

National Insurance Contributions User Guide

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Resources

There is a host of information available on the SD Worx website

<https://www.sdworx.co.uk/en/resources>

<https://www.sdworx.co.uk/en/resources/tools/payroll-resources>

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National Insurance Contributions (NI)

Details on the calculation of National Insurance Contributions (NI) are contained within Her Majesty's Revenue & Customs (HMRC) on-line guidance and the online Basic PAYE Tools.

Specific HMRC information can be found at: <https://www.gov.uk/national-insurance-rates-letters>

The calculation of NI is automated within SD Worx Pay with client options to override, vary or change values. Two method of NI calculation are offered being the exact percentage method and Table method.

NI Earnings Bands

Since April 2016, the NI Earnings Bands are:

- Earnings at the LEL (Lower Earnings Limit)
- Earnings above the LEL, up to and including the PT (Primary Threshold)
- Earnings above the PT, up to and including the UEL (Upper Earnings Limit)
- Earnings above the UEL

Although the Primary Threshold and Secondary Threshold are referenced for use in the calculation of National Insurance, only the Primary Threshold is used for NI recording purposes. Equally the Upper Secondary Threshold which is used for Under 21 NI calculations, and the Apprentice Upper Secondary Threshold used for apprentices under the age of 25 presently match the UEL and equally are not used for recording purposes.



Apprenticeship Levy – Paybill (or earnings for Secondary NI)

For the calculation of the Apprenticeship Levy (applicable since 6th April 2017), there is a need for the accumulation of earnings at employee level that are subject to secondary NI assessment. This would include amounts under the Lower Earnings Limit which may not normally be recorded for NIC purposes, but equally exclude earnings for foreign workers who have no UK secondary NI liability and employers with secondary NI exemptions (such as diplomatic missions).

To facilitate the calculation of the employer Apprenticeship Levy as part of the Tax Reference Reconciliation Summary, at employee level a new earnings accumulation field containing the individual Paybill is introduced and populated automatically as part of the ongoing pay calculations. When undertaking any manual payments, it is important that the appropriate adjustments are also performed to ensure that the correct Paybill earnings are maintained.

Termination Payments and Sporting Testimonials Class 1A

Any amounts of termination payments or Sporting Testimonials which were previously subject to Income Tax, but not liable to Class 1 National Insurance have changed

Since 6th April 2020, such payments are subject to a payroll applied Class 1A liability. This calculation does not apply to the payrolling of benefits in kind.

NI Category Letters

National Insurance is assessed against employees/directors by referenced to an entered NI Category letter. SD Worx Pay will make certain assumptions where an NI category is incorrectly missing due to user error. SD Worx Pay will also validate at the point of each payment that the category letter remains applicable by using the employee date of birth and any relevant apprenticeship dates.

NI Category letter	Description
A	Standard rate for those 21 or over and under state pension age
B	Married women and widows entitled to pay reduced NI
C	For those who have reached the state pension age
H	Apprentices under 25
J	CA2700 certificate holder – deferred NI
M	Employees under the age of 21
Z	Under 21-year-old CA2700 certificate holder – deferred NI
G	Mariners – Apprentices under 25
R	Mariners - Standard rate for those 21 or over and under state pension age
T	Mariners - Married women and widows entitled to pay reduced NI
W	Mariners - For those who have reached the state pension age

NI and Pay Data

The following are the standard SD Worx Pay data entries and descriptions used for Employee (not directors) National Insurance Contributions (NI):

Name	Data item
Current NI letter	N001
National Insurance number (NINO)	N003
Pay for additional NI contribution	N061
Pay for additional NI refund	N062
Amount of Gross Pay for a new starter that applied to the prior payment period	N091

The following additional employee information is required to operate National Insurance Contributions (NI) for employees **Under 21, Apprentices under the age of 25** and employees **over the State Pension Age**:

Name	Data item
Date of Birth	E080

For the operation of NI for an **Apprentice under the age of 25** the additional employee information is required:

Name	Data item
Apprenticeship Start Date (required for apprentices)	E087
Apprenticeship End Date (optional)	E088

Please note that under 25 apprentice NI will end on the first payment following either turning 25 or the Apprenticeship End Date.

The following are the standard SD Worx Pay data entry codes and descriptions for **Directors** National Insurance Contributions (NI):

Name	Data item
Current NI letter	N001
NI number	N003
Director's indicator	N005
Tax week for start of directorship	N202
Director's gross Earnings to-date	N288
Class 1A Earning	N818
PayBill earnings	N908

Do not use the following employee-based data items for directors: N061, N062, N091 or any code that is associated with an employee and not a director.

These are additional specialist SD Worx Pay data entry codes and descriptions for National Insurance Contributions (NI):

Name	Data item
Overseas or diplomatic mission - Employer NI contribution exemption	N006

NOTE. These items allow you to manage National Insurance for employees, directors and employers during the tax year when processing payments.

National Insurance History

SD Worx Pay can hold contribution and Earnings for NI totals for up to four contribution letters in any one tax year. The online reporting Gross Earnings Related to National Insurance Contributions lists the Earnings for NI and secondary NI paybill for each employee.

Calculating NI Contributions

At payroll implementation, you will have selected whether to calculate NI contributions using either the exact percentage or table method. If the table method is selected, the employee's payment frequency, contribution letter, and Earnings for NI this period are used to determine the employer's and employee's contribution.

The exact percentage method is always used for calculating directors, mariners, and Class 1A contributions.

Calculating Directors NI

Unlike NI for employees, directors NI is calculated using an annual earnings period. However, there is also an option to use an alternative method of calculating NI on a period by period basis with either a point of leaving or final payment in the tax year annual correction where any residual amount owing on the annual basis is accounted.

Directors NI may change from the alternate non-cumulative method to annual cumulative during the tax year. An example of this is when a director receives a bonus during the year and is waiting for the final tax period to carry out the reassessment. This could lead to a disproportionate amount of NI being payable in the final pay period of the tax year.

Once the calculation method has changed from alternate non-cumulative to cumulative, NI must be calculated by the cumulative method for the rest of the tax year.

However, if a user wishes to change a director from cumulative NI calculation to non-cumulative NI calculation during the tax year, SD Worx Pay will allow this and will issue an exception message to warn the user that they have changed the NI calculation method

DIR NI CHANGED FROM CUM CALC TO NON-CUM - CHECK NI

This will allow a user to change the method of NI calculation if they have set up a director with the wrong method and wish to correct it. If they do this they may need to adjust the NI totals-to-date and Earnings bands; NI calculation will be reconciled at the end of the tax year or the final pay period for the director, but some of the calculations during the tax year may appear incorrect.

SD Worx Pay cannot check for repeated changes between non-cumulative and cumulative NI calculation e.g. if a user:

- Changes a director from non-cumulative to cumulative NI calculation
- Then changes them back from cumulative to non-cumulative
- Then changes them again from non-cumulative to cumulative

SD Worx Pay will not issue an exception message for change (1); will issue an exception message for change (2), and will not issue an exception message for change (3).

Specific HMRC information on National Insurance for Directors can be found at: <https://www.gov.uk/employee-directors>

Holidays and NI (see HMRC guide CWG2)

For weekly payrolls only, SD Worx Pay will have been set at payroll implementation to calculate employee and employer NI contributions for holiday periods using one of the three options:

- Method A, where contributions are based on the Earnings for the current week and the Earnings for the holiday weeks separately
 - Method B, where contributions are based on the average Earnings across the current week and holiday weeks.
- or
- The cheapest method – either Method A or Method B if its results mean a lower cost to the employee.

In certain rare circumstances HMRC insist on Method A being the only method allowed and in others Method B.

Payments after Leaving and having already issued a P45

Using the employee status marker (see Employee status marker/E001) you can specify that a leaver is to have a payment after leaving, having already been issued with a P45. For a regular payment using E001 P (the payment of normal Earnings of wages), NI is deducted in the normal way; that is, using the same method before the employee left. For an irregular payment using E001 I (one-off amount such as bonus payments), NI is deducted as if based on one week. If a P45 had already been issued, then you must not issue a further P45. If the leaver has not been issued with a P45 yet then use E001 A (an additional payment), the normal tax code and NIC category will be applied and you may now issue a P45. This area is little understood, and the user is directed to look at the detail given by HMRC in the guides on the right

HMRC have produced a YouTube video to help employers correctly process any payments made to employees after they have left their employment, i.e. after P45 has been issued:

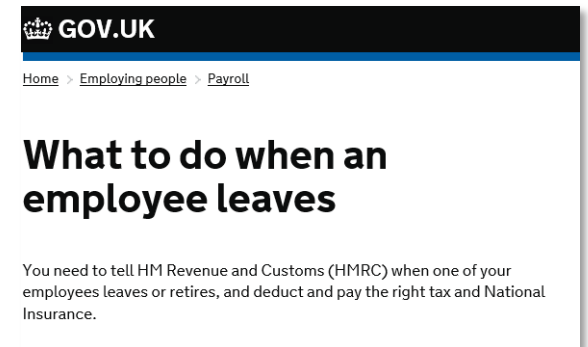
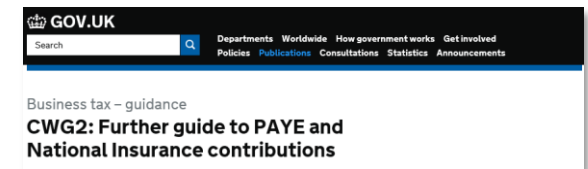


Frequency and Pay Periods

The number of pay periods used in the calculation of NI contributions (which are statutory deductions) is defined in the following ways:

- At payroll set-up time, in accordance with the processing schedule's standard calendar.

At employee level you can override the payroll-level number of periods using the employee-level Override number of pay periods for statutory deductions and advance tax period/E810 or Override number of pay periods for statutory deductions and not advance tax period/E811.



National Insurance Payroll Items

Current NI Letter N001

Use N001 to enter the contribution letter that determines the rate at which NI contributions are to be calculated.

Format

z or blank

Where z is one of the following letters: A, B, C, G, H, J, M, R, T, W or Z.

From the 2016/2017 tax year onwards the special NI categories in relation to those aged under 21 years of age are: M and Z (mariners only). For Apprentices under the age of 25 the special NI categories are H and G (mariners only).

The Value X indicates that the employee is exempt from National Insurance deductions (such as an inbound ex-pat etc.).

Example

The employee is not under 21 or an apprentice

N001 A

Notes

If you in error leave the field blank, SD Worx Pay checks the age (using E080) and apprentice start (E087) and stop dates (E088) to attempt to determine the correct NI category to apply on the indicated payment date on an emergency only basis. It assumes:

Assumes letter H for those who are apprentices under the age of 25

- Assumes letter M for those who are not an apprentice but are under the age of 21
- Assumes letter C for those who have reached the state pension age
- Assumes letter A in all other cases

In these cases, SD Worx Pay issues the message Contribution letter not set up - default to x where x is the appropriate letter applied (H, M, C, A). NI contributions are calculated based on Rates and Earnings Limits set the HMRC and held as system parameters on SD Worx Pay.

The contribution letters G, R, T, W, and Z are reserved for special types of employment (mariner contributions).

SD Worx Pay will validate the age (using E080) of employees to ensure that the NI category letter is appropriate at the point of payment.

NI Number N003

Use N003 to enter the employee's valid NI number.

Format

aanxxxxx

Where aa are two alphabetic characters, nnnxxx are six numeric characters and x is either A, B, C, or D.

Example

The employee's NI number is AA453291D:

N003 AA453291D

If your employee does not have an NI number then enter the narrative NONE.

Temporary National Insurance Numbers (prefix TN) are not allowed by HMRC. Temporary COP numbers (format nnXXnnxxx) are not permitted to be entered as National Insurance numbers.

It is important that you obtain the correct NI number as far as possible. HMRC can help you if required and will attempt to automatically trace and issue a corrective NI number if any used in the Full Payment Submission (FPS) are either missing or incorrect. HMRC may request the automated removal or update of an individual NI Number through Real Time Information (RTI) Electronic Exchange (EiEx) by issuing a NINO Verification Response (NVR) instruction.

Directors Indicator N005

Use N005 to specify the employee as a director.

Format

D or E

Notes

- SD Worx Pay will recognise an employee as a director only if one of the types D or E is set against data item N005.
- If you attempt to enter director details against an employee that has not been specified as a director, SD Worx Pay issues the message 'N005 not input' on the Error list.
- To change a director to a non-director during the tax year, enter Z against N005.
- If the standard cumulative method of NI is operated for a director then use D. If the alternate non-cumulative method is used then use E.
- If a director becomes a non-director during the tax year, you should still treat the employee as a director until the end of the tax year for the purpose of NI calculations.
- If the employee becomes a director during the tax year, enter the tax week of appointment against N202 (the tax week that the commencement date falls within). This enables the calculation to create the relevant pro-rata annual values to apply to this directorship.

Employer NI Contribution Exemption N006 (Specialist use only)

Some employers that have no place of business in the UK (or EU) and some diplomatic missions or embassies cannot be or are not liable to employer NI although their employees may be liable to employee NI.

If this applies then use N006 to indicate that the employer is exempted from paying normal NI contributions, and that NI contributions are deducted at standard employee rates only.

Please note that this exemption generally does not apply to any employer who is based anywhere in the European Area.

Format

N

Where N is one of the following: X, 0(zero) or space.

Example

The employer does not deduct employer's NI:

N006 X

Valid input for N006 are:

- 'X' (eXclude) which indicates that no Employer's NI is deducted, and NI contributions are deducted at employee only rates.
- '0' or space which indicates that normal NI calculations are to apply.

Pay for Additional NI Contribution at Current Rates N061 (not to be used for directors)

Pay for Additional NI Refund at Current Rates N062 (not to be used for directors)

Please note that N061 and N062 should not be used to correct Directors NI errors. These codes are to enable corrections to be made for employees (non-directors).

Use N061 or N062 to enter a period amount of NI Earnings on which SD Worx Pay is to additionally calculate an employer's and employee's contribution or refund using the current NI rates.

Format 1

pppppppppppp

Where pppppppppppp is the amount of Earnings, in pence, up to 11 numeric characters.

Example

The amount of Earnings used to calculate contributions is £745.95:

N061 74595

Format 2

pppppppppppp/z

Where pppppppppppp is the amount of Earnings, in pence, up to 11 numeric characters, and z is the contribution letter.

Example 1

Typically, you will use N061 and N062 when previous contributions have been calculated using the wrong contribution letter. For example, letter A has been used when the employee was an apprentice under the age of 25 but the apprenticeship start date (E087) was not present and letter H should have been used.

N001 H

N061 16000

N062 16000/A

SD Worx Pay then calculates a positive contribution on the correct NI letter based on the gross NI Earnings of £160.00, then a negative contribution (that is, a refund) based on gross NI Earnings of £160.00 for the incorrect letter A. It will also adjust the relevant Paybill (secondary NI earnings) for Apprenticeship Levy purposes.

Notes

- The following NI letters are valid: A, B, C, G, H, J, M, R, T, W or Z.
- Use N061 to generate an NI contribution and N062 to generate an NI refund, for employees (not directors), employers.
- SD Worx Pay assumes the current contribution letter unless you specify otherwise.
- For rare tax years where mixed NI rates are used, use Pay for additional NI contribution at previous rates/N071 or Pay for additional NI contribution at previous rates/N072 to enter an amount on which SD Worx Pay is to calculate a contribution or refund at the previous rate.
- Use Delete NI history for an NI letter/N405 in the next payroll process to clear any zero NI history totals.
- SD Worx Pay automatically updates all NI Earnings and contribution values.
- You can enter successive amounts against each of N061 and N062 in the same pay period. At the time of the payroll process, SD Worx Pay totals the amounts against each, to give the pay for an NI contribution at current rates.

Tax Week for Start of Directorship N202

Use N202 to enter the tax week in which the employee was appointed a director.

Format

nn

Where nn is the number of the week (01 - 53).

Example

The employee became a director during tax week 37:

N202 37

Enter the tax week that the director was appointed even if the director is monthly paid.

Notes

If you do not enter a week number against N202, the default depends on the payroll frequency:

- For weekly, fortnightly or lunar payrolls, SD Worx Pay assumes the current tax period used for the calculation of tax (that is, the tax period for the payroll process in which the employee was set as a director using Director's indicator/N005).
- For monthly payrolls, SD Worx Pay assumes the tax week equal to the start of the tax month (which would be incorrect if the employee became a director later in the month). For tax purposes, the start of the month is the sixth day.

If you enter a tax week when the director is appointed at a later point, the correct NI contributions will be automatically adjusted.

Director's Gross Earnings to-date N288 and Director Paybill N908

This facility enables the automated correction of NI calculations for directors.

Use N288 to replace the director's gross Earnings to-date and N908 to replace the paybill amounts.

Format 1

pppppppppppp

Where ppppppppppp is the director's new total Earnings for NI to-date, in pence, up to 11 numeric characters.

Example

The director's total Earnings for NI to-date is changed to £3757.50:

N288 375750

N908 375750

Format 2

pppppppppppp/z

Where ppppppppppp is the director's new total Earnings for NI to-date, in pence, up to 11 numeric characters, and z is the contribution letter.

Example

The director's total Earnings for NI to-date is changed to £9755.20, for letter A:

N288 975520/A

N908 975520/A

Notes

- The following NI letters are valid: A, B, C, G, H, J, M, R, T, W or Z.
- At each payroll process, SD Worx Pay uses the NI'able Earnings and the contribution letter to calculate the director's NI contribution. It updates the NI contribution to-date amount, held against Director's NI to-date/N218, the total Earnings for NI to date, held against N288 and the Directors Paybill held against N908
- You should replace the total Earnings for NI amount and the Paybill earnings if you have:
 - Replaced or adjusted the director's total NI contributions to-date.
 - Entered a pre-determined NI contribution or refund for the director.
 - Entered an additional amount contribution amount for the director.
- If the employee becomes a director at the beginning of the tax year, SD Worx Pay automatically maintains the Earnings for NI total and the Paybill earnings, and you should not normally need to replace it.
- You will need to replace the Earnings for NI if SD Worx Pay was not notified at the time the employee was made a director. You do not need to adjust the Paybill earnings.
- If you do not specify a contribution letter, SD Worx Pay assumes the current contribution letter as outlined under N001.

Appendix A – Additional NI Data Items

In addition to the standard user data items detailed in the document above, the following are used for processing National Insurance information. These additional Data Items should not be generally used and only with caution. Many of them are only appropriate for correction after the last payment period for the employee in the tax year.

Data Items	Name
N011	Employee NI to-date increase
N012	Employee NI to-date decrease
N018	Employee NI to-date
N051	Employee Pre-determined NI contribution
N052	Employee Pre-determined NI refund
N071	DO NOT USE
N072	DO NOT USE
N081	Employee additional contribution
N082	Employer additional NI contribution amount
N101	Employer NI to-date increase
N102	Employer NI to-date decrease
N108	Employer NI to-date
N161	Employee Earnings to Date to LEL +Adj
N162	Employee Earnings to Date to LEL –Adj
N168	Employee Earnings to Date to LEL
N171	Employee Earnings to Date to LEL to PT +Adj
N172	Employee Earnings to Date to LEL to PT –Adj
N178	Employee Earnings to Date to LEL to PT

Data Items	Name
N181	Employee Earnings to Date PT to UEL +Adj
N182	Employee Earnings to Date PT to UEL -Adj
N188	Employee Earnings to Date PT to UEL
N211	Director's NI to-date increase
N212	Director's NI to-date decrease
N218	Director's NI to-date
N221	Employee Positive adjustment earnings to date above the UEL
N222	Employee Negative adjustment earnings to date above the UEL
N228	Employee Overwrite value earnings to date above the UEL
N251	Director pre-determined NI contribution
N252	Director pre-determined NI refund
N281	Director additional contribution amount
N282	Employer additional NI contribution / director
N301	Employer director's NI to-date +Adj
N302	Employer director's NI to-date -Adj
N308	Employer director's NI to-date
N361	Director Earnings to Date to LEL +Adj
N362	Director Earnings to Date to LEL -Adj

Data Items	Name
N371	Director Earnings to Date to LEL to PT +Adj
N372	Director Earnings to Date to LEL to PT –Adj
N378	Director Earnings to Date to LEL to PT
N381	Director Earnings to Date PT to UEL +Adj
N382	Director Earnings to Date PT to UEL - Adj
N388	Director Earnings to Date PT to UEL
N405	Delete NI history for an NI letter
N421	Director Earnings to Date over UEL +Adj
N422	Director Earnings to Date over UEL –Adj
N428	Director Earnings to Date over UEL
N801	Class 1A Contribution to date - Additional

Data Items	Name
N808	Class 1A Contribution to date - Replace
N811	Class 1A Earnings to date - Additional
N818	Class 1A Earning to date - Replace
N821	Class 1A Contribution this time - Additional
N828	Class 1A Contribution this time - Replace
N831	Class 1A Earnings this time - Additional
N838	Class 1A Earnings this time - Replace
N901	PayBill Earnings to Date +Adj
N902	PayBill Earnings to Date -Adj
N908	PayBill Earnings to Date