

GMS Flash Alert

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United Kingdom - Government Abandons Abolition of Class 2 NICs

The government has announced in a written ministerial statement that it will not be proceeding with plans to abolish Class 2 National Insurance Contributions (NICs) from 6 April 2019.¹

The U.K. government initially announced in the 2016 Autumn Statement that Class 2 NICs would be abolished with effect from 6 April 2018.² The effective date was then subsequently postponed to 6 April 2019 in the November 2017 Budget to allow for further consultation.³

Class 2 NICs is primarily a component of the social security contributions that self-employed individuals are required to pay in the United Kingdom. However, it is also paid voluntarily by some employees who are working on an assignment outside the United Kingdom.

WHY THIS MATTERS

Individuals on assignment to a European Union/European Economic Area country or a country with which the U.K. has a social security reciprocal agreement will typically continue to pay Class 1 NICs, which enables them to maintain certain U.K. state entitlements (including pensions) when they are overseas. However, there are some U.K.-outbound assignees – for example those on assignment to a country where there is no social security agreement with the U.K. – who are not able to continue to pay Class 1 NICs. Such individuals have the choice to make voluntary contributions to maintain these state entitlements.

Individuals who choose to pay voluntary contributions can do so as Class 2 NICs which currently costs £153.40 per annum. If Class 2 NICs had been abolished, they would have had to pay Class 3 NICs, which is more costly at £761.80 per annum, and Class 3 does not provide as much entitlement. Employers with international assignees from the U.K., therefore, can expect the social insurance costs to remain stable for the affected population.

KPMG LLP (U.K.) NOTE

As Class 2 NICs are significantly cheaper than Class 3 NICs, the government's abandoning of the proposed abolition of Class 2 NICs should be seen as a welcome move by individuals on assignment overseas who pay voluntary contributions.

FOOTNOTES:

- 1 To see the written statement (dated 6 September 2018) in parliament by the Exchequer Secretary to the Treasury, click [here](#).
- 2 See GMS [Flash Alert 2016-139](#) (23 November 2016).
- 3 See GMS [Flash Alert 2017-175](#) (22 November 2017).

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