

A. National Insurance (NI)

National Insurance (NI) is a **UK tax on earnings and self-employed profits**. It's paid by workers and employers and is used to **build entitlement to certain state benefits**, most importantly the **State Pension**.

What National Insurance (NI)?

- It's a **compulsory contribution** taken from pay (or paid via Self Assessment if you're self-employed).
- Although often called a "tax," it's technically a **social security contribution** linked to benefits rather than general government spending

Who pays National Insurance

You usually pay NI if you are **16 or over** and:

- **Employed** and earn above a minimum threshold, or
- **Self-employed** and make profits above a minimum threshold.

Employers also pay NI on their employees' earnings (this is **separate** from what's deducted from your pay).

What NI pays for

Your NI record helps you qualify for:

- **State Pension**
- Certain benefits, such as **Maternity Allowance** and **Jobseeker's Allowance**

The amount of pension you receive depends on how many **qualifying years** of NI contributions (or credits) you have

How NI is paid

If you're employed

- You pay **Class 1 NI**, which is **automatically deducted** from your salary through PAYE.
- Your employer pays **their own NI contribution** on top of your wages. [moneyhelper.org.uk], [nerdwallet.com]

If you're self-employed



- You pay **Class 2 and/or Class 4 NI**, usually through your **annual Self Assessment tax return**.

How NI differs from Income Tax

- **NI only applies to earned income** (wages or self-employed profits), not savings, pensions, or rental income.
- It's assessed **per pay period** (weekly or monthly), not just annually.
- Rates and rules differ for employees, employers, and the self-employed.

When you stop paying NI

- Employees usually **stop paying NI when they reach State Pension age**.
- Employers may still pay NI on earnings, even after the employee reaches pension age.

Why this matters for you

If you're working in the UK, NI affects:

- Your **take-home pay**
- Your **future State Pension**
- Eligibility for some benefits if your circumstances change

National Insurance rates – 2025/2026

If you are an employee (Class 1 NI)

You pay NI based on your gross pay each pay period (weekly or monthly).

Employee NI rates (most people – category A)

Earnings band	NI rate you pay
Up to £242 per week (£)	0%
£242.01 to £967 per week (£1,	8%
Over £967 per week (£)	2%

Example

If you earn **£1,000 per week**:

- £0 on the first £242
- 8% on £724.99 ≈ **£58.00**



- 2% on £33 ≈ **£0.66**
Total employee NI = **£58.66 for the week**

What your employer pays (separate from you)

Employers also pay NI on your earnings.

- **Rate: 15%**
- **Starts when pay exceeds: £96 per week** (£417 per month / £5,000 per year)
- There is **no upper limit** – employers pay 15% on all earnings above the threshold
- This increase (from 13.8% to 15%) and the lower threshold are major changes introduced from April 2025.

If you are self-employees

Class 4 NI (main self-employed contribution)

Annual profits	Rate
Up to £12,570	0%
£12,571 to £50,270	8%
Over £50,270	2%

Class 2 NI (important change)

- **Mandatory Class 2 NI has been abolished** from April 2025
- **Voluntary Class 2** contributions remain available to protect your **State Pension record**

Key things to remember

- NI is calculated **per pay period**, not annually like income tax [\[gov.uk\]](https://www.gov.uk)
- NI applies only to **earned income**, not savings, dividends, or pensions
- You **stop paying employee NI** once you reach **State Pension age**
- Employers may still pay NI even if you don't

B. How NI works with bonuses

How NI works with bonuses



Key rule

- Bonuses are treated as earnings, just like salary.
- NI is calculated each pay period (monthly or weekly), not across the whole tax year.

This means a bonus can push part (or all) of your pay into a higher NI band, even if your normal salary doesn't.

Example: Monthly salary + bonus

Assumptions (employee, standard NI category A):

- Monthly salary: £4,000
- One-off bonus paid in same month: £6,000
- Total pay that month: £10,000

2025/26 monthly NI bands:

- £0 – £1,048 → 0%
- £1,048.01 – £4,189 → 8%
- Over £4,189 → 2%

NI calculation for that month:

- £0 on first £1,048
- 8% on £3,141 ($£4,189 - £1,048$) = £251.28
- 2% on £5,811 ($£10,000 - £4,189$) = £116.22

Total employee NI on salary + bonus = £367.50 for that month

Employer NI on bonuses

- Employers pay 15% NI on bonuses above £417 per month / £5,000 per year
- There is no upper limit for employer NI
- So the same £6,000 bonus costs the employer **an extra £900 in NI**, even though your own NI rate drops to 2% on the top slice.

C. How NI works with pensions

How NI works with pensions



Employee pension contributions (most common setups)

- ✓ Salary sacrifice (very important)

If you use salary sacrifice:

- Your contractual salary is reduced
- The sacrificed amount:
 - ✗ Does not attract employee NI
 - ✗ Does not attract employer NI

This makes salary sacrifice pensions one of the most NI-efficient benefits available. HMRC explicitly treats sacrificed pay as not earnings for NI

Standard (non-salary-sacrifice) pensions

If you contribute after NI is calculated:

- You still pay NI on the full salary
- Pension tax relief applies for income tax, not NI

Example: Pension via salary sacrifice

Monthly salary before sacrifice: £5,000

Salary sacrificed into pension: £500

NI-able salary: £4,500

Result:

- You avoid employee NI on £500
- You avoid employer NI on £500
- Extra pension funding at much lower overall cost

Employer pension contributions

- Employer contributions to pensions are:
 - ✓ Free of employee NI
 - ✓ Free of employer NI

Bonuses vs pensions – NI comparison



Payment type	Employee NI?	Employer NI?
Cash bonus	✓ Yes	✓ Yes
Salary + employee pension (non-sacrifice)	✓ Yes	✓ Yes
Salary sacrifice pension	✗ No	✗ No
Employer pension contribution	✗ No	✗ No

Practical takeaway (especially relevant in consulting)

- Bonuses are NI-inefficient, especially after employer NI rose to 15%
- Salary sacrifice pensions are one of the cleanest legal ways to reduce NI for both employee and employer
- Timing of bonuses (single month vs spread) affects NI more than income tax

End.

