

Broadcast



Company directors have an annual earnings period for National Insurance contributions. This may necessitate an annual recalculation at the end of the tax year.

Key dates

When you pay a company director for the final time in the 2022/23 tax year, you will need to tick the relevant box in your payroll software to indicate this so that the software will calculate the contributions due on the final payment by reference to the annual thresholds.

Contributions due for 2022/23 must be paid over to HMRC by 22 April 2023 where payment is made electronically, and by 19 April 2023 where payment is made by cheque.

This note explains the nature of the directors' Class 1 National Insurance contributions and the annual recalculation.

Annual earnings period

Unlike tax, National Insurance is calculated separately for each earnings period without taking account of previous earnings in the tax year. This means that it is possible to reduce the liability by making uneven payments of earnings throughout the year. Unlike other employees, company directors, particularly those of personal and family companies, are in a position to determine when and how much they are paid. To prevent directors from taking advantage of the non-cumulative nature of National Insurance to reduce the amount that they pay, directors have an annual earnings period for Class 1 National Insurance contributions. This applies for both primary and secondary contributions.

Where an annual earnings basis applies, the director does not pay any Class 1 National Insurance until his or her earnings for the tax year to date reach the annual primary threshold. Once this is reached, contributions are paid at the main rate on all earnings until the upper earnings limit is reached. Thereafter, contributions are payable on all earnings at the additional rate. The contributions due on each payment of earnings are found by calculating the liability on earnings to date for the tax year and deducting contributions already paid.

Secondary contributions payable by the employer are calculated in a similar way. The employer does not pay any contributions on the director's earnings until the secondary threshold (or, where appropriate, the relevant upper secondary threshold) is reached. Thereafter, contributions are payable on earnings at the secondary rate.

Annual rates and thresholds

The 2022/23 tax year was a complicated tax year as far as National Insurance contributions were concerned, with a change to the primary threshold from 6 July 2022 and a change to the rates from 6 November 2022. As a result, average annualised rates and annualised thresholds are used to calculate directors' Class 1 National Insurance liabilities for 2022/23.

The annual rates and thresholds applying to company directors for 2022/23 are shown in the table below.

Lower earnings limit	£6,396
Primary threshold	£11,908
Upper earnings limit	£50,270
Secondary threshold	£9,100
Main primary rate	12.73%
Additional primary rate	2.73%
Secondary rate	14.53%

Alternative arrangements

Where the director is paid a regular salary, calculating their National Insurance liability using the annual thresholds will mean that the liability (and the amount that the director receives each month) is uneven throughout the year – no contributions are payable initially while earnings are below the primary threshold, contributions are then deducted on all earnings at the prevailing main rate, before falling once the upper earnings limit is reached.

To overcome this and allow the liability to be spread more evenly throughout the year, the alternative arrangements can be used instead. This allows the contributions to be calculated initially by reference to the prevailing rates and thresholds for the actual earnings period as for other employees. However, where this method is used, the director still has an annual earnings period and a recalculation must be performed on an annual basis at the end of the tax year.

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Annual recalculation

When the director is paid for the last time in the tax year, the software will recalculate the liability (both primary and secondary) on an annual basis using the earnings for the tax year and the annual rates and threshold. The contributions payable on the final payment of earnings are found by deducting those paid to date from the annual liability, as calculated using the annual rates and thresholds on earnings for the whole tax year. To ensure that the annual recalculation is performed, it is important that the 'last payment in the tax year' box is ticked when making the final payment to the director in the 2022/23 tax year.

If the annual rates and thresholds have been used throughout, a recalculation is not needed at the end of the tax year.

Please call us on **01753 888211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.