Integrating the operation of income tax and National Insurance contributions

Working Group 1
Meeting 4
29th February 2012

Attending
John Hampton, BT / CBI
Helen Hargreaves, CIPP
Sue Illingworth, Prudential / CIOT
Chas Roy-Chowdhury, ACCA
Michael Studham, Accountant
Kate Upcraft, ISIS

Peter McDonald, HMT (Chair)
Matt Ray, HMT
Samantha Tennakoon, HMRC
Simon Manclark, HMRC
Simon Carr, HMRC

Minutes

HMRC provided a summary of what the sister Working Group had considered. This covered:

- Assessing NICs on an annual, cumulative basis with earnings aggregated across employments (like tax). This model would require a NICs code.
- Different options for a NICs code.
- A model for assessing NICs that was annual and cumulative but not aggregated across employments. This model would not require a NICs code but would require some form of reconciliation at the end of each employment.
- Different options to calculate the secondary (employer) liability

Points raised in discussion included:

- Assessing NICs on an annual, cumulative and aggregated basis was viewed as do-able in the way described but there was uncertainty as to whether it would make for a simpler system. Pursuing this option would be there would only be one system for payroll professionals to understand when calculating tax and employee NICs. I.T. would address a point of fairness but there would be difficult distributional consequences.
- It would be possible to remove the separate regime for Directors’ NICs
- The finality in the pay-period that exists in the current calculation of NICs was not seen as a problem and the need to correct for errors was rare.
- There was little support for the option to assess NICs on annual and cumulative basis but not aggregated across employments.
The secondary liability did not need to follow the primary liability (as is currently the case). The group were initially attracted to a charge based on the total earnings across an employer’s payroll, but noted the difficulties of moving to it from the current system.

The group noted the links and interdependencies with the options for base alignment that had been discussed at previous meetings.

Views were sought on the overall benefits of reform. Points made in discussion included:

- Some felt there was a benefit to be gained and it was simpler to only have to train people to understand one method of calculation.
- Others felt that the end product would not necessarily be simpler and could not see the benefits of change for employers.
- Some expressed a preference for tackling aspects of reform in one go, rather than a series of small changes over number of years.
- The difficulty in finding a clear solution to the issues explored since December was noted. Some members expressed that the issue was more complex and difficult than it first appeared.

HMT thanked the Group for its time and said that an update on the project would be provided after the Budget.