Integrating the operation of income tax & National Insurance contributions

Terms of Reference for Working Groups

- Over the summer, the Government undertook a Call for Evidence, seeking views on the case for integration the operation of tax & NICs. We will shortly launch the next phase of the project.

- As part of this, we are establishing two technical working groups to consider particular aspects of operational integration.

- The purpose of the working groups is to assist HMT & HMRC in:
  - developing options for removing areas of misalignment between tax & NICs; and
  - assessing how these options perform against the Government’s integration objectives\(^1\), subject to the parameters set out at the Budget\(^2\).

Role of the groups

- There are many aspects of misalignment that will be reviewed. We would like to use the two working groups to consider the two most significant:
  - Working Group #1 (“the earnings base”) is considering the options and impact of removing the misalignments between the income tax & NICs treatment and definition of earnings (for example, benefits-in-kind).
  - Working Group #2 (“the operation of NICs”) is considering the options and impact of making the calculation and operation of NICs more like income tax.

- The scope of both groups is Employee NICs and Employer NICs.

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\(^1\) The Call for Evidence stated that the Government’s objectives for integration are: reducing burdens on employers; removing distortions in the economy and improving transparency; improving fairness; and cutting administrative costs for government.

\(^2\) The Government will maintain the contributory principle that underpins the National Insurance system, and ensure that this will be reflected in any proposed reforms. In addition, we will not extend NICs to individuals above State Pension Age or to pensions, savings and dividends.
How the groups will operate

- The groups will initially meet before the end of 2011 (probably mid December). The future frequency of the meetings will also be decided at the first meeting (we envisage two to three subsequent meetings between now and March).

- Agendas and papers for meetings will be circulated in advance.

- Groups may be split into smaller subgroups to discuss specific issues (if deemed appropriate).

- Given the interdependencies between the two topics, each group will be kept regularly updated with progress of its sister group.

- We would like to share as much information as possible with the group and facilitate open and frank debate on the various policy issues. With this in mind, discussions will be held on a personal and confidential basis. We would ask that neither the details of these discussions nor the papers provided be shared outside the group.

- However, subject to this, we would like to operate transparently. Therefore, we intend to publish a list of the group’s members, the final Terms of Reference and an agreed record of meetings. These will all be available on the project website.