Funding the Future

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After a weekend of doing not a great deal, it’s time to resume this series. This time the suggestion is another one that is almost so obvious that it demands a mention.

Remove the reduced upper rate of national insurance contributions and apply one rate to all chargeable earnings

National insurance is in some ways a quite complex tax. It is also one riddled with anomalies that date from the era when it pretended to be insurance and not a tax like any other.

One of the consequences of that continuing misrepresentation within this tax is that higher levels of earnings from employment enjoy a much lower rate of tax. In this year tax year (2019/20) broadly speaking earnings above £962 a week (and yes, this tax still does work on a weekly basis, revealing just how antiquated it is) are taxed at only 2% whereas those between £166 and £962 a week are taxed at 12%. Turning that higher limit into an annual equivalent, the rate of tax reduces by 10% when earnings from a continuous employment reach £50,000. By remarkable coincidence (or rather, lack of it) the income tax rate may well increase by 20% at the same point.

Ignoring the gross injustice that unearned income is not, in any event, subject to national insurance, this manipulated replacement of one tax by another is both misleading and unjust as the two taxes are not substitutes for each other.

In the absence of a merger of these two taxes, which has all its own problems, it would make much more sense for national insurance to apply to all earnings without limit but for there to be a 30% rate of income tax from £50,000 to say £100,000, plus an investment income surcharge of 15% on unearned income, **as already discussed. The result would be a much more progressive tax system overall, and most especially at higher rates, and that is required to tackle the gross inequalities in our society.**