



SOCIAL SECURITY CONTRIBUTIONS AND YOUR NEW BUSINESS



WHEN YOU ARE ABOUT TO START A BUSINESS IN JERSEY THERE ARE SEVERAL THINGS YOU MUST DO:

Contributions are the payments which are made to the Social Security Department (SSD) so that benefits can be paid

Types of Contributions

There are two types of contributions:

- Class 1: Paid by everyone working for an employer
- Class 2: Paid by everyone not working for an employer, so people who are self-employed or not working. Class 2 Contributions are calculated at 12.5% of earned income.

You must pay Class 2 contributions if you:

- Are over school leaving age
- Have been resident in Jersey for any continuous period of at least six months
- Do not work for an employer

Simply, everyone not working for an employer is liable to pay Class 2 Contributions. This means if you decide to start a business and become self-employed you will be liable to pay this level of contribution.

Before you start to trade

Creating a benchmark earnings figure

Because the business is brand new it doesn't have any revenue history and so, in order to calculate how much a new business owner's Class 2 contributions should be once the business has started, Social Security needs to have a 'benchmark' earnings figure to work from.

The benchmark earnings figure is worked out by looking at the individual's previous earnings and he/she will therefore need to provide a copy of the Tax Assessment from 2 years before he/she started the business. The reason for asking to see the Tax assessment from 2 years before is because tax is collected in arrears so a Tax assessment from two years earlier will be the last finalised assessment.

Ways to calculate Class 2 contributions

Everybody must pay the earning related rate of social security contributions. However, it is recognised that when the business starts it might have lower sales than the individual earned before starting up and therefore there are two ways to calculate an appropriate contribution level in the early years.

The two ways to calculate the level of class 2 contributions are:

- Earnings related rate. This is the standard rate at which contributions must be paid and is calculated at 12.5% of the actual earnings in the year
- Deferred rate. This is an annual concession and is calculated at 12.5% of £16,721

Note, the deferred rate is an annual concession that allows new businesses to help manage their cash flow by reducing contributions at the start. The reason, therefore, for a new business to choose to pay a deferred rate is to allow the new business to establish a client base and a steady stream of income whilst still benefiting from full entitlement to benefits and a full pension record for 2017.

However, because Social Security must charge the earnings-related rate for social security contributions, they will continuously look back to make sure the right level of contributions has been made every year. By reviewing the actual annual earnings made from the start of the business and the level of contribution that has been paid, the department will be able to see if additional contributions are needed to catch up any under payment of social security contributions.

The following scenarios will explain how this works:

Contributions in the first year of trading

Mr A has decided to start a new business in January 2017 therefore his relevant year of tax assessment is 2015.

Earnings of less than £16,721 in 2015

1. If Mr A has earned £16,721 or less in the relevant year of tax assessment (2015) then his earnings-related rate is 12.5% of his earnings, divided by 12 months.
2. So, for example, if Mr A's tax return for 2015 showed he had earned £15,000 then he would pay a monthly contribution rate of £156.25.

Earning of more than £16,721 in 2015

1. If Mr A has earned more than £16,721 in the relevant year of tax assessment (2015) Mr A. could pay the earnings-related rate but would also be offered the possibility to opt for the



Deferred Rate whilst the business builds. The deferred rate is calculated at 12.5% of £16,721 divided by 12 so would be £174.17 per month.

2. So, for example If Mr A's tax return for 2015 shows he has earned £40,000:
 - His earnings-related rate would be a monthly contribution of £416.67 for 2017.
 - But he would still have the option to pay the deferred rate (12.5% of £16,721 divided by 12), therefore his liability becomes £174.17 per month for 2017.

Contributions after the first year of trading

Now Social Security will look back at Mr A's Tax assessment for 2017 to see what he actually earned in that year.

1) So, if in 2017 (the year Mr A started his business) Mr A actually declared earnings of £50,000 to the tax office:

- His earnings-related contributions on £50,000 should have been 12.5% of £50,000 which is £520.83 per month or £6,249.96 for the whole of 2017
- But, if he opted to pay the deferred rate in 2017 Mr A already will only have paid £174.17 x 12 = £2,090.04
- Therefore, Mr A's remaining liability for 2017 is £6,249.96 - £2,090.04 = £4,159.92
- This underpayment would be due on demand in 2019 although it might be possible to agree a monthly instalment plan

2) If, in 2017 (the year Mr A. started his business) he declared an income of £12,000 to the Tax Office:

- His earnings-related contributions on £12,000 should have been 12.5% of £12,000 which is £125.00 per month or £1,500.00 for the whole of 2017
- But, if he opted to pay the deferred rate in 2017 Mr A will have paid £174.17 x 12 = £2,090.04
- Therefore, Mr A is due a refund for 2017 as £2,090.04 - £1,500.00 = £590.04
- This would be paid back to Mr A on demand in 2019 and his pension record for 2017 and entitlement to benefit would remain fully accrued after the refund.

3) If in 2017 (the year Mr A. started his business) he declared an income of £9,000 to the Tax Office:

- This is below £10,176.00 which is the lower earnings limit on which social security contributions are paid.
- But, if Mr A opted to pay the deferred rate in 2017 he would have already paid £174.17 x 12 =

£2,090.04.

- Mr A can either get a full refund for £2,090.04 and lose his pensions accruals for 2017, or decide to leave his record as is and keep the benefit of a full pension accrued for 2017.

In subsequent years, this process will be repeated to make sure the right level of contribution is being paid each year.

Key points to remember

- Self-employed people are liable to pay Class 2 Contributions
- Class 2 Contributions are calculated at 12.5% of earned income and are the Earnings-Related Rate
- The Deferred Rate is calculated at 12.5% of £16,720 and is £174.17 a month
- The Deferred Rate option is available to every new business owner
- It is a yearly concession and re-evaluated every year
- It does not allow a business owner to request that any month of liability be waived
- If earnings in the Deferred Rate year are more than £16,720 you will be required to cover any shortfall
- If earnings in the Deferred Rate year are less than £16,720 you can receive a refund on demand
- If you earned below £10,176 you are exempt from paying Class 2 Contributions
- Sometimes there may be unusual or complex circumstances to consider and the [Social Security Department](#) will be happy to meet with you to discuss individual circumstances.

All rates are as at 1st January 2017 and may be subject to change

Calculating your earnings

The earnings that you will be assessed on are the earning you declare on your Income Tax Return.

You can find lots of information about how to calculate your earnings on the income [tax for self-employed website](#). You will also find a [simple profit and loss template](#) that you can use as part of your Income Tax submission.

For further Information or Advice from Jersey Business please contact us on 01534 610 300 or Email: info@jerseybusiness.je

WHETHER YOU ARE THINKING OF STARTING A COMPANY, WANT TO IMPROVE OR GROW YOUR EXISTING BUSINESS OR NEED TO MANAGE YOUR EXIT PLAN, JERSEY BUSINESS IS HERE TO HELP YOU ACHIEVE YOUR GOALS.

