

Temporary 1.25% increases in some Classes of NIC & dividend tax rates from April 2022

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From 1 April 2022, there will be a temporary 1.25% increase in Class 1 (employee) and Class 4 (self-employed) national insurance contributions (NIC) paid by workers, as well as a 1.25% increase in Class 1 secondary NIC which is paid by employers; a 2.5% increase overall! The increase will be administered by HMRC and collected via the current channels for collecting NIC, i.e. PAYE (Payroll) and Self-Assessment Tax Returns.

The increase will apply to employed and self-employed individuals and partners earning above the Class 1 primary threshold or Class 4 lower profits limit which is currently £9,568 (2021/22). Employers will pay an additional 1.25% for employees earning above the Class 1 secondary threshold which is currently £8,840 (2021/22). Existing reliefs and allowances from employer's secondary Class 1 NIC will apply to the levy including the £4,000 employment allowance, reliefs for employers of apprentices, newly employed veterans, and new employees in freeports.

Class 2 self-employed NIC and Class 3 NIC, which are voluntary payments made to top-up any state pension gaps are not impacted by the levy. Also, the levy will not be taken from pension income.

From April 2023, NIC rates will return to 2021/22 levels and the health and social care levy element will then be separated out at which point the exact amount employees pay, will be visible on their pay slips.

This levy will be paid by all working adults, including workers over the state pension age – unlike other NIC. The £12bn annual income is to be ringfenced and used to pay for health and social care costs.

Dividend tax rates

The rate at which dividends are taxed will rise by 1.25% from 1 April 2022, taking rates to: 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers. The £2,000 dividend allowance is unaffected.

The above levies are due to legislated for, shortly!

CONTACT US

If you have any queries or need any advice, please do not hesitate to contact us on:

Liverpool

Tel: 0151 703 1080

Email: mail@moorenw.co.uk

www.moore.co.uk/locations/moore-nw-llp-liverpool

Manchester

Tel: 0161 832 4281

Email: info@moorenw.co.uk

www.moore.co.uk/locations/moore-nw-llp-manchester