

National Insurance Contributions

Have you updated the Class 1 primary threshold?

Employees pay primary (employee's) National Insurance contributions on their earnings to the extent that they exceed the primary threshold. The primary threshold is aligned with the personal allowance from 6 July 2022. If you have employees, you will need to ensure that your payroll software has been updated to take account of this increase.

This note explains the change, and also the action that you need to take to ensure that you are calculating National Insurance contributions correctly.

Nature of employee Class 1 National Insurance contributions

Employees pay primary Class 1 National Insurance contributions on their earnings. As an employer, you must calculate their contributions, deduct them from their earnings and pay them over to HMRC. The calculation will be performed by your payroll software; however, it is important to ensure that your software is up to date to prevent mistakes.

Primary Class 1 National Insurance contributions are payable at the main rate on earnings that fall between the primary threshold and the upper earnings limit, and at the additional rate on earnings in excess of the upper earnings limit (£967 per week). Employees are deemed to have paid contributions at a notional zero rate on earnings between the lower earnings limit (£123 per week) and the primary threshold. For 2022/23, the main rate is 13.25% and the additional rate is 3.25%.

The primary threshold was initially set at £190 per week (£823 per month; equivalent to £9,880 per year) for 2022/23. It applies at this rate for the period from 6 April 2022 to 5 July 2022. Unusually, it changes in-year and from 6 July 2022 it is aligned with the personal allowance of £12,570. Consequently, from 6 July 2022 to 5 April 2023, the primary threshold is £242 per week (£1,048 per month).

To ensure that employee contributions are calculated correctly, it is important that the primary threshold used is the one in force when the employee is paid. Remember to update your payroll software to reflect the increase in the primary threshold from 6 July 2022.

Company Directors

Company directors have an annual earnings period. Their contributions are calculated by reference to the annual threshold regardless of their actual pay interval. The annual primary threshold for 2022/23 is £11,908.

Employer's contributions

Unless you are covered by the current Employment Allowance - this measure supports businesses by providing relief of up to £5,000 on their employer secondary Class 1 NICs and Health and Social Care Levy liabilities - as an employer, you must pay secondary contributions on your employees' earnings (at the rate of 15.05% for 2022/23) to the extent that they exceed the secondary threshold. Unlike the primary threshold, there is no change to the secondary threshold from 6 July 2022, and it remains at £175 per week (£758 per month; £9,100 per year) throughout 2022/23. Higher secondary thresholds apply to the earnings of certain categories of employee.

We can help

We can help ensure that you are calculating your employee and employer National Insurance contributions correctly. We can check that you are using the correct category letters for your employees and that your payroll software has been updated to reflect the change to the primary threshold.