8.4% = £0.08

Employer's NICs = £1 x 9.1% = £0.09

Employee's NIC rebate = £105 - £90 = £15 x 1.6% = £0.24

Employer's NIC rebate = £105 - £90 = £15 x 3.7% = £0.55

The employee is entitled to £0.24 of their NIC rebate which reduces their NIC liability to nil.

The employer is entitled to the balance of £0.16, PLUS their own NIC rebate of £0.55 = £0.71.

£0.71 employer rebate offset against £0.09 employer NICs = -£0.62 Employer NICs.

Negative figures should be donated by an 'R' immediately before the entry in column 1d of the form T11.

Form T11

	1a	1b	1c	1d	1e
£106	90	15	1	R 0.62	0.00

If you would like to receive a copy of future Software Developers guides/updates electronically, then please e-mail the Department using the following e-mail address: Jill.Carter@gov.im

3. COMPLETING FORM T11 FOR 2008/2009

3.1 The format for the deductions working sheet - form T11 - is reflected in the following paragraphs.

3.2 Earnings - Columns 1a to 1c should contain whole pounds only if NICs are calculated using the tables method. If NICs are calculated using the exact percentage method, column 1a should contain whole pounds only, and column 1b to 1c should contain pounds and pence.

3.3 All references to LEL, ET and UEL in this section are the rates appropriate to the earnings period, i.e. weekly, monthly or multiples thereof.

1a Populate with LEL as soon as earnings reach or exceed LEL. Even when no NICs are due.

1b Earnings above the LEL up to and including the ET.

1c Earnings above ET up to and including UEL.

Please note there is no need to record earnings above the UEL.

3.4 Contributions - Columns 1d and 1e should contain pounds and pence

1d All earnings above ET multiplied by the appropriate Employer's percentage rates

PLUS

all earnings above ET up to and including UEL multiplied by the appropriate Employee's percentage rate.

MINUS

any NIC rebates due on earnings between the LEL to ET (see section 8)

1e All earnings above ET up to and including UEL multiplied by the Employee's percentage rate.

MINUS

any NIC rebate due to the employee on earnings between the LEL to ET (see section 8)

4. DESCRIPTION OF THE DIFFERENCES BETWEEN CALCULATING NICs USING THE TABLES AND THE EXACT PERCENTAGE METHOD

The figures shown in the manual NIC tables may differ from the exact percentage method figures. This is because the figures in the tables are calculated on the mid point between the earnings bands shown. Therefore the table figures will only match the exact percentage figures when the mid point is the same as the earnings used in the exact percentage calculation. Further information is provided at section 10.

5. CALCULATION OF MINIMUM PAYMENTS FOR EMPLOYERS WITH CONTRACTED OUT MONEY PURCHASE SCHEMES.

5.1 How to work out minimum payments using the exact percentage method

Minimum payments are the difference between the not contracted-out and the contracted-out rates of National Insurance contributions (NIC) on earnings between Lower Earnings Limit (LEL) and the Upper Earnings Limit (UEL). The difference is known as the **contracted-out rebate**.

The total minimum payment is 3%, which is made up of:

employee share 1.6% of earnings between the LEL and the UEL, **less** any employee's NIC rebate made available to the employer.

employer share 1.4% of earnings between the LEL and the UEL, **plus** any employee's NIC rebate made available to the employer.

When the employer has had the benefit of either part or all of the employee's NIC rebate, then the employer is also liable for an equivalent amount in addition to 1.4% of earnings between the LEL and the UEL.

2008/2009 earnings limits are:

weekly	Lower Earnings Limit	£90
	Earnings Threshold	£105
	Upper Earnings Limit	£695
monthly	Lower Earnings Limit	£390
	Earnings Threshold	£453
	Upper Earnings Limit	£3012

Employer Pays Employee's share of Minimum Payment

The employer must pay the full Minimum Payment to the scheme i.e. 3% of earnings between the LEL and the UEL.

Employer Deducts Employee's share of Minimum Payment from Employee

If you deduct the employee's share of the Minimum Payment from the employee you must work out the employee's and employer's share of the minimum payment separately, then make an adjustment to reflect any amount of NIC rebate not available to the employee.

Employee's share

1. If the employee's gross pay is:
 - i. Equal to or less than the UEL, subtract the LEL from their exact gross pay
 - ii. Above the UEL, subtract the LEL from the UEL
2. Multiply by 1.6%. Round the resulting amount to the nearest penny, 0.5p rounded down.
3. Deduct any NIC rebate not available to the employee.

Employer's share

4. If the employee's gross pay is:
 - i. Equal to or less than the UEL, subtract the LEL, from their exact gross pay
 - ii. Above the UEL, subtract the LEL from the UEL
5. Multiply by 1.4%. Round the resulting amount to the nearest penny, 0.5p rounded down.
6. Add any employee's NIC rebate made available to the employer.

Total Minimum Payment

7. Add together the results of steps 3 and 6.

The Employer's Further Guide to National Insurance Contributions (CWG2) (IOM), shows you how to work out the Lower and Upper Earnings Limits if the employee is not paid weekly or monthly.

6. VALIDATION CHECKS

6.1 The following validation checks should be built into the routines. This will ensure that the information, if required, will be correct and help to eliminate errors.

6.2 Appropriate cross referencing within these fields will let the user know an error has been made. This could be when a field is completed with information that is incompatible with another field, or requires the completion of another field, e.g. contracted-out contributions but no ECON or SCON entered.

DATA	SPECIFICATION
Employer's reference number	Mandatory field - Field must not contain all spaces.
Employer's Name	Mandatory field - Field must not contain all spaces.
Employer's Address	Encouraged completion field - Field should not contain all spaces.
Employer's Contracting-Out Number (ECON)	A 9 character serial number which should be in the format: character 1 must be E characters 2 to 8 must be in the range 3000000 to 3999999 Character 9 must be alpha. ECON mandatory if contracted-out contributions are paid and should produce error message if not in correct format.
Scheme Contracted-Out Number (SCON)	A 9 character serial number which should be in the format: character 1 must be S characters 2 - 8 must be numeric character 9 must be alpha SCON mandatory if contracted out contributions are paid and should produce error message if not in correct format.
Employee's Surname	Mandatory field - Error message should be displayed if omitted.
Employee's Forename(s)	Mandatory field - Error message should be displayed if omitted. Initials not acceptable.
Employee's address	Mandatory field - Error message should be displayed if address is omitted.
Date of birth	Encouraged completion field – 8 digit number e.g. YYYYMMDD. Error message should be displayed if omitted.
Sex	Mandatory field - Must be M or F. This field should contain cross validation with the category letters B, E, K, O and G to ensure Married Woman Reduced Rate contributions are not paid by

DATA	SPECIFICATION
	a male employee.
Marital status	Encouraged completion field - Error message should be displayed if S (single), M (married), W (widowed) or D (divorced) are omitted.
NI Number	Mandatory field - Error message should be displayed if omitted. If NI number is not known contact the Department on (01624) 685177
NI Number	Mandatory field - Error message should be displayed if NINO is not in the correct format. The NI number should be in the following format: characters 1 and 2 should both be in the range A to Z characters 3 to 8 should be numeric character 9 must be in the range A to D.
NI Contributions Table Letter	Mandatory field - error message should be displayed if omitted.
NI Contributions	Earnings must be recorded when the LEL is reached even when no NICs are payable.
NI Contributions	No Employee NIC is due on earnings at or below the Earnings Threshold.
NI Contributions	No Employee NIC is due on earnings above the UEL.
NI Contributions	Employer NIC is due on earnings above the UEL.
NI Contributions	NIC will not be due for employees under age 16.
NI Contributions	No Employer NIC is due on earnings at or below the Earnings Threshold.
Categories B, E, G, T O and K contributions	An error message should be displayed by the system if categories B, E, G, T, O or K is input to the account of a male employee, or an unmarried/divorced female.
Categories B, E, G, T, O and K contributions	If category B, E, G, T, O or K is entered the system should prompt the user to confirm that a valid certificate of election is held for the employee.
Categories J, Q or contracted-out L, S and V contributions	If categories J, Q or contracted-out L, S or V is entered, the system should prompt the user to confirm that a valid certificate of deferment is held.
Categories D,E,L, F,G,S,N,O,H,K and V	NIC rebates must only be recorded for these category letters.
Categories D,E,L, F,G,S,N,O,H,K and V	If contracted-out categories D, E, L, F, G, S, N, O, H, K or are recorded an error message should be displayed if the ECON or SCON is omitted.
Category C and W	If category C or W is recorded for an employee who is state pension age or over the system should prompt the user to confirm that proof of pension age is held.
Categories C and W	If categories C or W is recorded, no figures should be in the employee field for NI.

DATA	SPECIFICATION
Category D, E, L, N and O	An error message should be displayed if an attempt to enter category D, E, L, N or O is made for any pension scheme other than a contracted-out salary related scheme (COSR).
Categories A, B, J, D, E, L, F, G, S, R T, Q, N, O, H, K and V	If categories A, B, J, D, E, L, F, G, S, R, T, Q, N, O or V are recorded an error message should be displayed if the employee is state pension age or over (must revert to category C or W).
Categories F, G, H, K,V and S	If categories F, G, H, K, V and S are recorded an error message should be displayed if an attempt is made for this category to be payable on any pension scheme other than money purchase scheme (COMP).
Categories R,T, Q, N, O, H, K, V & W	If categories R, T, Q, N, O, H, K, V or W are recorded the system should alert the user that these categories are used for mariners only.
Category X	This category should be used for NIL contributions <u>and</u> NIL earnings only. An error message should be displayed if figures other than zeros are recorded against this category.

7. RULES FOR ROUNDING

GENERAL NI CONTRIBUTIONS

- 7.1 The Social Security (Contributions) Regulations 2001 (as applied to the Island) provide specific rules for rounding in the calculation of National Insurance contributions.

Regulation 12(1)(b) provides that:

“primary and secondary Class 1 contributions shall be calculated to the nearest penny and any amount of a half penny or less shall be disregarded”.

- 7.2 As the law requires that £0.005 or less is disregarded, we only look at the third decimal place in calculating NICs due where such calculation results in more than two decimal places.

If it is 5 or less round down.

If it is 6 or more round up.

For example, if the NIC calculated was to result in:

£67.5558 the NIC payable would be £67.55, but if the NIC payable came to

£67.5568 the NIC payable would be £67.56.

- 7.3 Where rounding is required within the body of the calculation this has been indicated in the formulae with the symbol (R).

8. NIC CALCULATION FORMULAE EXACT

PERCENTAGE METHOD

8.1 BASIC CALCULATION

For all Employee Contribution Calculations, if $GP \leq ET =$ No NI Due.

For all Employer Contribution Calculations (including director calculations), if $GP \leq ET =$ No NI Due.

8.2 EMPLOYEE CONTRIBUTION CALCULATION

$$\left[\left(GP - \left(\frac{ET \times p^1}{w/m} \right) \right)^{\#} - \left(GP - \left(\frac{UEL \times p}{w/m} \right) \right)^* \right] \times EER = \text{Employee's NIC for the period}$$

* If answer is negative treat as zero.

If answer is zero or negative no employee's NIC due.

p^1 If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

p Round result of calculation at this point up to nearest whole pound.

8.3 EMPLOYER NOT CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left(GP - \left(\frac{ET \times p^1}{w/m} \right) \right)^* \times ERR = \text{Employer's NIC for the period}$$

* If answer is zero or negative no employer's NIC due.

p^1 If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

8.4 EMPLOYER CONTRACTED-OUT CONTRIBUTION CALCULATION

$$\left[\left(GP - \left(\frac{ET \times p^1}{w/m} \right) \right)^* - \left(GP - \left(\frac{UEL \times p}{w/m} \right) \right)^{\#} \right] \times ERRR + \left[\left(GP - \left(\frac{UEL \times p}{w/m} \right) \right)^{\#} \times \right.$$

ER'NCO RATER] = Employer's NIC for the period

* If answer is zero or negative no employer's NIC due.

If answer is negative treat as zero.

p^1 If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

p Round result of calculation at this point up to nearest whole pound.

8.5 EMPLOYEE CONTRACTED-OUT REBATE CALCULATION

$$\left[\left(GP - \left(\frac{LEL \times p}{w/m} \right) \right)^* - \left(GP - \left(\frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times EE'RR_R = \text{Employee's Rebate}$$

* If answer is zero or negative no employee's rebate due.

If answer is negative treat as zero.

p Round result of calculation at this point up to nearest whole pound.

p¹ If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

8.6 EMPLOYER CONTRACTED-OUT REBATE CALCULATION

$$\left[\left(GP - \left(\frac{LEL \times p}{w/m} \right) \right)^* - \left(GP - \left(\frac{ET \times p^1}{w/m} \right) \right)^{\#} \right] \times ER'RR_R = \text{Employer's Rebate}$$

* If answer is zero or negative no employer's rebate due.

If answer is negative treat as zero.

p Round result of calculation at this point up to nearest whole pound.

p¹ If equals 1 round result of calculation at this point to the nearest whole pound. If equals more than 1 round up to whole pounds.

9. DIRECTOR'S NIC CALCULATION FORMULAE

- 9.1 For National Insurance purposes, Company Directors are classified as office holders and, under Section 2(1) of the Social Security Contributions and Benefits Act 1992 (as applied to the Island), office holder's fall into the definition of 'employed earner'. As such, provided their earnings reach appropriate levels, they are liable for Class 1 NICs.
- 9.2 The earnings period for calculating NICs is usually determined by the interval between payments. For example an employee who is monthly paid will have a monthly earnings period. However, to calculate NICs for directors you must use either:
- an annual earnings period, or
 - a pro-rata annual earnings period.
- 9.3 This applies regardless of the actual interval between payments.
- 9.4 Under the Regulation 8(6) of the Social Security (Contributions) Regulations 2001 (as applied to the Island), contributions can now be deducted on a weekly/monthly basis and the annual calculation completed at the end of the tax year to confirm the correct amount has been paid. Any subsequent amendments are then made to the Deductions Working Sheet, Form T11 or Substitute.
- 9.5 The following calculation formulae set out the basic calculations for Director's NICs.

DIRECTOR'S CALCULATIONS

9.6 DIRECTOR'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[\left[(GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right] - EE'NIC_{\text{ptd}} = EE's \text{ NIC due this period}$$

* If answer is zero or negative no employee NICs due.

If answer is negative treat as zero.

R Round at this point

9.7 EMPLOYER'S NOT CONTRACTED-OUT CONTRIBUTIONS CALCULATION

$$\left[(GP_{\text{ptd}} - ET)^* \times ER'R_R \right] - ER'NIC_{\text{ptd}} = ER's \text{ NIC due this period}$$

* If answer is zero or negative no employer's NIC due.

R Round at this point

9.8 DIRECTOR'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

Rebate on Director's NICs

$$\left[\left[(GP_{\text{ptd}} - LEL)^* - (GP_{\text{ptd}} - ET)^{\#} \right] \times EE'R_R \right] - \text{Rebate}_{\text{ptd}} = \text{EE's rebate due this period}$$

* If answer is zero or negative no rebate due.

If answer is negative treat as zero.

R Round at this point

Director's NIC

$$\left[\left[(GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right] \times EE'R_R \right] - \text{EE'NIC}_{\text{ptd}} = \text{EE's NIC due this period}$$

* If answer is zero or negative no director's NIC due.

If answer is negative treat as zero.

R Round at this point

9.9 EMPLOYER'S CONTRACTED-OUT CONTRIBUTIONS CALCULATION

Rebate on Employer's NICs

$$\left[\left[(GP_{\text{ptd}} - LEL)^* - (GP_{\text{ptd}} - ET)^{\#} \right] \times ER'RR_R \right] - \text{ER'Rebate}_{\text{ptd}} = \text{ER's rebate due this period}$$

* If answer is zero or negative no rebate due.

If answer is negative treat as zero

R Round at this point

Employer's NIC

$$\left[\left[(GP_{\text{ptd}} - ET)^* - (GP_{\text{ptd}} - UEL)^{\#} \right] \times ER'CO\%R_R \right] + \left[(GP_{\text{ptd}} - UEL)^{\#} \times ER'NCO\%R_R \right] - \text{ER'NIC}_{\text{ptd}} = \text{ER's NIC due this period}$$

* If answer is zero or negative no employer's NIC due.

If answer is negative treat as zero

R Round at this point

PRO-RATA DIRECTOR

9.10 For Pro-rata Director, replace the Annual LEL, UEL and Earnings Threshold with the pro-rata LEL, UEL and Earnings Threshold and follow the previous formulae.

9.11 The following example shows the Pro-rata earnings limits for someone who becomes a Director during the 2008/2009 tax year with 18 weeks from and including the week of appointment to the end of the tax year:

$$\begin{aligned} 18 \times \text{£}90 &= \text{£}1620 \text{ (pro rata LEL)} \\ 18 \times \text{£}695 &= \text{£}12510 \text{ (pro rata UEL)} \\ \text{£}5435 \div 52 \times 18 &= \text{£}1881 \text{ (pro rata ET rounded up to next whole £)} \end{aligned}$$

10. NIC CALCULATION FORMULAE

TABLES METHOD

10.1 Weekly Tables

Earnings in the weekly tables are shown in whole pounds only, with the gross pay being rounded down to the nearest whole pound.

10.2 Monthly Tables

The monthly tables are also shown in whole pounds only, but are in bands of four pounds starting at the LEL. Gross pay should be rounded down to the nearest band. However, at the earnings threshold, where liability for primary and secondary NI arises, the figure shown in the tables is calculated on the exact amount.

10.3 Mid-Point Calculations

NI contributions in the tables are usually calculated on the "mid-point" between the earnings steps. The weekly tables are in steps of £1, therefore the mid-point between each step is the lower step plus £0.50. Similarly, the monthly tables increase mainly in steps of four pounds, therefore the mid-point is the lower step plus £2.00.

10.4 **Please note** that although not all steps within the monthly tables increase by four pounds, the calculation of the NIC is always based on the mid-point. i.e. if the step was three pounds, the mid-point would be the lower step plus £1.50. This is with the exception of the UEL and the earnings threshold, where the NIC is calculated on the exact earnings (whole pounds).

10.5 Earnings Above UEL

Employer's NIC's are due on earnings above the UEL, and are calculated on whole pounds.

11. CALCULATION OF NICs ON HOLIDAY PAY

- 11.1 Because of the large number of enquires we receive about the calculation of NICs on Holiday Pay, we have included this additional guidance.
- 11.2 NICs on holiday pay must be calculated by either method A or B as follows:

Method A

NICs are calculated separately for each week in the normal way. If you pay an employee £500 plus £200 a week for a two week holiday, NICs will be calculated weekly on £500, £200 and £200.

Method B

NICs are calculated on the whole sum based on the number of weeks it represents. Using the figures shown above, NICs will be calculated on £900 using 3-weekly LEL, ET and UEL.

Whichever method is used, the formulae and roundings are as shown on page 13 onwards.

APPENDIX 1

2008/2009 EARNINGS LIMITS FOR NATIONAL INSURANCE CONTRIBUTIONS

	Lower Earnings Limit	Earnings Threshold	Upper Earnings Limit
Weekly	£90.00	£105.00	£695.00
Monthly	£390.00	£453.00	£3012.00
Yearly	£4680.00	£5435.00	£36140.00

For earnings periods, which are multiples of a week or a month, the equivalent limits and threshold must be calculated as follows:-

	Multiples of a Week	Multiples of a Month
LEL	Weekly LEL x No of weeks	Weekly LEL x $4 \frac{1}{3}$ x No of months
Earnings Threshold	$\frac{\text{Annual Threshold}}{52}$ x No of weeks	$\frac{\text{Annual Threshold}}{12}$ x No of months
UEL	Weekly UEL x No of weeks	Weekly UEL x $4 \frac{1}{3}$ x No of months

If the earnings period is less than 1 week, you must use the weekly limits and thresholds. For any other earnings period.

LEL and UEL $\frac{\text{Weekly Limit}}{7}$ x No of days

Earnings Threshold $\frac{\text{Annual Threshold}}{365}$ x No of days

APPENDIX 2

2008/2009 NOT CONTRACTED-OUT CONTRIBUTION RATES

Earnings Bands	Employee's contribution			Employer's contribution
	Contribution Table letter A	Contribution Table letter B	Contribution Table letter C or J	Table letters A,B C and J
below £90.00 weekly, or below £390.00 monthly, or below £4680.00 yearly	Nil	Nil	Nil	Nil
£90.00 to £105.00 weekly, or £390.00 to £453.00 monthly, or £4680.00 to £5435.00 yearly	0%	0%	Nil	0%
£105.01 to £695.00 weekly, or £453.01 to £3012.00 monthly, or £5435.01 to £36,140.00 yearly	10% on earnings above the Earnings Threshold	3.85% on earnings above the Earnings Threshold	Nil	12.8% on earnings above the Earnings Threshold
Over £695.00 weekly, or over £3012.00 monthly, or over £36,140.00 yearly	10% on earnings above the Earnings Threshold, up to and including the UEL then Nil on earnings above the UEL	3.85% on earnings above the Earnings Threshold, up to and including the UEL then Nil on earnings above the UEL	Nil	12.8% on all earnings above the Earnings Threshold

Foreign Going Mariners

For employer rates in tables R, T, and W, reduce the employer's NIC percentage rates on earnings above the Earnings Threshold by 0.5%.

2008/2009 CONTRIBUTION RATES FOR CONTRACTED-OUT SALARY RELATED SCHEMES (Category letters D, E & L)
(Employer contracting-out number held)

Earnings Bands	Employee's contribution			Employer's contribution	Employee's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold (Applies to contribution category letter D & L only)	Employer's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold
	Contribution Table letter D	Contribution Table letter E	Contribution Table letter L			
Below £90.00 weekly, Below £390.00 monthly, Below £4680.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£90.00 to £105.00 weekly, or £390.00 to £453.00 monthly, or £4680.00 to £5435.00 yearly	0%	0%	Nil	0%	1.6% on earnings from £90.01, up to and including £105.00 (or monthly or annual equivalents)	3.7% on earnings from £90.01, up to and including £105.00 (or monthly or annual equivalents)
£105.01 to £695.00 weekly, or £453.01 to £3012.00 monthly, or £5435.01 to £36,140.00 yearly	8.4% on earnings above the Earnings Threshold	3.85% on earnings above the Earnings Threshold	Nil	9.1% on earnings above the Earnings Threshold		
Over £695.00 weekly, or over £3012.00 monthly, or over £36,140.00 yearly	8.4% on earnings above the Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	3.85% on earnings above the Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	Nil	9.1% on earnings above the Earnings Threshold, up to and including the UEL, then 12.8% on all earnings above the UEL		

Foreign Going Mariners

For employer rates in tables N, O and W, reduce the employer's NIC percentage rates for earning above the Earnings Threshold by 0.5%. **Please note**, for employer's operating Contracted-out Occupational Pension schemes, the NIC Rebate percentage rates on earnings above the LEL, up to and including the Earnings Threshold are the same for **all** employers whether or not their employees are foreign going mariners.

**2008/2009 CONTRIBUTION RATES FOR CONTRACTED-OUT MONEY PURCHASE SCHEMES (Category letters F, G & S)
(Employer contracting out number held)**

Earnings Bands	Employee's contribution			Employer's contribution	Employee's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold (Applies to contributions category letter F & S only)	Employer's NIC Rebate on earnings above the LEL, up to and including the Earnings Threshold
	Contribution Table letter F	Contribution Table letter G	Contribution Table letter S	Table letters F,G and S		
Below £90.00 weekly, Below £390.00 monthly, Below £4680.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£90.00 to £105.00 weekly, or £390.00 to £453.00 monthly, or £4680.00 to £5435.00 yearly	0%	0%	Nil	0%	1.6% on earnings from £90.01 , up to and including £105.00 (or monthly or annual equivalents)	1.4% on earnings from £90.01 , up to and including £105.00 (or monthly or annual equivalents)
£105.01 to £695.00 weekly, or £453.01 to £3012.00 monthly, or £5435.01 to £36,140.00 yearly	8.4% on earnings above the Earnings Threshold	3.85% on earnings above the Earnings Threshold	Nil	11.4% on earnings above the Earnings Threshold		
Over £695.00 weekly, or over £3012.00 monthly, or over £36,140.00 yearly	8.4% on earnings above the Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	3.85% on earnings above the Earnings Threshold, up to and including the UEL, then Nil on earnings above the UEL	Nil	11.4% on earnings above the Earnings Threshold, up to and including the UEL, then 12.8% on all earnings above the UEL		

Foreign Going Mariners

For employer rates in tables, H, K and V, reduce the employer's NIC percentage rates for earnings above the Employer's Earnings Threshold by 0.5%. **Please note**, for employer's operating Contracted-out Occupational Pension schemes, the NIC Rebate percentage rates on earnings above the LEL, up to and including the Earnings Threshold are the same for **all** employers whether or not their employees are foreign going mariners.