Tax Representation

ICAEW TAX FACULTY

TAXREP 33/08

NATIONAL INSURANCE CONTRIBUTIONS BILL

Text of Parliamentary Briefing sent on 28 April 2008 by the Institute of Chartered Accountants Tax Faculty to Government and Opposition Spokesmen in the House of Lords for the House of Lords' Second Reading of the National Insurance Bill on 30 April 2008

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NATIONAL INSURANCE CONTRIBUTIONS BILL

Foreword

The National Insurance Bill was introduced into Parliament on 13 November 2007. It can be found via the Parliamentary website at http://services.parliament.uk/bills/2007-08/nationalinsurancecontributions.html.

The effect of the Bill is from 6 April 2009, first, to increase the earnings on which employees will pay National Insurance Contributions (NIC), and secondly, to make some employee contributions payable at the full NIC Class 1 rate non-contributory.

As confirmed by the Economic Secretary to the Treasury on 3 December 2007, the uses to which National Insurance Contributions collected can be put are ring fenced by legislation. NICs can be paid into the National Insurance Fund (NIF) or used to fund the National Health Service. There is a growing surplus on the NIF which is already in excess of the amount recommended by the Government Actuary.

On 28 April 2008, the ICAEW Tax Faculty submitted a Briefing to the Government and Opposition Spokesmen in the House of Lords in advance of the Lords' Second Reading debate on 30 April. The object of the Briefing is to provide a means by which the Government's future intentions as to the use of NICs collected might be clarified. The text is reproduced below.

The text of the Lords' Second Reading debate on 30 April 2008 can be viewed in Hansard at http://www.publications.parliament.uk/pa/ld200708/ldhansrd/text/80430-0010.htm#080430110000001.

Details about the Institute of Chartered Accountants in England and Wales and the Tax Faculty are set out in paragraph 4 of the Briefing and Annex A. Our Ten Tenets for a Better Tax System which we use as a benchmark are summarised in Annex B.

PCB
9.5.08

NATIONAL INSURANCE CONTRIBUTIONS BILL

Text of Parliamentary Briefing

Increased revenue generated through the National Insurance Contributions Bill requires the proper level of transparency and adequate confirmation and clarification on several key points

1. Introduction

The National Insurance Contributions Bill (NICB) and the Pensions Act 2007 make two very important changes. First, the earnings on which employees will pay National Insurance Contributions (NIC) will increase, and secondly, some employee contributions payable at the full NIC Class 1 rate will not contribute to benefits including pensions.

2. Summary of recommendations

The ICAEW would welcome from the Government:

Transparency in relation to the allocation of additional revenue generated through increased National Insurance contributions. Specifically, the ICAEW calls on the Government to publish its own projections as to how much of any additional future revenue collected both in total and in particular on earnings between the Upper Accrual Point (UAP) and the Upper Earnings Limit (UEL) (in cash terms and percentage) will be allocated to and between the National Insurance Fund (NIF) and to the National Health Service (NHS) respectively.

Confirmation that, in the NIC Bill, the Government does not intend to change the conditions surrounding the allocation of NIF resources.

Clarification on whether the NIC Bill seeks to change the 'pay-as-you-go' basis of funding contributory benefits.

Additionally, the Institute would welcome clarification of the Government's intentions in respect to the growing surplus of the NIF projected by the Government Actuary's Department in its last annual review of contribution and benefit rates.

3. The National Insurance Contributions Bill in detail

What will the NICB do?

The NICB will change the range of employees' earnings on which NICs are payable and on which contributory benefits accrue within the NIF. From 2008/09, benefits will accrue on Class 1 NIC paid or deemed to have been paid on employees' earnings between the lower earnings limit (LEL) and a new threshold to be known as the upper accrual point (UAP), rather than as hitherto on earnings between the LEL and upper earnings limit (UEL).

The level at which the UAP will be set by the NICB will be £770 per week, less than the UEL but higher than the UEL would have been under the longstanding formula (£670 plus inflation adjustment), which is to be amended in the NICB.

However, employees and employers will continue to pay NIC at 11% and 12.8% respectively on employees' income from the UAP up to the UEL and at 1% and 12.8% respectively above the UEL.

Thus, the NICB has two effects for 2008/09 onwards:

1. The absolute amount of earnings on which employees will pay NICs at 11% will be increased by more than would otherwise have been the case because the UEL will be increased by more than the current formula and then indexed, and
2. Not all the payment by employees of NICs at the full 11% rate will contribute to benefits, as the range of earnings on which benefit entitlement will accrue will stop at the UAP rather than the UEL.

What happens to NIC collected from contributors and employers?

NIC are paid mainly into the NIF with the balance helping to fund the NHS (NHS proportion about 21%). The uses to which the NIF can be put are ring-fenced by social security legislation. The majority of the NIF is spent on state pensions, which include basic state pension and state second pension (S2P), and the NIF is run on a 'pay-as-you-go' basis.

4. The ICAEW

The ICAEW has over 130,000 members worldwide, including over 50,000 who work in a direct business capacity. Our membership includes Financial Directors and Chief Executives across all sectors of the UK economy, from large multinationals to SMEs and microbusinesses. Working as employers, investment specialists and business advisers, our membership possess a unique and powerful understanding of the economy.

The Tax Faculty is the focus for tax policy thinking within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and also publishes the monthly newsletter *'TAXline'* to over 10,000 members of the ICAEW who pay an additional subscription.

Further information

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ANNEX A

ICAEW AND THE TAX FACULTY: WHO WE ARE

1. The Institute of Chartered Accountants in England and Wales (ICAEW) is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

2. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department for Business, Enterprise and Regulatory Reform through the Financial Reporting Council. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy, including taxation.

3. The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter *TAXline* to more than 10,000 members of the ICAEW who pay an additional subscription.

4. To find our more about the Tax Faculty and ICAEW including how to become a member, please call us on 020 7920 8646 or email us at taxfac@icaew.com or write to us at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ.

ANNEX B

THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.

2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.

3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.

4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.

5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.

6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.

7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.

8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.

9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.

10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as **TAXGUIDE 4/99**; see http://www.icaew.co.uk/index.cfm?route=128518.