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A background photograph of a man and a woman walking a dog on a sandy beach. The image is covered by a semi-transparent olive green filter. The man is on the left, wearing a light-colored jacket and dark trousers. The woman is on the right, wearing a light-colored jumpsuit. A dog is visible on the far left, partially cut off by the edge of the frame.

The national insurance tax cut



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Foreward

Abacus Advice helps you to look ahead, preparing and planning for a better future.

Most of you reading this will know me but hopefully this and subsequent articles will reach a wider audience if I can persuade you to pass this on to family, friends and colleagues.

Abacus Advice is a small firm of financial advisers directly authorised by the Financial Conduct Authority, providing quality financial advice to individuals, companies and trusts.

Financial advice can be complex, so I do my best to make it as digestible as possible.

Call me on **01892 320449** or email **mike@aalttd.co.uk** if you have any questions.

For employees, the national insurance cut announced in the Autumn Statement took effect on 6 January.



The national insurance tax cut

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For many years, successive governments have been happy for the public to vaguely believe that national insurance contributions (NICs) are building up in some national benefit fund, rather than representing just another tax on income. While something called the National Insurance Fund does exist, as a House of Commons Library briefing noted back in 2019, “The Fund operates on a ‘pay as you go’ basis; broadly speaking, this year’s contributions pay for this year’s benefits.”

For politicians, the perceived difference between NICs and income tax made it possible to grab the headlines by reducing the basic rate of tax while receiving much less attention for maintaining or even increasing revenue by raising NICs. Last November, the Chancellor appeared to have finally given up on the distinction-without-a-difference approach by proclaiming that his cuts to NICs for employees and the self-employed were tax cuts.

If you are an employee (but not a director, to whom special rules apply), the cut means your main NIC rate (on

annual earnings between £12,570 and £50,270) fell from 12% to 10% from 6 January 2024. The extra amount in your pay packet is broadly the same as if a 2p cut had been made to basic rate tax (which covers the same £37,700 band of income). However, from the Chancellor’s viewpoint, the NICs cut was cheaper, as there was no ‘tax cut’ on pension or investment income, both of which are NIC-free.

The employer’s NIC rate did not change, remaining at 13.8% on all earnings above £9,100. If your earnings are below £50,270, the theoretical advantage of using salary sacrifice to pay pension contributions has been marginally reduced but remains attractive, as shown in the table below, based on a £1,000 sacrifice. If you are among the growing band of higher or additional rate taxpayers, the financial advantage of salary sacrifice is unaltered. Either way, if you are not using salary sacrifice to pay pension contributions, it is still worth taking advice about the option. It is beneficial in most circumstances, but there are drawbacks to be aware of. ■

	Personal contribution		Salary sacrifice employer contribution (sacrificed amount + NIC saving)	
Employee NIC rate	12%	10%	12%	10%
Gross salary	£1,000	£1,000	Nil	Nil
Employer pension contribution	Nil	Nil	£1,138	£1,138
Employer NIC	£138	£138	Nil	Nil
Total employer outlay	£1,138	£1,138	£1,138	£1,138
Employee salary	£1,000	£1,000	Nil	Nil
Less: income tax	(£200)	(£200)		
Employee NICs	(£120)	(£100)		
Net pay = net pension contribution	£680	£700		
Tax relief	£170	£175		
Total pension contribution	£850	£875	£1,138	£1,138
Gain			33.9%	30.1%

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How will my finances and business be affected?

If you want to discuss how the announced measures could affect your finances or business, please contact us for more information.

We look forward to hearing from you.



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