

Pension income options

J05 2022–23 edition

Web update 1: 01 December 2022

Please note the following updates to your copy of the **J05** study text (corrections are underlined):

National Insurance contributions (NICs) & health and social care levy

As announced in the Growth Plan 2022, the following changes have been announced:

- The additional 1.25 percentage points previously added to all 2022/23 Class 1 and 4 NICs rates have been scrapped with effect from 6 November 2022.
- The 1.25% health and social care levy, which was due to replace the NICs increase from 2023/24, will be abandoned.

Therefore, the following changes have been made to:

Chapter 7, section D4A, pages 7/11–7/12:

Employees pay Class 1 NICs at the higher rate of earnings between a lower limit called the primary threshold and a higher limit known as the upper earnings limit – or UEL – (set at £967 a week in 2022/23) and at the lower rate on earnings above £967 a week in 2022/23.

Until 2022/23, the higher rate of employee Class 1 NIC was 12% and the lower rate was 2%. At the start of the 2022/23 tax year, these rates were increased by 1.25% to 13.25% and 3.25%, respectively. This increase was intended to provide funds for health and social care, with the intention to replace the increase with a separate 1.25% health and social care levy from 2023/24.

In launching the Government's Growth Plan on 23 September, the Chancellor confirmed that the additional 1.25% would be removed from 6 November 2022, restoring the employee Class 1 rates to 12% and 2%. The health and social care levy will also be abandoned. The necessary legislation, the **Health & Social Security Levy (Repeal) Bill**, was published the day before the Chancellor made his Growth Plan statement.

Where an employee's earnings fall between the lower earnings limit (LEL) (£123 a week for 2022/23) and the primary threshold, contributions are payable at a notional zero rate, allowing the employee to build up entitlement to the State Pension and certain contributory benefits for zero NIC cost.

[...]

The employer's rate of Class 1 contributions depends on the employee's earnings and age. Where the employee is under the age of 21, no employer contributions are payable until the employee's earnings exceed the upper secondary threshold (UST) for under-21s (set at £967 a week for 2022/23). Likewise, where the employee is an apprentice under the age of 25, no employer contributions are payable until the Apprentice Upper Secondary Threshold (AUST) is reached (also set at £967 a week for 2022/23). Once the relevant threshold is reached, employer contributions are payable on all earnings at the secondary rate. Like Class 1 contributions for employees, this has undergone change during 2022/23, initially increasing from 13.8% to 15.05% from 6 April 2022 before being restored back to 13.8% from 6 November 2022.

Table 7.2: Employer's Class 1 National Insurance contributions

Weekly earnings – employee aged 21 or over		Employer's contribution
Up to £170		Nil
Over £170	6 April to 5 November 2022	15.05%
	6 November 2022 to 5 April 2023	13.8%
Weekly earnings – employee under 21 or apprentice under 25		Employer's contribution
Up to £170		Nil
Over £170	6 April to 5 November 2022	15.05%
	6 November 2022 to 5 April 2023	13.8%

Individuals in employment and earning below the LEL of £123 a week (for 2022/23) pay no NICs and do not build up entitlement to the State Pension. Those earning between £123 and the primary threshold (£190 a week until 6 July 2022 and £242 a week thereafter in 2022/23) build up entitlement to the State Pension. However, where earnings fall within this band, primary contributions are payable at a notional zero rate. Where earnings exceed the primary threshold, they are payable at the main rate (13.25% between 6 April and 5 November 2022 and 12% from 6 November) until the UEL (£967 a week for 2022/23) is reached and thereafter at the additional rate (3.25% from 6 April to 5 November 2022 and 2% from 6 November).

Chapter 7, section D4B, page 7/12:

Self-employed people pay Class 2 NICs at a flat rate of £3.15 a week for 2022/23, where their profits reach the "lower profits limit". This is set at £9,880 from 6 April 2022 to 5 July 2022, and £12,570 from 6 July 2022 to the end of the 2022/23 tax year, giving an annualised figure of £11,908. Where profits fall between a 'small profits threshold' of £6,725 (2022/23) and the lower profits limit, no Class 2 contributions are required, but credits will still be given towards contributory benefits, in much the same way as applies to employees. Profits between the lower profits limit and £50,270 a year (2022/23 figures) attract a further Class 4 contribution at the higher rate, with the lower rate applying on profits above £50,270.

Like Class 1, the rate for Class 4 has undergone some change in 2022/23. Prior to the start of the tax year, the standard rate was 9% and the lower rate 2%. These rates increased to 10.25% and 3.25%, respectively, from 6 April 2022, but were then dropped back to their original rates from 6 November 2022.

Since self-employed people pay NICs based on their annual profits, the effective rates for the full 2022/23 tax year are 9.73% for the higher rate and 2.73% for the lower rate.

You should note that it is only Class 2 contributions that currently confer entitlement to the State Pension and contributory benefits. Where a self-employed person has profits below the small profits threshold, they can choose to pay Class 2 contributions voluntarily. This can be a cheap way of preserving their State Pension entitlement.