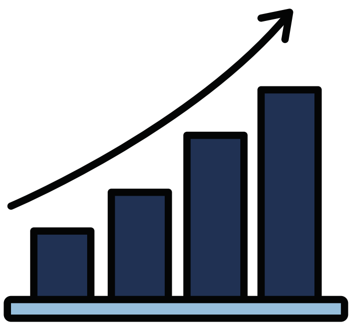
How could the National Insurance increase affect you?

In April 2022, the Government will be increasing National Insurance Contributions. We look at how this increase could affect you and your employees and how existing salary exchange schemes might be able reduce the amount you pay.



From 6 April 2022, the Government will be introducing a temporary increase to National Insurance Contributions (NIC). This 1.25% increase means:

- **Class 1A and 1B employers will pay 15.05%**
- **Class 1 employees earning below NIC upper earnings limit will pay 13.25%**
- **Class 1 employees earning above the NIC upper earnings limit will pay 3.25%.**

From 6 April 2023 this increase will be replaced by a new tax named the Health and Social Care Levy which will apply to both employers and employees, including those above the state pension age, at a rate of 1.25% each. The levy will have the same thresholds and requirements as the qualifying NIC and will appear as a separate line on your employees' payslip.

How will the increase affect me and my employees?

Employer case study

Let's take a look at how employers with 50, 100 and 500 employees will be affected by the NIC increase.

Number of employees	50	100	500
Total yearly salary payment	£1,500,000	£3,000,000	£15,000,000
Total employer NIC contributions 2021/22	£146,004	£292,008	£1,460,040
Total employer NIC contributions 2022/23	£157,272	£314,545	£1,572,725
Total increase to employer NIC contributions	**£11,268**	**£22,537**	**£112,685**

Figures are based on an average salary of £30,000 per employee. These figures are subject to change due to the upcoming NI threshold increase in July 2022.

Employee case study

Let's take a look at how an employee will be affected by the NIC increase.

	Monthly employee salary	
	Tax year 2021/22	Tax year 2022/23
Gross pay	£2,500	£2,500
Income tax	£290.50	£290.50
National Insurance	£204.32	£222.20
National Insurance increase	N/A	£17.88
Pension contribution	£100	£100
Take home pay	£1,905.18	£1,887.30

These figures are subject to change due to the upcoming NI threshold increase in July 2022.

What do I need to do?

Consider salary exchange.
The key reasons to think about salary exchange are:

Employer saves on NICs.

Potential to increase your employees' pensions.

Adding value to benefits package.

We'll now look at this in more detail.

Paying less NICs

- As an employee's pre-tax salary will be lower, this results in a reduction in the amount of NICs an employer and employee pay- provided that their original salary was above the relevant NICs threshold.
- Employers can quickly work out the approximate amount of NICs they could save by adding up the employee contributions and multiplying it by the employer NIC rate of 15.05%

Let's have a look at an example:

Average employee salary		Average employee contribution rate		Annual employee contribution		Active members		Total		Emoloyer NIC rate		Annual employer NIC saving
£20,000	×	5%	=	£1,000	×	50	=	£50,000	×	15.05%	=	£7,525

Increase pensions contributions for employees

Employees may be concerned about using salary exchange, as they'll receiving a lower pre-tax salary. However, the individual will benefit by paying reduced NICs. This saving can be used to increase their pension contribution or their take home pay.

Adding value to the benefits package

Introducing salary exchange will improve the employer's benefit package. This is particularly true if the employer agrees to give up some or all of their NIC savings to further increase their pension contributions. This may encourage employees to join the scheme.

Although employers do not have to reinvest any of their NIC savings, it may prove difficult to promote salary exchange to employees if they won't see any benefit of the employer's NIC savings.

How can salary exchange be used?

There are no set rules to how employers should set up a salary exchange scheme, but reinvesting NIC savings back into the pension scheme will give employees the most benefit and may encourage salary exchange scheme take up.

Let's look at the options

Options	Employer cost	Employee take home pay	Pension Contribution	Summary
1	no change	no change	increase	This is cost neutral. **Employer** - 100% NIC saving is reinvested. **Employee** - exchanges slightly higher amount of gross salary to keep their take home pay at the same level so pension contributions are increased.
2	no change	increase	increase	**Employer** - 100% NIC saving is reinvested. **Employee** - does not have to pay NIC on the amount exchanged, so this increases their take home pay. Benefits from higher pension contribution due to employer NIC reinvestment.
3	decrease	increase	no change	**Employer** - no reinvestment of NIC savings. **Employee** - as salary is reduced, the amount of NIC paid is also lower, so this increases their take home pay.
4	decrease	no change	increase	**Employer** - no reinvestment of NIC savings. **Employee** - exchanges a slightly higher amount of gross salary so that they can get the same take home pay. The higher exchange means they get an increased pension contribution.

To find out more how to do this speak to TPD Wealth Management :

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Source: Scottish Widows: Salary Exchange Brochure, January 2022
Source: Royal London pension matters: How could the National Insurance increase affect you, February 2022