

Introduction

Income received from an employment or the exercise of an office is taxable as employment income under the Income Tax (Earnings and Pensions) Act 2003.

Income from an office includes remuneration for acting as a company secretary or director. Such office-holders are not necessarily employees, but their income is taxable under the same rules as employment earnings.

For national insurance purposes, an employed worker (equivalent to an employee for tax purposes) is liable to primary Class 1 national insurance contributions (NICs) on his or her earnings from the employment. The employer is also liable to pay secondary Class 1 NICs.

The concept of earnings for NIC purposes is broadly equivalent (although not identical) to that of employment income for income tax purposes. The lack of a common definition means that some items may be liable to tax and not Class 1 NICs, and vice versa. The concept of employment income is discussed below and that of earnings for NIC purposes in the separate topic 'Tax and NIC on income from employment'.

As different rules apply for tax and NIC purposes to employees and to the self-employed, it is first necessary to identify whether a worker is an employee. The rules outlined in this topic apply only to employees. The tests for determining whether a worker is employed or self-employed are set out in the separate topic 'Tax and NIC on income from employment'.

Following a recommendation from the Office of Tax Simplification, it was announced in the 2011 Budget that the Government would consult on a possible merger of tax and NICs.

Treatment of employment income

Employment income is the income that an employee receives from an office or employment. The definition is wide and includes not only regular salary but also other cash payments, such as bonuses and sick pay, most lump sum payments to employees and the value of most benefits in kind. To be taxable as employment income, the income must derive 'from the employment'. Although most payment made by an employer to an employee would fall into this category, gifts made in a personal capacity are outside the definition.

Where a payment is made on termination of the employment, the treatment of the payment depends on the nature of the payment. Payments taxed as earnings (such as normal salary paid when the employee leaves) are taxable in full. Payments not taxable as earnings are taxed as termination payments, the first £30,000 of which is tax-free.

- Payments in lieu of notice are generally taxable in full as earnings without the benefit of the £30,000 exemption if the employment contract provides for them, or if the employee has a legal right to them or sometimes if they are an expectation in the circumstances.
- Payments made while the employee is on gardening leave are taxed in full as employment income as the payment is a normal payment of wages or salary.
- Statutory redundancy payments and any other payments an employer makes by reason of redundancy are taxed as termination payments, not earnings, and are able to benefit from the £30,000 exemption where available.
- Damages for breach of the employment contract are tax-free up to the extent that the £30,000 threshold remains available. This could include a compensation payment where the employer did not give the employee proper notice and there was no entitlement to make payment in lieu of notice. The payment in lieu is then damages for the breach of

contract. Payments for unfair dismissal are also tax-free to the extent that they are within the £30,000 exemption for termination payments.

- Payments in exchange for the employee giving a restrictive covenant, for example, not to work for a competitor, are fully taxable as earnings and outside the scope of the £30,000 exemption.
- If an employer pays a lump sum to an employee who is retiring, or is of retirement age, the tax liability depends on a number of factors, and professional advice should be taken.
- If an employee receives more than one payment that is classed as a termination payment of which the first £30,000 is tax-free, the payments must be added together and a single £30,000 exemption deducted from the total. The £30,000 exemption applies per termination, not per tax year.

Lump sum payments when an employee takes up an employment are almost always taxable in full. This would include the employer paying off a student loan or a 'golden hello'. Payments made in order to retain an employee are also taxable in full.

Employees are sometimes allowed to acquire shares in their employer company on favourable terms. If the shares are acquired under an HM Revenue & Customs (HMRC) approved share scheme or share option scheme, there is generally no income tax charge as long as the qualifying conditions are met. In other circumstances, employees who pay less than the market price for shares are generally taxed on the discount. NICs are also due.

- Income tax is payable at the time the employee acquires shares at a discount, whether or not the employee sells them immediately.
- Employees may have to sell some of the shares in order to pay the tax and NIC.
- There is no income tax when an employee is granted an option to acquire shares, whatever its terms. Income tax is charged only when the option is exercised (if shares are thereby bought at below their market value at the time of the exercise), or if the employee receives a payment for releasing the option or for any other reason associated with the option.
- Special rules apply to shares in 'spin out' companies associated with research bodies, such as universities.

Benefits in kind are subject to a large number of special rules for determining the amount on which the employee has to pay tax, depending on the nature of the benefit and whether an employee is a 'P11D employee'. Further details on the taxation of benefits and expenses can be found in Topic 17, the separate topic 'Taxation of benefits in kind'.

Taxation of employment income

Employment income is taxable in the tax year in which it is received. Most taxable employment income (other than benefits in kind and expenses reported on form P11D or P9D) is taxed under the pay as you earn (PAYE) system.

PAYE

PAYE is a system for collecting tax on employment income throughout the tax year, by requiring employers to deduct tax under PAYE every time an employee is paid. In this way, the amount of tax deducted from the employee's pay throughout the tax year broadly matches his or her liability for that year. However, in practice it is rarely spot on, particularly where the employee receives benefits in kind. Any underpayments are collected either via an adjustment to the employee's tax code for a subsequent year or through the self-assessment system.

Tax codes

Tax codes are fundamental to the operation of the PAYE system. Each employee is given a tax code, which reflects the allowances that the employee is entitled to for that tax year, less

any deductions. Deductions may be made to collect tax on benefits in kind or to collect an underpayment of tax from a previous year. Most tax codes comprise numbers and a suffix letter, the most common of which is L. The code determines the amount of tax-free pay that the employee is entitled to receive each week or month. The number is the net allowances the employee is entitled to receive, with the last digit removed.

Example 16.1 – Tax codes

An employee is entitled to the basic personal allowance of £7,475 for tax year 2011/12. There are no deductions from the employee's code. The employee's tax code for 2011/12 is therefore 747L.

Where the employee's deductions exceed his or her allowances, the employee has a code known as a K-code. The code takes the form of a K prefix, followed by a number. Where the employee has a K-code, rather than being given a certain amount of tax-free pay, he or she is treated as having received additional taxable pay in the week or month. The number element of the code determines the 'additional pay' on which the employee is taxed.

For 2010/11 and later tax years, the employee's personal allowance is reduced by £1 for every £2 by which income exceeds the income threshold (set at £100,000 for 2011/12 and 2010/11). This means that for 2011/12 an employee with income of £114,950 or more will not receive a personal allowance. Where past income suggests that an employee has income at this level, HMRC will adjust the tax code to remove the personal allowance.

Features of the PAYE system

Under PAYE:

- The benefit of the personal and any other allowances to which an employee is entitled is spread evenly throughout the year. This is achieved by giving the employee a certain amount of 'free pay' in a month or week. The amount of free pay depends on the employee's tax code. HMRC publishes free pay tables (Table A), which are available to download from the HMRC website at www.hmrc.gov.uk/taxtables/pay-adjustment-tables.pdf.
- The employee's taxable pay for the week or month is his or her gross pay for PAYE purposes, less the free pay. Where the employee has a K-code, his or her taxable pay is the gross pay plus the additional pay determined from the employee's tax code.
- Guidance on what should be included in gross pay for PAYE purposes can be found in HMRC booklet CWG2, *Employer Further Guide to PAYE and NICs* (see www.hmrc.gov.uk/guidance/cwg2.pdf).
- Tax is deducted from the employee's taxable pay in accordance with tax tables (although in practice much of this is done electronically). As with the personal allowance, the basic rate band and higher rate band, higher rate band and additional rate band are spread evenly throughout the year.
- PAYE (unlike NICs) operates on a cumulative basis. PAYE tax for the week or month is worked out by calculating the total tax for the year to date and deducting tax already deducted previously in the tax year. However, there are some situations where payment is made on a non-cumulative basis. This is the case where the employee is taxed on a week 1 or month 1 basis. This means that regardless of the actual week or month, PAYE tax is worked out as if the payment was made in the first week or month of the tax year.
- Tax deducted under PAYE must be paid over to HMRC (together with NICs, student loan deductions and any payments under the construction industry scheme) each month. Employers whose average monthly PAYE bill is £1,500 or less can pay PAYE over to HMRC quarterly.

- Payments must reach the Accounts Office by the 19th of the month if payment is made by cheque. If payments are made electronically, the funds must clear HMRC's bank account by the 22nd of the month.
- From 2010/11 penalties are charged if the employer makes more than one late payment of PAYE during the tax year. The penalties depend on the number of times payment was made late during the year.
- Payments in the form of a 'readily convertible asset' must be taxed through PAYE. A readily convertible asset is one that the employee can easily turn into cash, for example, quoted shares and other investments that can be traded, or for which arrangements exist to enable the employee to sell them. The rules extend to several other kinds of asset that have in the past been used to try and circumvent the PAYE rules.
- At the end of the tax year the employer must file annual returns (forms P35 and P14) with HMRC by 19 May following the end of the tax year. The returns must be filed electronically. Penalties are charged for both late returns and for returns filed other than electronically.
- An employee must be given a certificate of pay and tax deducted (form P60) for the tax year by 31 May following the end of the tax year. From 2010/11 this can be provided electronically.
- The Government has been consulting on the collection of real time information (RTI) for PAYE. Under RTI employers will provide information about tax and other deduction to HMRC at the same time as they run their payroll. RTI is to be phased in from 2012.

NICs on earnings

An employee (referred to as an 'employed earner' for NIC purposes) is liable to pay primary (employee's) Class 1 NICs on any earnings from the employment if the earner is over 16 and under pensionable age. No primary Class 1 NICs are payable by persons over pensionable age (although the employer must continue to pay secondary Class 1 contributions).

Employers (as the secondary contributor) are liable to pay secondary (employer's) Class 1 NICs on earnings paid to employees.

The concept of earnings for NIC purposes is broadly equivalent to that of employment income for PAYE purposes, although the rules are not identical. Most benefits in kind fall outside the definition of earnings and as such are not liable to Class 1 NICs. Instead, most benefits in kind provided to P11D employees and directors are liable to Class 1A contributions instead, which are employer-only contributions.

Where an employer agrees with an inspector to settle the tax and NICs on benefits provided to employees by means of a PAYE Settlement Agreement (PSA), Class 1B (employer-only) contributions are payable in place of the Class 1 or Class 1A liability that would otherwise arise.

Unlike PAYE, NICs are worked out separately for each earnings period on a non-cumulative basis.

Earnings

Class 1 NICs are payable on an employed earner's earnings. For these purposes 'earnings' include any profit or remuneration derived from the employment. The legislation provides for a certain amount to be treated as earnings for working out earnings-related contributions.

- Mileage allowance payments in excess of the approved amount are treated as earnings.
- Amounts treated as employment income in relation to shares and securities are treated as earnings for NIC purposes.
- Amounts included in employment income in respect of tax on notional payments not made good within 90 days are treated as earnings for NIC purposes (bring the liability with Class 1 rather than Class 1A NICs).

The legislation also specifies certain payments that are disregarded in the calculation of earnings.

- The most important of these is the disregard for payments in kind. However, while these payments fall outside the charge to Class 1 NICs, they attract a Class 1A (employer-only) liability.
- Payments that are exempt from income tax on employment income are also generally excluded from earnings for NIC purposes. Exemptions from earnings for NIC purposes largely mirror those available for employment income tax purposes.
- Full details on what should be included in gross pay for NIC purposes can be found in HMRC booklet CWG2, *Employer Further Guide to PAYE and NICs* (see www.hmrc.gov.uk/guidance/cwg2.pdf).

Earnings periods

Class 1 NICs are calculated separately for each earnings period by reference to the earnings in that earnings period. Unlike PAYE, the calculation of NICs is non-cumulative, and no account is taken of earnings paid in previous earnings periods in the tax year.

- Where the employee is paid at regular intervals, the earnings period corresponds to the pay interval. Thus the earnings period for a weekly-paid employee would be a week and for a monthly-paid employee, a month and so on.
- If the employee is not paid at regular intervals but there is a pattern to the payment, for example, an employee who is paid on the third Friday of each month, the earnings period is the period corresponding with the regular amount, so that if the contract shows the employee as being paid monthly on the third Friday of the month, the earnings period would be one month despite the fact that the pay interval is sometimes four weeks and sometimes five weeks.
- Where the employee is paid irregularly, the earnings period is the period corresponding to the pay interval or, if longer, a week.
- All directors are treated as having an annual earnings period regardless of their actual payment interval. To enable them to spread their NIC liability more evenly throughout the year, they can make payments on account of earnings throughout the tax year. However, the liability must be recomputed on an annual basis at the end of the year.
- Guidance on determining the earnings period can be found in HMRC booklet CWG2, *Employer Further Guide to PAYE and NICs* (see www.hmrc.gov.uk/guidance/cwg2.pdf).

Class 1 NICs on earnings

Employees aged over 16 and under pensionable age pay primary Class 1 NICs on their earnings for the earnings period. Employers pay secondary Class 1 NICs on the earnings of employees aged over 16. The employer's liability does not stop when the employee reaches pensionable age.

- Employees do not pay any NICs on earnings below the lower earnings limit. The lower earnings limit is set at £102 a week for 2011/12.
- Employees pay notional NICs at a nil rate on earnings between the lower earnings limit and the primary earnings threshold. Although no actual contributions are payable at this level, the employee is treated as having made a contribution for pension and benefit entitlement purposes. For 2011/12 the primary earnings threshold is £139 a week.
- Employees who have not contracted out of the second state pensions (S2P) pay Class 1 NICs at the main primary rate on earnings between the primary earnings threshold and the upper earnings limit. For 2011/12 the main rate is 12% and the upper earnings limit is £817 a week.

- Employees pay Class 1 NICs at the additional primary rate on earnings in excess of the upper earnings limit. For 2011/12 the additional primary rate is 2%.
- Employers pay no secondary Class 1 NICs on earnings below the secondary earnings threshold. This is at £136 per week for 2011/12.
- Employers pay secondary Class 1 NICs on all earnings above the earnings threshold (including those above the upper earnings limit). For 2011/12, the secondary Class 1 NIC rate is 13.8%.
- Rebates are payable where the employee has contracted out of the second state pension (S2P). The rebate, which is payable on earnings between the lower earnings limit and the upper accruals point (of £770 a week), depends on whether the contracted-out scheme is a money purchase scheme or a salary-related scheme.

The rates, thresholds and rebates for 2011/12 are shown below:

	2011/12
Lower earnings limit	£102 a week
Primary earnings threshold	£139 a week
Secondary earnings threshold	£136 per week
Upper accruals point	£770 a week
Upper earnings limit	£817 a week
Employee's primary rate between earnings threshold and upper earnings limit	12%
Employee's primary rate above upper earnings limit	2%
Employee's contracted-out rebate: salary-related schemes	1.6%
Employee's contracted-out rebate: money purchase schemes	1.6%
Married women's reduced rate between earnings threshold and upper earnings limit	5.85%
Married women's rate above upper earnings limit	2%
Employer's secondary Class 1 NIC rate	13.8%
Employer's contracted-out rebate: salary-related schemes	3.7%
Employer's contracted-out rebate: money purchase schemes	1.4%

Working out Class 1 NICs on earnings

NICs can be worked out using either the exact percentage method or by using tables published by HMRC. If the calculations are not performed using a payroll software package, they can be done manually or by using the free calculator published by HMRC, which is available on their website (see www.hmrc.gov.uk/calcs/nice.htm).

- The exact percentage method is the more accurate method, as is the method used by software packages. The NICs for the earnings period are calculated by reference to the rates and thresholds applying for that period.

Weekly, monthly and annual limits for 2011/12 are shown in the table below:

	Weekly	Monthly	Annual
Lower earnings limit	£102	£442	£5,304
Secondary earnings threshold	£136	£589	£7,072
Primary earnings threshold	£139	£602	£7,225
Upper accruals point	£770	£3,337	£40,040
Upper earnings limit	£817	£3,540	£42,475

Example 16.2 – Class 1 NICs

An employee is paid monthly and earns £5,000 during June 2010. The employee is not contracted out of S2P.

The employee's and employer's Class 1 NICs due for that month are calculated as follows:

Employee:

$$12\% (\pounds3,540 - \pounds602) + 2\% (\pounds5,000 - \pounds3,540) = \pounds352.56 + \pounds29.29 = \pounds381.76.$$

Employer:

$$13.8\% (\pounds5,000 - \pounds589) = \pounds608.71.$$

- The tables method is a manual method that relies on a series of ready reckoners. The tables are published by HMRC and are available on their website (www.hmrc.gov.uk/payee/forms-publications.htm).

Deducting NICs and paying them over to HMRC

- Employee Class 1 NICs are deducted from pay for the earnings period in the same way as PAYE.
- The employer must pay Class 1 NICs deducted from pay together with the associated employer contributions over to HMRC.
- NICs are paid over to HMRC with tax deducted under PAYE. The same monthly deadlines apply.

Class 1A NICs

Most benefits in kind are excluded from earnings when working out Class 1 NICs. Instead, Class 1A NICs are payable by employers on the cash equivalent value of taxable benefits provided to P11D employees and directors. The calculation is performed globally for all employees on form P11D(b). Form P11D(b) must reach HMRC by 6 July following the year to which it relates. Class 1A NICs are payable at the Class 1A rate of 13.8% (2011/12), which is the same as the employer's rate of Class 1 NICs. Class 1A NICs are due to HMRC by 19 July after the end of the tax year to which they relate (or by 22 July if paid electronically).

Class 1B NICs

Where the employer chooses to meet the tax liability on a benefit provided to an employee by means of a PSA, Class 1B NICs are payable in place of the Class 1 or Class 1A liability that would otherwise arise. Class 1B contributions are employer-only contributions payable at the Class 1B

rate of 13.8% (2011/12). They are due by 19 October after the end of the tax year to which the PSA relates (or 22 October if paid electronically).

Employed or self-employed

Different rules apply for both income tax and NIC purposes to the employed and the self-employed.

- Employees suffer deduction of tax under PAYE. A worker who is self-employed is paid gross, but is responsible for working out his or her tax and paying it over to HMRC under self-assessment.
- For NIC purposes, employed earners pay Class 1 NICs, whereas the self-employed pay flat rate Class 2 NICs and Class 4 NICs on their profits.
- Employers must pay secondary Class 1 NICs on earnings paid to employees and Class 1A NICs on benefits in kind provided to them, but have no national insurance liability in relation to the self-employed.
- Employers must deduct PAYE and NICs from employees' earnings and pay it over to HMRC. The self-employed are responsible for their own income tax and NICs.

It is therefore important to know whether a worker is employed or self-employed, in order that they may be treated correctly for income tax and NIC purposes.

The provisions described above in relation to employment income and NICs on earnings are relevant only to employees.

Tests to determine employment status

HMRC uses various tests in deciding whether someone is employed or self-employed. The following are the most important:

Contract of service or a contract for services

- A contract *of* service is generally seen as employment and a contract *for* services is generally seen as self-employment.
 - A written contract alone cannot be decisive, but is helpful in establishing status if the facts back it up.
 - Whether or not there is a written contract, the National Insurance Contributions Office (NICO) will look closely at the way in which the work is performed, the terms and conditions that apply and the mutual obligations that are incurred.
 - Set hours, holiday and overtime pay, and supervision of the work done tend to indicate an employment. So does a continuing and dependent 'master/servant' relationship.
- Indications of self-employment include:
 - An agreement for a specific amount of money or commission for the work to be done (rather than regular weekly or monthly pay). Recent decisions in Tax Tribunals and the High Court have highlighted 'project-based' terms as an important factor.
 - Freedom to accept or refuse work that is offered.
 - Freedom to accept work elsewhere.

- The right to substitute someone else rather than do the work personally. Where genuinely present, this is usually a clear indicator of self-employment.
- Having one's own public liability insurance.

Control

Where there is a right to control the duties of the worker and how they are performed, HMRC will argue that a contract of service exists, even if the control is not normally exercised. Another pointer is the right to suspend or dismiss the worker.

Under a contract for services, it is usual to find that the person doing the work has a substantial measure of control over the method, timing and performance of the task, and that they normally work without supervision.

Integration

People who are integral parts of the business's activities and organisation are likely to be employees. However, where the services rendered are accessories to the business, self-employment is indicated.

Economic reality

HMRC will look at the following aspects in deciding whether or not someone is running a business of their own:

- Do they provide their own equipment, especially major items?
- Do they hire any helpers needed, paying them out of their own pockets?
- Is any financial risk being taken?
- Are they using their own money, meeting losses as well as taking profits, correcting unsatisfactory work in their own time and at their own expense, etc?
- Is there any kind of a business-like organisation? This is likely to include responsibility for investment and management in connection with the work, or any opportunity to profit from sound management of it.

It should be noted that employment status is a question of fact, rather than one of choice. The facts of the engagement determine whether the worker is employed or self-employed, rather than the wishes of the parties. The employer and worker cannot simply decide that the worker will be treated as self-employed. If the nature of the relationship is one of employer and employee, then the worker is an employee.

In marginal cases, it is necessary to look at the overall picture to assess whether on balance the worker is employed or self-employed. There is no single overriding test.

Employment status indicator tool

HMRC has produced an interactive tool to help those trying to ascertain whether a worker is employed or self-employed. The tool provides an opinion of the status of a worker from the information supplied in response to a number of questions. The tool is available on the HMRC website (www.hmrc.gov.uk/calcs/esi.htm).

Special rules for NIC purposes

For NIC purposes, the employment status of certain categories of workers is specified by regulations. The deemed status set by the regulations overrides any decision that may be reached by applying the tests set out above.

In particular, the regulations deem the following to be employed earners:

- Domestic workers and office cleaners.
- Most agency workers, for example, secretaries, nurses, teachers, draughtsmen, computer programmers, etc. who obtain temporary work through agencies.
- Many lecturers and instructors, if they are not clearly already regarded as employees under the normal rules.
- The same applies to many ministers of religion.
- Workers in the film and television industry.
- HMRC has accepted some categories of freelance and casual workers in these industries as being self-employed for tax purposes, and has stated that those who do not fall within the prescribed categories will be treated as employees. The same applies for NIC purposes.
- Entertainers.
 - Many actors and entertainers are categorised as employees for NIC purposes, although they may remain self-employed for income tax purposes.
 - It is often beneficial for entertainers to be treated as employees for NICs, as it gives them entitlement to jobseeker's allowance (JSA) during periods without work.

Labour-only contractors

Particular problems can arise in relation to labour-only contractors, as they often claim to be self-employed, while the rules of engagement suggest otherwise.

- Many workers claim to be independent contractors supplying services on a self-employed basis.
- These include sales representatives, driving instructors, construction and agricultural workers, catering staff, and journalists.
- HMRC has increasingly re-categorised many of these people as employees, especially where they work mainly for one business. The construction industry presents a particular problem and HMRC has consulted on what they call "false self-employment" in the construction industry". It is proposed to introduce legislation to deem a sub-contractor to be an employee unless certain conditions are met.

Salaried partners

Partners in a business are normally self-employed, but partners on fixed salaries may be treated as employees, even where they might also receive profit-related bonuses. The categorisation will depend upon the extent to which they are parties to the full partnership agreement, including any arrangements for winding up the business.

Personal service companies

Special rules apply where a worker provides services to a client through an intermediary, usually a personal service company and, but for the existence of the service company, the worker would be an employee of the client. The rules, generally known as IR35, treat the income of the intermediary (for example, the personal service company) as income of the worker in certain circumstances.

The intermediary has to pay NICs and make PAYE tax deductions on any income not paid out as employment earnings, subject to certain limited deductions for the company's expenses. This income is called the deemed payment.

The deemed payment is part of the worker's taxable income and is deductible in computing the company's profit liable to corporation tax.

Managed service companies

Special rules apply to target perceived avoidance of income tax and national insurance through the use of managed service companies. A managed service company is an intermediary company through which the services of the worker are provided to an end client. Managed service companies are not the same as personal service companies within IR35, as the worker is not usually in business on his own account, and control is with the provider of the managed service company rather than the worker.

Under the managed service company rules all income paid by the managed service company to the worker is treated as employment income for tax purposes. Similarly, all payments are earnings for NIC purposes and liable to Class 1 NICs. This applies regardless of what the payment is called, even if it is described as a dividend or a payment of travel expenses.

Tax planning key points

- Income from an employment or office is charged to income tax as employment income under ITEPA 2003.
- An employed worker pays primary Class 1 NICs on his or her earnings. Secondary Class 1 NICs are payable by his or her employer.
- The concept of earnings for NIC purposes is broadly equivalent to employment income for tax purposes, although differences exist.
- The definition of employment income includes wages and salaries and also benefits in kind.
- Tax due on wages and salaries is collected under the PAYE system.
- The PAYE system operates on a cumulative basis under which the benefit of any personal allowances is spread evenly throughout the year, as are the basic, higher and additional rate bands of tax.
- Tax codes determine how much pay an employee is able to receive each week or month before tax is deducted.
- Class 1 NICs are calculated on a non-cumulative basis by reference to earnings in the earnings period.
- Most benefits in kind are outside the Class 1 NIC charge. Instead employer-only Class 1A NICs are payable where taxable benefits in kind are provided to P11D employees and directors.
- Tax paid under PAYE and Class 1 NICs are deducted from an employee's earnings and paid over to HMRC, with secondary Class 1 NICs, on a monthly basis. Employers with an average monthly PAYE and NIC bill of less than £1,500 can make payments to HMRC quarterly.

This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at September 2011, which are subject to change.