



SOCIAL SECURITY

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Employer's Guide to National Insurance Contributions Use from 6th April 2009

For the Benefit of the Ntion ~ Cour Foays yn Ashoon



Please note that the Isle of Man operates different rates of National Insurance and earnings limits from the United Kingdom.

Please see overleaf for further information.



**Isle of Man
Government**

Reiltys Ellan Vannin

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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Difference in National Insurance Rates and Limits between the Isle of Man and the United Kingdom

United Kingdom

In the United Kingdom (UK) the NICs payable by both employers and employees were increased from 6th April 2003 by an additional 1% on all earnings above the NICs weekly earnings threshold.

In the UK from 6th April 2008 the Upper Earnings Limit (UEL) has been increased to £844.

From 6th April 2009 the UK have introduced a fourth band of earnings into the calculation of NICs. This is in order to record earnings above the Upper Accrual Point £770 and the UEL.

UK Employment Arrangements

The 1% increase applies to both employer and employee NICs where an IOM resident employer employs UK resident employees to work in the UK.

The employer should use the UK UEL of £844.

Temporary Workers

The 1% increase applies to both employer and employee NICs where a UK resident employer sends UK resident employees, who normally work for that employer in the UK, to work temporarily in the IOM.

The employer should use the UK UEL of £844.

Employment Abroad

The 1% increase applies to both employer and employee NICs where an IOM resident employer sends UK resident employees, who normally work for that employer in the UK, to work abroad.

The employer should use the UK UEL of £844.

Isle of Man

In the Isle of Man (IOM) the 1% increase was applied to employer NICs only from 6th April 2003. No NICs are payable by the employee above the Upper Earnings Limit.

In the IOM from 6th April 2008 the Upper Earnings Limit (UEL) has been increased to £730.

From 6th April 2009 the IOM will not be introducing an Upper Accrual Point so the fourth band of earnings will not be included on the End of Year return (T14).

IOM Employment Arrangements

The 1% increase applies to employer NICs only where a UK resident employer employs IOM resident employees to work in the IOM.

The employer should use the IOM UEL of £730.

Temporary Workers

The 1% increase applies to employer NICs only where an IOM resident employer sends IOM resident employees, who normally work for that employer in the IOM, to work temporarily in the UK.

The employer should use the IOM UEL of £730.

Employment Abroad

The 1% increase applies to employer NICs only where an IOM resident employer sends IOM resident employees, who normally work for their employer in the IOM, to work abroad.

The 1% increase applies to employer NICs only when a UK resident employer sends IOM resident employees, who normally work for that employer in the IOM, to work abroad.

The employer should use the IOM UEL of £730 in both of the above cases.

Further Information

Further information about the rates of NICs can be obtained by contacting the Department's Contributions Section by telephoning

01624 685177

or by e-mail at

nationalinsurance.dhss@gov.im

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About this guide

Welcome to the Employer's Guide to NICs. Throughout this guide NICs stands for National Insurance contributions.

This guide gives more detailed information and covers some less common situations. Please remember that you may be asked to produce evidence of how you have worked out NICs. It is important that you keep records either in paper form or on a computer. In either case, these records must be made available to the Department on request.

This guide is not comprehensive and has no legal force.

The payment of National Insurance contributions is based on the:

- Social Security Contributions and Benefits Act 1992 (as applied to the Isle of Man)
- Social Security Administration Act 1992 (as applied in the Isle of Man)
- Social Security (Contributions) Regulations 2001 (as applied to the Isle of Man)
- Social Security (Categorisation of Earners) regulations 1978 (as applied to the Isle of Man)

You can buy copies of these from the Tynwald reference library, Government Office, Douglas.

If you cannot find the information you need you can get help from the Departments Contributions Section on (01624) 685177.

If you are unhappy with our service

If you are unhappy with any aspect of our service please tell us, using leaflet *Unhappy with our service. COMP.NI(IOM)*

Terms used in this guide

Form T11

Throughout this guide the term T11 means both the official form and any substitute deductions working sheet used to record National Insurance contributions and tax deducted from an individual employee. Form T11 can be a computer record as well as a paper one.

Gross pay

The amount the employee is due to receive before any deductions are made. What counts as gross pay for NICs purposes is defined in more detail in chapter 5.

Income tax (tax year)

A tax year is a period starting on 6 April in one year and on 5th April in the following year. For example the 2009/10 tax year starts on 6th April 2009 and ends on 5th April 2010.

Pay interval

The period of time between one payment and the next. Pay intervals can be:

- "regular", that is every week, month etc.

or

- "irregular" that is with no fixed period of time between. For example, an employee is paid after working for 10 days, then again after a further 25 days and again after a further 40 days.

Recorded Gender

This refers to the gender which a transsexual person was registered with at birth.

Acquired Gender

This refers to the gender which a transsexual person presents to the world; it is not the gender that they were registered with at birth.

Full Gender Recognition Certificate

A certificate issued by the Gender Recognition Panel that shows a person has satisfied the criteria for legal recognition in their acquired gender. From the date of issue the person is recognised in their acquired gender and will benefit from any rights and responsibilities that are associated with that acquired gender.

Transsexual Female

A person who at birth was recorded as male but chooses to live as a female, should be referred to in female terms (i.e. "she", "her", "Ms")

Transsexual Male

A person who at birth was recorded as female but chooses to live as a male, should be referred to in male terms (i.e. "he", "him", "Mr")

Other publications and forms

Throughout the guide references are made to other publications. The title is shown in *italics* followed by a publication identifier. For example *National Insurance Contributions (NICs) Tables. CF391(IOM)*

When requesting copies of these publications please give the title and identifier.

Forms are referred to by using the word "form" letter/number. Please use the full letter/number when requesting forms from the Department.

Commercially available or privately produced payrolls

You may want to use a computer to help you run your payroll. The notes below tell you how to get information.

Privately produced programs

If you want to design and operate your own computer program, a software developers guide is available from the

Department of Health & Social Security
Contributions Section
Markwell House
Market Street
Douglas IM1 2RZ

Commercially produced programs

The Department is unable to provide information about commercially available payroll software.

If you need help choosing a payroll software package, information is available from leading professional bodies in the payroll computing industries. Alternatively, your accountant or financial advisor may be able to help you.

Substitute end of year forms T14

Any substitute end of year forms T14 must be approved by the Departments Contributions Section and the Treasury, Income Tax Division before you can use them. To obtain agreement to use a commercially available substitute form, send a specimen to the Department's Contributions Section.

Who is and “employee” for Class 1 NICs purposes?

In this guide, an employee means anyone who is gainfully employed in the Isle of Man or the United Kingdom and is:

- engaged under a contract of service. Where you pay somebody to work for you, that arrangement will normally amount to either a contract of service (employment) or a contract for services (self-employment). Almost everyone who works for and employer will be employed under a contract of service, including full-time, part-time, casual or temporary employment. A contract need not be written, but can be verbal or an implied working agreement.
- an office holder with emoluments chargeable to income tax as if such emoluments were received under a contract of service. An office holder is someone appointed to hold a titled office (including elective office), for example a company director, Deemster or MHK,

or

- engaged through an agency or some other third party. For further information, see “workers supplied by agencies” on page 39.

In addition to the above, if certain conditions are met, a person in any of the following occupations is treated as being an employee. The conditions are set out into the Social Security (Categorisation of Earners) Regulations 1978 (as applied in the Isle of Man.) The occupations are:

- teachers, lecturers, and tutors
- office cleaners
- ministers of religion
- people employed by their husband or wife in connection with his or her employment
- entertainers (that is actors, singers, musicians or similar)

If you are not sure if someone is an employee, you can contact the Department’s Contributions Section on (01624) 685177.

National Insurance Numbers

What is a National Insurance Number?

A National Insurance number is the unique reference number used by the Department of Health and Social Security to identify an individual’s National Insurance Contributions record. It ensures that contributions paid by, and credited to, an individual are put on the right record so that whenever a claim to benefit is made, the correct amount can be paid.

If a National Insurance number has been issued to a person by the UK issuing authority it is valid for use in the Isle of Man. Only **one** National Insurance number should be issued for each person over the age of 16.

You are required to record an employee’s National Insurance number on the form T11 (Deductions Working Sheet) and form T14 (End of Year Summary). It is important therefore that you ask employees for their National Insurance Number before they start working for you.

Your employees are required by law to give their National Insurance number to you.

To assist the Department, for each employee you must:

- record their date of birth and address including post code on T14
- arrange for them to let you know of any change of name and/or address.

Employee does not know their National Insurance Number or the Department uses a different number to the one you already hold.

To obtain an employee’s National Insurance Number or if you are unsure as to what their number is contact the Departments Contributions Section on (01624) 685177.

National Insurance number and identity

The National Insurance number card is a permanent durable reminder of a person’s National Insurance number but should not be accepted by anyone as proof of identity. The fact that a person has a National Insurance number does not mean that the person has the right to work or live in the Isle of Man or the United Kingdom. It is NOT a passport to employment.

If an employee does not have a National Insurance number

If an employee does not have a valid National Insurance number issued either in the Isle of Man or the United Kingdom they will have to apply to the Department for one to be issued using form *Application for a National Insurance Number*. CA5400.

These forms can be collected from the Department of Health and Social Security, Contributions Section, 2nd Floor, Markwell House, Market Street, Douglas, IM1 2RZ.

The applicant will then have to contact the Departments, Transfers Section on (01624) 685077/78 to make an appointment to attend an interview with one of the Departments Interviewing Officers. Two forms of identification should be produced at the time of the interview, one of which should be photographic ID i.e. passport.

For further information about what type of identification can be used or any queries regarding an employee’s application please call the Departments Transfers Section on (01624) 685077/78.

When to work out NICs

As a general rule NICs are operated when a payment of earnings is made to an employee.

The point of payment is that at which the earnings are placed unreservedly at the disposal of the employee. If the employee is a Director, see *National Insurance for Company Directors*, CA44.

If you are not sure what to do, contact the Departments Contributions Section on (01624) 685177.

Late Notification of marginal items of pay

Occasionally, employers' payroll sections do not get to know about certain marginal items of pay, for example, expenses, until some time after they have been paid. So some calculate the NICs due on these payments in later earnings period because it is time consuming to have to revisit the correct earnings period and recalculate the NICs due. We accept that it is sensible to allow employers to use the later earnings period to calculate NICs due.

Similarly, we accept that on the very rare occasion when such payments are notified so late that the most convenient earnings period falls within the next tax year, it is sensible to allow employers to use the later earnings period to calculate the NICs due.

The employer will only be asked to recalculate the Class 1 NICs and allocate the payment to the correct earnings period where:

- it appears that the employer is deferring the calculation in order to avoid or reduce the amount of NICs due.
- the deferred calculation has had a material effect on an individual's benefit entitlement. So employers should take particular care to ensure payments to employees earning around the Lower Earnings Limit (LEL) or to employees with variable earnings are assessed for Class 1 NICs as soon as possible.

How to Work out NICs using the Exact Percentage Method

If you do not wish to use the tables provided, NICs can be calculated using the exact percentage method. If you decide to use this method of calculation NICs must be calculated on the employees gross pay- pounds and pence.

How to work out the employee's contribution

Calculate the NICs due on the employee's earnings above the Earnings Threshold, up to and including the Upper earnings Limit paid in the earnings period, using the appropriate employee's percentage rate. Round the calculation to the nearest penny, 0.5p is to be rounded down.

Example

An employee is weekly paid. NICs are due under contribution table letter A. £243.77 is earned on 25th September 2009

Employee's Contribution Payable

$$£243.77 - £110.00 = £133.77$$

$$£133.77 \times 10\% = £13.377 \text{ rounded to } £13.38$$

£13.38 is the figure to enter in column 1e on form T11

Employer's Contribution Payable

$$£243.77 - £110.00 = £133.77$$

$$£133.77 \times 12.8\% = £17.123 \text{ rounded to } £17.12$$

The total of the employee's and employer's contributions payable is

$$£13.38 + £17.12 = £30.50$$

This is the figure to enter in column 1d on form T11.

Other columns on form T11 would be completed as follows:

1a LEL: £95

1b ET- LEL: £110 - £95 = £15

1c employee's earnings – ET: £243.77 - £110 = £133.77

Note : LEL = Lower earnings Limit = Upper Earnings Limit

Earnings Details			Contribution Details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the Earnings Threshold	Earnings above the Earnings Threshold	Total of Employee's and Employer's contributions	Employee's contributions payable on earnings in 1c
Whole pounds only	Whole pounds only	Whole pounds only		
1a	1b	1c	1d	1e
95	15	133	30.50	13.38

How to work out NICs for various pay intervals

The charts on the next two pages will help you to work out NICs for most pay intervals. If you are not sure what to do, contact the Departments Contributions Section on (01624) 685177.

Pay Intervals**To Work out NICs****Weekly**

Earnings period is weekly

Use either the appropriate weekly table or the exact percentage method to calculate NICs.

Fortnightly

Earnings period is two weekly

Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables:

- divide the earnings on which NICs are payable by 2
- look this figure up in the appropriate weekly table
- multiply the NICs shown in the table by 2 – this is the amount of NICs due

Four weekly

Earnings period is four weekly

Use either the appropriate weekly table or the exact percentage method to calculate NICs. If you use the tables:

- divide the earnings on which NICs are payable by 4
- look this figure up in the appropriate weekly table
- multiply the NICs shown in the table by 2 – this is the amount of NICs due.

Monthly

Earnings period is monthly

Use either the appropriate monthly table or the exact percentage method to calculate NICs.

Quarterly

Earnings period is quarterly

Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables:

- divide the earnings on which NICs are payable by 3
- look this figure up in the appropriate monthly table multiply the NICs shown in the table by 3 – this is the amount of NICs due.

Half Yearly

Earnings period is half yearly

Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables:

- divide the earnings on which NICs are payable by 6
- look this figure up in the appropriate monthly table
- multiply the NICs shown in the table by 6 – this is the amount of NICs due.

Yearly

Earnings period is yearly

Use either the appropriate monthly table or the exact percentage method to calculate NICs. If you use the tables:

- divide the earnings on which NICs are payable by 12
- look this figure up in the appropriate monthly table
- multiply the NICs shown in the table by 12 – this is the amount of NICs due.

Pay Intervals**To Work out NICs****Intervals of less than one week****Earnings period is one week**

Add together all the payments made in an income tax week and if the total goes over the weekly lower earnings limit and earnings threshold, NICs are due.

Use either the appropriate weekly table or the exact percentage method to calculate NICs

Intervals of more than a week but not multiples of weeks or months**Earnings period is the interval the payment covers**

You must use the exact percentage method to work out NICs due.

To do this:

- work out the daily lower and upper earnings limits by dividing the weekly limits by 7
- multiply the answers for the earnings limits by the number of calendar days in the period which the payment covers.
- work out the daily earnings threshold by dividing the annual threshold by 365.
- Multiply the answers for the earnings threshold by the number of calendar days in the period which the payment covers and round up to the nearest whole pound.

Employees paid once only

Earnings period is the length of time you employ them or one week whichever is longer

Follow whichever rule above applies

Change of pay interval to a shorter interval

If the interval between the payment of an employee's earnings changes to a shorter interval, for example monthly paid to weekly paid, take the following action.

Work out NICs from the first payment after the change based on the new earnings period. Do this even if the first weekly pay day falls within the same tax month as the previous monthly pay day.

Example – shorter interval

A monthly paid employee changes to being weekly paid on the first day of the month, after receiving a monthly salary the day before. The first weekly pay day is the 5th. Although this payment is in the same tax month as the monthly salary, treat it completely separately and work out the NICs on the payment using a weekly earnings period.

For both ITIP and NICs purposes use the same form T11 as before.

Change of pay interval to a longer interval

If the interval between the payment after the change based on the new earnings changes to a longer interval, for example, weekly paid to monthly paid, take the following action.

For NICs purposes

Work out from the first payment after the change based on the new earnings period.

If you have already made a payment using the old shorter earnings period in the first of the new longer periods, the payment you have made, and NICs worked out on it, should be taken into account when working out NICs for the new period as a whole.

Example 1

A weekly paid employee changes to being monthly paid on 19th June 2009 and receives their last two weekly payments on 5th June and 12th June.

The new earnings period is a month and will coincide with the tax month which always starts on the 6th of every month. The first monthly pay day is the 26th June.

Work out NICs due on the first monthly pay taking into account the earnings and NICs worked out on the payment made on 12th June.

The total NICs payable must not exceed that which would have been payable had the two payments been added together and monthly NICs worked out on the total.

Amend the form Deductions Working Sheet T11.

The weekly payment made on the 5th June is not in the new earnings period and is not included in the calculation.

However, where at the time of the change of pay intervals, the employee also joins your contracted-out occupational pension scheme and is covered by your contracting-out certificate, NICs are payable at the new appropriate contracted-out rate and limits on the total payments made in the new earnings period.

Example 2

Using the same dates as in *Example 1*, add the weekly earnings paid on the 12th June to the monthly earnings paid 26th June and work out NICs on the total at the appropriate contracted-out rate, using the new monthly NICs threshold.

Deduct the NICs previously paid on the 12th to determine the amount of NICs now due on the 26th. Amend the form T11 to reflect the changes to the NIC category letter and NICs thresholds.

In both examples, where, exceptionally, it is not practical for you to aggregate the earnings in the first new earnings period, calculate the NICs due on payments made before and after the change separately, in the normal way. This means that, where the date of change coincides with the date on which your employee joins the company pension scheme, you should leave the weekly not contracted-out NICs unchanged and work out NICs at the contracted-out rate, using the new monthly thresholds, only those payments made after the date of change.

Employees' pay day changed but same pay interval kept

Take the following action if you change your employees' pay day but keep the same pay interval. For example, you change from making monthly salary payments on the 15th of the month to the 1st of the month.

Work out the NICs using the normal earnings period on each of the pay days.

Extra payments made on a separate pay day from normal pay

Where you make extra payments (such as overtime, commission or bonuses) on a **separate** pay day from other pay, take the following action.

Treat extra payments as part of the total pay at the time they are paid, no matter when they were earned.

If you have paid an employee and then make another payment to them in the same earnings period, NICs have to be worked out again on the total payment.

Example – extra payments

An employee who is normally paid on a Friday receives a payment of £120 on Sunday 5th July 2009 and NICs have been worked out on that sum.

On Friday 10th July 2009 the employee is paid a normal weekly wage of £265 making a total of £385 paid in that week.

NICs must be re-calculated based on £385.

If the form T11 for that employee has already been completed:

- write in the extra amount of pay in column 2 and bracket the two amounts together to the left of the column
- draw a line through the figures already entered in columns 1a – 1e, so that they can be read
- put in the right figures

Payments made in Week 53

Where you pay an employee weekly, fortnightly or four weekly, there will be some tax years when you have either 53 weekly pay days, 27 fortnightly pay days or 14 four weekly pay days instead of the usual 52, 26, or 13.

This extra pay day is called:

- week 53 for the weekly paid employees
- week 54 for fortnightly paid employees, or
- week 56 for four weekly paid employees.

When completing form T14 for an employee who has been paid a week 53, 54 or 56 payment, in the box headed 'Payment in week 53' enter:

- "53" if there were 53 weekly pay days in the year.
- "54" if there were 27 fortnightly pay days in the year.
- "56" if there were 14 four weekly pay days in the year.

Standard payments made when, or after, an employee leaves

For the purposes of this guidance, 'standard' payments mean such items as the final payment of salary or wages, holiday pay, week in hand payments, bonuses, arrears, of pay and so on. It does not mean additional one off payments such as retirement, redundancy, lump sums and so on – these payments are dealt with further on in this guide.

NICs are due in the normal way on any standard payments you make to employees when they leave or after they have left. The payments should be recorded as normal on the employee's form T11. If the payment is made in a later tax year to the one in which the employee left, make out a new form T11 for the employee and record the payments accordingly.

Payment made when an employee leaves

If the payment is made when an employee leaves, work out NICs using:

- The usual earnings period
- The contribution rates and limits current at the time of payment
- The usual contribution table letter

Payment made after an employee leaves

If the payment is made after the employee has left, that is after their contact has ended, the earnings period to use is dependant on whether the payment is:

- A final payment of salary or wage, **or**
- An irregular sum, such as
 - accrued holiday pay
 - an unexpected bonus
 - arrears of pay following a backdated pay award.

If the payment is the final payment of salary or wage, work out NICs using:

- The usual earnings period
- The contributions rates and limits current at the time of payment
- The usual contribution Table letter.

Example

The final salary to a monthly paid employee leaving in the middle of the month is paid at the usual time at the end of the month. Work out NICs using a monthly earnings period even though the payment is only for part of the month.

If the payment is an irregular sum, work out NICs using:

- a weekly earnings period
- the contributions rates and limits current at the time of payment
- the usual contribution Table letter.

In either situation, if the employee was in contracted-out employment and the payment is made more than six weeks after they left, work out NICs using the equivalent not contracted-out rate. For example, if during the employment NICs were due under contribution Table letter D, use contribution Table letter A to work out NICs.

Two or more payments together

If an employee gets two or more payments together after leaving, the earnings period is dependent on what those payments are.

If all the payments are salary or wages (including one which may be a "week in hand" payment) work out NICs on each payment separately using the usual earnings period.

If some payments are salary and others are irregular sums, add the payments together and work out NICs on the total using the usual earnings period for the payment of salary.

If all payments are irregular sums, add them together and work out using a weekly earnings period.

Payments made in respect of an employee who has died

No NICs are due on the earnings of an employee who dies before payment is made.

Joint wages to spouse and civil partners

Where you pay a joint wage to spouses or civil partners, you should:

- prepare separate forms T11 for each spouse or civil partner
- divide the wage between them for both ITIP and NICs purposes
- ask the Treasury, Income Tax Division to let you have individual tax codes.

Change of Gender

From 4th April 2005 transsexual people can legally change their recorded gender and benefit from any rights and responsibilities associated with their acquired gender.

Where the employee presents you with a **Full** Gender Recognition Certificate you will need to take a copy of the certificate and:

- update your records to show the employee's acquired gender and the title by which they want to be known
- operate NICs and ITIP to reflect the acquired gender.

(For example, a transsexual female with a full Gender Recognition Certificate will pay NICs up to the state pension age for women, which is currently age 60)

Do not update records or review the NICs and ITIP position of the employee where you are presented with an Interim Gender Recognition Certificate. It is only following the Full Gender recognition Certificate that the person is accepted as having satisfied the criteria for legal recognition in their acquired gender.

For Further help and guidance on this issue please contact the Department's Contributions Section on (01624) 685177.

Mistake in the amount of NICs or ITIP deducted

Mistake discovered after the tax year has ended

If, after the tax year has ended, you discover that a mistake has been made in the amount of NICs or ITIP deducted and you need advice, contact:

- for NICs the Department's Contributions Section on (01624) 685177
- for ITIP, the Treasury, Income Tax division on (01624) 685400

Mistake discovered during the tax year

If, during the tax year you discover that a mistake has been made in the amount of NICs or ITIP deducted, take the following action:

- try to correct the mistake in the week or month you discover it.
- where you have wrongly recorded the payment made in the week or month, draw a line through the wrong figure (so it can still be read) and put in the right figure.
- **do not** change any of the original figures, but instead put a mark beside them to show that a mistake has been discovered and put right at a later week.

Any overpayment of ITIP or employee's share of NICs should be refunded to the employee on the next pay day. If an under deduction of ITIP or NICs arises:

- seek advice from the Treasury, Income Tax Division
- note the guidance below about recovering underpayments

Recovering underpayments from your employees

The position on recovering underpayments from your employees is as follows.

For NICs purposes

As a general rule, you as the employer have to pay any underpayment of NICs arising from a mistake in deduction. For the Tax year in which the mistake was made you must:

- correct any wrong entries on the employee's deductions working sheet (T11 or equivalent)
- record on T14, End of Year Summary, the contributions that were **actually due**, not those wrongly deducted
- pay the amount actually due.

You can however recover an underpayment of employee's contributions from an employee during the tax year in which the mistake was made. This is done by making extra deductions from any further payments you make to the employee during the year. The extra deduction you can make from any further payment can be no greater than the employee's contributions due on that further payment of earnings.

Example

An employee is due to pay primary contributions of £20 on his next payment of earnings. The maximum extra deduction that can be made is £20, making a total deduction on those earnings of £40.

The extra deduction can be made during the remainder of the tax year in which the error was discovered and the whole of the following tax year.

Example

An employer discovers an error was made in good faith on 31st May 2009. He may make extra deductions from any earnings paid to the employee during the period 1st June 2009 to 5th April 2011 until the underpayment is recovered.

If, at the end of this second tax year you have been unable to recover the full amount under deducted, then you may not recover any more from the employee and must bare the loss yourself.

The Department will normally accept that errors in "good faith" are those involving genuine mistakes where the employer has proceeded with an honesty of intention when assessing the amount of NICs due. Good faith errors can include misunderstandings, mistakes of procedure and human error. The important consideration is that the mistake occurred at the time the earnings were paid and that the employer was genuinely unaware that they were making a mistake. For example:

- using out of date percentage rates for NICs purposes
- deducting the wrong rate of NICs
- arithmetical errors where either manual calculations were needed or where payroll data was input incorrectly or
- where there is a delay in notification, for the example, where one section delays notifying the payroll section of a change in the employee's circumstances".

Deliberate deduction failures

In certain circumstances where the Department considers an employee has received pay knowing that the primary contributions had not been deducted or paid over, a decision can be made for the employee to pay those contributions.

For ITIP purposes

Contact the Treasury, Income Tax Division.

When you no longer have employees

Tell the Treasury when:

- you cease in business
- or
- you do not expect to employ anyone for one year or more from the start of the next tax year.

Pension Contributions

If you operate a tax approved superannuation scheme, do not deduct the superannuation contributions from the employee's gross pay for NICs purposes.

Occupational pension schemes contributions deducted from employee's pay must be with the pension scheme within 19 days of the end of the month that the deductions were made.

Failure to meet this deadline could lead to criminal prosecution by the Department.

Pension Payments

Pension payments, either to former employees or dependants of deceased employees, are:

- are not included in gross pay if paid out of a registered pension scheme
- may need to be included in gross pay if paid out of an employer-financed retirement benefits scheme.

For NICs purposes, do not include in gross pay any lump sum from a registered pension scheme.

Important change to National Insurance Contributions from April 2004

With effect from the 2004/2005 year, the form T14 has been altered to include an additional box headed "PENSION". The box is located between the "ADDRESS" box and the "RESIDENCE" box on the form.

Enter "X" in the "PENSION" box if the gross remuneration on the T14 refers purely to payments made to an ex-employee whom is in receipt of payments from the employer's pension scheme in the year. If the remuneration refers to any other form of the payment made to the employee (salary/wages, directors fees, commissions, bonuses, etc.) then the "PENSION" box should be left blank.

Payments paid "free of tax or NICs (or both)"

If you enter into an arrangement with an employee that some or all of his or her earnings are to be paid free of tax or NICs (or both), you should contact the Income Tax Division of the Treasury or the Departments Contributions Section on (01624) 685177.

Incentive awards

An incentive award is an award whereby employees receive awards paid by either you the employer, or a third party.

Awards may be made in cash, goods, holidays, lottery prizes and so on, or vouchers exchangeable for them.

An example of a third party making awards is where in the course of a sales promotion, the manufacturer of product gives awards to salespersons whose direct employer is actually selling the product in question.

Cash awards and awards made by voucher which can be exchanged for cash

If you provide a cash award, the value of that award must be included in the employee's gross pay and NICs worked out on it in a normal way.

If a third party provides a cash award, the third party is responsible for deducting ITIP from the award and should seek advice from Treasury, Income Tax Division on (01624) 685400. The value of that award must also be reported to you to enable you to account for NICs due. If you are unsure as to how to account for the NICs contact the Departments, Contributions Section on (01624) 685177.

Awards made by voucher which can be exchanged for cash

If you, or a third party, awards a cash voucher you, as the contractual employer must include the value of that cash voucher in the employee's gross pay and work out ITIP and NICs in the normal way.

Non-Cash awards other than non-cash vouchers

Some non-cash awards attract Class 1 NICs. See under "*What to include as gross pay on form T11*" in Chapter 5, age 42 for details. You the employer are liable for any Class 1 NICs even if a third party provides the awards to your employees.

Non-cash vouchers

Payments made by way of non-cash vouchers, with certain exemptions attract liability for NICs. Unless exempt, a payment which derived from the employee's employment, made by you or by a third party under arrangement with you, must be included in gross pay and NICs accounted for in the normal way. That, is you must add the cost to you in providing those non-cash vouchers to any other earnings paid in the earnings period and work out NICs on the total.

Valuing cash vouchers for NICs purposes

Cash vouchers are vouchers that can be exchanged for an amount of money which is not much less than the expense the employer or third party incurs in providing them. The amount to include in gross pay is the surrender value of the voucher.

Valuing non-cash vouchers for NICs purposes

The value of a non-cash voucher is, apart from two exceptions, the cost to you in providing it. If a third party is providing it, then it is the cost to that third party. The cost in providing a non-cash voucher is not normally the face value unless, exceptionally, the cost in providing it and its face value are the same.

The exceptions are luncheon vouchers and childcare vouchers for which the 'value' is the face value of the voucher.

The 'cost' of providing a non-cash voucher includes the cost of:

- buying the goods or providing the services
- selecting and testing those goods or services
- storing, distributing and installing the goods or services
- servicing and other 'after sales' expenses.

As such a non-cash voucher is valued for NICs purposes in the same way as for tax.

Apportioning the value of vouchers between employees for NICs purposes

If you provide a voucher which attracts a NICs liability for the benefit of more than one employee, the value of the voucher must be apportioned between those employees. You must include in each employee's gross pay the proportionate amount of the total value each employee enjoys.

If you are unable to determine the correct proportionate amounts, you must split the total value equally and include that amount in each employee's gross pay.

For further advice on which vouchers are exempt from NICs liability or how to calculate the value of vouchers please contact the Departments Contributions Section on Tel. No (01624) 685177.

Holiday pay

This section describes the special rules for working out NICs on certain types of holiday payments.

Holiday pay in construction industry

Changes in legislation which came into force on 6th April 2008 withdrew the previous concession whereby payments of holiday pay derived from independently managed funds to which more than one employer contributes were not to be included in gross pay for NICs purposes. However, this concession will remain in place until 5th April 2013 in the case of persons employed in the construction industry, as is explained below.

A full description of 'construction operations' and which businesses are specified as being in the construction industry can be found in The Social Security (Contributions) (Amendment No.9) Regulations 2007, a copy of which can be obtained by contacting the Department's Contributions Section on Tel. No. (01624) 685177.

As a general guide the following operations are specified as being undertaken by the construction industry for the purposes of the above mentioned regulations.

- Construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not), including offshore installations;
- Construction, alteration, repair, extension, demolition or dismantling of any works forming or to form, part of the land, including (in particular) walls, roadwork's, power-lines, electronic communications apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipe-lines, reservoirs, water-mains, wells, sewers, industrial plant and installations for purposes of land and drainage, coast protection or defence;
- Installation in any building or structure of systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection;
- Internal cleaning of buildings and structures so far as carried out in the course of their construction, alteration, repair extension or restoration.
- Painting or decorating the internal or external surfaces of and building or structure;
- Operations which form an integral part of, or are preparatory to, or are for rendering complete such operations as previously described, including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping providing roadways and other access works.

Where a group of employees contribute to a central, independently managed holiday pay fund

Do not include in gross pay:

- the amount spent on the special stamps or credits used in these schemes
- the holiday pay - whether paid directly by the fund or through you where the company is involved in construction operations and the employee is personally involved in construction duties (as defined above).

If you take part in one of these schemes but give holiday pay to some of your employees which does not come from the scheme's funds, include these amounts in gross pay.

Holiday pay from money set aside during the year

For holiday pay made up of amounts voluntarily set aside from your employees' pay during the year to be paid at a certain time, for example, Christmas or their annual holiday, for **both ITIP and NICs** purposes include the amount set aside in gross pay at the time it is set aside.

Holiday pay from a holiday credit scheme

For holiday pay from a holiday credit scheme when money is set aside each pay day to be paid in a lump sum when your employees take their holidays, for **both ITIP and NICs purposes** include these amounts in gross pay:

- at the time they are set aside if your employees have a right to be paid the money at any time
or
- when the payment is actually made if your employees can only have the money when they take their holiday.

Working out NICs on holiday pay

If weekly paid employees receive a payment which covers more than one week and it is, or includes, holiday pay, you can work out NICs using one of two methods.

Method A

Split the sum up and work out the NICs on the payment for each week separately.

Example

On the last pay day before their holiday, you pay employees their original weekly wage plus two weeks holiday pay.

Work out NICs on each weeks pay separately and record them in the corresponding weeks on the employees forms T11.

Method B

Work out NICs on the whole sum based on the number of weeks it represents. Round up parts of a week.

Example

On the last pay day before their holiday, you pay employees their original weekly wage plus two weeks holiday pay.

If you normally use the National Insurance Tables, work out the NICs on a three week basis by dividing the total earnings on which NICs are payable by 3, applying the weekly lower earnings and upper earnings limits and earnings thresholds to that figure and multiplying the resulting amount of NICs by 3.

If you normally use the exact percentage method, work out NICs on a three week basis by dividing the total earnings on which NICs are payable by 3, apply the weekly lower and upper earnings limits and earnings thresholds to that figure and multiplying the resulting amount of NICs by 3.

If you use the exact percentage method any of the following methods for calculating NICs is acceptable:

1. apply the three-weekly lower and upper earnings limits and earnings thresholds to the total payment and round the resulting NICs figures to the nearest penny, rounding down exact amounts of £0.005, in the normal way, or
2. divide the total payment by three to establish the average weekly earnings, work out the weekly NICs figure, round to the nearest penny, rounding down exact amounts of £0.005, then multiply the answers by 3 to get the total NICs due, or
3. divide the total payment by three to establish the average weekly earnings, work out the weekly NICs figures, multiply the answers by three, then round to the nearest penny, rounding down exact amounts of £0.005 to get the total NICs due.

Method B can be used

- for employees who are paid at intervals which are multiples of a week, for example fortnightly or four weekly, **if you normally use the exact percentage method to work out NICs you must use method 1 in the above example**
- even if the employee does not take the holiday but carries on working.

Method B cannot be used

- for monthly paid employees.
- if holiday pay is from a holiday pay scheme in the construction industry or similar scheme.

If you do not calculate holiday pay based on the length of the holiday but in some other way, for example, according to an employee's length of service, treat the amount of holiday pay as spread evenly over the period of the paid holiday.

Holiday pay in advance and the employee stays at work

If an employee stays at work instead of taking their holiday and you have already worked out NICs on the holiday pay, the additional NICs due on their wages for working is dependant on how the NICs on the holiday pay were calculated.

If Method A was used:

- add together the pay now due and the holiday pay already paid for that week and work out the NICs on the total amount
- subtract from the amount of NICs calculated the NICs already paid on the holiday pay for that week to get the amount of NICs now due.
- amend the employees for T11 to reflect the new figures

If Method B was used:

- do not add the holiday pay to the pay due for working but
- work out and record NICs separately on the pay due for working in the normal way.

Holidays taken some time after the holiday pay is received

If weekly paid employees do not take their holiday until some time after receiving the pay for it, for example, a security guard who receives their holiday pay before the employer's annual close down but stays on duty and takes the holiday later, work out and record NICs on the holiday pay at the time it is actually paid.

NICs on payments due to be paid during a holiday period

If payments are due to be paid during a holiday period, the NICs due on the payment are dependant on how NICs were working out on the holiday pay for the week in which payment is due to be made. For example, an employee is due to be paid for overtime worked but because of payroll arrangements the overtime does not become payable until the employee is on holiday.

If method A was used to work out NICs on the holiday pay, regardless of the week in which the payment is actually made:

- treat the payment as belonging to the week in which it would normally have been made (had the employee not been on holiday)
- add the payment to the holiday pay due for that week
- work out NICs on the total
- take into account the NICs already paid on the holiday pay for that week.
- adjust the employee's form T11 to reflect the correct NICs figures

However, if payment is actually made in a different tax year to the one in which it was due to be made; work out NICs separately on the payment based on the contributions rates and limits current at the time of payment.

If Method B was used to work out NICs on the holiday pay, and:

- **if payment is actually made in the week in which it was due to be made**, treat it separately from the holiday pay due for that week and work out NICs on it in the normal way.
- **if payment is made at a later date** for example, when the employee returns to work, add it to the payment due for that period and work out NICs on the total.

Examples

These examples are based on 2009-10 contribution rates and limits for an employee paying NICs under contribution Table letter A. NICs are worked out using the exact percentage method.

On 4 th September the employee is paid	£
Basic wage for working 1 st - 4 th September	200
plus Holiday pay for working 5 th - 11 th September	150
plus Holiday pay for working 12 th - 18 th October	<u>150</u>
Total	500

On 25 th September the employee is paid basic wages for working 21 st - 25 th September	200
--	-----

The employee worked overtime during the week 1st September - 5th September and was due to receive the overtime payment of £80 on 11th September.

Example 1 Method A

Based on the employee being paid the overtime payment on 25th September

On pay day of 4th September NICs are due

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)	20.52	9.00
£150 (holiday pay)	9.12	4.00
£150 (holiday pay)	<u>9.12</u>	<u>4.00</u>
Total	38.76	17.00

On 25th September the employee is paid overtime of £80. As the employee was due to receive this on 11th September £80 has to be added to the holiday pay for the week 5th - 11th September and NICs worked out again.

Earnings	Total Contribution	Employee's Contribution
	£	£
£200	20.52	9.00
£150 (holiday pay) + £80 (overtime) = £230	27.36	12.00
£150 (holiday pay)	<u>9.12</u>	<u>4.00</u>
Total	57.00	25.00

On the pay day of 25th September, as the overtime payment has already been accounted for NICs are only due on the wages for that week as follows.

Earnings	Total Contribution	Employee's Contribution
£200	20.52	9.00

Example 2 Method B

Based on the employee being paid the overtime payment on 11th September

On pay day 4th September NICs due

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)		
£150 (holiday pay)		
<u>£150 (holiday pay)</u>		
£500 ÷ 3 =		
£166.67 per week	12.92	5.67
	<u>X3</u>	<u>X3</u>
	38.76	17.01

On 11th September, the employee is paid overtime of £80. NICs must be worked out on this separately from the holiday pay of £150 for that week and therefore the NICs due are

Earnings	Total Contribution	Employee's Contribution
	£	£
£80 (overtime)	NIL	NIL

Example 3

Based on the employee being paid the overtime payment on 25th September

On pay day of 4th September NICs are due

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)		
£150 (holiday pay)		
£150 (holiday pay)		
£500 ÷ 3 =		
£166.67 per week	12.92	5.67
	<u>X3</u>	<u>X3</u>
	38.76	17.01

On 25th September, the employee is paid the overtime of £80 in addition to the wages due for that week. Add the overtime payment to the wages and work out NICs on the total. NICs are due therefore.

Earnings	Total Contribution	Employee's Contribution
	£	£
£200 (wages)		
+£80 (overtime)		
= £280	38.76	17.00

Youth Training (YT)

Young person taken on as an employee

If you take on a person under the YT arrangements as an employee everything the young person receives (that is the YT allowance and any top up payment you make) is included in gross pay for NICs purposes.

Where you pay a top-up allowance to such a young person and do not pay the YT allowance directly to the employee, you should:

- work out the NICs due on the total of the top-up and YT allowance amounts
- when you have worked out the employee's net pay, deduct the amount of YT allowance to find out how much you should hand to the employee.

Young person taken on as a trainee and not as an employee

If you take on a young person under the YT arrangements as a trainee and not as an employee and the young person receives only the YT allowance, the allowance does not count as pay for NICs purposes.

Where you take on such a young person and consider making payments to the trainee, either to top up the allowance or as a payment for work done over and above the normal working week, you should contact the Departments Contributions Section for further advice on (01624) 685177.

Tips, gratuities, service charges and tronc

A tip or gratuity is an uncalled for and spontaneous payment offered by a customer either in cash, as part of a cheque payment, or as a specific gratuity on a credit card/ debit slip.

A service charge is an amount added to a customer's bill before it is presented to the customer. If it is made clear to the customer that the charge is a purely a discretionary amount and that there is no obligation to pay, the payment is a voluntary service charge. Where that is not the case, the payment is a mandatory service charge.

To establish the correct NICs treatment of the payments described above, you must identify both the nature of the payment and the arrangements under which it is paid.

Legislation provides that any amount paid to an employee which is payment 'of a gratuity' or is 'in respect of a gratuity' will be exempt from NICs if it meets either of the following two conditions.

- It is not paid, directly or indirectly, to the employee by the employer and does not compromise or represent monies previously paid to the employer, for example, by customers.
- It is not allocated, directly or indirectly to the employee by the employer.

Where NICs are due, the responsibility for working out and recording the NICs will always be with the employer.

If you impose a mandatory service charge and the money is paid out to your employees, NICs are due on the payments no matter what arrangements are in place to share out the money.

If your employees receive tips/gratuities/voluntary service charges you should use the flow chart on the following page to decide if NICs are due.

A tronc scheme is a special pay arrangement used to distribute tips, gratuities and service charges.

A troncmaster is not required to pay NICs on payments made from the tronc. Where payments made from the tronc attract NICs liability, responsibility for calculating the NICs due and making payment to the Treasury rest with the employer.

Payments of tips by the troncmaster will not attract NICs if:

- They are not distributing money that was originally paid to the employer and the employer does not pay the money directly or indirectly to his employees, or
- The employer does not determine, directly or indirectly, the allocation of those tips. (By this we mean the employer must not decide who should receive what amount by the way of tips either directly or through any other person).

If a troncmaster makes a payment to your employees to whom NICs are due, make sure you:

- know the amount being paid and the date(s) of payment **and**
- include the payments in gross pay when working out NICs **and**
- show these payments on the employees' forms T11

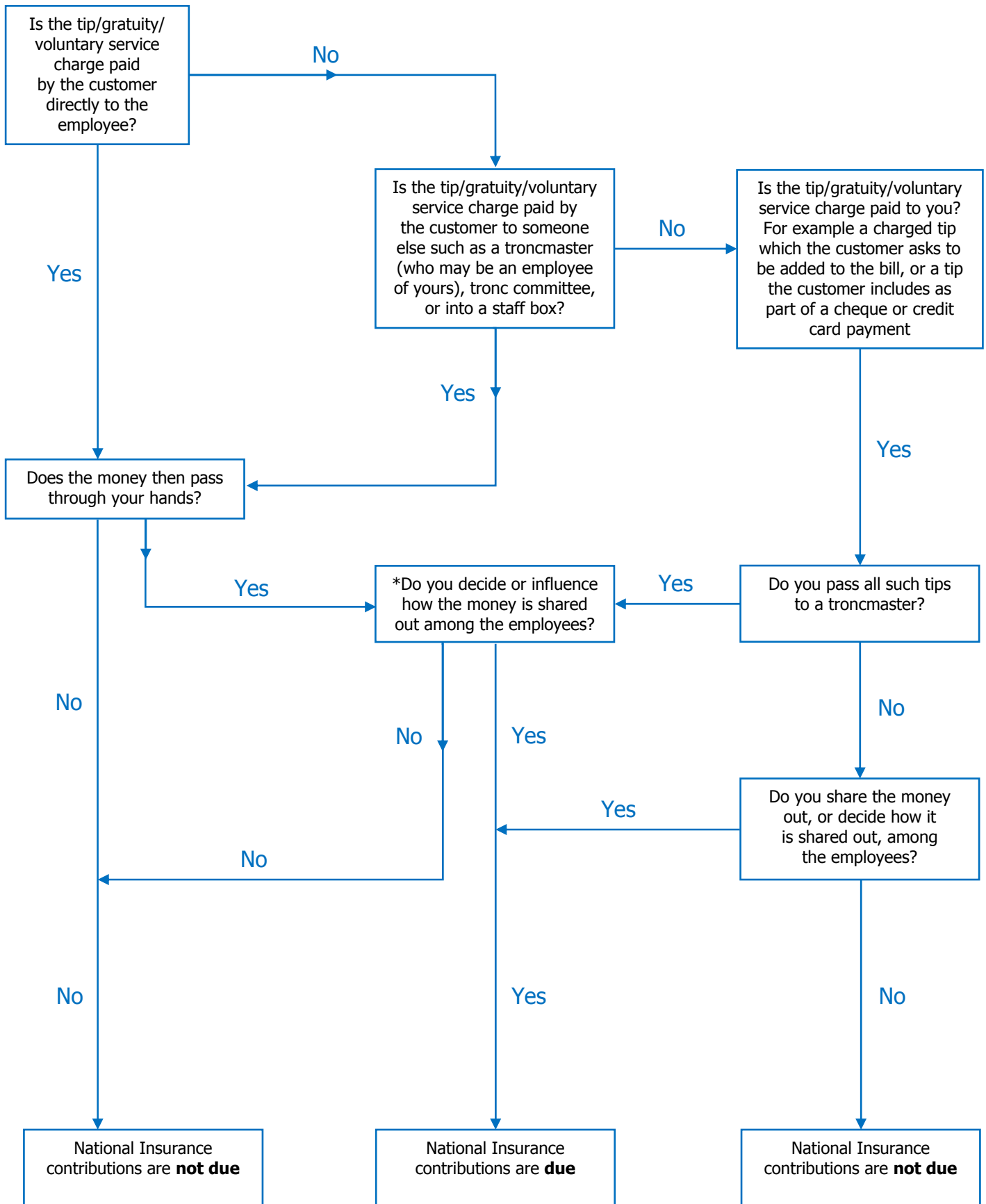
The troncmaster should record the amounts on which NICs are due separately from any tips or gratuities on which NICs are not payable.

If you are not satisfied with the arrangements, it may be advisable to:

- share out the payments yourself, or
- get the formula for sharing out the payments put into the job contract.

It may also be advisable if you took responsibility yourself for paying all earnings to any employee whose basic pay is not enough for full deductions of ITIP and NICs to be made.

Tip/gratuuity/voluntary service charge flowchart



*This includes ensuring employees receive a guaranteed level of tips, or directing that such payments are used to bring the level of earnings up to the Island's Minimum Wage.

Earnings periods for NICs purposes

Ordinarily, the earnings period for working out NICs is the regular interval between which the payments of earnings are made.

The sections below describe how to decide what the earnings period is in different circumstances. The rules described in those sections ordinarily **do not** apply to directors. For details on the earnings period to use for directors see *National Insurance for company directors*, CA44.

Employees paid at regular intervals

If you pay your employees at regular intervals for example, weekly or monthly, the earnings period for working out NICs is that regular interval.

If payments are made based on a regular interval but the actual day you pay them changes:

- treat them as paid at the regular interval, and
- work out NICs separately on each payment even if two or more payments are made in the same earnings period.

See the chart on pages 4 and 5.

Employees not paid at regular intervals but who can be treated as paid at regular intervals

If a payment is not made at regular intervals, there may be a regular pattern covering the period for which each payment is made. In such cases, that regular pattern should be used as the earnings period.

Example

If you pay your employees once a month and their contract shows their pay as a monthly amount, treat them as monthly paid even if sometimes they are paid for 4 weeks and sometimes paid for 5 weeks work.

See the chart on pages 4 and 5.

Employees paid at irregular intervals

If the interval between payments to employees is not regular and cannot be treated as being regular, the earnings period for working out NICs is the period which the payment covers, or one week, whichever is longer.

If it is not reasonably practical to determine the earnings period in this way, the earnings period will be from the date:

- of the previous payment to the date of the current payment or
- the employment began to the date of the first payment

If either period for a payment is less than one week, the earnings period is one week.

The earnings period for a payment made before the employment begins or after it ends is one week.

If an employee is paid in irregular or unequal payments and it is established that this avoids, or reduces the payment of NICs, you can be directed to work out NICs on a different basis. In

such cases, the Department will inform you of the basis which to use.

More than one set of regular payments

As a general rule, if an employee is paid more than one set of regular payments, all payments must be added together and NICs worked out using the shorter of the regular intervals between payments.

Example

If an employee receives basic pay on a weekly basis and commission on a monthly basis, NICs are worked out on the total pay based on a weekly earnings period.

However, if you pay an employee at more than one regular interval and it is established by the Department that most of the earnings are paid at the longer (or longest) interval, you may be directed to work out NICs using the longer (or longest) interval.

If you are directed to use an annual earnings period to work out NICs, the earnings period for the rest of the tax year in which the direction is made will be the number of weeks left in that tax year.

Working out NICs when you first pay an employee

When you first pay an employee, you must work out NICs based on what will be the normal earnings period for the employment using the contribution rates and limits current at the actual time of payment.

If the interval between an employee starting work and the first pay day is less than the normal earnings period, still work out NICs using the normal earnings period.

Example

A new employee starts work on 12th October and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first pay day is 30th October. Work out NICs using a monthly earnings period.

If the interval between and employee starting work and the first pay day spans two or more earnings periods, and each period is in the same tax year, work out NICs on the amounts due for each of those earnings periods separately using the normal earnings period.

Example

A new employee starts work on 8th June and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first pay day is 31st July. The employee receives £2250 gross pay which is made up of:

£750 for the period 8th June – 30th June
£1500 for the period 1st July – 31st July

Work out NICs separately on the payment:

- for June of £750 and record NICs on the employee's form T11 in tax month 3
- for July of £1500 and record NICs on the employee's form in tax month 4

If the interval between an employee starting work and the first pay day spans two or more earnings periods, and the relevant earnings periods are in different tax years, work out NICs on the earnings due for each period separately using the normal earnings period. Use the contribution rates and limits current at the time earnings are actually paid.

Example

A new employee starts work on 9th March and is due to be paid monthly on the last day of each month. The earnings period is monthly and the first pay day is 30th April. The employee receives £1950 gross pay which is made up of:

£450 for the period 10th March – 31st March
 £1500 for the period 1st April – 30th April

Work out NICs separately on the payment:

- for March of £450 using 2008-09 contribution rates and limits and record NICs on the employee's form T11 in tax month 1 of 2008-09
- for April of £1500 and record NICs on the employee's for T11 in tax month 1

Working out NICs for employees not paid on their usual pay day

Take the following action if you pay employees on a day other than their usual pay day, for example, you bring the pay forward because of a Bank holiday or you pay two months salaries together to employees who submit their timesheets late. If the actual date of payment and the usual pay day are:

- **in the same tax year**
treat the early or late payment as if it had been made at its usual time.

Example

Two separate weeks' wages for weeks ending 5th June and 12th June are paid on 12th June. Work out NICs separately on each week's payment. Record the NICs information for the late 5th June payment on the employee's form T11 on the line covering 5th June

- **in different tax years**
work out NICs on the early or late payment separately from any other payments made in that tax year, using the contribution rates and limits appropriate to the year in which the payment is actually made.

Example

Two separate weeks wages for weeks ending 27th March and 3rd April are paid on 31st March. Work out NICs on each set of earnings separately using the usual earnings period, but record the early 3rd April payment and the 27th March payment together on the employee's form T11 on the line covering 27th March.

- **in both the same and different tax years**
Look at each payment individually and decide which of the above rules applies to that payment.

Example

An employee is paid monthly on a submission of a timesheet. The employee submits timesheets for February 2009, March 2009 and April 2009 during May 2009. Work out NICs on the payments due for February and March separately using the 2009-10 contribution rates and limits. Record the NICs separately in tax month 2. Work out NICs on the payments for April and May separately and record the NICs in tax months 1 and 2 respectively.

Changing the method of working out NICs

You may work out NICs using either:

- the contribution Table supplied by the Department or
- the exact percentage method. This is when you apply the appropriate percentage rates to gross pay for the earnings period.

You must only use one method for a particular employee in any tax year unless:

- the employee changes to another payroll which already uses the other method
- you change your payroll system, for example from manual to computer.

An employee has two or more jobs with different employers and each one pays the employee

If an employee has another job or jobs with a different employer or employers, work out NICs in the normal way on the earnings you pay the employee. Ignore the payments made to the employee in the other job(s)

However, if you carry on business in association with the other employer(s), you must add together the earnings from each job and work out the NICs on the total unless it is not reasonable to do so. In such cases, you should agree with the other employer(s) how to share out the payments of employer's contributions.

Employers are considered to be carrying on business in association with each other if:

- their respective business serve a common purpose and
- to a significant degree, they share such things as accommodation, personnel, equipment or customers.

An employee receives one payment of earnings for separate jobs with different employers

An employee may work for two or more employers in separate jobs but only get one payment of earnings.

If the employers:

- are carrying on business in association with each other, see the previous paragraph "An employee has two or more jobs with different employers and each one pays the employee", NICs are due from the employer who actually pays the earnings.
- are not carrying on business in association with each other, each employer has to pay NICs on their share of the payment.

An employee has two or more jobs with the same employer

If an employee has two or more jobs with you at the same time, the general rule is that you must add all the earnings together and work out the NICs on the total.

If the earnings from each job are separately calculated, you do not have to add the earnings from the separate jobs together if it is not reasonably practicable to do so. For example, it might not be practical to do so if you operate a computerised payroll system which is unable to perform the calculation and you would then have to do it manually. In such cases, you may be required to show why it has not been reasonably practicable to add the earnings together.

The onus is on you as the employer to show that aggregation is not reasonably practicable. You will need to take into account the costs, resources, and the effects on running the business. The following points would be considered if the department were to review your decision:

- is it a fact that your payroll software cannot aggregate earnings
- is your payroll software provided by an external supplier or provided by an internal IT section
- does the provider of an outside IT package give an update service that includes aggregation
- if the work has to be carried out manually, what are the costs
- how many employees are potentially affected has there been a material change in the labour force since the decision not to aggregate was taken?

If you have any questions about whether or not such earnings should be added together, please contact the Department for advice on Tel No.(01624) 685177

Working out and recording NICs when earnings from separate jobs are added together

NICs are due at the not contracted-out rate in all jobs

Work out NICs on the total earnings based on the shortest earnings period.

Only complete one form T11 and, at the end of the Tax year, one End of Year Summary, form T14

NICs are due at the contracted-out rate in all jobs and are covered by the same occupational pension scheme.

This applies if all the jobs are covered in the same contracted-out salary related (COSR) scheme or the same contracted-out money purchase (COMP) scheme. Work out NICs on the total earnings based on the shortest earnings period.

Only complete one form T11 and, at the end of the tax year, one End of Year Summary, form T14.

NICs are due at the contracted-out rate in all jobs and are covered by different occupational pension schemes

This applies if an employee is a member of:

- a contracted out salary related (COSR) scheme in one job and a different COSR in another job
or
- a contracted-out money purchase (COMP) scheme in one job and a different COMP scheme in another.

Work out NICs on the total earnings based on the shortest earnings period.

Complete one form T11 and, at the end of the tax year, one End of Year Summary, form T14.

In addition to completing a form T11, keep separate record for each job showing the earnings between the lower and upper earnings limits for each job.

NICs are due at contracted-out rate in one job and not contracted-out in another

NICs must be worked out on the total earnings using the exact percentage method rather than the contribution tables. This is because the calculation of NICs in each table takes into account that portion of an employee's earnings which falls below the Earnings Threshold. This portion of earnings can only be disregarded once.

The charts on pages 18 to 33 explain what you need to do depending on whether or not the employee has an Appropriate Personal Pension arrangement.

The examples in the charts use the rates and limits applicable to the 2009 - 2010 tax year. NICs are worked out using the exact percentage method and are based on the employee being a member of a contracted-out salary related scheme. For information about using the exact percentage method, see page 3.

The order in which to calculate **standard** rate NICs is:

1. first on earnings on which NICs are payable under table letter A if the employee has an Appropriate Personal Pension.
2. then on earnings on which NICs are payable under the letter F if the employee belongs to the company's Contracted-out Money Purchase Scheme
3. then on earnings on which NICs are payable under the letter D if the employee belongs to the company's Contracted-out Salary Related scheme
4. finally on earnings on which NICs are payable under table letter A if the employee does not have an Appropriate Personal pension.

The order in which to calculate **reduced** rate NICs is:

1. first on earnings on which NICs are payable under table letter G if the employee belongs to the company's Contracted-out Money Purchase scheme.
2. then on earnings on which NICs are payable under table letter E if the employee belongs to the company's Contracted-out Salary related scheme.
3. finally on earnings on which NICs are payable under table letter B if the employee is in not contracted-out employment.

If you need more help or information in this area contact the Departments, Contributions section on (01624) 685177.

This example tells you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together, and the employee:

- **does not have** an Appropriate Personal Pension (APP) arrangement and
- NICs are due at the contracted-out rate in some jobs and
- the not contracted-out rate in others

Work out NICs on the total earnings based on the **shortest** earnings period of the contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **weekly paid contracted-out** employment, and the employee does not have an APP arrangement, NICs are worked out using a weekly earnings period.

Example 1

Contracted-out earnings do not reach lower earnings limit (£95 weekly), but total earnings do.

The employee's earnings are:

- £67 a week from the contracted-out job (Table letter D)
- £70 a week from the not contracted-out job (Table letter A)

£137 a week total earnings a week from both jobs

The earnings period is weekly

NICs are due as follows:

Employee's contributions are due at the appropriate not contracted-out percentage rate on earnings above the earnings threshold (£110) up to and including the upper earnings limit (£730)

Employee's contribution
 $£137 - £110 \text{ (ET)} = £27$
 $£27 \times 10\% = \mathbf{£2.70}$

Employers contributions are due at the appropriate not contracted-out percentage rate on earnings above the earnings threshold (£110)

Employee's contribution
 $£137 - £110 \text{ (ET)} = £27$
 $£27 \times 12.80\% = \mathbf{£3.46}$

Total employee's and employer's NICs due = $£2.70 + £3.46 = \mathbf{£6.16}$

Recording NICs

Complete one for T11 and record all the details under contributions Table letter A.

The employee's T11 would show:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
95	15	27	6.16	2.70

At the end of the tax year, complete an End of year Summary, form T14, recording details under Table letter A.

Assuming the employee worked for the same employer for the full 52 weeks, and the level of earnings each week remained unchanged throughout the year, the End of year Summary, T14, would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
A	4940	780	1404	320.32		140.40

This example tells you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together, and the employee:

- does not have an Appropriate Personal Pension (APP) arrangement and
- NICs are due at the contracted-out rate in some jobs and
- the not contracted-out rate in others

Workout the NICs on the total earnings based on the **shortest** earnings period of the contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **monthly paid contracted-out** employment, and the employee does not have an APP arrangement, NICs are worked out using a monthly earnings period.

Example 2

Contracted-out earnings exceed the lower earnings limit (£412 monthly) but do not reach the earnings threshold (£476 monthly)

The employee's earnings are:

- £423 a month from the contracted-out job (Table letter D)
- £400 (£100 p/w x 4 weeks) a month from the not contracted-out job (Table letter A)

£823 a month total earnings from both jobs

The earnings period is monthly

NICs are due as follows:

Employee's contributions are due at:

- the appropriate not contracted-out percentage rate on the not contracted-out earnings above the earnings threshold (£476) up to the upper earnings limit (£3163)
- although no National Insurance contributions are due at the contracted-out rate, the employee has earnings over the LEL. Therefore the employer is entitled to the NIC rebate

Employee's contribution

$£823 - £476 \text{ (ET)} = £347$
 $£347 \times 10\% = \mathbf{£34.70}$

Employee's NICs rebate on Contracted-out earnings

$£423 - £412 \text{ (LEL)} = £11$
 $£11 \times 1.6\% = 0.18$ (to be added to employer's as not contracted-out NICs due)

Employers contributions are due at appropriate not contracted-out percentage rate on the total earnings above the earnings threshold (£476)

Employers contribution

$£823 - £476 \text{ (ET)} = £347$
 $£347 \times 12.8\% = \mathbf{£44.42}$

Employer's NICs rebate on contracted-out earnings

$£423 - £412 \text{ (LEL)} = £11$
 $£11 \times 3.7\% = \mathbf{£0.41}$
 Plus employee's NICs rebate of
 $£0.18 = \mathbf{£0.59}$ (Table letter D NICs)

Total employee's and employers NICs due = **£34.70 + £44.42** (Table letter A) = **£79.12**

Recording NICs

Complete one form T11 for the contracted-out earnings and NICs (after off-setting the NIC rebate) and one for the not contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If ITIP is worked out on the total payment, and records on one form T11 note the second T11 'NI' in the tax code space. You must notify the Department's Contributions Section the first time you use two T11 form for the same employee.

The employee will have two forms T11, one will show the contracted-out earnings and NICs payable (after off-setting the NIC rebate):

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
412	11	0	R0.59	27.40

And the other for the not contracted-out earnings and NICs:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
0	53	347	79.12	34.70

At the end of the tax year, complete and End of Year Summary, form T14, recording details under the appropriate contribution table letters in the same order in which they were worked out.

Assuming the level of earnings each week remained unchanged throughout the year, the End of Year Summary, T14 would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
D	4944	132	0	7.08		0.00
A	0	636	4064	949.44		416.40

This example tells you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together:

- does not have an Appropriate Personal Pension (APP) arrangement and
- NICs are due at the contracted-out rate in some jobs and
- the not contracted-out rate in others

Work out NICs on the total earnings based on the **shortest** earning period of the contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **monthly paid contracted-out** employment, and the employee does not have an APP arrangement, NICs are worked out using a monthly earnings period.

Example 3

Contracted-out earnings exceed the earnings threshold (£476 monthly) but do not reach the upper earnings limit (£3163 monthly)

The employee is a member of their employer's contracted-out Money Purchase scheme.

The employee's earnings are:

- £1036 a month from the contracted-out job (Table letter F)
 - £800 (£200 p/w x 4 weeks) from the not contracted-out job (Table letter A)
- £1836** a month total earnings from both jobs

The earnings period is monthly and NICs are due as follows:

Employee's contributions are due at:

- the appropriate contracted-out rate on the contracted-out earnings above the earnings threshold (£476)
- the appropriate not contracted-out rate on the not contracted-out earnings until the total earnings reach the upper earnings limit.

Employee's contribution

£1036 - £476 (ET) = £560
 £560 x 8.4% = **£47.04**

£200 x 4 = £800
 £800 x 10% = £80

Employee's NICs rebate

£476 (ET) - £412 (LEL) = £64
 £64 x 1.6% = **£1.02**

Net employee's NICs are due = Table letter F £47.04 - £1.02 = **£46.02**
 Table letter A = **£80.00**

Employer's contributions are due at:

- the appropriate contracted-out percentage rate on the contracted out earnings above the earnings threshold (£476)
- the appropriate not contracted-out percentage rate on the balance of total earnings.

Employers contribution

£1036 - £476 (ET) = £560
 £560 x 11.4% = **£63.84**

£200 x 4 = £800
 £800 x 12.8% = **£102.40**

Employers NICs rebate

£476 (ET) - £412 (LEL) = £64
 £64 x 1.4% = **£0.90**

Net employee's NICs are due = Table letter F £63.84 - £0.90 = **£62.94**
 Table letter A = **£102.40**

Total employee's and employer's NICs due = Table letter F £46.02 + £62.94 = £108.96
 Table Letter A £80.00 + £102.40 = **£182.40**

Recording NICs

Complete one form T11 for the contracted-out earnings and NICs (after off-setting the NIC rebate) and another for the not contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If PAYE is worked out on the total payments, and recorded on one form T11, note the second T11 'NI' in the tax code space. You must notify the Department's Contributions Section and first time you use two T11 forms for the same employee.

The employee will have two forms T11, one will show the contracted-out earnings and NICs payable (after off-setting the NIC rebate):

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
412	64	560	108.96	46.02

And the other for the not contracted-out earnings and NICs:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
0	0	800	182.40	80.00

At the end of the tax year, complete and End of Year Summary, form T14, recording details under the appropriate contribution table letters in the same order in which they were worked out.

Assuming the level of earnings each week remained unchanged throughout the year, the End of Year Summary, T14 would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
F	4944	768	6720	1307.52		552.24
A	0	636	9600	2188.80		960.00

This example tells you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together, and the employee:

- does not have an Appropriate Personal Pension (APP) arrangement **and**
- NICs are due at contracted-out rate in some jobs **and**
- the not contracted-out rate in others

Work out NICs on the total earnings based on the **shortest** earnings period of the contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and the other **monthly paid contracted-out** employment, and the employee does not have an APP arrangement, NICs are worked out using a monthly earnings period.

Example 4

Contracted-out earnings reach the upper earnings limit (£3163 monthly)

The employee's earnings are:

- £3851 a month from the contracted-out job (Table letter D)
- £800 (£200 p/w x 4 weeks) a month from the not contracted-out job (Table letter A)

£4651 a month total earnings from both jobs

NICs are due as follows:

Employee's contributions are due at:

- the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£476) up to and including the upper earnings limit (£3163)

Employee's contribution

£3163 (UEL) - £476 (ET) = £2687
 £2687 x 8.4% = 225.71

Employee's NICs rebate

£476 (ET) - £412 (LEL) = £64
 £64 x 1.6% = **£1.02**

Net employee's NICs due = £225.71 - £ 1.02 = £224.69

Employers contributions are due at:

- the appropriate contracted-out rate on the contracted-out earnings above the earnings threshold (£476) up to and including the upper earnings limit. (£3163)
- the appropriate not contracted-out percentage rate on the balance total of earnings.

Employer's Contribution

£3163 (UEL) - £476 (ET) = £2687
 £2687 x 9.1% = **£244.52**
 £3851 - £3163 (UEL) = £688
 £688 x 12.8% = **£88.06**
 Total = **£332.58**

Employer's NICs rebate

£476 (ET) - £412 (LEL) = £64
 £64 x 3.5% = **£2.24**

Net employer's NICs due = £332.58 - £2.24 = **£330.34**

Total employee's and employer's NICs due = £225.71 + £330.34 = **£556.05**

Recording NICs

Complete one for T11 and record all the details under contributions Table letter D.

The employee's T11 would show:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
412	64	2687	556.05	224.69

And the end of the tax year, complete an End of Year Summary, form T14, recording details under Table letter D.

Assuming the employee worked for the same employer for the full 52 weeks/12 months of the year, and the level of earnings each week/month remained unchanged, the End of Year Summary, T14 would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
D	4944	768	32,244	8193.24		2708.52

This example tells you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together, and the employee:

- has an Appropriate (APP) arrangement **and**
- NICs are due at the contracted-out rate in some jobs **and**
- the not contracted-out rate in others

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **weekly paid not contracted-out** employment, and other **weekly paid contracted-out** employment, and the employee has an APP arrangement, NICs are worked out using a weekly earnings period.

Example 5

Not contracted-out earnings do not reach the lower earnings limit (£95 weekly) but total earnings do.

The employee's earnings are:

- £70 a week from the not contracted-out job (Table letter A)
 - £70 a week from the contracted-out job (Table letter D)
- £140** a week total earnings from both jobs

The earnings period is weekly

NICs are due as follows:

Employee's contributions are due at:

- the appropriate contracted-out percentage rate on earnings above the earnings threshold (£110) up to and including the upper earnings limit (£730)

Employee's contributions

£140 - £110 (ET) = £30
£30 x 8.4% = **£2.52**

Employee's rebate

£110 (ET) - £95 (LEL) = £15
£15 x 1.6% = **£0.24**

Net employee's NICs due = £2.52 - £0.24 = £2.28

Employers contributions are due at:

- the appropriate contracted-out percentage rate on earnings above the earnings threshold (£110), up to and including the upper earnings limit (£730)

Employers contributions

£140 - £110 (ET) = £30
£30 x 9.1% = **£2.73**

Employer's NICs rebate

£110 (ET) - £95 (LEL) = £15
£15 x 3.7% = **£0.56**

Net employer's NICs due = £2.73 - £0.56 = **£2.17**

Total employee's and employer's NICs due = £2.28 + £2.17 = **£4.45**

Recording NICs

Complete one for T11 and record all the details under contributions Table letter D.

The employee's T11 would show:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
95	15	30	4.45	2.28

And the end of the tax year, complete an End of Year Summary, form T14, recording details under contribution Table letter D.

Assuming the level of earnings remains unchanged throughout the year, the End of Year Summary, T14 would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
D	4940	780	1560	231.40		118.56

This example tells you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together, and the employee:

- has an Appropriate Personal Pension (APP) arrangement **and**
- NICs are due at the contracted-out rate in some jobs **and**
- the not contracted-out rate in others

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **monthly paid not contracted-out** employment, and other **weekly paid contracted-out** employment, and the employee has an APP arrangement, NICs are worked out using a weekly earnings period.

Example 6

Not contracted-out earnings exceed the lower earnings limit (£412 monthly) but do not reach the earnings threshold

The employee's earnings are:

- £414 a month from the not contracted-out job (Table letter A)
- £400 (£100 p/w x 4 weeks) a month from the contracted-out job (Table letter D)

£814 a month total earnings from both jobs

The earnings period is monthly

NICs are due as follows:

Employee's contributions is due at:

- the appropriate contracted-out percentage rate on the contracted-out earnings above the earnings threshold (£476) up to and including the upper earnings limit (£3163)

Employee's contribution

£814 - £476 (ET) = £338

£338 x 8.4% = **£28.39**

Employee's NICs rebate

£476 (ET) - £412 (LEL) = £64

£414 - £412 (LEL) = £2

£64 - £2 = £62 x 1.6% = **£0.99**

Net employee's NICs due = £28.39 - £0.99 = **£27.40**

Employers contributions are due at:

- the appropriate contribution rate on the contracted-out earnings above the earnings threshold (£476) up to and including the upper earnings limits (£3163)

Employers contribution

£814 - £476 (ET) = £338

£338 x 9.1% = **£30.76**

Employer's rebate

£476 (ET) - £412 (LEL) = £64

£414 - £412 (LEL) = £2

£64 - £2 = £62 x 3.7% = **£2.29**

Net employer's NICs due = £30.76 - £2.29 = **£28.47**

Total employee's and employer's NICs due = £27.40 + £28.47 = **£55.87**

Recording NICs

Complete one form T11 for the not contracted-out earnings and NICs and one for the contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If PAYE is worked out on the total payments and recorded on one form T11, note the second T11 'NI' in the tax code space. You must notify the Department's Contributions Section and first time you use two T11 forms for the same employee.

The employee will have two forms T11, one will show the not contracted-out earnings and NICs:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
412	2	0	0.00	0.00

And the other for the contracted-out earnings and NICs:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
0	62	338	55.87	27.40

At the end of the tax year, complete and End of Year Summary, form T14, recording details under the appropriate contribution table letters in the same order in which they were worked out.

Assuming the level of earnings remained unchanged throughout the year, the End of Year Summary, T14 would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
F	4944	24	0	0.00		0.00
A	0	744	4056	670.44		328.80

This example tells you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together, and the employee:

- has an Appropriate (APP) arrangement **and**
- NICs are due at the contracted-out rate in some jobs **and**
- the not contracted-out rate in others

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **monthly paid not contracted-out** employment, and other **weekly paid contracted-out** employment, and the employee has an APP arrangement, NICs are worked out using a monthly earnings period.

Example 7

Not contracted-out earnings exceed the earnings threshold (£476 monthly) but do not reach the upper earnings limit (£3163 monthly)

The employee has an Appropriate Personal Pension (APP) arrangement

The employee's earnings are:

- £1036 a month from the not contracted-out job (Table letter A)
- £800 (£200p/w x 4 weeks) a month from the contracted-out job (Table letter D)

£1836 a month total earnings from both jobs

The earnings period is monthly

NICs are due as follows:

Employee's contributions are due at:

- the appropriate not contracted-out percentage rate on the not contracted-out earnings above the earnings threshold (£476)
- the appropriate contracted-out percentage rate on the contracted-out earnings until the total earnings reach the upper earnings limit (£3163)

Employee's contribution

$£1036 - £476 \text{ (ET)} = £560$
 $£560 \times 10\% = £56.00$

$£800 \times 8.4\% = £67.20$

Employee's NICs rate

Nil (No contracted-out earnings between the LEL and ET)

Employer's contributions are due at:

- the appropriate not contracted-out percentage rate on the not contracted-out earnings threshold (£476)
- the appropriate contracted-out percentage rate on the contracted-out earnings until the total earnings reach the upper earnings limit (£3163)

Employer's contribution

$£1036 - £476 \text{ (ET)} = £560$
 $£560 \times 12.8\% = \mathbf{£71.68}$

$£800 \times 9.1\% = \mathbf{£72.80}$

Employer's NICs rebate

Nil (No contracted-out earnings between the LEL and ET)

Total employee's and employer's NICs due = Table letter A $£56.00 + £71.68 = £127.68$
 Table letter D $£67.20 + £72.80 = £140.00$

Recording NICs

Complete one form T11 for the not contracted-out earnings and NICs and one form T11 for the contracted-out earnings and NICs. The sharing out of earnings is for NICs purposes only. If PAYE is worked out on the total payments and recorded on one form T11, note the second T11 'NI' in the tax code space. You must notify the Department's Contributions Section and first time you use two T11 forms for the same employee.

The employee will have two forms T11, one will show the not contracted-out earnings and NICs:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
412	64	560	127.68	56.00

And the other for the contracted-out earnings and NICs:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
0	0	800	140.00	67.20

At the end of the tax year, complete and End of Year Summary, form T14, recording details under the appropriate contribution table letters in the same order in which they were worked out.

Assuming the level of earnings remained unchanged throughout the year, the End of Year Summary, T14 would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
A	4944	768	6720	1532.16		672.00
D	0	0	9600	1680.00		806.40

This example tell you how to work out NICs and fill in forms T11 and T14 when earnings from more than one job are added together, and the employee:

- **has** an Appropriate Personal Pension (APP) arrangement **and**
- NICs are due at the contracted-out rate in some jobs **and**
- the not contracted-out rate in others

Work out NICs on the total earnings based on the **shortest** earnings period of the not contracted-out employment(s).

For example, if a person has two jobs, one of which is **monthly paid not contracted-out** employment, and the other **weekly paid contracted-out** employment, and the employee **has** an APP, NICs are worked out using a weekly earnings period.

Example 8

Not contracted –out earnings reach or exceed the upper earnings limit (£730 weekly)

The employee's earnings are:

- £790 a week from the not contracted-out job (Table letter A)
 - £80 a week from the contracted-out job (Table letter D)
- £870** a week total earnings from both jobs

The earnings period is weekly

NICs are due as follows:

Employee's contributions are due at:

- the appropriate not contracted-out percentage rate on earnings above the earnings threshold (£110), up to and including the upper earnings limit (£730)
- no NICs are due on earnings above the upper earnings limit

Employee's contribution

$£730 \text{ (UEL)} - £110 \text{ (ET)} = £620$
 $£620 \times 10\% = \mathbf{£62.00}$

Employee's NIC rebate

Nil

Total employee NICs due = **£62.00**

Employer's contributions are due at:

- the appropriate not contracted-out percentage rate on the total earnings above the earnings threshold (£110)

Employer's contribution

$£870 - £110 = £760$
 $£760 \times 12.8\% = \mathbf{£97.28}$

Total employee's and employer's NICs due = $£62.00 + £97.28 = \mathbf{£159.28}$

Recording NICs

Complete one for T11 and record all the details under contributions Table letter A.

The employee's T11 would show:

National Insurance Contributions				
Note LEL= Lower Earnings Limit; ET=Earnings Threshold; UEL=Upper earnings Limit				
Earnings details			Contributions details	
Earnings at the LEL (where earnings are equal to or exceed the LEL)	Earnings above the LEL, up to and including the ET	Earnings above the ET, up to and including the UEL	Total of employee's and employer's contributions -mark minus amounts 'R'	Employee's contributions payable on earnings in 1c
1a £ p	1b £ p	1c £ p	1d £ p	1e £ p
95	15	620	159.28	62.00

And the end of the tax year, complete an End of Year Summary, form T14, recording details under contribution Table letter A.

Assuming the level of earnings each week/month remained unchanged, the End of Year Summary, T14 would show:

Earnings Details				Contribution Details		
Note: LEL= Lower Earnings Limit, UEL= Upper Earnings Limit						
NI TABLE LETTER	Earnings at the LEL (where earnings are equal to or exceed the LEL) (whole £'s only)	Earnings at the LEL, up to and including the Earnings Threshold (whole £'s only)	Earnings above the Earnings Threshold, up to and including the UEL (whole £'s only)	Total of employee's and employer's contributions payable	If amount in col. 1d is a minus amount, enter 'R' here	Employee's contributions payable on earnings in 1c
	1a £	1b £	1c £	1d £ p		1e £ p
D	4940	780	39,520	8126.56		3224.00

Deferment of the payment of employee's contributions for employees with more than one job

Employees with more than one job, who expect to pay employee's contributions on earnings at the upper earnings limit throughout the tax year in one or a mixture of jobs, can apply to the Department's Contributions Section not to pay contributions in their other jobs(s). This avoids the necessity for us to refund any overpaid NICs after the end of the tax year.

If an application is allowed, the Department will send form RD950 the employer(s) concerned authorising them not to deduct employee's contributions. Employer's contributions are still payable.

If you receive form RD950 or CA2700 (issued by UK Inland revenue) for an employee, use the contribution Table letter appropriate to the employer only contributions. These are:

- table letter "J" for **Not Contracted-Out** employment
- table letter L for **Contracted-out Salary Related (COSR)** employment
- table letter S for **Contracted-out Money Purchase (COMP)** employment.

For deferment from April 2009 complete columns 1a – 1e of form T11

In addition, you are asked to keep a record of:

- The employees contributions which would have been payable had deferment not been authorised, and
- The earnings on which those contributions would have been payable.

The Department may ask for these details after the end of the tax year. Please keep these records for at least three years after the end of the tax year to which this information relates.

What to do if you have already deducted employee's contributions in the tax year prior to receipt of form RD950 or CA2700

If you have already deducted employee's contributions:

- refund them to the employee
- adjust your next payment to the Treasury as long as it is for the same tax year
- adjust the contribution Table letter under which NICs are due on the employees form T11 to the appropriate "employer" only" letter
- keep a record of earnings on which the employee NICs would have been deducted.

Amend the form T11 by:

- drawing a line through each of the entries that you are adjusting so that the original entry can still be read
- recording the right amounts alongside
- entering the amended totals of column 1a to 1e up to the date of change in the boxes next to the entry for the original contributions table letter in the "End of Year Summary" section on page 2 of the T11
- entering the new contribution Table letter on the next line of the "End of Year Summary" section

The Department may ask for these details after the end of the tax year. Please keep these records for at least three years after the end of the tax year to which this information relates.

Employees with more than one job who want to know about deferment should contact the Department's Contributions section by telephoning (01624) 685059.

Employers with occupational schemes – Contracted-out rate NICs

If you have an occupational pension scheme which satisfies certain conditions, you can contract your employees out of the State Second Pension Scheme (S2P). In such circumstances, NICs are payable at the contracted-out rate. The contracted-out rate of NICs is lower than the not contracted-out rate, and the difference between the two is referred to as the NICs rebate. The level of rebate depends on whether the occupational pension scheme is a Contracted-out Salary Related (COSR) scheme, or a Contracted-out Money Purchase (COMP) scheme.

Employees pay primary NICs at the appropriate percentage rate on earnings above the Earnings Threshold (ET) up to and including the Upper earnings Limit (UEL). Employers pay secondary NICs on all earnings above the ET.

Following the introduction of the ET, employers operating contracted-out occupational pension schemes can, from their overall NICs payments, make a deduction to reflect the rebate that **would** have been applied to employee's and employer's NICs on earnings between the Lower earnings limit, up to and including the ET. This is known as the NICs rebate.

Guidance on the calculation of the rebate is given in CF392 (IOM) and CF398 (IOM) *Contracted-out Contribution Tables*.

The Department will send you a certificate giving you the right to work out and pay NICs at the contracted-out rate(s) for those employees covered by certificate.

If you have such a certificate, you will have been allocated an Employer's Contracting-out Number (ECON) and Scheme Contracted-out number (SCON) by the Department, both of which should be entered onto all T14's being submitted as part of the employers end of year return.

Employees do not have to join or stay in their employer's occupational pension scheme. If an employee chooses to opt out of their employer's scheme or a new employee decides not to join, not contracted-out rate NICs are payable for them.

Please note that if an employee has an Appropriate Personal Pension scheme, NICs must be paid at the not contracted-out rate.

For more information about Appropriate Personal Pensions see page 36.

Working out NICs payable at the Contracted-out rate

Contracted-out NICs are payable under either Contribution Table letter D, E, L, F, G or S (or Mariners' equivalents). The letter used depends on whether the occupational scheme is a Contracted-out Salary Related (COSR) scheme, or a Contracted-out Money Purchase (COMP) scheme, or a Contracted-out Mixed Benefit (COMB) scheme.

For a [COSR scheme and the COSR part of a COMB scheme](#) use contribution Table letter:

- **D** for all employees who pay NICs at the standard contracted-out rate
- **E** for married women and widows who have the right to pay reduced rate NICs. See page 36 for further information.
- **L** for employees for whom you hold form RD950 or CA2700 issued by the Department. See previous section on deferment of payment for further information.

If you use the Tables to work out NICs, use National Insurance tables: *Contracted-out Contributions for employers with Contracted-out Salary Related Schemes*, CF392(IOM).

If you use the exact percentage method to work out NICs, the appropriate earnings limits/threshold and percentage rates for relevant tax years are also supplied in the National Insurance Tables, CF392 (IOM)

Guidance on the exact percentage method can be found on page 3 of this guide.

For a [COMP scheme and the COMP part of a COMB scheme](#) use contribution Table letter:

- **F** for all employees who pay NICs at the standard contracted-out rate
- **G** for married women or widows who have the right to pay reduced rate NICs. See page 36 for further information
- **S** for employees for whom you hold form RD950 issued by the Department's Contributions Section. See previous section on deferment of payment for further information.

If you use the Tables to work out NICs, use National Insurance Tables: *Contracted-out contributions for employers with Contracted-out Money Purchase Schemes*, CF398 (IOM)

If you use the exact percentage method to work out NICs, the appropriate earnings limits/ threshold and percentage rates for the relevant tax years are also supplied in the National Insurance Tables CF398 (IOM)

Guidance on using the exact percentage method can be found on page 3 of this guide.

The National Insurance Tables CF392 (IOM) and CF398 (IOM) are issued to appropriate employers by the Department each tax year. If you would like further copies, contact the Department's Contributions Section on (01624) 685177.

Contracted-out status starts whilst in employment

NICs for employees who become contracted-out while they are employed by you and whose earnings go over the Earnings Threshold, are due at the relevant contracted-out rate from the first payment you make to them on or after the date they become contracted-out. This is the case even if the payment was earned before that date.

Contracted-out status stops but employment continues

NICs for employees who stop being contracted-out but continue to be employed by you, whose earnings go over the Earnings Threshold, are due at the relevant not contracted-out rate from the first payment you make to them on or after the date they stop being contracted-out. This is the case even if the payment was earned before that date.

Retrospective membership of an occupational pension scheme

It may be decided that one or more of your employees can become retrospective members of your occupational pension scheme. This includes employees who have been reinstated retrospectively.

You and the employee(s) will be entitled to a refund of the difference between the not contracted-out NICs paid and the contracted-out rate NICs due since the retrospective membership date.

Retrospective membership is dependant on:

- the rules of the occupational pension scheme **and**
- whether or not the employment in question is excluded from the contracting-out certificate issued by the Department

Your occupational pension scheme will provide the information you need.

If a refund is due for the current tax year, amend your next payment to the Treasury and amend your pay records accordingly.

If a refund is due for a tax year which has ended contact the Department's Contributions section on (01624) 685177.

Special rule for employees over state pension age

If an employee is over state pension age (65 for men, 60 for women) employer's contributions must be paid under contributions table letter C at the not contracted-out rate even when they were in contracted-out employment before reaching State pension age. Use Table C in National Insurance Tables: *Not contracted-out contributions*, CF391 (IOM). Also see '*Payment of NICs for employees over state pension age*' on page 38.

Further Information

For further information about the procedures to be followed when a person leaves contracted-out employment, see:

- *Termination of Contracted-out Employment Manual for Salary Related Pension Schemes*, CA14
- *Termination of Contracted-out Employment Manual for Money Purchase Schemes*, CA 14A

Termination of contracted-out employment for Mixed Benefit schemes is covered in both of the above manuals. If you have any queries about contracting-out arrangements or would like copies of the relevant publications contact the Department's Contributions section on (01624) 685058

Employees with Appropriate Personal Pension Schemes and the effect on NICs

Appropriate Personal Pension (APP) schemes are a type of personal pension which enable an employee to contract out the State Second Pension, previously known as the State Earnings related Pension Scheme. Employees may contract-out through an appropriate personal pension and be a member of either:

- their employer's (contracted-in) occupational pension scheme or
- a personal pension scheme for a private pension

Working out NICs

If an employee has an APP you must work out NICs at the standard not contracted-out rate that is under contribution Table letter A. Do not use either a contracted-out or reduced rate.

Working out NICs when an APP scheme begins

If an employee:

- opts out of State Second Pension (previously known as SERPS) in favour of an APP Scheme, continue to work out NICs using contributions table letter A.
- leaves your contracted-out occupational pension scheme in favour of an APP Scheme, work out NICs using contribution Table letter A on the first payment you make to the employee on or after the date on which they opt out of your scheme.

Payments made by an employer into an APP Scheme

Provided the payment is excluded from tax, do not include in gross pay any payment you make into an employee's APP scheme. This also applies to employer's contributions to personal pension schemes which are not APP schemes).

Funded unapproved retirements benefits schemes

Apportioning payments into funded unapproved retirement benefits schemes (FURBS) between employees

General NICs position

Generally, any payment you make into a FURBS is regarded as earnings for NICs purposes (see page 46 under the entry for 'Retirement benefits schemes'). So you should include the amount you pay in the employee's gross pay.

Where the amount you pay into a FURBS is in respect of more than one employee, you will need to apportion that amount between the employees as follows:

Separate trust for each employee

For NICs purposes, include in each employee's gross pay the amount that you pay into the FURBS in respect of each employee.

Single trust fund – employees with a distinct and separate benefit share

The amount that you should include in an employee's gross pay for NICs purposes will depend on whether or not at the time you make a payment into the FURBS, what separate benefits are to be provided to each employee.

- (i) separate benefits to be provided to each employee are known at the time of the payment into the FURBS apportion the payment(s) into the FURBS on the basis of the amount of the payments which have had to be made in order to obtain those benefits.

Example

Employer A makes a payment of £60,000 into a FURBS in respect of two employees, Y and Z. At the time of payment, it is known what separate benefits each employee will get from the FURBS.

In order to secure those benefits for the employees:

- £40,000 would have to be paid in respect of employee Y; and
- £20,000 would have to be paid in respect of employee Z.

On this basis, the amount of earnings, for NICs purposes,

- employee Y - £40,000
- employee Z - £20,000

- (ii) separate benefits to be provided to each employee are not known at the time of payment into the FURBS apportion the payments(s) into the FURBS equally between the number of employees in respect of whom the payment(s) is being made.

Example

Employer B makes a payment of £60,000, into a discretionary FURBS in respect of three employees. At the time of payment, it is not known how the benefits of the FURBS will be split between the three employees. But under the rules of the FURBS, each employee must get a benefit.

Calculate the amount of earnings, for NICs purposes, for each employee by dividing the amount of the payment (£60,000) by the number of employees it covers (three). So each employee has earnings of £20,000.

Special treatment for some married women and widows

Some married women and widows have the right to pay reduced rate NICs. If an employee has such a right she MUST give you a valid 'certificate of election' before you can deduct NICs at the reduced rate.

Certificate of election

A certificate of election gives you the authority to deduct reduced rate NICs and you must keep the certificate until the woman:

- stops working for you, **or**
- becomes liable to pay standard rate NICs, or
- reaches state pension age

If you deduct reduced rate NICs before you are given a valid certificate of election, you are responsible for any underpayment.

It is also your responsibility to ensure the certificate of election you receive from the employee is valid. Check carefully any certificates you are given.

The only valid certificates of election are:

- form CA4139 or CF383 unless
 - either box A or box B shows a date which has passed or
 - the employee has not earned enough to pay NICs in any two consecutive tax years since 6th April 1978 and has not been self-employed.
- form CF380A as long as the woman has worked for you continuously since 5 April 1980 and has paid reduced rate NICs throughout that time.

Getting a valid certificate of election

If an employee gives you a certificate of election which is not valid, return it to her. If she says that she is still entitled to pay reduced rate NICs, she must contact the Department's Contributions Section and ask for a replacement to be issued.

If an employee has more than one job she must get a separate certificate to give to each employer.

Giving up the right to pay reduced rate NICs

A woman who wishes to give up her right to pay reduced rate NICs can do so by returning her certificate of election to the Department's Contributions Section, giving the date from which she wishes to cancel her election. This date can be:

- the end of the tax week in which she notifies the Department of her intention or
- any later week in the tax year which she chooses.

A woman who chooses to cancel her election and pay standard rate NICs can not later change back to paying at the reduced rate.

Losing the right to pay reduced rate NICs

A married woman or widow who has a valid certificate of election loses her right to pay reduced rate NICs if she:

- gets divorced or her marriage is annulled
- becomes a widow but is not entitled to Bereavement Benefit after an initial period
- loses her right to Bereavement Benefit for a reason other than remarriage
- has not had earnings in any two consecutive tax years since 6 April 1978 on which Class 1 NICs were payable or has not been self-employed.

Whilst no NICs are payable between the LEL and ET, they are treated as having been paid. As such a married woman will not lose her right to pay reduced rate NICs and her election remains valid.

Divorce or annulment

A woman under the age of 60 whose marriage ends in divorce or annulment:

- loses immediately her right to pay reduced rate NICs from the date of her decree absolute or decree of nullity.

Your employee is required by law to:

- tell you when she is no longer entitled to pay NICs at the reduced rate and

- return her certificate of election to the Department's Contributions Section.

As the employer, you are required by law to return the certificate of election to the employee when asked to do so.

You may consider it worthwhile to have arrangements in place:

- so that your employee knows who, or which part of your organisation, she should inform that she is no longer entitled to pay reduced rate NICs and whether you require this to be done in writing
- to check any notification of change of surname or re-marriage as this may mean that there has been a divorce or annulment
- to issue a periodic reminder to employees from whom you hold a certificate of election, advising them of the need to tell you if
 - their marriage ends by divorce or annulment
 - they are no longer entitled to pay reduced rate NICs.

Although all cases will be considered individually on their merits, you will be liable for any underpayment of NICs unless:

- the employee was at fault. (This might mean, for example, that she failed to tell you that she was no longer entitled to pay reduced rate NICs under the laid-down procedures you may have, or she failed to ask for the return of the certificate of election) and
- the underpayment was not due to any negligence on your part. (For example, you may be considered negligent if you have inadequate or no arrangements in place for your employees to tell you that she is no longer entitled to pay NICs at the reduced rate.)

When to return a certificate of election

You must return a certificate to your employee when:

- she leaves your employment
- she tells you that her marriage has ended in divorce or by annulment
- she reaches State Pension age
- the date shown on her certificates has passed
- she has paid no NICs for two consecutive tax years because her earnings have been below the lower earnings limit
- she has changed her name
- she remarries
- she asks for it back
- she becomes widowed

Complete the parts of the certificate which apply to you before you return a certificate.

When you have returned a certificate, if the woman works for you, deduct standard rate NICs unless she has:

- given you a new certificate of election
- reached the age of 60 and has given you a certificate of age exception.

If you cannot return a certificate of election to an employee who has left, send it with a note of explanation, to the Department's Contributions Section.

Adjusting NICs

You must reassess and adjust any NICs already deducted if your employee:

- gives you a valid certificate of election part way through the tax year
- is late in telling you that she is no longer entitled to pay reduced rate NICs.

Overpayment of NICs

If an overpayment of NICs occurs in the current year as a result of you receiving a valid certificate of election part of the way through the year:

- refund the amount overpaid to the employee
- amend the employee's form T11
- adjust your next payment to the Treasury.

To get a refund of an overpayment in a tax year which has ended, the employee must contact the Department's Contributions Section.

Underpayment of NICs

If, as a result of the employee being late in telling you that she is no longer entitled to pay reduced rate NICs, an underpayment has occurred, follow the rules on page 8.

More Information

For more information about the right to pay reduced rate either you or your employee can consult with the Department's Contributions Section on 01624 685177.

Payment of NICs for employees over state pension age

Employees over state pension age, currently 60 for women and 65 for man, do not have to pay employee's contributions.

Employer's contributions are still due and are payable at the not contracted-out rate, even if you operate a contracted-out scheme. Employer's contributions are due at the not contracted-out rate from the first payment you make to your employee after their 60th or 65th birthday.

As the employer you are responsible for ensuring that the correct contributions are paid, and before you stop deducting employee's contributions you must have an age exception certificate, CA4140 or CF384, from the employee. These can be obtained from the Department's Contributions Section.

If you stop deducting employee's contributions before you have received a valid age exception certificate, or continue to pay employer contributions at the contracted-out rate, you are responsible for any underpayment.

Certificate of age exception

The certificate of age exception gives you the authority to stop paying employee's contributions.

The certificate shows a "valid from" date and the employee will not be liable to pay any further employee's contributions on any payment of earnings made on or after that date.

Getting a certificate of age exception

An employee can get a certificate of age exception by applying to the Department's Contributions Section on (01624) 685177. The employee must provide evidence of their age, for example, an original birth certificate.

If the employee has more than one job, they must get a separate certificate of age exception to give to each employer. You are responsible for looking after any certificate given to you. Keep the certificate for as long as the employee works for you.

When to return a certificate of exception

Certificates of age exception belong to the Department and if requested, you must return the certificate to us. Always return the certificate of age exception to your employee when their employment ends. If you are unable to return the certificate direct to the employee, send it, with a note of explanation, to the Department.

Adjusting NICs

If you are given a certificate of age exception which shows that the "valid from" date has already passed, you will need to reassess and adjust any NICs wrongly paid.

Overpayment of employee's contributions

If an overpayment has occurred in the current tax year as a result of employee's contributions being wrongly deducted:

- refund the employee's contributions to the employee
- amend the employee's form T11
- adjust your next payment to the Treasury.

If an overpayment of an employer's contributions has occurred in the previous tax year, to get a refund the employee must contact the Department's Contributions Section.

Underpayment of employer's contributions

An underpayment of employer's contributions will happen if these contributions are paid at the contracted-out rate. Employer's contributions **must** be paid at the not contracted-out rate.

If an underpayment occurs in the current tax year:

- amend the employee's form T11
- adjust your next payment to the Treasury.

If an underpayment occurred for a previous tax year contact the Departments Contributions Section.

Accident at work and industrial diseases

If an employee, or someone acting for them, tells you about an accident at work, you must take reasonable steps to investigate what happened.

If what you have been told does not agree with what you find, you should record what you find to make sure the facts have been confirmed while they are still fresh in the minds of any witnesses.

If a claim for benefit is made, you can then answer any questions from the Department.

Accident book

You must keep an accident book or record equivalent information by electronic means if you:

- normally employ 10 people or more
- own or run a mine, quarry or factory
- own or occupy premises to which anything in the Factories and Workshops Acts, 1909 to 1939 apply.

This book or record must be:

- easily available to your employees
- in a form approved by the Department.
- You must keep a book or records for 3 years after the date of the last entry in it.

Accident books are available from HSE Books, PO Box 1999, Sudbury, Suffolk, CO10 2WA

Tel: 01787 881165, Fax: 01787 313995

Or order online at: www.hsebooks.co.uk

Recording accidents

The accident book lets the injured person, or someone acting on their behalf, tell you about the accident. If you are told about the accident in a letter, or in some other way, you should obtain the following details:

- full name, address and occupation of the injured person
- date and time of accident
- where the accident happened
- how the accident happened and what caused it
- the kind of injury
- name, address and occupation of the person telling you, if it is not the injured person themselves.

Enquiries about accidents at work and industrial diseases

You are required by law to give the Department any information they ask for about:

- any accident or alleged accident where benefit might be payable.
- the kind of job and any relevant facts connected with it, of anyone who is said to be suffering from, or to have died from, an industrial disease.

Claims against you for damages

Getting benefit from the Industrial Injuries scheme does not affect the right of an injured person or their dependants to claim damages through the civil courts for personal injuries as well.

If damages are awarded, part of some benefits may be taken into account when the amount of award is worked out.

Part-time, casual or student employees

You must follow the same NICs procedures for part-time, casual or student employees as you follow for full-time or permanent employees.

Students who are on courses abroad

If, during their holidays, you take on an employee who is a student on a course abroad, take the following action:

If the employee is an Isle of Man or UK national studying abroad, work out NICs in the normal way on any payments you make.

If the employee is a foreign student, NICs may not be payable in certain circumstances.

For further information contact the Department's Contributions Section or see pages 41 and 42 as appropriate.

Workers supplied by agencies

A person who gets work with a client through an agency or some other third party, but who is not an employee of the client, is usually treated for NICs purposes as an employee of the agency.

The agency is responsible for payment of NICs where:

- the worker is expected to carry out work personally, **and**
- someone has the right, even if not exercised, to supervise, direct or control the way the work is done and **any** of the following apply
 - the worker is paid by or through the agency
 - the worker is paid based on accounts sent by the agency to the client
 - the worker is paid by arrangements made with the agency
 - there are payments other than worker's pay. (For example fees or commission between the agency and the client.)

If the agency has no place of business or is not present in the Isle of Man or United Kingdom, the client is treated as the employer.

A person who gets work through an agency or some third party is not treated as an employee if any of the following apply:

- the only payment made is an introductory fee
- the work is done at home or somewhere not controlled or managed by the firm or person for whom the work is done, unless it is the kind of job done on other premises. (For example, an audit clerk supplied to an accountant through an agency who works on the premises of the accountant's clients.)
- the person is employed as an actor, singer, musician, other entertainer or fashion, photographic or artist's model.

Information for farmers

Benefits in kind provided to your employees

Ordinarily, the provision of free board and lodging as a benefit in kind is not included in gross pay. However when there is a charge involved, any payment made for housing or board and lodgings must be included in gross pay unless **all** of the following are satisfied:

- Your contract with a third party to provide the board and lodgings
- Any charge for the provision is paid directly by you to the third party
- The third party should be the householder
- The employee does not **already** have the right to reside in the dwelling house
- The employee's wages are expressed as
 - their wage (which must be at least the minimum after deductions as required under the Minimum Wages Act)
 - their lodging allowance (which may include an amount which in money terms, brings their wage up to at least the minimum wage under the Agricultural Wages Act and which amount of lodging allowance is no more than the maximum chargeable under the Agricultural Wages Act)
- The employee's wages and lodging allowance are shown separately in your accounts.

You are required under the Agricultural Wages Act 1952 to take account of benefits in kind provided to employees (limited to housing, board and lodging) when you work out their wages. Limits set for these deductions are detailed in the Agricultural Wages Board Regulations and must not reduce the take-home pay to a level below that required by the Minimum Wages Act.

Do not include the value of such benefits in gross pay for NICs purposes.

Gangmasters or contractors engaged to carry out specific jobs

If you engaged a gangmaster or a contractor who is not one of your own regular employees, to carry out specific jobs such as:

- a contractor supplying own machinery or equipment for threshing, ploughing, haulage and so on
- a gangmaster supplying a squad of workers for potato, fruit, hop or other crop picking.

The gangmaster or contractor is usually responsible for operating ITIP and accounting for the NICs due for any worker he or she provides. In such cases you must:

- still record details of all payments you make to the gangmaster or contractor as the Treasury Income Tax Division may ask for them at the end of the tax year.
- keep your record of payments for at least three years after the end of the tax year to which they relate.

If one of your own regular workers acts as a gangmaster, you may be responsible for operating ITIP. In such circumstances you should therefore contact the Treasury for advice on ITIP.

Reciprocity with the United Kingdom

Because of the reciprocal arrangements between the Island and the United Kingdom the circumstances which give rise to contribution liability apply equally to employers and employee's resident or having a place of business in England, Scotland, Wales and Northern Ireland. Employers in the Isle of Man are liable to pay contributions for employees living and working in the United Kingdom and vice versa.

Employees coming to or leaving the Isle of Man/United Kingdom – treatment for NICs purposes

In this section:

- United Kingdom means England, Scotland, Wales and Northern Ireland.
- countries with which the Isle of Man has a Reciprocal Agreement covering NICs are Austria, Barbados, Belgium, Bermuda, Bosnia, Herzegovina, Canada, Croatia, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Guernsey, Iceland, the Republic of Ireland, Israel, Italy, Jamaica, Jersey, Luxembourg, Macedonia, Malta, Mauritius, the Netherlands, Norway, Philippines, Portugal, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, USA, Federal republic of Yugoslavia (Serbia and Montenegro).
- the Isle of Man also has Reciprocal Agreements with Australia and New Zealand. However, these agreements are benefit related and do not contain provision for NICs. The insurability of workers coming to the Isle of Man from one of these countries will come under Isle of Man domestic legislation.

A place of business in the Isle of Man or the United Kingdom

This section often refers to a "place of business" in the Isle of Man or the United Kingdom but there is no definition of this phrase in Social Security legislation.

An employer can be said to have a place of business in the UK if the employer occupies premises:

- of which, or part of which, they are lawful tenant or occupier **and**
- where the employee(s) or agents carry out any activity in the UK which furthers the employer's business. The activity does not need to be remunerative in itself.

Some pointers to look for when considering if you have a place of business are:

- a name plate displayed on the door or premises headed letter paper
- a listing in a telephone directory
- a lease or rent agreement or some sort of financial transaction for use of the premises
- a registered office

In relation to the United Kingdom only:

- registration as a company incorporated outside the United Kingdom but with a place of business there for the purpose of the Companies Act 1985
- other premises in the Isle of Man or the United Kingdom.

If you have any doubt as to whether you have a place of business in the Isle of Man or the United Kingdom contact the Department's Contributions Section (01624) 685177.

Employees coming from countries with which the Isle of Man has a Reciprocal Agreement covering NICs

You do not have to pay Class 1 NICs for employees who:

- have come from a country
 - in the European Economic Area, or
 - with which the Isle of Man has a Reciprocal agreement, **and**
- hold a certificate issued by another country showing that they are still paying contributions in that country.

(Usually an agreement will be between the United Kingdom and the country concerned, but the definition of United Kingdom within the agreement is extended to include the Isle of Man).

Once the period of exception shown on the certificate has elapsed:

- if you are resident, present or have a place of business in the Isle of Man or the United Kingdom, Class 1 NICs (both employer's and employee's contributions) must be paid
- if you are not resident, present or do not have a place of business in the Isle of Man or the United Kingdom, you do not have to pay employer's contributions but the employee's contribution must still be paid.

NICs must be worked out in the normal way following the rules shown earlier in this manual.

Employees coming from countries with which the Isle of Man or the United Kingdom does not have a Reciprocal Agreement covering NICs

The general rule is that class 1 NICs (employer's and employee's contributions) must be paid for an employee who has come to work from abroad. NICs are payable from the date they start work in the Isle of Man or the United Kingdom. This is the case even if the employee is supplied by an agency whose place of business is not in the Isle of Man or the United Kingdom.

Work out, pay and record NICs in the normal way following the rules set out in other parts of this manual.

Exceptions

NICs are not payable for the first 52 weeks starting from the first Sunday after the employee arrives in the Isle of Man or the United Kingdom for:

- an employee not normally living or working in the Isle of Man or the United Kingdom who has been sent to work in the Isle of Man temporarily by an overseas employer who has a place of business outside the Isle of Man or the United Kingdom.
- a student studying full-time outside the Isle of Man or the United Kingdom who starts temporary work in the Isle of Man or the United Kingdom
 - they do not normally live in the Isle of Man or the United Kingdom

- the employee does not normally live in the Isle of Man or the United Kingdom and starts work in the Isle of Man or the United Kingdom before reaching the age of 25, and
- the job in the Isle of Man or the United Kingdom is similar to, or related to, their job outside the Isle of Man or the United Kingdom.

When the 52 week period finishes, the normal rules about working out, paying and recording NICs apply.

Employer does not have a place of business in the Isle of Man or the United Kingdom

If the employer is **not** resident, present or does not have a place of business in the Isle of Man or United Kingdom you do not have to pay employer's contributions but the employee's contributions must still be paid. However this will depend on the date the period of work began:

- before 6th April 1994, only the employee's NICs are due to be paid
- on or after 6th April 1994, both employee's and employer's are due to be paid, but the liability for the employer's contributions rests with the host company in the United Kingdom.

If you need any help you can contact the Department's Contributions Section on (01624) 685177.

What you can do if you do not have to pay employer's contributions

If employer's contributions do not have to be paid, but you do have to pay employee's contributions, then you may have an associate in the Isle of Man or the United Kingdom who is willing to pay the employee's contributions to the Department and complete the Employer Annual Return (end of Year Summary, form T14 and Employers Annual Declaration, form T35) for the employee(s) concerned.

In such a case, the associate should keep your employee(s) records separate from their own and at the end of the tax year:

- record the amount of earnings on which employee's contributions were paid in columns 1a - 1c of the End of Year Summary form T14
- record the amount of employee's contributions payable in columns 1d and 1e of the End of year summary form T14.
- prepare a separate form T35 and mark in column 1 on the back of the form "Employee's contributions only". A separate T35 can be obtained from the Treasury.

If you do not have an associate in the Isle of Man or United Kingdom, the employee will need to pay and record their own NICs. They will need to read *National Insurance contributions for people working for embassies, High Commissions, consulates and overseas employers*, CA65. A copy of this leaflet can be obtained from the Department's Contributions Section on (01624) 685177.

Workers seconded abroad

Some workers are seconded by their foreign employers to jobs in the Isle of Man or the United Kingdom.

NICs are not payable for the first 52 weeks starting from the first Sunday after the employee arrives in the country if:

- the country from which they come is one with which the United Kingdom does not have a Reciprocal Agreement (usually an agreement will be between the United Kingdom and the country concerned, but the definition of United Kingdom will be extended to include the Isle of Man) **and**
- there is no contract of service between the seconded worker and the Isle of Man or United Kingdom host employer **and**
- the foreign employer with whom the worker has a contract of service has no place of business in the Isle of Man or United Kingdom

NICs (both employer's and employee's contributions) are payable in the normal way when 52 week period finishes.

If you pay an employee, who is sent to the Isle of Man from abroad, a sum to cover the cost of dual tax so the employee pays the amount of tax they would have paid if they had been in their own country, include that sum in gross pay.

If you are in any doubt as to whether the above arrangements apply to you, contact the Department's Contribution's Section on (01624) 685177.

Liability to pay NICs for employees going abroad

If you have a place of business in the Isle of man or the United Kingdom and have employees who work outside the Isle of man and the United Kingdom, the NICs position for those employees whilst abroad and on their return is explained in *National Insurance for employers of people working aboard, NI132*. A copy of this leaflet can be obtained from the Department's Contribution's Section on (01624) 685177.

For advice on the liability to pay NICs for persons going abroad, contact the Department's Contribution's Section.

What to include as gross pay on form T11

The chart which follows tells you what to include as gross pay on form T11 for NICs purposes. It lists the type of payments that can be made to employees.

Some entries will refer you to more detailed information elsewhere. This is because there may be special conditions for that type of payment.

If the chart does not show the type of payment you are making or if you are not sure whether to include the payment for form T11, contact the Department's Contributions Section on (01624) 685177.

Type of Payment	Include on T11 for NICs?
Car/van fuel supplied for private motoring when the fuel is supplied using your credit over from credit cards, charge cards and or garage account or an agency card.	No , if the certain conditions are satisfied, but there may be a NICs liability- contact the Department for guidance on Tel No. 01624 685177
Car parking fees at the normal place of employment paid for or reimbursed to employees.	No
<ul style="list-style-type: none"> contract between the car park company and you 	No
Car parking fees for business related journeys paid or reimbursed to employees	No
Cars made available for private use	No
Childcare Vouchers	
<ul style="list-style-type: none"> up to £55 a week where the qualifying conditions are met 	No
<ul style="list-style-type: none"> Over £55 a week where the qualifying conditions are met 	Yes
<ul style="list-style-type: none"> Any amount not meeting the qualifying conditions 	Yes
Christmas boxes in cash	Yes
Clothing or uniforms	
<ul style="list-style-type: none"> clothing or uniforms provided by you 	No
<ul style="list-style-type: none"> payments to employees for non-durables such items as tights or stockings 	No
<ul style="list-style-type: none"> other payments to employees to purchase clothing or uniforms which can be worn at any time 	Yes
<ul style="list-style-type: none"> other payments to employees to purchase clothing or uniforms which can be worn only at work 	No
Credit Card, charge cards and so on – employees use your card to purchase goods or services bought on your behalf:	No
<ul style="list-style-type: none"> prior authority given by you to make the purchase and the employee explained in advance of the contract being made and the supplier accepted that the purchase was made on your behalf 	No
<ul style="list-style-type: none"> above condition NOT Fully satisfied 	Yes
Credit card, charge card and so on - employees use your card for expenditure other than goods or services bought on your behalf	No
<ul style="list-style-type: none"> payments relating to business expenses actually incurred 	See page 47,
<ul style="list-style-type: none"> readily convertible assets 	Yes at the date you decide not to seek reimbursement
<ul style="list-style-type: none"> any other payments not reimbursed to you 	

Type of Payment

Include on T11 for NICs?

Credit card reward payments made to employees for detecting and withdrawing lost or stolen cards:

- made by you to your employees **Yes**
- made to your employees by a third party **No**

Damages or similar payment made to an employee injured at work

- there is a contractual liability to make it **Yes**
- all other circumstances **No**

Directors personal bills charged to loan account:

- the transaction makes the account overdrawn (or more overdrawn) **and** it is normal practice for you to pay the director's earnings into the same account **Yes** on the overdrawn (or additional over-drawn) amount
- all other circumstances **No**

Directors remuneration, salary bonuses, fees and so on, including any advance or anticipatory payments paid, voted or credited. **Yes**

Dividends from shares **No**

Employee Liability Insurance - reimbursements of payments made by employees for insurance cover or uninsured liabilities (such as legal costs) for claims against the employee arising out of his or her work. **No**

Employment Tribunal Awards **No**

Expenses payments or reimbursements covered by a dispensation **See page 47**

Holiday pay **See page 10**

Honoraria **Yes**

Incentive Awards **See page 9**

Inducement payment such as "golden hello" to recruit or retain employees **Yes**

Insurance premiums for pension annuities or health cover and so on, **paid or reimbursed by you** where contract is between

- you and the insurance provider **No** (but see page 36)
- employee and the insurance provider **No** (but see page 36)

Loans **No**

Loans written off **Yes**, at time of write off

Long Service Awards:

- awards in the form of cash or cash vouchers **Yes**
- other awards **No**, if they satisfy certain conditions, contact the Department for guidance on Tel (01624) 685177

Lost time payments

- payments made by a third party or by you on behalf of a third party **No**
- all other circumstances **Yes**

Type of Payment

Include on T11 for NICs?

Meal allowances and vouchers

- cash payments for meals **Yes**
- vouchers redeemable for food and drink or cash alternative **Yes**
- vouchers redeemable for food and drink only **No**

Mortgage payments met directly by you for employees

- mortgage provided by you or mortgage contract is between you and mortgagee **No**
- mortgage contract is between employee and mortgagee **Yes**

Payments in kind (for readily convertible assets – see page 51)

- which can be turned into cash **by surrender** such as Premium Bonds, and so on **Yes**
- which can be turned into cash **by sale** such as furniture, kitchen appliances, holidays and so on **No**

Payments you make to an employee whilst he or she pursues a claim for damages against a party third for loss of earnings following an accident

- employee must repay you, even if the claim for damages is unsuccessful. **No**
- employee not required to repay you. **Yes**, but if the employee receives damages and repays you, NICs can be refunded.

Payments you make to a Retirement Benefits Scheme

Unapproved Retirement Benefits scheme

Generally **Yes**, - Contact the Department's Contributions Section on (01624) 685177 for details.

Pensions from registered pension schemes

No

Employer financed retirement benefits schemes

No Contact the Department's Contributions Section on (01624) 685177 for further information.

Personal bills paid for goods and services supplied to employees, club membership and so on

- contract to supply goods and services is between you and the provider **No**
- contract to supply goods and services is between the employee and the provider
 - payment made direct to the provider **Yes**
 - payment made or reimbursed direct to the employee **Yes**

Premiums for Health cover, pensions, annuities etc.

See 'Insurance Premiums'

Prize money paid in cash to employees for competitions you run in connection with your business, which are not open to the public.

Yes

Profit-related Pay

See page 51

Readily converted assets:

Remuneration provided in non-cash form such as stocks and shares. e.g. stocks and shares, gold bullion, fine wine.

See page 51

Redundancy payments

See page 49

Relocation payments

See pages 47

Type of Payment

Include on T11 for NICs?

Retirement benefits schemes – payments you make into such schemes

- approved schemes
- unapproved scheme
- employer-financed scheme

No**Yes****No** Contact the Department's Contributions Section on (01624) 685177 for further information.**Round sum allowances****See page 47****Sickness, maternity and other absence** from work payments**Yes****Stocks and Shares**

See 'readily convertible assets'

Subscriptions or fees to professional bodies paid or reimbursed by you

- contractual or professional requirement for employee to be a member of the body
- membership of the body is voluntary

No**Yes****Suggestions schemes**

- it is not part of the employee's normal duties to make staff suggestions and the award is wholly discretionary with no contractual entitlement or expectation
- above condition not fully satisfied

No**Yes****Telephone calls and/or rental cost**

You are the subscriber

NoEmployee is the subscriber but **you meet the cost of calls and/or rental**

- telephone exclusively for business use
- telephone used exclusively for private use
- telephone used for both business and private use

No**Yes****rental :****Yes** – on the full amount of the rental.**calls:****Yes** – on the full amount of the cost of the private calls. Any amount in respect of business calls, supported by appropriate evidence, can be excluded.**Tips and Service charges****See page 13 & 14****Training** – payments for such things as course fees, books and so on

- training is work related or is encouraged or required by you in connection with the employment
- all other circumstances

No**Yes****Travelling time** payments**Yes****Vouchers** which can be redeemed or exchanged for

- both goods and cash or cash alone
- goods alone (but not readily convertible assets)
- tradable assets

Yes**No****Yes****Wages salaries fees overtime, bonuses,****Yes**

Dispensation

Use of dispensation for NICs purposes

Provided the conditions under which any dispensation granted by the Assessor of Income Tax have not changed, the Department will accept a dispensation as evidence that the payments it covers:

- are expenses actually incurred in carrying out employment
- are not to be included in gross pay for NICs purposes

Treatment of expenses payments for NICs

If you pay an employee expenses actually incurred by employees, you must include them in gross pay unless they are specific and distinct payments of, or contributions towards, expenses actually incurred by the employees in carrying out their work.

Evidence

To prove they are expenses actually incurred by employees in carrying out their work you must be able to identify the business expense. Evidence of the business expense is required to establish:

- the amount of business expense
- that employees incurred the expense while carrying out their work

The type of evidence will depend on the item of business expenditure. For example, evidence could include:

- a log of business phone calls or visits
- credit card bills
- receipts
- work diaries showing the employee's engagements
- treasury dispensations
- a representative survey of the costs involved (that is a scale rate).

This is not a complete list and any evidence will be considered.

Using a scale rate

Payments based on a scale rate, which covers the costs likely to be incurred, should not be included in gross pay.

For scale rate payments to be excluded from gross pay the scheme you operate must satisfy all the following conditions:

- the scheme must have an overall profit element
- the payments must be based on accurate survey of the costs involved
- the scheme must allow for a movement in prices
- the payments must be reasonable in relation to the employment involved
- the employee must make a claim for each payment made.

Details of the scheme and its provisions must be made available for inspection. NICs will be charged on all payments made under the scheme if the scheme is not supported by written evidence or is not considered sound.

If the payment you make is higher than the established scale rate, include the excess in gross pay.

If you have such a scheme and have any doubts about it you can get advice from the Department's Contributions Section on (01624) 685177.

Round sum allowances

If you pay a round sum allowance to an employee, you must treat the payment as follows:

- Where a **specific** and **distinct** business expense is identified do not include the business expense element of the allowance in gross pay.

If you cannot identify the business expense include the whole allowance – whether or not an expense is actually incurred – in gross pay.

Relocation allowances and expenses

NICs are not payable on any part of a payment, or contribution towards, removal expenses or associated travel expenses reasonably incurred by a person arising as a direct result of his taking up residence in the Isle of Man in order to take up employed earner's employment which is not charged to income tax.

Such expenses can include the direct costs of selling the previous home, the legal costs incurred in purchasing a new one in the Isle of Man and removal expenses.

The Assessor will not charge income tax where the whole of the expenses paid by the employer is no more than £10,000 in total.

Separately, the Assessor will not charge tax on the cost met by a person's employer in travelling between his previous home and the Isle of Man in the first 6 months of that person's employment.

These payments are tax-free and National Insurance-free and are not included in the £10,000 figure which applies for relocation expenses.

Do not include in gross pay amounts paid to employees in travelling from the Isle of Man to another place to take up employment, and in returning to the Isle of Man on termination of that employment.

Allowances or expenses to employees relocating abroad

Do **not** include in gross pay amounts paid to employees in travelling from the Isle of Man to another place to take up employment, and in returning to the Isle of Man on termination of that employment.

Allowances or expenses to employees working abroad

For NICs purposes, treat payments of expenses to employees working abroad like other expense payments. In addition, include in gross pay:

- payments described as compensation for working abroad
- sums paid as an inducement to work abroad
- any bonus paid for working abroad.

If you pay an employee a general allowance to compensate for the higher cost of living abroad, commonly known as a cost of living allowance/cost of living addition/COLA, that sum must be included in gross pay:

- providing an employee with medical treatment outside the Isle of Man or the UK where the need for the treatment arises while the employee is outside the Isle of Man or the UK working for you
- providing insurance for the employee against the cost of such treatment.

You will need to get advice if you pay the travelling expenses for employees returning to the Isle of Man/UK on home leave, from the Department's Contributions Section on (01624) 685177.

Credit card reward payments

Third parties such as credit card companies, banks and building societies may pay cash rewards to your employees who detect and withdraw lost or stolen credit cards, debit cards or cheque guarantee cards.

You should not include any such payments in gross pay when calculating NICs because these are specifically excluded from liability by legislation.

You should, however, note that the legislation only excludes reward payments made by a third party. If you make a payment to any of your employees in connection with the identification or withdrawal of a lost or stolen credit, debit or cheque guarantee card, NICs are due on the payment. In these circumstances the payment must be added to any other earnings of the employee and NICs should be worked out on the total, following the rules set out in this manual.

Payments you make when an employee stops working for you

The guidance below tells you what you should do if you make additional on-off payments such as on redundancy or retirement. Guidance on "standard" payments such as salary, wages and so on is given on page 7

The treatment of a payment made when an employee stops working for you varies according to the type of payment.

A single payment is often made up of more than one element. For example, one payment might cover:

- redundancy pay
- accrued holiday pay, **and**
- a payment in lieu of notice

Each element must be considered **separately**.

Action to take when you make such payments

The chart on pages 48 and 49 lists the common elements included in a leaving payment, and tells you what the appropriate NICs treatments are.

If you are not sure which list entry applies to the type of payment you are making, for guidance contact the Department's Contributions Section on (01624) 685177.

Ex-Gratia Payments

The term 'ex-gratia' should only be used in relation to a payment the employer makes when under no legal or contractual obligation to do so. When this applies, there is no liability for NICs on the amount involved if:

- the employee cannot expect to receive it because it is not common practice for the employer to make such payments in similar circumstances

- it is unconnected with the services which the employee provides in respect of the employment; and
- it is not made because the individual is an employee.

An example of a payment which could be described as 'ex-gratia' would be where an assembly line worker serves in an unpaid capacity as the secretary of the works club and unexpectedly receives a one off payment from the employer in recognition of the valuable service they have given the club.

This would be an 'ex-gratia' payment because there is no obligation requiring it to be paid. It will, therefore, satisfy the first two bullet points above. It will not, however, meet the requirements of the final bullet, and will not escape liability for NICs, as the payment is made because the individual is an employee and for no other reason. It would have to have been paid to the individual if he had not been in the employment of the employer concerned. The payment derives from employment and is "earnings" for NICs purposes.

Very few payments referred to as 'ex-gratia' will not be liable for NICs. They will only escape liability if it can be accepted that there was some reason other than the existence of the employment which led to them being paid.

Payments made on termination of employment

On determining NICs liability on payments made on termination, particularly payments in lieu of notice, in lieu of remuneration and redundancy payments, it must be decided if the payment is:

- essentially compensatory in nature. In that event there would be **NO** liability for NICs.
- really payments of earnings on which NICs are due.

A compensation payment usually relates to the recompense offered and accepted in relation to the cancellation of a contract. It must be distinguished from a payment given under terms of a contract.

Compensation payments can also be described as 'ex-gratia' payments or 'golden handshakes'. If so, consider the agreement reached between the employer and employee to see whether or not it falls within the description of a compensation payment.

Profit Related Pay

Include the amount of profit-related pay in gross pay **at the time it is paid**. Add it to any other earnings received in that pay period and work out the NICs in the normal way.

However, payments by way of shares provided to employees under a profit-sharing scheme approved by the Assessor of Income Tax are not to be included in gross pay and NICs are payable in respect of such payments.

Type of payment	Include in gross pay for NICs purposes?
<p>7 Payments made as damages</p> <p>The termination was a breach of contract. For example:</p> <ul style="list-style-type: none"> • you did not give the employee proper notice, and there was no entitlement or option to make payment in lieu of notice. A payment in lieu then made is damages for the breach; • you agree, or the Courts or an Employment Tribunal rule, that the employee was unfairly or wrongly dismissed. <p>If you pay something which is due under terms or conditions of employment, it will not be damages. For example, you may be ordered, or agree, as part of a settlement of damages to pay wages due under such terms.</p> <p>In these circumstances that element of the payment must be included in gross pay for NICs purposes</p>	No
<p>8 Payments for the employee giving restrictive covenant</p> <p>A restrictive covenant is an undertaking that restricts the employee's conduct.</p>	Yes
<p>9. Employee's legal costs</p> <p>These are costs incurred in bringing a claim to compensation for loss of employment.</p>	No
<p>10. Pension</p>	No

Golden handshakes

The term 'golden handshakes' describes some payments made to departing employees. It does not have a precise legal meaning and describes payments falling within a variety of categories.

If an employer describes a payment as a 'golden handshake' in the context of:

- compensation for loss of office, see page 48 – payments made on termination of employment.
- a payment to an employee which is not compensatory, then it is likely to be earnings for the purposes of NICs.

If an employer pays items such as accumulated overtime, backdated pay, fees, bonuses or holiday pay as payments in compensation for loss of office they will attract a liability for NICs.

For NICs purposes

If you make a payment:

- **when the employee leaves**, work out NICs based on the regular earnings period for the employment
- **after the employee has left**, work out NICs based on a weekly earnings period. If the payment is made together with a standard payment, treat it as an "irregular sum" and follow the rules on page 15.

Providing an employee with a readily convertible asset

Readily convertible asset, for the purposes of this Guide, is one which

- is capable of being sold to a recognised investment exchange or the London Bullion Market. For example, stocks, shores and other financial instruments, gold bullion and other precious metals and so on, **or**
- is capable of being sold on the new York Stock Exchange which is the only specified market for this purpose, **or**
- is a right over a money debt. For example, trade debts assigned by an employer to an employee, **or**
- is subject to a fiscal warehousing regime, such as a bonded warehouse. For example oriental carpets stored in "bond" **or**
- gives rise to a right to enable an employee to obtain money. For example, an interest in a trust which comes to an end shortly after being assigned to an employee, resulting in automatic right to cash, **or**
- subject to trading arrangements, either at the time of provision or likely to come into existence in future under an arrangement or understanding in place when the asset is provided. For example, jewellery which can be sold either under an arrangement existing at the time of provision or under future arrangements for which steps have been taken at the time the jewellery is provided, **or**
- is already owned by the employee and whose value is enhanced by the employer. For example, an employer may pay additional premium to an employee's life assurance policy, considerably increasing the value of the policy.

For NICs purposes

Shares which are part of the ordinary share capital of the employer's company, or a company which controls the employer's company are excluded from the definition of readily convertible assets only if they are provided as part of a scheme approved by the Assessor of Income Tax.

Payments in the form of readily convertible asset must be included in gross pay for both ITIP and NICs purposes. The amount on which ITIP should be operated and NICs assessed is the best estimate that can be reasonably be made of the amount of income on which the employee is likely to be chargeable to tax in respect of the provision of the asset.

Employers may need to consider the following in estimating the amount of income:

- the cost of the asset to the employer
- the market value of the asset when it was awarded
- where the employee has already sold the asset, the amount received for it – if known
- where the employee has contributed towards the cost of the asset – the amount of that contribution.

For NICs purposes

Include the "best estimate" amount in gross pay at the time the payment is paid or treated as paid. Add the amount to any other payments made in the relevant earnings period and work out NICs on the total in the normal way.

The NICs liability will arise at the same time as income tax is due under ITIP.

Share Options

The treatment of earnings in the form of an option to acquire or dispose of shares in a company paid to Isle of Man employees differs from that in respect of United Kingdom employees –for both National Insurance and Income Tax purposes. In the United Kingdom, a liability generally arises on any gain arising at the time the option is exercised.

In the Isle of Man, however, liability for contributions arises at the time the share option is granted.

However, payment in the form of the granting of an option to acquire is exempt from liability for NICs if, when the option is granted, -

- neither the option nor those shares are readily convertible assets
- or the option is provided under the terms of a savings-related share option scheme approved by the Assessor of Income Tax.

Where the NICs are payable in respect of the provision of the option, the amount to be included in an employee's earnings for NICs purposes is –

- where the option is a readily convertible asset, the best estimate that can reasonably be made of the amount of income likely to be chargeable to tax as ITIP income in respect of the provision of the option, **or**
- where, the option is not a readily convertible asset but the shares which may be acquired by exercising that option are, the higher of
 - * the value of the shares that could be acquired by exercising the option
 - * or, where those shares may be exchanged for another asset of a higher value, the value of that second asset on the day the option is granted, less consideration which would be incurred in acquiring the shares/asset.

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SOCIAL SECURITY

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This book gives general guidance only and should not be treated as a complete and authoritative statement of the law.

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