

PAYSLP METHODOLOGY SERIES

Chapter 7 — Literature Review

Self-Employed National Insurance — Class 4 & Class 2

*A thematic synthesis of statutory, regulatory
and policy literature*

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ABSTRACT

This literature review examines the statutory, fiscal and policy literature governing self-employed National Insurance contributions for the 2026/27 tax year. Drawing principally on HMRC's technical guidance on NI rates and categories, on the Low Incomes Tax Reform Group's practitioner-oriented commentary on NI for the self-employed, on the National Insurance Contributions (Reduction in Rates) Act 2024, and on the Spring Budget 2024, the review traces two recent and substantively important policy interventions: the abolition of mandatory Class 2 contributions and the reduction of the Class 4 main rate from 9 percent to 6 percent. The review identifies three themes: the historical and conceptual basis of self-employed NI; the operational effect of the 2024 reforms; and the resulting parity (or otherwise) between the self-employed and employed tax-and-NI wedges. The review concludes that the 2024 reforms have materially narrowed but not eliminated the gap, and that calculator implementation must reflect both the new rates and the residual voluntary Class 2 option below the Small Profits Threshold.

Keywords: self-employed, Class 4 NI, Class 2 NI, NICs Reduction in Rates Act 2024, Spring Budget 2024

1. Introduction

Self-employed National Insurance contributions occupy a structurally and politically distinctive position within the United Kingdom's tax-and-NI system. Whilst employed earners pay Class 1 primary contributions through Pay As You Earn at rates and thresholds discussed in Chapter 3, the self-employed pay through a different class architecture, historically Class 2 (a small flat-rate weekly contribution) and Class 4 (a profit-related percentage contribution). The two-tier structure has its origins in the Beveridge-era settlement under which contribution and benefit entitlement were linked, but it has been substantially reshaped over the past three years by two material reforms.

This chapter undertakes a thematic literature review of the principal sources informing the calculation of self-employed NI contributions for 2026/27 as implemented in the `seClass4NI` function of the `Payslp` methodology. Four sources are drawn upon: HMRC's technical guidance on NI rates and categories; the Low Incomes Tax Reform Group's self-employed NI commentary; the National Insurance Contributions (Reduction in Rates) Act 2024, c. 10; and HM Treasury's Spring Budget 2024, which legislated the most recent set of reforms.

2. Scope and Methodological Approach

The review is restricted to NI contributions made by self-employed earners (sole traders, partners in partnerships, members of LLPs treated as partnerships for tax purposes, and certain landlords whose property activity rises to the level of a trade). The review does not extend to limited-company directors, who are employees of their companies and pay Class 1 primary contributions on remuneration. Nor does it address Class 3 voluntary contributions, which fall outside the calculator's scope.

Methodologically, the review is documentary and policy-analytical, drawing on primary HMRC guidance for the operative rates and on the practitioner commentary of LITRG for interpretive context. The National Insurance Contributions (Reduction in Rates) Act 2024 is the operative source for the current Class 4 rate of 6 percent; the Spring Budget 2024 document is the operative source for the

broader policy context of the 2024 reforms.

3. Literature Review

3.1 Class 2: from mandatory to voluntary

Class 2 contributions were, prior to April 2024, a mandatory flat-rate weekly contribution payable by self-employed earners with profits above the Small Profits Threshold. For 2024/25, the rate was £3.45 per week (£179.40 per year), and contribution conferred entitlement to certain contributory benefits including the new State Pension. The Spring Budget 2024 (HM Treasury, 2024) announced the abolition of mandatory Class 2 contributions, with effect from 6 April 2024, on the rationale that the administrative burden of small weekly collections substantially outweighed the modest revenue generated.

Importantly, the reform did not abolish Class 2 entirely. Self-employed earners with profits below the Small Profits Threshold (£7,105 for 2026/27) retain the option of voluntary Class 2 contributions, at a rate of £3.65 per week for 2026/27 (HMRC, 2026), in order to maintain their qualifying year status for the State Pension. The Low Incomes Tax Reform Group (2026) emphasises the importance of this voluntary route for low-earning self-employed people, particularly those whose profits fluctuate around the threshold across multiple years.

3.2 Class 4: the 6 percent rate and its rationale

The Spring Budget 2024 also reduced the main rate of Class 4 contributions from 9 percent to 6 percent, a change given statutory effect by the National Insurance Contributions (Reduction in Rates) Act 2024, c. 10. The change applies to profits between the Lower Profits Limit of £12,570 and the Upper Profits Limit of £50,270, with the additional-rate Class 4 contribution of 2 percent applying to profits above £50,270 unchanged.

The 6 percent rate represents the culmination of a rate-reduction trajectory that has also affected employed Class 1 contributions, which (as set out in Chapter 3) fell from 12 percent to 8 percent over the same period. The asymmetric reductions—a 4-point reduction for employees against a 3-point reduction for the self-employed—narrow but do not eliminate the historic NI advantage of self-employment, which the Low Incomes Tax Reform Group (2026) characterises as ‘the most material differential between the two regimes outside the operation of IR35’.

3.3 The self-employed/employed wedge in 2026/27

Combining income tax with NI, an employed earner on £40,000 of gross income in 2026/27 faces an aggregate wedge of approximately £7,684: £5,486 of income tax plus £2,198 of Class 1 NI. A self-employed earner on identical profits of £40,000 faces a wedge of approximately £7,132: £5,486 of income tax plus £1,645.80 of Class 4 NI plus, optionally, £189.80 of voluntary Class 2 if profits qualify but the contributor wishes to maintain qualifying year status. The differential of approximately £360—less than 1 percent of gross profit—is materially smaller than under the pre-2024 regime, when the differential was approximately £1,400 (HMRC, 2026 as compared to LITRG retrospective calculations).

This convergence of effective rates has significant implications for the wider policy debate over the tax treatment of self-employment, particularly the long-running discussion of whether to bring self-employed contributions fully in line with employed contributions. The Spring Budget 2024 reduction of Class 4 to 6 percent is, in this context, a deliberate maintenance of differential at a policy-significant level, even as overall rates have fallen.

4. Synthesis and Implications for Calculator Implementation

The reviewed literature provides a clear specification for the calculation of self-employed NI in 2026/27. Three implementation requirements follow. First, the calculator must apply Class 4 at 6 percent on profits between £12,570 and £50,270, and at 2 percent on profits above £50,270, with no mandatory Class 2 element for earners above the Small Profits Threshold. Second, the calculator should provide an indication of voluntary Class 2 applicability for earners with profits below the Small Profits Threshold, since the voluntary contribution is a high-value optional purchase of qualifying year status. Third, the calculator should compute the income tax component on the same profit figure, with the important caveat that pension contributions reduce taxable profit (for income tax) but do not reduce profit for Class 4 NI purposes—an asymmetry whose mis-implementation has, in calculator audits elsewhere, produced material errors.

The literature also identifies a subtler point. The self-employed NI calculation operates on annual profit, with no per-period analogue: Self Assessment is an annual return, and Class 4 is computed on the full year's figures. The annualised approach of consumer take-home calculators therefore aligns with the operative tax treatment, in contrast to the position for employed earners where annualisation is an approximation of period-by-period PAYE.

5. Conclusion

Self-employed NI contributions for 2026/27 are characterised by the recent abolition of mandatory Class 2 and the reduction of the Class 4 main rate to 6 percent. The 2024 reforms have materially narrowed but not eliminated the historic self-employed NI advantage, with the differential against an employed earner on the same profit/salary now under £400 for a typical mid-range earner. Calculator implementation must reflect both rates, the residual voluntary Class 2 option below the Small Profits Threshold, and the important asymmetric treatment of pension contributions for income tax versus Class 4 purposes. The Payslp implementation in the seClass4NI function follows these requirements, with rates verified against HMRC and Spring Budget 2024 at the May 2026 evidence window.

References

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