

# We don't need to get rid of NIC - we need an investment...

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There is [much discussion](#) going on about a possible merger of income tax and national insurance in the UK. This follows a report from the Office for Tax Simplification suggesting this and a belief that such a merger fits George Osborne's simplification agenda (or "don't make it complicated as George won't understand it" agenda as it might be called in the civil service).

It's important to get facts right on this. First, the principles underlying these taxes remain quite different despite all that is said: national insurance does, effectively, fund old age pensions. And the reality is that right now entitlement is dependent upon contributions - meaning that the claim that national insurance is just taxation is just a false statement by those who have either a) been in work all their lives or b) can safely ignore their entitlement to a state pension as they have so much cash it will be an irrelevant part of their income in old age. That's a tiny minority largely represented by those from big firms of accountants who talk about this issue. For the rest it's a much bigger deal.

And even then much of the discussion ignores some really important aspects of the debate, which are however of significance to millions.

It's entirely true for a person of working age who is in employment and who has earnings of less than about £43,000 a year tax and national insurance look pretty much like the same thing and add up to total tax deductions on a payslip.

But for pensioners introducing combined income tax and national insurance would be a massive blow: many do pay tax but none pay national insurance. Combine the two and effective tax rates on pensioners rise considerably. Is that the new deal Osborne wants to offer?

There are also several million self employed people in the UK (and yes, I'm one of them). We pay less NI - because we get many fewer benefits if out of work. What's the deal going to be here? Are benefits to be made available if the self employed pay pro rata? And how could that be policed? There's been good reason for the reduced benefits -

because the self employed can easily manipulate their income. But why deny them benefit if they pay full tax?

And what happens to employer's NIC? Does it simply become a payroll tax? And what then for the self employed? And what for the varieties of reduced NIC for employers making pension contributions? And many aspects of NIC and employee benefits in kind are, of course employer contributions and so would, presumably survive in any payroll tax?

What too for the fact that this will very obviously look like a tax increase for those on lower pay but not those on higher pay - because NIC bar 2% (from 6 April) those paying higher rate tax do not pay NIC. So the differentials are suddenly eroded. Is that right?

These questions are all very real. They imply this to me:

- a) If there is to be a payroll tax on employers if NIC is merged with income tax there will be almost no tax simplification for employers at all - they will still be calculating two taxes on payrolls. So this is a waste of time.
- b) Aligning benefit in kind rules for employers would be useful - but let's not deny they'll still be complex - because employers will abuse anything that is simple. Sad, but true, with the biggest abuse being by the biggest companies. So we're still going to live with complexity.
- c) In that case simplification hopes go straight out of the window.
- d) Making the significant self employed community pay more is something a Tory government is not likely to do - so complex rules will be inevitable. Or alternatively opportunities for abuse will be high.
- e) The idea of 32% withholding rates is interesting - but how likely is it?
- f) Massively generous allowances for pensioners may not be welcome - some pensioners can, after all, afford to pay - but this is political nightmare area;
- g) The big abuse merger would stop is the small business abuse of limited companies to pay dividends to save NIC. That's the big anti-avoidance measure that has proved elusive so far - and given that [500,000 companies disappear a year](#) - many of them probably abusing this on the way - this is obviously important and has to be tackled.

So the question arises that if two taxes cannot be avoided - and that has to be the case - then why bother to merge income tax and national insurance?

Why not simply do what I have often suggested, which is to reintroduce an investment income surcharge? If a 15% extra tax were charged on all investment income a person had in a year over £5,000, with an exemption for £25,000 in the case of pensioners, the

abuse of small limited companies would stop, serious revenue would be raised and the absurdity of investment income carrying a lower tax rate than income from work would end. Add it to capital gains too and then offshoring and other abuses would end as a well - because disguising income as gains would be pointless and this tax would be charged on the taxpayer not at source - so offshoring would not work in most cases.

That makes an investment income surcharge a simple, neat and effective solution which would apply to relatively few people but it would stop abuse and resolve the unfairness in the system whilst helping pay for the deficit - solely by charge on those most able to afford to pay.

And if George does not go for it - shouldn't Ed?