

The End of Contracting-Out: Changes to National Insurance

Contracting-out of the additional State Pension on a defined benefit (DB) basis will end on 5th April 2016. This means that from 6th April 2016, employees will automatically be brought back into the State Pension scheme and will no longer be able to use a contracted-out salary related (COSR) occupational pension scheme to contract out of the State Scheme.

Employees may, depending on their level of earnings, start to accrue entitlement to the new State Pension instead.

Eligibility for the contracted-out National Insurance contributions (NICs) rebate of 3.4% for employers and 1.4% for employees will also cease from this date.

The introduction of the new State Pension will bring with it some changes in what and how you report to HMRC:

- *From 6 April 2016: You will not be able to use your Contracted-out Salary Related (COSR) occupational pension scheme to contract employees out of the new State Pension scheme*
- *There will no longer be a requirement to report the Employers Contracting-out Number (ECON) and Scheme Contracted-out Number (SCON) details on Full Payment Submission (FPS) for tax years commencing 6 April 2016 and onwards*
- *There will no longer be a requirement to separate the National Insurance (NI) earnings between the Primary Threshold (PT) and Upper Accrual Point (UAP) & UAP to Upper Earnings Limit (UEL)*
- *There will be a requirement to report NI earnings between the PT to UEL as there was prior to 2009*
- *There will be one less column to complete on forms P11 and P60. These forms will be updated in due course and will be available on the Basic PAYE Tools or can be ordered from the Employer order line.*

All HMRC systems will be amended to reflect these changes and the UAP data field will be removed from the FPS and Earlier Year Update (EYU).

National Insurance Categories from 6th April 2016

Contracted-out National Insurance tables/categories D, E, I, K, L, N, O and V will be replaced by Standard National Insurance tables/categories A, B, J, M, P, Q, R, T, Y and Z.

National Insurance Categories from April 2015 for employees under 21

Contracted-out National Insurance categories I, K and V will operate for the 2015-16 tax year **only** for individuals who are aged under 21 and are in contracted-out employment.