Neptune Tax & Accounts

Guernsey Tax

Social Security Contributions for Controlling Directors

Background

Until now, controlling shareholders of trading companies have been classed as self-employed for Social Security purposes.

Contributions are charged, initially, on an estimate of the expected income from earnings and dividends and this sets the level of the quarterly payments on account with a balancing payment or repayment after the end of the year once the shareholder's tax return has been submitted and processed.

This is at odds with the treatment for income tax. For tax purposes, they are treated as employees. On the whole, tax is withheld at source from the earnings and distributions of profits received and the tax is paid to the Revenue Service at the end of each quarter.

New Classification from 2025

The Social Security classification for controlling shareholders is changing from 1 January 2025. They will now be classed as employed and class 1 contributions will be paid by the employee and the employer instead of class 2.

This means that Social Security contributions will be deducted at source and paid to the Revenue Service quarterly together with the tax under ETI.

Social Security contributions will also need to be withheld from distributions of profits as they currently are for non-controlling shareholders who are also employees. A modification is expected to be made to the distribution reporting software that will facilitate the collection of contributions on distributions.

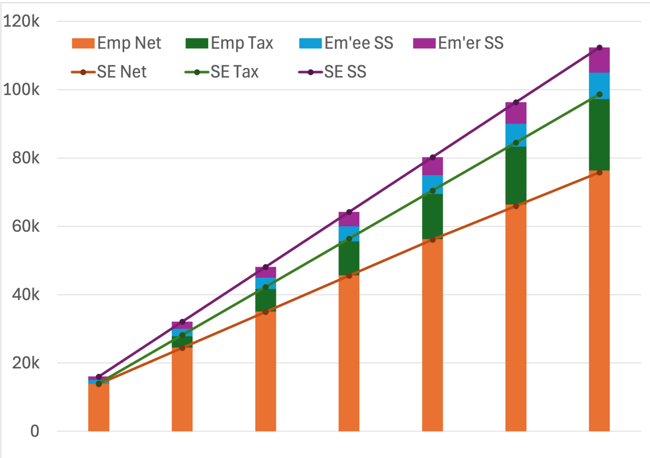
This alignment and simplification will be welcome news for many who have found the self-employed classification confusing.

Elect to Remain Self Employed for 5 Years

For existing shareholders, there is an election that can be made by the end of 2024 if they wish to continue to be treated as self-employed for Social Security. The election is irrevocable and will be effective until the end of 2029. From 2030, all controlling shareholders will be classed as employees.

Although employed contributions are higher than self-employed contributions, if you opt to remain classified as self-employed, you will pay more tax which offsets this saving.

When we look at what the relative net income would be at different income levels, we see that the difference is very marginal.



The bars show how the 2025 income of an employee is split between net pay, income tax and Social Security contributions and the lines overlaying this show a self-employed person's income. The net income is virtually the same in both scenarios with a small saving by being classed as employed when income exceeds £80,000.

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