Integrating the operation of income tax and National Insurance contributions

Working Group 1
Meeting 2
23 January 2012

Attending

John Hampton  BT / CBI
Sue Illingworth  Prudential / CIOT
Chas Roy-Chowdhury  ACCA
Michael Studham  Spurling Cannon
Kate Upcraft  ISIS
Clive Johnson  Association of International Accountants
Howard Mighell  Harwin
Derek Kelly  FCSA
Alistair Gibson  Aviva

Peter McDonald  HMT (Chair)
David McDowell  HMRC
Sam Tennakoon  HMRC
Mellannie Merrifield  HMRC
Vicky Johnson  HMRC

Readout from the sister working group

HMT gave a brief report of the meetings of the second working group.

State of misalignment

HMT & HMRC presented a more detailed summary of the misalignments in earnings base between tax and NICs. The Group agreed it was a helpful way to present the issue. The Group agreed to provide comments to HMT and HMRC.

Substantive discussion

The substantive discussion for the meeting focused on benefits-in-kind (BiKs). Many responses to the call for evidence identified BiKs as one of the most significant mis-alignments of the tax/NIC systems. Officials have been considering how in practice the treatment could be aligned. HMT and HMRC emphasised that no decisions have been taken on whether and how this could be done.

One option for aligning the tax and NICs treatment of BiKs would be to introduce payrolling. This was considered by the previous government in 2008. HMRC introduced a possible model. Points made in discussion included:
There was widespread agreement that payrolling would be suitable for “taxing” some – but not all – BiKs in real time. BiKs commonly considered being “payrollable” with relative ease are cars and medical insurance. BiKs cited as relatively troublesome to payroll were loans, accommodation and mixed-use assets.

While accepting that the existing process for reporting BiKs (the P11D) is not necessarily ideal, the Group noted that many employers understood it and were used to it.

It was thought that it would be possible to obtain external consensus on what kind of BiKs are suitable for payrolling.

The £8.5K threshold was considered to make payrolling harder in practice.

There was a feeling amongst some that payrolling would make things easier for small employers because they typically offer a much smaller range of BiKs and those that are easiest to payroll.

RTI was thought to cause particular issues for payrolling where in practice it is hard for payroll department to obtain information or where taxable value is difficult to apportion into pay periods. Expats were mentioned – in particular that in some cases payroll departments may be sighted late or totally unsighted on an expat’s total remuneration package.

In terms of making widespread payrolling more palatable, reform of the rules for calculating the taxable value of some BiKs to make them more amenable to payroll was cited as was providing employer with more freedom over what they could put into a PSA.

The Group recognised that aligning the administrative treatment of BiKs raised questions of what tax and NICs liabilities would arise (for employees and employers). Some were concerned at the prospect of an additional liability. The Group noted that while alignment was theoretically desirable, we are not starting with a blank sheet of paper.

The Group also discussed other possible ways to align the treatment of benefits-in-kind. No significant alternatives were raised, but the Group agreed to consider further.