



THE
CHARTERED
INSTITUTE OF
TAXATION

LOW INCOMES TAX REFORM GROUP

Improving the collection of National Insurance Contributions from the self-employed RESPONSE TO HM REVENUE & CUSTOMS CONSULTATIVE DOCUMENT

1. Introduction

1.1. **About us**

- 1.1.1. The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.
- 1.1.2. The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

2. General Comments

2.1. **Options under consideration**

- 2.1.1. Broadly, the options under consideration are:

- to include Class 2 NIC arrears on self assessment (SA) statements;
- to reduce the number of payment dates for Class 2 in a year, possibly aligning with self assessment payment dates (and therefore including current Class 2 liabilities on SA statements); and
- to align interest, surcharges and penalties for late payment of Class 2 with those of Class 4 under self assessment.

- 2.1.2. But we understand that HMRC are considering a possible combination of these measures.

2.2. **A step back**

- 2.2.1. Whilst LITRG welcome the opportunity to comment on this consultation, we really want to take a step back and question whether HMRC have done sufficient research

amongst the individual low-paid payers of National Insurance Contributions to be at the advanced stage of suggesting change to processes.

- 2.2.2. We suspect that it is in fact the low-paid who are a significant focus of this consultation, bearing in mind the references to individuals not having direct debits and failing to make contributions on time for Class 2.
- 2.2.3. We would wish HMRC to carry out qualitative research into whether those on low incomes:
 - understand the distinction between the different classes of NIC;
 - appreciate the entitlement to benefits deriving from the various classes of NIC;
 - understand when sufficient contributions have been paid in order to qualify for different benefits;
 - recognise when they have overpaid contributions;
 - recognise their ability to pay voluntary contributions and the value of benefits derived therefrom;
 - understand when it is possible to defer contributions;
 - are aware of the small earnings exception and understand how it could work to their advantage;
 - prefer the existing methods of paying contributions.
- 2.2.4. Despite dating back to 1997, many points from research carried out at the Social Policy Research Unit at the University of York arguably remain true today¹. One of the findings of this study was that contributors' lack of understanding of the system led to confusion and non-compliance.
- 2.2.5. The consultation document suggests there is anecdotal evidence that the contributions regime is indeed confusing. We would therefore have wished to see evidence from focus groups of low-income customers that the integration of Class 2 contributions in the way proposed does in fact enhance customer understanding.
- 2.2.6. The test of that understanding should not just be whether someone recognises that a sum has to be paid, but whether they appreciate why that is so, in the context of the factors we set out in 2.2.3. We found it odd that the consultation does not mention at all any joint working with the DWP, bearing in mind this is an area where close working between the Departments is necessary if the customer is to receive the best overall service. After all, it was to establish entitlement to DWP-administered contributory benefits that NICs were originally conceived, and continue in their present form.
- 2.2.7. It is suggested that there is a 5% write-off of Class 2 contribution arrears, yet no analysis is provided to show to what extent this is due to extreme hardship, nor are we made aware of the income levels of such debtors. As this could inform the direction of change, it is essential to have this information before taking action.

2.3. ***Information and education***

- 2.3.1. As you will be aware, LITRG's focus is on the low-income taxpayer who cannot afford professional representation. To meet the needs of the low-income self-employed, HMRC's primary objective must therefore be to provide sufficient information and support to such people in all their dealings with the system. By achieving this

¹ See Research Report No. 84 - <http://www.dwp.gov.uk/asd/asd5/84summ.asp>

educational aim, HMRC should in turn ensure maximum compliance.

- 2.3.2. This consultation document begins by telling us that '*HMRC is committed to reducing the administrative burdens... on taxpayers and this document seeks to explore... simplifications for the self employed.*' But our immediate impression is that it focuses more on improved compliance and earlier payment of liabilities than on true simplification of the system. Merely simplifying collection methods will not make the liabilities themselves any easier to calculate or understand.
- 2.3.3. Alignment and expansion of guidance should be a priority, fuelled by your further research into the needs of the low-paid. However, it is unsurprising that self-employed taxpayers can become confused when there are different sources of information and insufficient cross-references between them. For example, Directgov, Businesslink and HMRC's own website all contain information on NICs for the self-employed, not always explaining things in identical ways.
- 2.3.4. This is also an area where it may be necessary to consider how HMRC can best provide help to those for whom English is not the first language. Migrant workers come to the UK and set up their own small businesses, so need information on when they are liable to UK NICs. They need to know not only the UK systems, but how they relate to the systems back in their home country.
- 2.3.5. Information also needs to be readily accessible for disabled people, both in accordance with HMRC's own Disability Equality Scheme and with reference to the Government's aims to encourage full participation. It is not clear that this group of people have been given sufficient attention.

3. Conclusion

- 3.1. In summary, we are not convinced that sufficient work has yet been undertaken to come up with suggested changes to systems. A much more 'back-to-basics' review is what is required here. As a first step, we recommend that the research we have suggested should be undertaken and published.
- 3.2. We also recommend an immediate review of communication strategy in this complex area and that it should be undertaken in conjunction with the DWP.
- 3.3. We have therefore not gone on to offer views on your specific questions. Our CIOT colleagues have however made detailed points on the proposals in their separate submission.

LITRG
5 June 2008