

Chapter 9

EMPLOYMENT INCOME

1 The scope of employment income

An employee is taxable under Employment Income rules

A self-employed person is taxable under Trading Income rules

2 Employment or self-employment?

2.1 The following principles should be taken into account in deciding if a person is employed or self-employed.

The main test of an employment as opposed to self-employment is the existence of a contract of service (**employee**) compared with a contract for services (**self employed**).

2.2 If there is no contract of service, the following suggest employment.

- » An obligation by the employer to offer work and an obligation by the employee to undertake the work offered. An employee would not normally be in a position to decline work when offered.
- » The employer controls the manner and method of the work.
- » The employee is entitled to benefits normally provided to employees such as sick pay and holiday pay.
- » The employee is committed to work a specified number of hours at certain fixed times, and is paid by the hour, week or month.
- » The engagement is for a long period of time.
- » The employee does not provide his own equipment.
- » The employee is obliged to work personally and exclusively for the employer, and cannot hire his own helpers.
- » The work performed by the employee is an integral part of the business of the employer and not merely an accessory to it.
- » The economic reality of self-employment is missing - namely the financial risk arising from not being paid an agreed, regular, remuneration.
- » The employee cannot profit from sound management.

3 Assessable emoluments

3.1 Individuals are assessed on the amount of emoluments received in the tax year. The date received is taken as the earlier of the date when the employee became entitled to the payment or the date when it was actually received by the employee.

3.2 Emoluments includes:

- (a) wages
- (b) salary
- (c) bonus
- (d) commission
- (e) benefits

4 Deductibility of expenses from employment income

4.1 The following expenditure is deductible:

- Contributions to approved occupational pension schemes (within certain limits see chapter 10)
- Fees and subscriptions to relevant professional bodies
- Payments to charity made under a payroll deduction scheme
- Travel expenses incurred necessarily in the performance of the duties of employment
- The general rule is that expenses must be incurred wholly, exclusively and necessarily in the performance of the duties of employment
- Capital allowances are available for plant and machinery provided by an employee for use in his duties

5 Approved mileage allowances

- (a) For 2021/22 the approved mileage allowance is 45p per mile for the first 10,000 business miles, and then 25p per mile thereafter.
- (b) Employees who use their **own motor car** for business mileage must use the approved mileage allowances in order to calculate any taxable benefit arising from any mileage allowances received from their employer.
- (c) Employees who use their motor cars for business mileage without being reimbursed by their employer (or where the reimbursement is less than the approved mileage allowances), can use the approved mileage allowances as a basis for an allowable deduction.

EXAMPLE 1

Kerry uses her own 1800cc motor car for business travel. During 2021/22 she drove 12,000 miles in the performance of her duties. Her employer pays her 30p per mile.

Compute the allowable deduction that the Kerry can claim against her employment income.

6 Exempt benefits

- (a) Canteen available to all staff.
- (b) Qualifying removal expenses up to £8,000.
- (c) Car parking spaces at or near place of work.
- (d) Workplace nurseries (crèches).
- (e) Contributions by an employer to an approved pension scheme.
- (f) Workplace parking for bicycles plus a tax free cycling allowance of 20p per business mile.
- (g) Provision of a mobile telephone for private use (one per employee)
- (h) Christmas parties etc for staff (up to £150 per person per year)
- (i) Sport and recreational facilities available generally for the staff.
- (j) Annual exemption of £500 per employee where employer pays for medical treatment to assist the employee in returning to work after a period of absence due to ill health or injury
- (k) Outplacement counselling services to employees made redundant. The services can include counselling to help adjust to the loss of the job and to help in finding other work, ie retraining courses up to 2 years
- (l) Contributions towards additional household costs (such as light and heat) incurred by an employee who works at home up to £6 per week or if higher evidence must be provided by the employee to justify the expense.
- (m) Long service awards up to £50 per each year of service (with a minimum requirement of 20 years service)
- (n) Trivial benefits which do not cost more than £50 per employee and which are not cash or cash vouchers
- (o) Use of employer bicycles if used by employees to and from work.
- (p) Provision of eye care tests and/or corrective glasses for employees using VDU's (if paid directly, by reimbursement to the employee or by providing vouchers)
- (q) Incidental overnight expenses provide by the employer for overnight stays from home. Up to £5 per night (UK) and up to £10 per night (overseas)

7 Taxable benefits

7.1 Principles

The amount assessed is generally the cost of providing the benefit.

Where in-house benefits are provided (free air travel for employees of a airline company) the amount assessed is the marginal cost incurred by the employer

(a) Vouchers exchangeable for goods and services unless specifically exempt.

(b) Living accommodation

- (i) There is no taxable benefit if the accommodation is job-related
 - where it is necessary for the proper performance of the employee's duties (e.g. a caretaker); or
 - for better performance of the employee's duties and (for that type of employment) it is customary for employers to provide living accommodation (e.g. hotel-worker); or
 - where there is a special threat to the employee's security and he resides in the accommodation as part of special security arrangements.
- (ii) If the accommodation is not job related then the benefit is the higher of
 - the accommodation's annual value, and
 - the rent actually paid for it by the employer (if the property is rented)
 - The benefit is reduced by any rent or contribution paid by the employee
- (iii) There is an additional benefit where the cost of providing the accommodation is greater than £75,000;
 - $(\text{cost of providing accommodation} - £75,000) \times \text{the official rate of interest (2\%)}$
 - The cost of providing the accommodation is the purchase price of the property plus expenditure on improvements incurred before the start of the tax year.
- (iv) If the employer bought the accommodation more than six years before first providing it to the employee, the property's market value when first occupied by the employee is used in the calculation instead of purchase price but note that if the cost is less than £75,000 there is no expensive accommodation benefit irrespective of the market value when the employee first occupied the property.

EXAMPLE 2

Jones, a sales manager, occupies a flat owned by his employer. Its annual value is £4,000 and Jones pays his employer £500 p.a. for use of the flat. The flat was originally purchased in 2008 for £100,000 and Jones moved into the property in 2020 when the property was worth £120,000.

Calculate the total benefit assessable on Jones for 2021/22 assuming an official rate of interest of 2%

(c) Expenses connected with living accommodation

- (i) Expenses such as lighting and heating are taxable on the employee if they are paid by the employer.
- (ii) When the accommodation is job related, the taxable limit is 10% of other employment income. In addition the payment of council tax by the employer is an exempt benefit if the accommodation is job related.

(d) Use of assets

Amount assessed is the higher of

- » 20% × market value of the asset when first provided
- » rental paid by employer (if asset is rented)

(e) Gifts of assets

- (i) If an employee is gifted a new asset, he is taxed on the cost of the asset.
- (ii) If an employee is gifted an asset that has previously been used he is taxed on the higher of:
 - the market value of the asset when given to him
 - the market value of the asset when first made available to the employee less the benefit assessed on the employee during the time he had the use of it.
- (iii) The above rule does not apply to the gift of a motor car or van, where the benefit is simply the market value of the asset when gifted.

EXAMPLE 3

Gerald's employer purchased a TV for his use on 1 June 2020, costing £900. On 6 April 2021 Gerald was given the TV by his employer (its market value then being £250).

Calculate the benefit assessable on Gerald in respect of the gift, on the basis of:

- (a) if Gerald made no payment for the TV**
 - (b) if Gerald paid his employer £250 for the TV**
-

(f) Company Car Benefit

The more widespread use of electric and hybrid cars has brought about a fundamental change in the computation of the assessable benefit for the use of a company car from 2020/21. The TX-UK exam will now **only** include the treatment of cars that were registered from 6 April 2020 onwards to which the new rules apply.

The calculation of the assessable benefit will now depend on whether the car provided to the employee is:

- (1) Electric with zero CO₂ emissions
- (2) Hybrid powered
- (3) Petrol powered
- (4) Diesel powered

In computing the assessable benefit for each car it is necessary to know the level of **CO₂ emissions**, if any, the **electric range** of a hybrid car and the **list price** of the car. Depending on the category of the car a **percentage** figure will then be applied to the **list price** to compute the **annual** benefit for the tax year - and thankfully the numbers to be used are provided to you on the tax rates and allowances pages provided in the exam (shown below) – all you have to do is know how to use this information!

1 Electric cars with zero CO₂ emissions

A 1% assessable benefit applies.

2 Hybrid

For hybrid-electric cars with CO₂ emissions between 1 and 50 grams per kilometre, the electric range will determine what percentage rate to apply to the list price to compute the benefit.

These percentage rates for the **electric range** are **provided in the exam (again see note below)** and are as follows:

» 130 miles or more	- 1%
» 70 - 129 miles	- 4%
» 40 – 69 miles	- 7%
» 30 – 39 miles	- 11%
» Less than 30 miles	- 13%

For **any** car with CO₂ emissions exceeding 50 grams the percentage rate to apply to the list price is as follows and is again provided for your use in the exam:

» 51 – 54 grams per kilometre	- 14%
» 55 grams per kilometre	- 15%

For cars with CO₂ emissions in excess of 55 grams this base percentage rate of 15% is increased by 1% for every complete 5 grams per kilometre, up to a maximum percentage rate of 37%.

These percentage rates apply to both **petrol powered cars and also diesel cars** that meet the **Real Driving Emissions 2 (RDE2)** standard. For diesel cars that do **not** meet the RDE2 standard the percentage rate is **increased by 4%** BUT will not exceed 37%.

As stated above the percentage rate is then applied to the list price of the vehicle

- the list price includes the list price of any accessories fitted to the motor car.
- the list price is reduced by any capital contribution from the employee subject to a maximum deduction of £5,000.

The car benefit itself is proportionately reduced if

- a motor car is unavailable for periods of at least 30 days of the tax year, and
- where the employee makes a contribution to the employer for the use of the motor car.

Second motor cars

- Where more than one motor car is made available to an employee, the benefit of each motor car is computed as above.

Pool cars

The use of a pool car does not result in a company car benefit. A pool car is one provided for the use of any employee to use for business purposes and is kept at the business place of work.

The information provided in the exam is written as follows:

Car benefit percentage

The relevant base level of CO₂ emissions is 55 grams per kilometre. The percentage rates applying to petrol-powered motor cars (and diesel-powered motor cars meeting the RDE2 standard) with CO₂ emissions up to this level are:

51 grams to 54 grams per kilometre	14%
55 grams per kilometre	15%

A 1% percentage applies to electric-powered motor cars with zero CO₂ emissions.

For hybrid-electric motor cars with CO₂ emissions between 1 and 50 grams per kilometre, the electric range of a motor car is relevant:

Electric range

130 miles or more	1%
70 to 129 miles	4%
40 to 69 miles	7%
30 to 39 miles	11%
Less than 30 miles	13%

EXAMPLE 4

During 2021/22 Speed Merchants plc provided the following employees with company motor cars:

Lewis was provided with a new diesel powered company car on 6 August 2021. The motor car has a list price of £13,500 and an official CO₂ emission rate of 122 grams per kilometre. The motor car meets the RDE2 standard.

Nico was provided with a new petrol powered company car throughout 2021/22. The motor car has a list price of £16,400 and an official CO₂ emission rate of 162 grams per kilometre.

Fernando was provided with a new petrol powered company car throughout 2021/22. The motor car has a list price of £22,600 and an official CO₂ emission rate of 249 grams per kilometre. Fernando paid Speed Merchants plc £1,200 during 2021/22 for the use of the motor car.

Jenson was provided with a new hybrid electric powered company car throughout 2021/22. The motor car had a list price of £16,000, an official CO₂ emission rate of 38 grams per kilometre and an electric range of 110 miles.

Sebastian was provided with a new diesel car throughout 2021/22. The motor car had a list price of £14,000 and an official CO₂ emission rate of 103 grams per kilometre. The motor car does not meet the RDE2 standard.

Calculate the taxable benefit for 2021/22 for Lewis, Nico, Fernando, Jenson and Sebastian.

(a) Fuel provided for private use

- (i) The car benefit also covers the running costs of the car BUT does not take account of fuel provided for private use.
- (ii) The amount of fuel benefit is computed on a base figure of £24,600 multiplied by the percentage used for calculating the car benefit.
The fuel scale charge is reduced proportionately where private use fuel is withdrawn (and not reintroduced during the year) or the car is only given part way through the tax year.
- (iii) No reduction is made if the employee contributes towards the cost of petrol for private use.
If he pays for all fuel used for private motoring the charge is cancelled.

EXAMPLE 5

Using example 4 – calculate the fuel benefit for Lewis, Nico, Fernando, Jenson and Sebastian assuming also that Fernando pays Speed Merchants plc £600 during 2021/22 towards the cost of private fuel, although the actual cost of this fuel was £1,000.

(b) Vans and heavier commercial vehicles

- (i) Where an employee uses an employers van for journeys between home and work and other private use is insignificant there is no benefit.
- (ii) Where private use is not insignificant the tax charge is £3,500 p.a.
- (iii) An additional charge is made for fuel provided for unrestricted private use equal to £669p.a.
- (iv) Both benefits are time apportioned if the van is unavailable to the employee for 30 days or more during any part of the tax year.

(c) Beneficial loans

- (i) A beneficial loan is one made to an employee below the official rate of interest (2% for 2021/22)
- (ii) The benefit is the interest on the loan at the official rate, less any interest actually paid by the employee.
- (iii) There is no benefit if the loans do not exceed £10,000 in total at any time in the tax year
- (iv) The benefit is calculated using the *average method* or the *accurate method*
 - Average method.*
This uses the loan outstanding at the beginning and the end of the tax year.
If the loan is taken out or paid back during the tax year, that date is used instead of the beginning or end the tax year.
 - Accurate method*
This calculates benefit day by day on the balance actually outstanding.
Either the taxpayer or HMRC can decide to use the accurate method.

EXAMPLE 6

Jack was given a loan of £35,000 by his employer on 31 March 2021. Interest is payable on the loan at 1% p.a. On 1 June 2021 Jack repaid £5,000 and on 1 December 2021 a further £15,000. The remaining £15,000 was still outstanding on 5 April 2022. Jack earns £30,000 p.a.

Calculate the taxable benefit for 2021/22 under

- (a) the average method and**
- (b) the accurate method**

You should assume that the official rate of interest is 2% p.a.

3 PAYE system

3.1 Pay As You Earn

The purpose of the PAYE system is to deduct the correct amount of income tax and National Insurance Contributions over the year.

3.2 Employers' duties

The employer has a duty to:

- (a) deduct income tax from the pay of his employees
- (b) calculate the amount of NIC that should be deducted
- (c) keep a record of each employee's pay and deduction
- (d) Employers must send income tax and NIC information to HMRC electronically every time employees are paid (weekly or monthly) and make their monthly PAYE payments electronically on the 22nd of the month under the Real Time Information reporting system.
- (e) There are penalties if submissions made during the tax year are made late, though there is no penalty for the first month in a tax year that submissions are paid late. Thereafter a monthly late filing penalty of between £100 and £400 is charged depending on the number of employees. An additional penalty of 5% of the tax and NIC due may be charged where the submission is more than 3 months late.
- (f) send appropriate returns in addition to the to the employee when required.

3.3 Application of PAYE

The following count as pay:

- (a) salaries, wages, overtime, bonuses
- (b) pensions
- (c) It is now possible for an employer to choose to include most taxable benefits within their normal payroll, with the employee's income tax liability being collected under PAYE. What are now referred to as "Payrolled" benefits do not now have to be reported on form P11D., a form submitted by the employer that lists the benefits provided to an employee in a tax year
- (d) If taxable benefits are not payrolled, then they continue to be reported on form P11D. Income tax will then normally be collected by an adjustment to the employee's PAYE tax code.

3.4 PAYE codes

- (a) An employee's PAYE code indicates the amount of tax free pay he is entitled to and is notified to the employee and his employer by HMRC. This will allow the employer to deduct the correct amount of tax from the employee
- (b) The PAYE code will include the employee's personal allowance and any allowable deductions and be restricted by various taxable amounts.

It is calculated as follows:

	£	£
<i>Allowances:</i>		
Personal allowance	X	
Personal pension contributions - higher rate relief	X	
Expense deductions	<u>X</u>	
		X
<i>Less Deductions,</i>		
Benefits	X	
Untaxed income	X	
Tax under payments b/f (grossed up) $\times \frac{100}{20} \times \frac{100}{40} \times \frac{100}{45}$ for basic/higher/additional rate taxpayers	<u>X</u>	
		(X)
Allowance to set against pay		<u>X</u>

(c) To obtain the code number the last figure is removed and replaced with a letter

- L - code for PA
- K - increases taxable pay instead of reducing it (benefits exceed allowances) with no tax free allowances
- BR - tax will be deducted at the basic rate
- NT - no tax is to be deducted

EXAMPLE 7

Annabel earns £20,000 pa and is single, She has annual benefits of £440 and her unpaid employment income tax for 2020/21 was £132.

Annabel pays income tax at the basic rate of 20%

Calculate Annabel's tax code for 2021/22.

3.5 Changes to coding

An employer must use the last code notified to him for existing employees until new written instructions are sent from HMRC.

3.6 Year end returns

The employer must send to HMRC the following:

By 6 July:

- P11D Benefits for directors and employees earning in excess of £8,500 for the year
- P9D Benefits of other employees.

The employer must give to the employee

By 31 May:

- P60 Permanent record of pay and tax deducted as well as NIC's made in the tax year.

By 6 July:

- P11D Benefits for directors and employees earning in excess of £8,500 for the year
- P9D Benefits of other employees.

3.7 Employees leaving or joining**(a) Employees leaving**

The employer should complete form P45 and send part 1 to Tax Office and give parts 2, 3 and 4 to the employee.

(b) Employees joining

- (i) When an employee joins and has a P45 the employer can operate PAYE
- (ii) The employer uses the tax code on the P45 if it relates to the current year; otherwise he uses the emergency code.
- (iii) If the employee does not have a P45, the new employee must complete form P46.

You should now review the following part of the Finance Act 2021 technical article written by the TX-UK examining team - Employment Income section working Examples 14 - 15

In addition the articles for exam sittings from June 2022 to March 2023 on Benefits and Motor Cars (VAT issues dealt with in chapter 25) should be fully reviewed

Students should now attempt Practice Question 19

Chapter 10

PENSION SCHEMES

1 Types of Pension Scheme

Employees may join an occupational scheme set up by their employers and/or a personal pension scheme arranged by the individual directly with a pension provider. Self employed individuals may only join a personal pension scheme. To encourage individuals to join a pension scheme generous tax reliefs have been provided by HMRC.

Occupational schemes will always have contributions made into them by employers and may also have contributions made by the employee. There are no limits on the amount of contribution that may be made by the employer but they will count towards the employee's annual allowance and the value of the fund for the lifetime allowance (see section 2). These contributions will be tax deductible for the employer attracting tax relief in the accounting period in which they are paid.

Contributions made by the employer are exempt benefits for the employee (though may contribute towards an annual allowance charge on the employee - see section 3) and are not subject to any NIC payments (see chapter 11).

Contributions made each tax year by an individual into a pension scheme that will attract tax relief are limited to the higher of:

- the relevant earnings of the taxpayer, being mainly employment income and/or trading profits plus any profits from furnished holiday lettings, or
- £3,600 of gross contribution

This amount will also contribute towards the annual allowance permitted each year.

When an employee makes a contribution into an occupational scheme tax relief is given at source under the "net pay arrangement". The employer will deduct the gross contribution from the individual's employment income before computing the tax to be deducted under PAYE.

ILLUSTRATION 1

If an employee has a gross annual salary of £25,000 and wants to contribute £1,000 into his occupational pension scheme, the employer over the tax year will pay £1,000 into the pension scheme and put a (net pay) salary of £24,000 through PAYE. Tax relief will be fully available as the gross contribution does not exceed £3,600.

This would be presented on the Income Tax Computation as a salary of £25,000 less a pension contribution of £1,000.

When an individual contributes into a personal pension scheme, then as we saw in Chapter 2, no such deductions are made from income on the computation, instead tax relief is given as follows:

- basic rate tax relief is given at source – this means that if a taxpayer pays £8,000 into his pension fund, this is deemed to be net of basic rate tax at 20%. HMRC will then pay the pension provider an amount equivalent to the basic rate deduction ($20/80 \times £8,000 = £2,000$). Thus the individual's pension fund is increased by £10,000 in total. As the gross contribution exceeds £3,600 (see note above) then the taxpayer must have net relevant earnings for the tax year of at least £10,000 for tax relief to be fully available
- Higher rate and additional rate taxpayers achieve higher and additional rate relief by extending the basic and higher rate bands by the gross amount of the personal pension contribution. Hence in this example the higher rate and additional rate tax bands will increase by £10,000 so that higher and additional rate tax will only arise above taxable income figures of £47,700 and £160,000 respectively
- Remember also that the gross amount of personal pension contributions are deducted in deriving the adjusted net income figure used to determine any reduction in the personal allowance of the taxpayer

2 Annual Allowance (AA)

Although tax relief is available on pension contributions up to the amount of relevant earnings for a particular tax year, the AA acts as an overall annual limit. Where tax relieved contributions are paid in excess of the AA (including any brought forward unused allowances - see below), then there will be an annual allowance charge (see section 3). This charge is subject to income tax at a person's marginal rates.

The AA determining the total pension input allowed for tax relief each year is limited to £40,000 (this information will be provided in the tax rates and allowances section of the exam paper).

The normal annual allowance of £40,000 however, is tapered (reduced) by £1 for every £2 by which a person's "adjusted income" exceeds £240,000, down to a minimum tapered annual allowance of £4,000. Therefore, a person with "adjusted income" of £290,000 will have their AA reduced by £25,000 ($290,000 - 240,000 / 2$) down to a tapered AA of £15,000. A person with £312,000 or more of adjusted income will only be entitled to an annual allowance of £4,000 ($40,000 - ((312,000 - 240,000)/2) = £4,000$).

The figure of "adjusted income" is net income plus any employee contributions to occupational pension schemes which will have been deducted in calculating net income, plus any employer contributions to either occupational or personal pension schemes.

For the self-employed, adjusted income will simply be net income.

If the AA for a year is not fully utilised and the taxpayer was a member of a pension scheme in that year it is possible to carry forward any unused amount for 3 years. Pension contributions made in a tax year will firstly use the AA of that tax year followed by the unused AA of the previous 3 tax years, used on a FIFO basis.

EXAMPLE 1

Aston made the following gross amount of contributions into his pension scheme in earlier tax years:

2018/19	£62,000
2019/20	£30,000
2020/21	£25,000

Aston has an annual salary of £120,000.

Compute the total pension input allowed for Aston for the 2021/22 tax year.

3 Annual Allowance Charge

As stated above, tax relief is given on pension contributions up to the level of relevant earnings of the taxpayer for a tax year, if the tax relieved contributions exceed the AA (including any unused allowances brought forward) there will be an AA charge, chargeable to income tax at the taxpayer's marginal rate(s).

ILLUSTRATION 2

Villa has a trading profit assessment for the 2021/22 tax year of £350,000 and made a contribution into a personal pension scheme during this year of £70,000 (gross). Villa joined the pension scheme in 2020/21 in which year he made gross personal pension contributions of £10,000 and had net income of £90,000.

Compute the annual allowance charge that will arise in 2021/22 and prepare an Income tax computation for Villa showing his Income Tax liability for the tax year.

For 2021/22 Villa has relevant earnings of £350,000 so the gross contribution of £70,000 will all attract tax relief, but his AA for 2021/22 will be reduced to £4,000 as his adjusted income exceeds £312,000.

As Villa was not a member of a pension scheme until 2020/21 he will have no unused AA brought forward from earlier years but will have unused AA brought forward from 2020/21 of £30,000 as his AA limit was the full £40,000 of which he had used only £10,000. He will therefore have an AA charge of £36,000 ($70,000 - (30,000 + 4,000)$).

As Villa has contributed to a personal pension scheme not an occupational scheme his basic and higher rate band limits will be increased by the gross contribution of £70,000, to £107,700 and £220,000 respectively. As personal pension scheme contributions are made net of basic rate tax relief, Villa will actually have made a payment of £56,000 ($70,000 \times 80\%$) into the pension scheme.

Villa's Income Tax computation for 2021/22 will therefore be as follows:

	£
Trading Profit	350,000
Net Income	350,000
Less: PA (note 1)	(NIL)
Taxable Income	350,000
Basic rate	107,700 @ 20% = 21,540
Higher rate	112,300 @ 40% = 44,920
Additional rate	130,000 @ 45% = 58,500
AA Charge	36,000 @ 45% = 16,200
Income Tax Liability	141,160

Note 1 Villa's Adjusted Net Income for purposes of computing his personal allowance is £280,000 ($350,000 - 70,000$). As this exceeds £125,140, his personal allowance will be reduced to zero.

As Villa is an additional rate taxpayer the AA charge is taxed at his marginal rate of 45%

4 Lifetime Allowance

When the taxpayer takes their pension a tax free lump sum of 25% of the pension fund may be taken and whereas previously the remainder would have to be used to buy a pension annuity, the taxpayer may now withdraw the balance of the pension fund as taxable income whenever they wish.

In addition to the AA limiting the tax relief available on yearly contributions a Lifetime Allowance of £1,073,100 applies to the value of the pension fund built up at the date the taxpayer takes their pension. If the fund value exceeds this limit an Income Tax charge will arise on the excess dependent upon how the excess is used. These calculations however are not within the syllabus!

You should now review the Pension Schemes section of the Finance Act 2021 technical article written by the TX-UK examining team working Examples 23 - 27.

Students should then attempt Practice Question 20

Chapter 11

NATIONAL INSURANCE CONTRIBUTIONS (NIC)

1 Employed earners

1.1 Class 1 contributions

- (a) Class 1 NIC is paid by employees and employers
- (b) Employees

The contributions begin when the employee is aged 16 or over. For 2021/22 the rate of employee Class 1 NIC is at 12%. It is paid where **cash** earnings exceed a threshold of £9,568 per annum, but only up to an upper limit of £50,270 per annum, however for earnings above £50,270 per annum there is a rate of 2% payable with no limit. The contributions cease when the employee reaches pensionable age.

- (c) Employers

The rate of employer Class 1 NIC is 13.8%. It is paid on **cash** earnings that exceed a threshold of £8,788 per annum. These are payable from the employee's 16th birthday - but there is no upper age limit.

1.2 Class 1A Contributions

The rate of Class 1A NIC is payable only by employers on taxable benefits provided to employees. The rate is 13.8% multiplied by the assessable value of the benefits.

2 Employment Allowance

HMRC introduced an annual employment allowance of £4,000 per EMPLOYER to reduce the Employer's Class 1 NIC payable. For example if the employer's Class 1 NIC for the tax year is £5,000 the amount payable will be reduced by the £4,000 employment allowance to £1,000. If the total employer's Class 1 NIC was say £2,500 then this would be reduced to nil.

The employment allowance is not available to companies where a director is the sole employee. This restriction has been introduced because the employment allowance is targeted at businesses which support employment, rather than an individual who decides to run their own one man business as a company with them as the only employee.

The non-availability of the employment allowance will be particularly relevant in certain tax planning scenarios, for example, when deciding whether a sole trader (with no employees) should incorporate their business and the then associated decision as to whether to extract the company profits (where the director is the sole employee) as either director's remuneration (upon which NIC is payable) or as dividends. (upon which no NIC is payable) (see chapter 26).

The employment allowance does not reduce the amount of employer Class 1A NIC payable nor will it serve to reduce the amount of Class 1 employee's NIC.

EXAMPLE 1

An employee of Riga Ltd is paid £60,000 per annum, and was provided with the following taxable benefits during 2021/22:

	£
Company motor car	6,400
Fuel	4,320

Calculate the Class 1 and Class 1A NIC liabilities in respect of this employee.

3 Self-employed earners

3.1 Class 2 contribution

- (a) Self-employed earners pay a flat rate contribution of £3.05 per week from their 16th birthday until they reach pensionable age when the tax adjusted trading profit assessed for the tax year exceed a small profits threshold of £6,475. Class 2 NIC is payable under the self-assessment system and will be due on 31 January following the tax year. Thus for 2021/22 it will be due on 31 January 2023 along with the class 4 NIC below.

3.2 Class 4 contribution

- (a) The self employed also pay Class 4 contributions which are based on the assessable trading profits of the tax year.
- (b) The rate of Class 4 NIC is nil up to £9,500 and is 9% and is payable on trading income between £9,500 and £50,000.
- (c) For trading income in excess of £50,000, a rate of 2% is payable
- (d) Contributions begin if the employee is 16 at the start of the relevant tax year but contributions cease, when the taxpayer reaches pensionable age at the start of the relevant tax year

EXAMPLE 2

Jerome, a trader, has a trading profit assessment of £60,000 for 2021/22.

Calculate his Class 4 NIC and Class 2 NIC for 2021/22

You should now review the following part of the ACCA Finance Act 2021 technical article written by the TX-UK examining team: National Insurance Contributions section - and work Examples 21 and 22

You may now attempt Practice Question 21