

Personal taxation

R03: 2023–24 edition

Web update 3: 16 January 2024

Please note the following update (amendments in **bold**) to your copy of the **R03** study text:

National Insurance contributions (NICs)

As announced in the November 2023 Autumn Statement:

- The main rate of employee Class 1 NICs has been cut from 12% to 10% from 6 January 2024.
- Directors have an annual earnings period, so a blended employee rate of 11.5% will apply for 2023/24 (this rate should also be used for employees if calculating NICs on an annual basis).
- There is no change for employer Class 1 NICs.

Therefore, the following content should be updated as highlighted:

Chapter 1, Section A7, page 1/6:

- the lower levels of NICs: self-employed people pay class 4 NICs at 9% on profits between £12,570 and £50,270 a year whereas employees pay class 1 NICs at **10% (12% from 6 April 2023 to 5 January 2024)** on the equivalent range of earnings. The additional class 2 contribution of £179.40 a year for self-employed people is insignificant.

Chapter 2, Section B3A, page 2/6:

- When earnings exceed these thresholds, employees have to pay NICs at **10% (12% between 6 April 2023 and 5 January 2024)** on the excess up to the UEL. This rate is the main primary percentage or main employees' rate.

Chapter 2, Section B7, page 2/10:

All company directors have an annual earnings period. This means that on each occasion when earnings are paid, the total earnings from the start of the tax year in April must be considered when calculating the NICs payable. For 2023/24, the annual primary threshold for directors is £12,570.

Because directors have an annual earnings period, a blended rate of employee NICs of 11.5% applies for 2023/24.



Example 2.3

Nicole

Nicole is a company director who is paid a director's fee of £65,000 in one lump sum. Her employee's NICs are not calculated on the normal weekly or monthly basis. Instead, they are calculated using annual limits **and the blended rate** as follows:

	£
£12,570 × 0%	0.00
(£50,270 – £12,570) = £37,700 × 11.5%	4,335.50
(£65,000 – £50,270) = £14,730 at 2%	294.60
	4,630.10

Chapter 2, Section B9C, pages 2/12–2/13:

The NIC rules impose an upper limit on the amount of class 1 NICs at the main rate that any individual has to pay in a tax year (**note that for the sake of simplicity, the annual employee blended rate is used here, although strictly this rate is only applicable for directors**).

- The limit is £37,700 (£50,270 – £12,570) × **11.5% = £4,335.50**.

[...]



Example 2.5

Sukhvinder’s companies

Sukhvinder is a director of two unconnected companies, A Ltd and B Ltd, in which he earns £35,000 and £30,000 per year, respectively. Because his total earnings of £65,000 are more than the UEL (£50,270), Sukhvinder applies for deferment for 2023/24 in respect of the directorship of B Ltd.

Sukhvinder’s class 1 NICs on his earnings from A Ltd are calculated in the usual way. Because he is a director, he has an annual earnings period. His NICs for 2023/24 are:

$$(\pounds35,000 - \pounds12,570) \times 11.5\% = \pounds22,430 \times 11.5\% = \pounds2,579.45$$

The NICs on his earnings from B Ltd are calculated in the first instance as:

$$(\pounds30,000 - \pounds12,570) \times 2\% = \pounds17,430 \times 2\% = \pounds348.60$$

After the end of the year, Sukhvinder’s contributions record is reviewed and he has to pay:

	£
Annual maximum	4,335.50
NICs at 2%	43.20
$((\pounds35,000 - \pounds12,570) + (\pounds30,000 - \pounds12,570) - \pounds37,700) \times 2\% = (\pounds22,430 + \pounds17,430 - \pounds37,700) \times 2\%$	
Payable for 2023/24	4,378.70
NICS actually paid £2,579.45 + £348.60	(2,928.05)
Payable after the end of the year	1,450.65

If deferment had not been applied for, then NICs of **£4,583.90** would have been paid as follows:

$$(\pounds35,000 - \pounds12,570) \times 11.5\% = \pounds22,430 \times 11.5\% = \pounds2,579.45$$

$$(\pounds30,000 - \pounds12,570) \times 11.5\% = \pounds17,430 \times 11.5\% = \pounds2,004.45$$

Chapter 2, Section D, page 2/17:

- The calculations are highly complex. The simplified explanation in this section is an approximation of the position, with an annual basis being used, **along with the blended employee rate**, to keep the calculations as straightforward as possible (HMRC will use a 53-week basis **and the actual applicable rates**).

[...]

2023/24	£
Class 1 plus class 2	4,335.50
Class 2 plus class 4	3,896.42

Chapter 2, Section D1, page 2/17:

The maximum annual employee contribution at the main rate for 2023/24 is **£4,335.50** ((£50,270 – £12,570) at 11.5%).

Chapter 2, Section D3, page 2/18:



Question 2.9

Simon is both employed and self-employed. For 2023/24, he will pay class 2 NICs of £179.40, class 4 NICs of £2,028.70 and class 1 NICs of **£1,429.45**. What amount of class 4 NICs will actually be due?

Chapter 2, Question answers, page 2/21:

2.5 **£4,335.50** ((£50,270 – £12,570) at **11.5%**).

2.9 **£1,963.55** (£3,393.00 – **£1,429.45**).

Chapter 2, self-test questions and answers:

2. What are the rates of employees' NICs?

From **6 January 2024 onwards**, **11.5%** and **2%**.

Chapter 12, Section A2, page 12/3:**Activity 12.7: Employed person**

Jack is an employee who is aged over 21. He is neither an apprentice nor an armed forces veteran and does not work in a freeport. Jack is paid monthly, earning £5,500 during **February 2024**. How much employee's and employer's class 1 NICs are due for this month in respect of Jack's earnings?

**Chapter 12, Section A5B, page 12/10:****Activity 12.7 solution: Employed person****Employee**

$$10\% \times (£4,189^* - £1,048^\dagger) + 2\% \times (£5,500 - £4,189) = 10\% \times £3,141 + 2\% \times £1,311 =$$

$$\mathbf{£314.10 + £26.22 = £340.32}$$

Employer

$$13.8\% \times (£5,500 - £758^\dagger) = 13.8\% \times £4,742 = £654.39.$$

**Notes**

- This change will be examined from 22 February 2024.
- This update has been incorporated into the digital copies (printable PDF and ebook) of the study text, available on RevisionMate.