Integrating the operation of income tax and National Insurance contributions

Working Group 2:  
Meeting 3: 7 February 2012

Attending

Norman Green  BCS/Logica  
Chris Hind  BCC  
Steve Wade  CBI/KPMG  
John Black  Midland HR  
Jackie Petherbridge  FSB/The Payroll Practice  
James Collings  PCG Ltd  
Elizabeth Morgan  HMT  
Simon Manclark  HMRC (Chair)  
Sam Tennakoon  HMRC  
Simon Carr  HMRC

Background

HMRC explained that the purpose of this meeting was to discuss NICs codes and how they may work within an Annual & Cumulative & Annual (ACA) operation of NICs.

Employer burden

HMRC asked the group to revisit the issues around employer burdens. They identified ‘finality’ (end of year reconciliations) as being the main issue with regard to NICs, combined with simplicity and clarity for both employers and employees. The group also stated that, because of its nature, cumulation for NICs would help to reduce in-year NICs errors. In-year starters and casuals, for example, can often lead to payroll errors that require retrospective corrections.

Working Group proposal and general discussion

HMRC asked the group to talk through a paper one of their members had recently produced around how a NICs code could look, and how it could work in practice. It was explained that by apportioning the NI Personal Threshold – in the case of concurrent employments – it would lead to fairer outcomes in respect of NI deductions.

HMRC referred to further scenarios they had created – based on apportionment of thresholds and made the point that it would lead to a large increase in the number of NI codes being issued. The group acknowledged this and did suggest that the issuing of NI codes could be restricted but should
aim to accommodate 95% of cases. HMRC/HMT should avoid attempting to devise a solution that seeks to work for 100% of cases.

The group also held the view that the NICs code should be straightforward and easy to understand. Also, that any coding adjustments (to account for an NI underpayment, say) should be made through the tax code and the NI code should be left to reasonably constant. The group also agreed that tax and NI should be reconciled – in cases where one head of duty is overpaid and the other underpaid.

A regards under and over deductions of NI (as a result of the 2% UEL band), these could be reduced if RTI exploited the earnings details in RTI submissions.

The group were of the opinion that the biggest challenge for HMRC/HMT would be aligning the base for benefits in kind and expenses, and that the P11D form and process needed reviewing more generally. If this can be achieved then the ACA option should be adopted which would then tackle the issues of fairness, economic distortion and clarity. The group also said HMRC/HMT should approach the tax/NICs alignment issue by being radical rather than make small changes.

Regarding wider consultation, the point was made that others may struggle to understand the thinking behind any options we produce due to the complexity of the issues involved.

The meeting was then concluded.

Date of next WG2 meeting – 28 February 2012.