Integrating the operation of income tax and National Insurance contributions

Working Group 2:  
Meeting 2  
17 January 2012

Attending

Norman Green  BCS/Logica  
Helen Harvey  Nannytax payroll bureaux  
Chris Hind  BCC/Frontier Software  
Peter Arrowsmith  ICAEW/NI Consultancy  
Steve Wade  CBI/KPMG  
John Black  Midland HR  
Jackie Petherbridge  FSB/The Payroll Practice  
James Collings  PCG Ltd  
Brian Lovie  ICAS  
Matt Ray  HMT  
Elizabeth Morgan  HMT  
Craig Warwick  HMT  
Simon Manclark  HMRC (Chair)  
Sam Tennakoon  HMRC  
Simon Carr  HMRC

Background

HMT reminded members of the background to the project (see minutes of the meeting of the meeting 14 December 2011).

Employer NICs

The group discussed a number of possible options around employer (Class 1 secondary) NICs in context of the employee charge being calculated on an annual, cumulative and aggregated basis (one of the options being looked at in context of operational integration of income tax and NICs).

The group discussed a number of possible options around Employer NICs.

Option 1 – Do nothing

The group felt that it wouldn't make sense to have Annual & Cumulative & Aggregated (ACA) in place for employee NICs and to assume that employer NICs should remain as it is. However, employer NICs doesn't necessarily have to follow ACA exactly. The ‘do nothing’ option was generally viewed by the group as undesirable if ACA were adopted.
Option 2 – Annual & Cumulative (AC)

An Annual and Cumulative employer NICs charge could be based on the earnings in each separate employment using the annual employer NICs threshold and calculated cumulatively within each employment or aggregated across employments. It was agreed that unlike employee NICs AC aggregated across employments, for employer NICs it just isn’t feasible. This is because the liability for employer NICs rest with each separate employer - i.e. each separate employer is responsible for paying NICs only on that part of an individual’s total earnings that he has paid. Apportion of a single employer threshold between multiple employers who employ the same individual would be wholly impracticable. In addition, the group felt that an employer’s NICs charge that was AC but not aggregated across employments would be something of a halfway house, which could be merely seen as tinkering.

The group discussed the nature of cumulation itself in relation to employer NICs and employments. Gaps in employment could lead to refunds of employer NICs and the group felt that some employers could comfortably manipulate their payroll and employee engagement behaviour over the course of the year to reduce their employer NICs charge. All concluded that there were clear risks around cumulative employer NICs on either an AC or ACA basis.

Option 3 – Employer charge

Instead of doing separate calculations on the NICs liability for each individual and adding them up to arrive at the total liability, the group discussed an option of calculating the liability directly from total earnings across an employer’s payroll. The simplest model would be likely to have distributional implications for employers if there is no secondary threshold but has the prospect of a lower headline rate. HMT officials asked if a flat rate tax would ease employer burden and save employers money. The group’s view was that a simple model would not reduce employer burden significantly as payroll software does the work for most employers. The impact would be felt around the actual charge itself and that much depended on the rate and any exemptions/reliefs that might accompany it.

The group suggested variations on the simple model such as adding in different rate bands, or exemptions based on employer size or their annual payroll bill. It raised concerns over ‘scheme-splitting’ that HMRC would have to monitor for this kind of behaviour.

The group brought up the future definition of earnings. HMRC stated that much depended on the outcomes of Working Group 1 (WG1), adding that options were not that advanced in respect of WG1. Treasury then gave a brief update on where WG1 were with their work.
Alignment

Putting issues of exchequer cost aside, the group thought that PT/PA alignment would improve consistency and make tax and NICs much easier to understand and make it easier for employers to explain changes to employees. HMT officials asked the group if, over the coming weeks, they could quantify what alignment would mean to employers in terms of actual savings.

NICs codes

HMRC referred the group to the paper sent to them 13 January which explored a particular option for a NICs ‘code’ to allow the calculation of NICs to be aggregated across employments. This particular option apportioned thresholds across employments by expressing them as percentages.

Despite the implications and gaps noted in the paper the group still believed the percentage apportioning of thresholds would work and would clearly identify the NI code as being separate and easily distinguishable from the tax code.

HMRC raised the idea that in cases of concurrent employments the full PA should be awarded to Job A (say) and that an NI equivalent to tax code 0T be applied on the non-cumulative basis to Job B, arguing that this would result in a fairer result in Job B where say income straddles the UEL.

It was agreed that HMRC explore further the percentage threshold theory by working up more scenarios and that these would be sent to the group along with any other NI code concepts.

The meeting was then concluded.

Date of next meeting

7 February 2012