



# My Virtual Financial Controller

Financial Wizardry for the Self Employed

# Self-employed National Insurance Contributions

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Accounting, tax & bookkeeping services  
for women in business & microbusiness

# Jargon busters



## Self-employed National Insurance Contributions

Once you have registered as self-employed HM Revenue & Customs will expect you to start paying self-employed National Insurance Contributions (NICs). There are two types of NICs to worry about – Class 2, and Class 4.

### Class 2 NICs

Class 2 NICs are a weekly flat rate amount of £2.75 per week (2014-2015 tax year). They count towards some of your state benefits, including the State Pension and Maternity Allowance, so if you are not already paying some NICs then paying Class 2 NICs could be a good idea. You can pay them monthly or 6 monthly by direct debit, or pay them after getting payment requests in October and April.

If however you get National Insurance credits then your entitlement to the State Pension is protected and you don't need Class 2 NICs to top it up. There are different circumstances where you may be able to get credits, for a full list see the [HMRC website](#). One common one is where you look after a child under 12.

If you don't need to pay Class 2 NICs and your self-employed profits are likely to be below £5,885 per year (2014-2015 tax year), then you could apply for a [Certificate of Small Earnings Exception](#). This means you don't have to pay the £2.75 per week until your profits go over the threshold, so could save £143 per year. You may also be able to get a refund for some of the Class 2 NICs you have already paid.

### Class 4 NICs

Class 4 NICs are calculated as a percentage of your self-employed profits at the same time that your tax bill is calculated, and is payable together with your tax bill. If you don't look at the breakdown then you won't even know that part of what you are paying is actually National Insurance.

The amount you pay is 9% on annual profits between £7,956 and £41,865 (2014-2015 tax year), and 2% on profits above £41,865.

So for example if you have self-employed profits of £20,000 and no other income you will pay income tax of £2,000.00 (20% on profits above your tax free Personal Allowance of £10,000), PLUS Class 2 NICs of £1,083.96 (9% on profits above the Class 4 threshold of £7,956), giving you a total bill of £3,083.96 (ignoring Payments on Account).

If you are paying out a lot in Class 4 NICs then it is worth looking into changing your structure to a limited company – contact [info@starfishaccounting.co.uk](mailto:info@starfishaccounting.co.uk) if you would like a free consultation on whether that would be a good option for you.

## Employed and self-employed

If you are employed and self-employed at the same time then you may not have to pay all of your self-employed NICs. You may be able to “defer” your Class 2 NICs and most of your Class 4 NICs. Deferring your self-employed NICs is outside of the scope of this e-book, please refer to [HMRC's website](#) for more information website.