Changes to class 2 NIC

OMB

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LITRG comments on changes to Class 2 NI contributions

Since 6 April 2015 taxpayers have no longer been required to pay their Class 2 NI contributions ‘up front’ to HMRC. They will now be collected at the same time as the final tax payment; so, for 2015–16, on 31 January 2017, and so on.

This delay can result in some benefits being denied if contributions are not paid ‘early’. Taxpayers can make payments early if they choose, possibly using a budget payment plan, but they must make it clear to HMRC that it is NI payments that are being made or the Revenue will set the payments against any outstanding debts first.

The main benefit to be affected is maternity allowance where eligibility is based on NI contributions paid for a 66-week test period before the baby’s due date.

There are two levels of maternity allowance:

- the standard rate, for which the mother must be self-employed for 26 weeks in that test period and have paid class 2 National Insurance contributions for 13 of them; and
- the lower rate, for which the mother must be self-employed for at least 26 weeks in that test period and have earnings of at least £30 a week on average.

If the baby is due in August 2016, the claimant will have to pay sufficient contributions in the 66 weeks leading up to that date. As we have seen, contributions for the tax year 2015–16 are not due until 31 January 2017. However, once an individual makes a claim, the Department for Work and Pensions contacts HMRC and the claimant is given the opportunity to pay the Class 2 contributions early.

The other two benefits that might be affected are the state pension and contributory employment and support allowance (ESA). The exceptions process for the state pension continues under the new regime: if contributions require to be paid early to complete the qualifying requirements, this may be done.
The more difficult situation arises with ESA. Class 2 contributions would have to be paid early only if the claim was initiated between the first Sunday in January and 31 January. In these cases the claimant needs to file their tax return and pay the NI before they make it.

Proposals to abolish class 2 NI

A consultation document was issued in December 2015 on the abolition of class 2 National Insurance and, instead, making class 4 contributory for benefits purposes. These changes, which will not be introduced before April 2017 at the earliest, may simplify matters for many taxpayers. But for others – especially those with very low profits from self-employment who now choose to make voluntary class 2 NI contributions – these proposals may have a negative impact: they would have to pay class 3 NI instead, at a significantly increased cost.
For those in self-employment with earnings broadly equivalent to an employed earner who would obtain NI credits (those earning between the Class 1 lower earnings limit of £112 and primary threshold of £155 a week), it is proposed they would similarly be awarded NI credits.