

# Financial services products and solutions

## LP2 2022–23 edition

### Web update 1: 01 December 2022

Please note the following update to your copy of the LP2 study text:

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

As announced in the Growth Plan 2022:

- The additional 1.25 percentage points previously added to all 2022/23 Class 1, Class 1A and 4 NICs rates have been scrapped with effect from 6 November 2022.
- For Class 1 NICs, this means employee rates have been cut from 13.25% and 3.25% to 12% and 2% respectively. The employer rate has been cut from 15.05% to 13.80%.
- Directors have an annual earnings period, so hybrid rates will apply for 2022/23. Employee rates will be 12.73% and 2.73%, with an employer rate of 14.53%.
- For Class 1A NIC, a hybrid rate of 14.53% will apply for 2022/23.
- For Class 1 NIC, a hybrid rate of 12.73% and 2.73% will apply for 2022/23.
- For Class 4 NIC, hybrid rates of 9.73% and 2.73% will apply for 2022/23.
- 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 content should be updated as highlighted:

#### Chapter 1, section C2A, page 1/15–16

Each individual receives a National Insurance number at age 16 which they retain for the rest of their lives. This can be seen on payslips and most HMRC documents you are likely to receive. NICs are only payable on earnings, unlike income tax which is applied to most income sources.

The level and frequency of NICs are determined by the level of earnings and whether you are employed, an employer or self-employed. The five main classes of NICs are shown in table 1.8 and will be covered in this section.

**Table 1.8: National Insurance contributions (NICs)**

<b>Class 1</b>	Payable by employees and employers (at different rates)
<b>Class 2</b>	Payable by the self-employed (flat rate)
<b>Class 3</b>	Voluntary contributions payable by individuals with a National Insurance shortfall
<b>Class 4</b>	Payable by the self-employed (driven by profits)

After 6 July 2022 employees will pay **Class 1 NICs** on earnings in excess of £242 per week (2022/23). Individuals with a lower level of earnings than £242 per week may still be credited with a National Insurance record and remain entitled to State benefits.

#### The Health and Social Care Levy

From April 2022 the government ~~have~~ introduced a new Health and Social Care Levy. This levy ~~has been was~~ introduced in order to help fund the NHS, health and social care.

~~For tax year 2022/23 this will increase National Insurance contributions by 1.25%. From 6 April to 5 November 2022 National Insurance contributions were increased by 1.25%. After the Mini Budget in October 2022 the additional 1.25% previously added to all 2022/23 Class 1, Class 1A and 4 NICs rates have now been scrapped with effect from 6 November 2022.~~

~~From April 2023 onwards a separate levy will be shown on payroll slips of 1.25% that will apply to Class 1 and 4 National Insurance Contributions.~~

~~HMRC will collect the levy through existing PAYE payroll and Self Assessment systems.~~

#### **After State Pension Age**

~~If you are above the State Pension Age and earning more than £242 per week you will not need to pay National Insurance contributions, however from April 2023 you do still need to pay the new Health and Social Care Levy.~~

~~For more information~~

~~<https://www.gov.uk/guidance/prepare-for-the-health-and-social-care-levy>~~

## Calculating National Insurance Contribution Payments

The calculation of National Insurance is similar in format to the income tax calculation, as different rates apply to different bands of earnings. Due to the October 2022 Budget changes there are two Class 1 NIC rates for 2022/23:

- Assuming post-6 July 2022 thresholds, earnings between £242 per week and £967 per week are subject to an NIC rate of 13.25% between 6 April 2022 and 5 November 2022 and 12% from 6 November for the rest of the tax year. If working out an annual NIC rate, a hybrid value of 12.73% is used (seven months at 13.25% and five months at 12%).
- Earnings in excess of £967 per week are subject to an NIC 3.25% between 6 April 2022 and 5 November 2022 and 2% from 6 November for the rest of the tax year. If working out an annual NIC rate a hybrid value of 2.73% is used (seven months at 3.25% and five months at 2%).



### Example 1.2

Susan, aged 45, is employed and earns £1,000 per week in December 2022.

Susan pays no NICs on the first £242 of her weekly earnings. For a week in December the Class 1 NIC rates are 12% on earnings between £242 and £967 per week:

$$(\pounds967 - \pounds242) \times 12\% = \pounds725 \times 12\% = \pounds87 \text{ per week}$$

Susan pays 2% on earnings in excess of £967 per week:

$$(\pounds1,000 - \pounds967) \times 2\% = \pounds33 \times 2\% = \pounds0.66 \text{ per week}$$

Susan's weekly Class 1 National Insurance liability is the sum of the two calculations:

$$\pounds87 + \pounds0.66 = \pounds87.66 \text{ per week}$$

These payments will ensure Susan remains entitled to State benefits, both during her working life and in retirement.

**Employers** also pay **Class 1 NICs** for employees aged 21 or over with earnings in excess of £175 per week (2022/23). This threshold is increased to £967 per week for employees who are under the age of 21 and apprentices under the age of 25.

Unlike employee Class 1 NICs, the National Insurance rate for employer Class 1 NICs is a single rate. This rate was also changed in the October 2022 Budget. From 6 April 2022 and 5 November 2022 Employer Class 1 NICs was 15.05% and from 6 November 2022 to 5 April 2022 the rate changed to 13.80%. This makes a hybrid rate for the whole tax year of 14.53%. These contributions must be paid to HMRC on a monthly basis.



### Reinforce

Employee Class 1 NICs are deducted from payroll through PAYE.

Employer Class 1 NICs are paid to HMRC on a monthly basis.

**Question 1.2**

Gavin, aged 52, is employed and earns £750 per week in January 2023. Calculate his weekly National Insurance liability for a week in January 2023.

**Question answers, page 1/24****Question answers**

1.2 The first £242 per week of Gavin's earnings is not liable to NICs.

His weekly earnings between £242 per week and £750 per week are subject to Class 1 NICs at a rate of 12% as it is in January 2023 after the NIC increase was scrapped:

$$(\text{£}750 - \text{£}242) \times 12\% = \text{£} 508 \times 12\% = \text{£}60.97 \text{ per week}$$

**Land taxes**

As a result of the Government's Growth Plan, announced on 23 September 2022, the SDLT rates for residential property have changed from that date onward as follows:

- The 0% band threshold has been increased from £125,000 to £250,000.
- The 0% band threshold for first-time buyers has increased from £300,000 to £425,000 and the maximum property value first-time buyers can claim relief on has increased from £500,000 to £625,000.
- The additional property rate is unchanged and remains at 3% over standard rates in line with the new bandings.

Therefore, the following changes have been made

**Chapter 7, section B1C, page 7/9**

If you purchase a property in England or Northern Ireland, you may be liable to Stamp Duty Land Tax (SDLT). Like Stamp Duty and Stamp Duty Reserve Tax on buying shares, this tax is associated with the transfer of ownership/title and therefore is not payable by the seller of the property. Property purchases in Scotland and Wales will instead be subject to Land and Buildings Transaction Tax (LBTT), which is outside of the scope of this exam unit.

The threshold for SDLT is currently £250,000 for residential property purchases and £150,000 for non-residential property purposes (e.g. commercial property). Any property purchases below these thresholds will be exempt, and reliefs are also in place for first-time buyers. The rates and thresholds for residential property purchases are as follows:

**Prior to 22 September 2022**

Purchase price	Standard rates	First-time buyer rates
Up to £125,000	0%	0%
From £125,001 to £250,000	2%	0%
From £250,001 to £300,000	5%	0%
From 300,001 to £925,000	5%	5%
From £925,001 to £1,500,000	10%	10%
Over £1,500,000	12%	12%

**From 23 September 2022**

Purchase price	Standard rates
Up to <u>£250,000</u>	<u>0%</u>
From <u>£250,001 to £925,000</u>	<u>5%</u>
From <u>£925,001 to £1,500,000</u>	<u>10%</u>
Over <u>£1,500,000</u>	<u>12%</u>

**From 23 September 2022 – First-time buyers**

<u>Purchase price</u>	<u>First-time buyer rates</u>
<u>Up to £425,000</u>	<u>0%</u>
<u>From £425,001 to £925,000</u>	<u>5%</u>
<u>From £925,001 to £1,500,000</u>	<u>10%</u>
<u>Over £1,500,000</u>	<u>12%</u>

If the individual is purchasing a second property, a 3% surcharge is added to the standard rates above. Where an SDLT liability arises, an SDLT return must be sent to HMRC and the liability must be paid within 14 days of purchase completion.