

news release



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MacIntyre Hudson warns against proposed employee income tax and National Insurance contribution merge

Proposal is nebulous and 'lacks clear guidance' says Blundell

[MacIntyre Hudson LLP](#) is today warning against the Coalition Government's plans to integrate the operation of income tax and National Insurance contributions systems. The team of employment tax specialists at the top 20 Firm of Chartered Accountants raised concerns around elements of the plans ahead of the final result announcement later this Autumn.

The income tax and National Insurance contribution systems are currently operated separately and the Government states that 'greater integration of the two has the potential to remove economic distortions, reduce burdens on business, and improve fairness for individual earners.' However MacIntyre Hudson believes the proposal is nebulous as Chris Blundell, Tax Principal explains:

"The proposal lacks clear guidance. For starters, it's vague as to whether the proposed integration is in respect to both employee's and employer's National Insurance. It's concerning that there is such confusion over this point as the impact of these proposals will largely depend on whether the changes apply to both these areas."

The Office of Tax Simplification proposes that the merging of employer tax and employee National Insurance would cut red tape and it could be implemented to tie in with the introduction of real time reporting as the new system could accommodate the merger. MacIntyre Hudson agrees that most employers would benefit, as Chris comments:

"The integration of employer's National Insurance would be a relatively straightforward process. The main complications arising from this change and which need to be taken into consideration include whether those employers who have contracted out could continue to apply a lower tax rate within the employer's pension scheme. There would also be issues for certain specialist industry groups, for example the clergy, who for tax reasons are considered employed whilst being accepted on a self employed basis for National Insurance. However, in conclusion it would be relatively easy to manage."

As Chris also points out, if the change does incorporate employee's tax and national insurance contributions then many more complications are likely to arise:



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“The Government has been hazy in their intentions but it is likely that the main driver behind this change is to generate huge revenue. Implementation of this system would have a serious impact for a significant number of employees.”

In their response to the proposals, MacIntyre Hudson raises the following concerns:

- Firstly, it would be difficult to exclude the taxation of benefit in kind from such a change. An introduction of employee National Insurance applied would therefore significantly increase the costs for employers. At present Class1A National Insurance arises on benefits in kind which is a charge on the employer with no resulting National Insurance charge on the employee. If it was decided to introduce a National Insurance charge on benefits in kind for employees then this would seriously impact on remuneration packages of employees including those who have company cars and so on.
- It will be complex to deal with earnings of people who earn lower, or higher, incomes and subsequently increase the National Insurance burden that impacts workers who earn below the lower NIC threshold. It will also clearly present an additional charge to those earning above the upper earnings limit.
- The change would also impact on employees who move to work in the UK but are continuing to make social security contributions in their home country. If this issue is not addressed it will significantly impact on the movement of workers in to the UK which will discourage the movement of workers to the UK.
- Adding an employee contribution in to the rate of income tax for employees will create a significantly greater divide between employed and self employed and not help the current desire to move workers in to employed status.

If conditions for employees are to be changed then it's unlikely to take place while the current Administration is in Parliament as Chris concludes:

“If the Government does go ahead with this then it is likely to be fulfilled only during the next decade or so. Governments realise that changes to tax have a huge impact upon their popularity and if the merger is passed and affects the country's workforce then it could be hugely detrimental to the current administration. We believe it will create major issues for a large population of workers and their remuneration arrangements. Plus the proposals will be seen as an added cost of employment within the UK.”

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