Advice Notes

Method of calculation for non-employed contributors

The contribution rate for a non-employed person is based upon a person's income. The annual assessment of income made by the Income Tax office is used in this calculation. For an existing non-employed person contribution rates are based upon the income tax year of charge from two years previous e.g. contributions for 2015 are based upon the Income Tax assessment for the year of charge 2013 – a two year gap. These previous year's figures are used so that in the majority of cases the tax figures will have been finalised and available to use by Social Security.

A non-employed person is asked to sign a form which contains an authorisation to the Director of Income Tax to disclose to the Administrator of Social Security the amount of the person's assessable income in the relevant Year of Charge. Before calculating the contribution rate an allowance is deducted from the figure received from the Income Tax office with liability being calculated on the balance. The person is issued annually with a notification showing the income figure being used and the weekly rate of contribution for the year.

Special rules for newly non-employed persons

SSD apply special rules when a contributor first becomes non-employed. The first tax year's total income is used to calculate a contribution rate for the same year. The second tax year is then used to calculate liability for three years in a row.

Example one

A person stops work at the end of 2016 and is consequently classified as non-employed from 1 January 2017. His total income for tax year of charge 2017 will be used as a basis for calculation of liability in 2017. The next tax year, 2018, will be used as a basis of calculation for 2018, 2019 and 2020. From that time on rates will be based on total income from 2 years previous. In other words 2019 income will be used for 2021 contributions, 2020 income for 2022 contributions and so on.

Initially, until good tax figures become available, the contributor's own estimates of annual income are used to calculate contribution rates. When the good figures are confirmed, the contributor is charged extra, or reimbursed for overpayment as appropriate.

How is the weekly rate calculated?

Non-employed contributions are calculated as a percentage (from 2017 the rates are 10.4% for a person under pension age and 3.4% for a person of pension age and over) of relevant income less an allowance. The weekly rate is calculated by dividing the resulting amount by 52 to produce the weekly contribution rate.

There is also a Lower Income Limit, below which a person is exempt from paying compulsory contributions. If a person under pension age is exempt then he may still choose to pay a voluntary contribution towards his pension entitlement.

Example two

The person in example one is under pension age and has an income of £35,000 in 2017. The 2017 non-employed person's allowance is £7,875.

The contribution rate is calculated as follows:

(£35,000 - £7,875) x 10.4% / 52 = £54.25 per week.

Example three

A person who has been classified as non-employed for several years, who is over pension age, has income of £18,000 in the tax year of charge 2015. This 2015 income is used to calculate their 2017 contribution rate as follows:

(£18,000 – £7,875) x 3.4% / 52 = £6.62 per week

The Lower Income Limit in 2017 is £17,420. If the person in this example had a total income lower than this limit in tax year 2015 they would have not have to pay any contributions in 2017.

Special rules when you first become non-employed part way through a year

The income figures provided by Income Tax for non-employed people are split into four income types:

- Employed earnings
- Self-employed earnings
- Occupational pension
- Unearned/other income

When a person becomes non-employed part way through a year all income from occupational pension and unearned/other income is included for the whole year in the calculation, but earnings from employment or self-employment are only included for part of the year.

In reaching the weekly contribution rate the calculation divides the relevant income figure by 52 (see examples above).

Example four

A person approaching pension age moves to part time working from 1 April 2017. Their level of earnings has changed substantially and he is now classified as a non-employed person from that date. Apart from the £4,500 employed earnings he receives for the rest of the year he also receives an occupational pension of £5,000 per year and £16,000 per year from two properties he rents out.

To calculate his 2017 non-employed rate, the part time earnings from April onwards are added to his total annual pension and total other income, subtracting the non-employed allowance as follows:

(£4,500 + £5,000 + £16,000 – £7,875) x 10.4% / 52 = £35.25 per week

This method uses only the earnings from the date of classification change when calculating the first year of a non-employed person's liability.