NI GUIDANCE FOR SOFTWARE DEVELOPERS 2010/2011

GLOSSARY OF TERMS

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

Important Change to National Insurance Contributions From April 2010

From the 6th April 2010, the Department has increased the rate of employee's National Insurance Contribution (NIC) payable on all earnings above the Earnings Threshold (ET) by 1%. **This change will mean that employees will also pay NICs on earnings above the Upper Earnings Limit (UEL) at 1%** and brings the rates of NICs payable in the Isle of Man (IOM) into line with those payable in the United Kingdom (UK).

In the Isle of Man the UEL for the 2010/11 tax year will remain at £730 per week however, in the UK it is £844 per week. Depending on which one of the circumstances shown below is applicable you may have to use either the IOM or UK UEL for an employee. Where you are required to use the UK UEL you should use the UK tables, available online at www.hmrc.gov.uk/nic/nitables.htm, to calculate the amount of NICs due.

Employers with employees in these circumstances should contact the Department's Contributions Section on (01624) 685077 for information on how to submit their earnings details to us at the end of the tax year.

Use United Kingdom Tables	Use Isle of Man Tables
UK Employment Arrangements	**IOM Employment Arrangements**
Where an IOM resident employer employs UK resident employees to work in the UK, the employer should use the UK tables.	Where an IOM resident employer employs IOM resident employees to work in the IOM, the employer should use the IOM tables.
Temporary Workers	Temporary Workers
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 tables.	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 tables.
Employment Abroad	Employment Abroad
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 tables.	Where an IOM resident employer sends IOM resident employees, who normally work for that employer in the IOM, to work abroad the employer should use the IOM tables.

State Pension Age Table for Women born between 6th April 1950 and 6th April 1951

Due to changes in Social Security legislation, coming into effect from 6th April 2010 women will remain liable to pay National Insurance contributions after their 60th birthday until they reach their revised State Pension Age.

To check the date on which a female employee will reach State Pension Age, find their date of birth in the first column and check the second column to find the date at which they will reach State Pension Age. For example, if the employee's date of birth is 20/05/1950, they will reach State Pension Age on 06/07/2010.

Payments made to the employee on or after the date that they reach State Pension Age should have table letter "C" applied to them. The National Insurance tables for letter "C" are available in leaflet CF393(IOM) on the Department's website at www.gov.im/dhss/security/payments/contributions.xml

Date of birth	State Pension Age Date
06/04/1950 - 05/05/1950	06/05/2010
06/05/1950 - 05/06/1950	06/07/2010
06/06/1950 - 05/07/1950	06/09/2010
06/07/1950 - 05/08/1950	06/11/2010
06/08/1950 - 05/09/1950	06/01/2011
06/09/1950 - 05/10/1950	06/03/2011
06/10/1950 - 05/11/1950	06/05/2011
06/11/1950 - 05/12/1950	06/07/2011
06/12/1950 - 05/01/1951	06/09/2011
06/01/1951 - 05/02/1951	06/11/2011
06/02/1951 - 05/03/1951	06/01/2012
06/03/1951 - 05/04/1951	06/03/2012

Electronic submission of an employer's return

This Department along with the Treasury, Income Tax Division have the facility to accept employer returns in an electronic format. For further details on how to submit your annual return in this format please contact the Income Tax Division on (01624) 685388.

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

Continuous T14 stationery

You are reminded that continuous T14 stationery is no longer available.

Substitute T14s

If you provide substitute T14 forms then you must have the form approved by the Contributions Section. For further details on the approval of substitute T14 forms, please contact the Contributions Section on (01624) 685124.

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

1. INTRODUCTION

1.1   This specification sets out the calculation format for National Insurance Contributions (NICs) for **2010/2011**.

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

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

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

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

2. NI Rates and Earnings Limits from 6 April 2010

The following NI rates and earnings limits will apply from 6 April 2010

Earnings Limits

	Lower Earnings Limit (LEL)	Earnings Threshold (ET)	Upper Earnings Limit (UEL)
Weekly	£97	£110	£730
Monthly	£421	£476	£3,163
Yearly	£5044	£5715	£37960

Rates

	Employee	Employer
Not Contracted-out		
Earnings above ET up to UEL	11%	12.8%
Earnings above UEL	1%	12.8%
Contracted-out Salary related (COSR)		
Earnings above ET up to UEL	9.4%	9.1%
Earnings above UEL	1%	12.8%
Contracted-out Money Purchase (COMP)		
Earnings above ET up to UEL	9.4%	11.4%
Earnings above UEL	1%	12.8%

The contracted-out rebates will remain unchanged from 6 April 2010

Contracted-out Salary related (COSR)	Employer	3.7%
	Employee	1.6%
Contracted-out Money Purchase (COMP)	Employer	1.4%
	Employee	1.6%

Earnings Bands and NICs Percentage Rates

TIER	VALUE	2010/11	% BANDS	EMPLOYEE'S NI% RATES						EMPLOYER NI % RATES				
				A	D/F	B/E/G	C	J	L/S	A/B/C/J	D/E	F/G	L	S
5	UEL+	∞	BAND D	1%	1%	1%	NIL	1%	1%	12.8%	12.8%	12.8%	12.8%	12.8%
4	ET	37,960	BAND C	11%	9.4%	4.85%	NIL	1%	1%	12.8%	9.1%	11.4%	9.1%	11.4%
3	ET	5,715	BAND B#	0%	1.6%	0%	NIL	0%	1.6%	0%	3.7%	1.4%	3.7%	1.4%
2	LEL	5,044	BAND A	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
1	0	0												

\# Band B gives the appropriate NIC rebate % rates

Note: Mariner rates are not included in this table

3. ACCOUNTING FOR NIC REBATES

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

NIC rebates are only appropriate for contracted-out contributions:

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

Employees in contracted-out employment pay NICs at 9.4% on earnings between the ET and the UEL. They are also entitled to a NIC rebate of 1.6% on earnings between the LEL and ET.

Employee's NIC Rebate

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

Employer's NIC Rebate

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

Example

An employee earning £111 per week (Contribution Table letter D)

Employee's NICs = £1 x 9.4% = £0.09
Employer's NICs = £1 x 9.1% = £0.09

Employee's NIC rebate = £110 - £97 = £13 x 1.6% = £0.21
Employer's NIC rebate = £110 - £97 = £13 x 3.7% = £0.48

The employee is entitled to £0.09 of their NIC rebate which reduces their NIC liability to nil.

The employer is entitled to the balance of £0.12, PLUS their own NIC rebate of £0.48 = £0.60.

£0.60 employer rebate offset against £0.09 employer NICs = -£0.51 Employer NICs.

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

Form T11

	1a	1b	1c	1d	1e
£111	97	13	1	R 0.51	0.00

4.   COMPLETING FORM T11 FOR 2010/2011

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

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

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

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

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

1c   Earnings above ET up to and including UEL.

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

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

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

PLUS

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

PLUS

all earnings above the UEL multiplied by the employee's additional 1% rate

MINUS

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

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

PLUS

All earnings above the UEL multiplied by the employee's additional 1% rate

MINUS

any NIC rebate due to the employee on earnings between the LEL to ET (see section 9)

5.   Deferred contracted-out NICs

5.1   All employees who defer are required to pay NICs in the deferred employment, at 1% on all earnings above the ET, including any earnings above the UEL. Employees in contracted-out employment will be required to pay NICs at the rate of 2.6% on earnings between the ET and the UEL but this will be reduced by the available contracted-out rebate of 1.6% on all earnings between the LEL and the UEL.

NIC Due   LEL ← 0% → ET ← 2.6% → UEL ← 1% → ∞
NIC rebate   LEL ← 1.6% → ET ← 1.6% → UEL ← 0% → ∞

5.2   The contracted-out rebate is used to

- reduce the not contracted-out % rate from 11% to 9.4% on earnings between the ET and UEL, and

- reduce employee's NICs due in 1 above by a further 1.6% of earnings between the LEL and the ET. The employee's NICs can be reduced to zero with any balance being transferred to the employer.

5.3   The effect of the 1.6% contracted-out rebate in deferred employment is to reduce the employees NIC liability on earnings between the ET and the UEL to 1%, any remaining balance of the 1.6% on earnings between the LEL and the ET, that cannot be set against the employees NICs, can be transferred to the employer. NI is then due as follows

Table letter L (COSR)

EE NIC due	LEL-ET	0%
	ET-UEL	1%
	UEL- ∞	1%
EE NIC rebate	LEL-ET	1.6% (any remaining balance not used against EE's NICs to be transferred to ER)
ER NIC due	LEL-ET	0%
	ET-UEL	9.1%
	UEL- ∞	12.8%
ER NIC rebate	LEL-ET	3.7% + any balance of the 1.6% from the EE

Table letter S (COMP)

EE NIC due	LEL-ET	0%
	ET-UEL	1%
	UEL- ∞	1%
EE NIC rebate	LEL-ET	1.6% (any remaining balance not used against EE's NICs to be transferred to ER)
ER NIC due	LEL-ET	0%
	ET-UEL	11.4%
	UEL - ∞	12.8%
ER NIC rebate	LEL-ET	1.4% + any balance of the 1.6% from the EE

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

The figures shown in the manual NIC tables may differ from the exact percentage method figures. This is because with the exception of the LEL, ET and UEL, the figures in the tables are calculated on the mid point between the earnings bands shown. Therefore the table figures will only match the exact percentage figures when the mid point is the same as the earnings used in the exact percentage calculation, or where the earnings match exactly the LEL, ET . Further information is provided at section 13.

7. RULES FOR ROUNDING

General NI contributions

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

Regulation 12(1)(b) provides that:

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

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

If it is 5 or less round down.

If it is 6 or more round up.

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

£67.55<u>5</u>8 the NIC payable would be £67.55, but if the NIC payable came to £67.55<u>6</u>8 the NIC payable would be £67.56.

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

8. VALIDATION CHECKS

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

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

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

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

DATA	SPECIFICATION
	is state pension age or over the system should prompt the user to confirm that proof of pension age is held.
Categories C and W	If categories C or W is recorded, no figures should be in the employee field for NI.
Category D, E, L, N and O	An error message should be displayed if an attempt to enter category D, E, L, N or O is made for any pension scheme other than a contracted-out salary related scheme (COSR).
Categories A, B, J, D, E, L, F, G, S, R T, Q, N, O, H, K and V	If categories A, B, J, D, E, L, F, G, S, R, T, Q, N, O or V are recorded an error message should be displayed if the employee is state pension age or over (must revert to category C or W).
Categories F, G, H, K,V and S	If categories F, G, H, K, V and S are recorded an error message should be displayed if an attempt is made for this category to be payable on any pension scheme other than money purchase scheme (COMP).
Categories R,T, Q, N, O, H, K, V & W	If categories R, T, Q, N, O, H, K, V or W are recorded the system should alert the user that these categories are used for mariners only.
Category X	This category should be used for NIL contributions and NIL earnings only. An error message should be displayed if figures other than zeros are recorded against this category.

9.   NIC CALCULATION FORMULAE

Exact percentage method

Step 1   Earnings up to and including LEL

$$\left(GP - \left(\frac{LEL \times p}{w/m} \right)^{\#} \right) =$$

If answer is negative no NICs due and no recording required. Stop.
If answer is zero or positive enter result of calculation at this point * in column 1a and proceed to Step 2.

Step 2   Earnings above LEL up to and including ET

$$\left(GP - \left(\frac{LEL \times p}{w/m} \right) \right) = \left(GP - \left(\frac{ET \times p^{1}}{w/m} \right) \right)^{\#} =$$

If answer is negative treat as zero.
If answer is zero no NICs due and column 1b should be zero filled. Stop.
If answer is poitive enter in column 1b and proceed to Step 3.

Step 3   Earnings above ET up to and including UEL

$$\left(GP - \left(\frac{ET \times p^{1}}{w/m} \right) \right)^{\#} - \left(GP - \left(\frac{UEL \times p}{w/m} \right) \right)^{\#} =$$

If answer is negative treat as zero.
If answer is zero no NICs due and column 1c should be zero filled.
If answer is positive enter in column 1c and proceed to Step 4.

Step 4   Earnings above UEL

$$\left(GP - \left(\frac{UEL \times p^{1}}{w/m} \right) \right) =$$

If answer is zero or negative no earnings above UEL. Proceed to Step 5.
If answer is positive proceed to Step 5.

Step 5 - Employee's NICs

Step 3 multiplied by employee's Band C % rate (round)

PLUS

Step 4 multiplied by employee's Band D % rate (round)

Step 6 - Employer's NICs

Step 3 multiplied by employer's Band C % rate (round)

PLUS

Step 4 multiplied by employer's Band D % rate (round)

Step 7 - Employee's NIC rebate

Step 2 multiplied by employee's Band B % rate (round)

Step 8 - Employer's NIC rebate

Step 2 multiplied by employer's Band B % rate (round)

Step 9 - Employee's net NICs

Step 5

MINUS

Step 7

=Net NICs. (If result is negative enter zero in column 1e and carry forward balance to Step 10

Step 10 - Employer's net NICs

Step 6

MINUS

Step 8 (include any minus figure from Step 9)

= Net NICs

Step 11 – Total NICs

Step 9

MINUS

Step 10

= Total employer and employee NICs (enter in column 1d – this could be a minus figure which should be preceded by 'R' on form T11).

10. Worked examples using the NIC calculation formulae

Example 1

An employee earns £99.53 a week and pays standard not contracted-out NICs

<u>Category A NICs</u>

Step 1   Earnings up to and including LEL

$$\left(GP - \left(\frac{LEL \times p}{w/m} \right)^{*} \right) =$$

$$\left(£99.53 - \left(\frac{£5,044 \times 1}{52} \right)^{*} \right) = £2.53$$

        (enter weekly LEL (£97) in column 1a)

If answer is negative no NICs due and no recording required. Stop.
If answer is zero or positive enter result of calculation at this point * in column 1a and proceed to Step 2.

Step 2   Earnings above LEL up to and including ET

$$\left(GP - \left(\frac{LEL \times p}{w/m} \right) \right) - \left(GP - \left(\frac{ET \times p^{1}}{w/m} \right) \right)^{\#} =$$

$$\left(£99.53 - \left(\frac{£5,044 \times 1}{52} \right) \right) - \left(£99.53 - \left(\frac{£5,715 \times 1}{52} \right) \right)^{\#} = £2.53$$

        (enter in column 1b)

If answer is negative treat as zero.
If answer is zero no NICs due and column 1b should be zero filled. Stop.
If answer is positive enter in column 1b and proceed to Step 3.

Step 3   Earnings above ET up to and including UEL

$$\left(GP - \left(\frac{ET \times p^{1}}{w/m} \right) \right)^{\#} - \left(GP - \left(\frac{UEL \times p}{w/m} \right) \right)^{\#} =$$

$$\left(£99.53 - \left(\frac{£5,715 \times 1}{52}\right)\right)^{\#} - \left(£99.53 - \left(\frac{£37,960 \times 1}{52}\right)\right)^{\#} = £0.00$$

(no NICs due – zero fill column 1c)

\# If answer is negative treat as zero.

Is answer is zero no NICs due and column 1c should be zero filled.

Steps 4 to 10 are not applicable.

Although no NICs are due as earnings have reached or exceeded the LEL, they must be recorded on the T11 as follows:

	1a	1b	1c	1d	1e
A	£97	£2.53	£0.00	£0.00	£0.00

Example 2

An employee earns £800 a week and pays standard not contracted-out NIC

<u>Category A NICs</u>

Step 1   Earnings up to and including LEL

$$\left(GP - \left(\frac{LEL \times p}{w/m} \right)^* \right) =$$

$$\left(£800 - \left(\frac{£5,044 \times 1}{52} \right)^* \right) = £703$$

(enter weekly LEL (£97) in column 1a)

If answer is negative no NICs due and no recording require. Stop.
If answer is zero or positive enter result of calculation at this point * in column 1a and proceed to Step 2.

Step 2   Earnings above LEL up to including ET

$$\left(GP - \left(\frac{LEL \times p}{w/m} \right) \right) - \left(GP - \left(\frac{ET \times p^1}{w/m} \right) \right)^\# =$$

$$\left(£800 - \left(\frac{£5,044 \times 1}{52} \right) \right) - \left(£800 - \left(\frac{£5,715 \times 1}{52} \right) \right)^\# = £13$$

(enter in column 1b)

\# If answer is negative treat as zero.
If answer is zero no NICs due & column 1b should be zero filled. Stop.
If answer is positive enter in column 1b and proceed to Step 3.

Step 3   Earnings above ET up to and including UEL

$$\left(GP - \left(\frac{ET \times p^1}{w/m} \right) \right)^\# = \left(GP - \left(\frac{UEL \times p}{w/m} \right) \right)^\# =$$

$$\left(£800 - \left(\frac{£5,715 \times 1}{52} \right) \right)^\# - \left(£800 - \left(\frac{£37,960 \times 1}{52} \right) \right)^\# = £620$$

(enter in column 1c)

If answer is negative treat as zero.

Is answer is zero no NICs due and column 1c should be zero filled.

Step 4 Earnings above UEL

$$\left(GP - \left(\frac{UEL \times p^{1}}{w/m} \right) \right) =$$

$$\left(£800 - \left(\frac{£37,960 \times 1}{52} \right) \right) = £70$$

Step 5 Employee's NICs

Step 3 multilied by employee's Band C% rate (round)
£620 x 11% = £68.20

PLUS

Step 4 multiplied by employee's Band D% rate (round)
£70 x 1% = £0.70

£68.20 + £0.70 = £68.90 Employee's NICs

Step 6 Employer's NICs

Step 3 multiplied by employer's Band C% rate (round)
£620 x 12.8% = £79.36

PLUS

Step 5 multiplied by Employer's Band D rate (round)
£70 x 12.8% = £8.96

£79.36 + £8.96 = £88.32 Employer's NICs

Steps 7 and 8 = £0.00 (rebate not applicable)

Step 9 Employee's net NICs

Step 5 - £68.90

MINUS

Step 7 - £0.00

= £68.90 Employee's net NICS (if result is negative enter zero in column 1e and carry forward balance to Step 10)

Step 10 Employer's net NICs

Step 6 - £88.32

MINUS

Step 8 - £0.00 (include any minus figure from Step 9)

= £88.32 Employer's net NICs

Step 11 Total NICs

Step 9 - £68.90

PLUS

Step 10 - £88.32

= £157.22 Total employer and employee NICs (enter in column 1d)

NICs must be recorded on the T11 as follows:

	1a	1b	1c	1d	1e
A	£97	£13.00	£620.00	£157.22	£68.90

Example 3

An employee earns £800 a week and pays contracted-out NICs (COSR)

<u>Category D NICs</u>

Step 1 Earnings up to including LEL

$$\left(GP - \left(\frac{LEL \times p}{w/m}\right)^{*}\right) =$$

$$\left(£800 - \left(\frac{£5,044 \times 1}{52}\right)^{*}\right) = £703$$

(enter weekly LEL (£97) in column 1a)

If answer is negative no NICs due and no recording require. Stop.
If answer is zero or positive enter result of calculation at this point * in column 1a and proceed to Step 2.

Step 2   Earnings above LEL up to and including ET

$$\left(GP - \left(\frac{LEL \times p}{w/m}\right)\right) - \left(GP - \left(\frac{ET \times p^{1}}{w/m}\right)\right)^{\#} =$$

$$\left(£800 - \left(\frac{£5,044 \times 1}{w/m}\right)\right) - \left(£800 - \left(\frac{£5,715 \times 1}{w/m}\right)\right)^{\#} = £13 \text{ (enter in column 1b)}$$

\# If answer is negative treat as zero.
If answer is zero no NICs due & column 1b should be zero filled. Stop.
If answer is positive enter in column 1b and proceed to Step 3.

Step 3   Earnings above ET up to and including UEL

$$\left(GP - \left(\frac{ET \times p^{1}}{w/m}\right)\right)^{\#} - \left(GP - \left(\frac{UEL \times p}{w/m}\right)\right)^{\#} =$$

$$\left(£800 - \left(\frac{£5,715 \times 1}{52}\right)\right)^{\#} - \left(£800 - \left(\frac{£37,960 \times 1}{52}\right)\right)^{\#} = £620$$

(enter in

column 1c)

\# If answer is negative treat as zero.

If answer is zero no NICs due and column 1c should be zero filled.

If answer is positive enter in column 1c and proceed to Step 4.

Step 4   Earnings above UEL

$$\left(GP - \left(\frac{UEL \times p^1}{w/m} \right) \right) =$$

$$\left(£800 - \left(\frac{£37,960 \times 1}{52} \right) \right) = £70$$

If answer is zero or negative no earnings above UEL. Process to Step 5.

If answer is positive proceed to Step 5.

Step 5 Employee's NICs

Step 3 multiplied by employee's Band C % rate (round)

£620 x 9.4% = £58.28

PLUS

Step 4 multiplied by employee's Band rate D % (round)

£70 x 1% = £0.70

£58.28 + £0.70 = £58.98 employee's NICs

Step 6 Employer's NICs

Step 3 multiplied by employer's Band C % rate (round)

£620 x 9.1% = £56.42

PLUS

Step 4 multiplied by employer's Band D % rate (round)

£70 x 12.8% = £8.96

£56.42 + £8.96 = £65.38

Step 7 Employee's NIC rebate

Step 2 multiplied by employee's Band B % rate (round)

£13 x 1.6% = £0.208 = £0.21 = employee rebate

Step 8 Employer's NIC rebate

Step 2 multiplied by employer's Band B % rate (round)

£13 x 3.7% = £0.481 = £0.48 employer rebate

Step 9 Employee's net NICs

Step 5 - £58.98

MINUS

Step 7 - £0.21

= £58.77 employee's net NICs (if result is negative enter zero in column 1e and carry forward balance to Step 10)

Step 10 Employer's net NICs

Step 6 - £65.38

MINUS

Step 9 - £0.48

= £64.90 employer's net NICs (include any minus figure from Step 9)

Step 11   Total NICs

Step 9 - £58.77

PLUS

Step 10 - £64.90

= £123.67 total employer and employee NICs (enter in column 1d – this this could be a minus figure which should be preceded by 'R' on form T11.

NICs must be recorded on the T11 as follows:

	1a	1b	1c	1d	1e
A	£97	£13.00	£620.00	£123.67	£58.77

Example 4

An employee earns £528.00 a week and pays standard contracted-out NICs (COMP)

<u>Category F NICs</u>

Step 1 Earnings up to and including LEL

$$\left(GP - \left(\frac{LEL \times p}{w/m}\right)^*\right) =$$

$$\left(£528 - \left(\frac{£5,044 \times 1}{52}\right)^*\right) = £431$$

(enter weekly LEL (£97) in column 1a)

If answer is negative no NICs due and no recording require. Stop.

If answer is zero or positive enter result of calculation at this point * in column 1a and proceed to Step 2.

Step 2   Earnings above LEL up to and including ET

$$\left(GP - \left(\frac{LEL \times p}{w/m}\right)\right) - \left(GP - \left(\frac{ET \times p^1}{w/m}\right)\right)^\# =$$

$$\left(£528 - \left(\frac{£5,044 \times 1}{w/m}\right)\right) - \left(£528 - \left(\frac{£5,715 \times 1}{w/m}\right)\right)^\# = £13 \text{ (enter in column 1b)}$$

\# If answer is negative treat as zero.
If answer is zero no NICs due & column 1b should be zero filled. Stop.
If answer is positive enter in column 1b and proceed to Step 3.

Step 3   Earnings above ET up to and including UEL

$$\left(GP - \left(\frac{ET \times p^1}{w/m}\right)\right)^\# - \left(GP - \left(\frac{UEL \times p}{w/m}\right)\right)^\# =$$

$$\left(£528 - \left(\frac{£5,715 \times 1}{52}\right)\right)^\# - \left(£528 - \left(\frac{£37,960 \times 1}{52}\right)\right)^\# = £418 \text{ (enter in column}$$

1c)

\# If answer is negative treat as zero.
If answer is zero no NICs due and column 1c should be zero filled.
If answer is positive enter in column 1c and proceed to Step 4.

Step 4   Not applicable as no earnings above UEL. Proceed to Step 5.

Step 5   Employee's NICs

Step 3 multiplied by employee's Band C % rate (round)

£418 x 9.4% = £39.292 = £39.29 employee's NICs

Step 6   Employer's NICs

Step 3 multiplied by employer's Band C % rate (round)

£418 x 11.4% = £47.652 = £47.65 employer's NICs

Step 7   Employee's NIC rebate

Step 2 multiplied by employer's Band B % rate (round)

£13 x 1.6% = £0.208 = £0.21 employee rebate

Step 8   Employer's NIC rebate

Step 2 multiplied by employer's Band B % rate (round)

£13 x 1.4% = £0.182 = £0.18 employer rebate

Step 9   Employee's net NICs

Step 5 - £39.29

MINUS

Step 7 - £0.21

= £39.08 employee's net NICs (if result is engative enter zero in column 1e and carry forward balance to Step 10)

Step 10   Employer's net NICs

Step 6 - £47.65

MINUS

Step 8 - £0.18

= £47.47 employer's net NICs (include any minus figure from Step 9)

Step 11   Total NICs

Step 9 − 39.08

PLUS

Step 10 - £47.47

= £86.55 total employer and employee NICs (enter in column 1d − this could be a minus figure which should be preceded by 'R' on form T11)

	1a	1b	1c	1d	1e
A	£97	£13.00	£418.00	£86.55	£39.08

11. DIRECTOR'S NIC CALCULATION FORMULAE

9.1 For National Insurance purposes, Company Directors are classified as office holders and, under Section 2(1) of the Social Security Contributions and Benefits Act 1992 (as applied to the Island), office holder's fall into the definition of 'employed earner'. As such, provided their earnings reach appropriate levels, they are liable for Class 1 NICs.

9.2 The earnings period for calculating NICs is usually determined by the interval between payments. For example an employee who is monthly paid will have a monthly earnings period. However, to calculate NICs for directors you must use either:

- an annual earnings period, or
- a pro-rata annual earnings period.

9.3 This applies regardless of the actual interval between payments.

9.4 Under the Regulation 8(6) of the Social Security (Contributions) Regulations 2001 (as applied to the Island), contributions can now be deducted on a weekly/monthly basis and the annual calculation completed at the end of the tax year to confirm the correct amount has been paid. Any subsequent amendments are then made to the Deductions Working Sheet, Form T11 or Substitute.

9.5 The following calculation formulae set out the basic calculations for Director's NICs, using an annual or pro rata annual earnings period.

Step 1   Earnings up to and including LEL

$$GP_{ptd} - LEL =$$

If answer is negative no NICs due and no recording required. Stop.
If answer is zero or positive enter LEL in column 1a and proceed to Step 2.

Step 2   Earnings above LEL up to and including ET

$$\left(GP_{ptd} - LEL\right) - \left(GP_{ptd} - ET\right)^{\#} =$$

\# If answer is negative treat as zero.
If answer is zero no NICs due & column 1b should be zero filled. Stop.
If answer is positive enter in column 1b and proceed to Step 3.

Step 3   Earnings above ET up to and including UEL

$$\left(GP_{ptd} - ET\ \right)^{\#} - \left(GP_{ptd} - UEL\ \right)^{\#} =$$

If answer is negative treat as zero.
If answer is zero no NICs due and column 1c should be zero filled.
If answer is positive enter in column 1c and proceed to Step 4.

Step 4   Earnings above UEL

$$GP_{ptd} - UEL =$$

If answer is zero or negative or no earnings above UEL treat as zero, proceed to step 5.
If answer is positive proceed to Step 5.

Step 5   Director's NICs

Step 3 multiplied by employee Band C % rate (round)

PLUS

Step 4 multiplied by employee's Band D % rate (round)

= Employee's NIC due to date.

Step 6   Director's NIC rebate

Step 2 multiplied by employee's Band B % rate (round)

= Employee's rebate due to date.

Step 7   Director's net NICs

Step 5

MINUS

Step 6

= Employee's net NICs due to date (if result is negative enter zero in column 1e and carry forward balance to Step 10)

MINUS

Employee's net NICs paid to date

= Employee's net NIC's due this period.

Step 8   Employer's NICs

Step 3 multiplied by employer's Band C % rate (round)

PLUS

Step 4 multiplied by employer's Band D % rate (round)

= Employer's NICs due to date.

Step 9   Employer's NIC rebate

Step 2 multiplied by employer's Band B % rate (round)

= Employer's rebate due to date.

Step 10   Employer's net NICs

Step 8

MINUS

Step 9 (include any minus figure from Step 7)

= Employer's net NICs due to date

MINUS

Employer's net NICs paid to date

= Employer's net NICs due this period (include any minus figure from Step 8)

Step 11   Total NICs

Step 7

PLUS

Step 10

= Total employer and employee NICs (enter in column 1d this could be a minus figure.)

12. Director's worked example using the NIC calculation formulae

A director is appointed from 4th December 2010 earns £38,128 in the rest of the tax year. Pays standard rate not contracted-out NICs.

Pro rata limits

LEL £97 x 18   = £1,746
ET   £5,715 ÷ 52 x 18   = £1,979
UEL £37,960 ÷ 52 x 18   = £13,140

<u>Category A NICs</u>

Step 1 Earnings up to and including LEL

$$GP_{ptd} - LEL =$$

£38,128 - £1,746 = £36,382

If answer is negative no NICs due & no recording required. Stop. If answer is zero or positive enter LEL in column 1a and proceed to Step 2.

Step 2 Earnings above LEL up to and including ET

$$\left(GP_{ptd} - LEL\right) - \left(GP_{ptd} - ET\right)^{\#} =$$

$$\left(£38,128 - £1,746\right) - \left(£38,128 - £1,979\right)^{\#} = £233$$

If answer is negative treat as zero.
If answer is zero no NICs due and column 1b should be zero filled. Stop.
If answer is positive enter in column 1b and proceed to Step 3.

Step 3 Earnings above ET up to and including UEL

$$\left(GP_{ptd} - ET\right)^{\#} - \left(GP_{ptd} - UEL\right)^{\#} =$$
$$\left(£38,128 - £1,979\right)^{\#} - \left(£38,128 - £13,140\right)^{\#} = £11,161$$

If answer is negative treat as zero.
If answer is zero no NICs due and column 1c should be zero filled.
If answer is positive enter in column 1c and proceed to Step 4.

| Step 4 | Earnings above UEL |

$$GP_{ptd} - UEL =$$

£38,128 - £13,140 = £24,988

If answer is zero or negative or no earnings above UEL treat as zero, proceed to step 5.
If answer is positive proceed to Step 5.

| Step 5 | Director's NICs |

Step 3 multiplied by employee's Band C % rate (round)

£11,161 x 11% = £1227.71

PLUS

Step 4 multiplied by Band D % rate (round)

£24,988 x 1% = £249.88

=£1,227.71 + £249.88 = £1477.59

| Step 6 | Director's NIC rebate |

Not applicable

| Step 7 | Director's net NICs |

Step 5 - £1,477.59

MINUS

Step 6 - £0.00

= £1,477.59 Employee's net NICs due to date (if result is negative enter zero in column 1e and carry forward balance to Step 10)

MINUS

Employee's net NICs paid to date

£0.00

=£1,477.59

Step 8	Employer's NICs

Step 3 multiplied by employer's Band C % rate (round)

£11,161 x 12.8% = £1,428.61

PLUS

Step 4 multiplied by employer's Band D % rate (round)

£24,988 x 12.8% = £3,198.46 employer's NICs due to date.

= £4,627.07

Step 9	Employers NIC rebate

Step 2 multiplied by employer's Band B % rate (round)

Not applicable.

Step 10	Employer's net NICs

Step 8 - £4,627.07

MINUS

Step 9 (include any minus figure from Step 7)

= £4,627.07

MINUS

Employer's net NICs paid to date

£0.00

= £4,627.07

Step 11	Total NICs

Step 7 - £1,477.59

PLUS

Step 10 - £4,627.07

= £6,104.66 total employer and employee NICs (enter in column 1e – this could be a minus figure)

NICs must be recorded on the T11 as follows:

	1a	1b	1c	1d	1e
A	£1,746	£233.00	£11,161	£6,104.66	£1,477.59

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

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

Minimum payments are the difference between the not contracted-out and the contracted-out rates of NICs on earnings between LEL and the UEL. The difference is known as the **contracted-out rebate**.

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

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

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

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

2010/2011 earnings limits are:

weekly	Lower Earnings Limit	£97
	Earnings Threshold	£110
	Upper Earnings Limit	£730

monthly	Lower Earnings Limit	£421
	Earnings Threshold	£476
	Upper Earnings Limit	£3163

13.3 **Employer Pays Employee's share of Minimum Payment**

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

13.4 Employer Deducts Employee's share of Minimum Payment from Employee

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

Employee's share

1. If the employee's gross pay is:

   - Equal to or less than the UEL, subtract the LEL from the exact gross pay
   - Above the UEL, subtract the LEL from the UEL

2. Multiply by 1.6%. Round the resulting amount to the nearest penny, 0.5p rounded down.

3. Deduct any NIC rebate not available to the employee.

Employer's share

4. If the employee's gross pay is:

   - Equal to or less than the UEL, subtract the LEL from the exact gross pay
   - Above the UEL, subtract the LEL from the UEL

5. Multiply by 1.4%. Round the resulting amount to the nearest penny, 0.5p rounded down.

6. Add any employee's NIC rebate made available to the employer.

Total Minimum Payment

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

The Employer's Further Guide to National Insurance Contributions (CWG2) (IOM) which is available on our website www.gov.im/dhss/security/payments/contributions, shows you how to work out the Lower and Upper Earnings Limits if the employee is not paid weekly or monthly.