Abolishing the lower rate of national insurance for hig...

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I have published the third in my series of recommendations for the reform of the taxation of higher earners and the wealthy this morning. This forms part of the Taxing Wealth Report 2024.

This latest proposal suggests that national insurance payable by employees and the self-employed should be paid at a single rate on all earnings arising over the lower earnings limit. This would, in effect, abolish the reduction in the tax rate at which this tax is payable for those earnings more than £50,270 a year.

The summary of this report says:

Brief summary

This note suggests that:

* The reduced rate of employee's and self-employed person's national insurance contribution payable by those earning more than £50,270 per annum from either of these sources can no longer be justified when the pretence that national insurance contributions are specific payments made to provide insurance cover for specified risks is no longer tenable and this charge is now a tax like any other within the UK tax system.

* This reduced rate of tax seriously undermines the vertical equity of the UK tax

system by being explicitly regressive in nature.

* Along with other undesirable features within the national insurance system, this reduction in rates for those on higher incomes undermines the integrity of the UK tax system and has encouraged tax avoidance and even abuse.

* Revenue of maybe £12.5 billion a year might be raised as a consequence of removing this reduced rate of contribution for higher earners, £11 billion of this sum coming from employees and maybe £1.5 billion from the self-employed. Because the data used to prepare these estimates was out of date these figures may be understated, a risk that is increased by the very cautious basis of estimation used.

Discussion

The anomaly that this recommendation seeks to eliminate is based on a myth dating back to the time that national insurance became a mainstream tax payable by most people in the UK, which happened after 1945.

At that time this contribution was seen as being akin to an insurance premium payable to secure the benefits that the welfare state provided.

Whilst there are still benefits that are linked to a person having made national insurance contributions, the pretence that this tax now represents an insurance premium is a very obvious fiction and should be dropped from the tax and political narratives of this country.

As the note supporting this proposal records:

The behavioural consequence of this proposal is likely to be small, most especially if the opportunity to avoid national charges by the creation of an investment income surcharge, which will also be recommended in this report, is enacted.

Few people will willingly reduce their contractually due incomes to avoid a tax charge despite the claim made by microeconomists that this is likely. The fact that most people have fixed financial commitments and lifestyles that they wish to maintain does in fact suggest that the opposite might well be the case. It is, therefore assumed that an overall neutral reaction to this change is likely.

The estimated revenues that this change might generate are based on out-of-date (but still the most up-to-date available) information that HM Revenue & Customs has published. It has been very cautiously extrapolated. Despite that, it is estimated that approximately £12.5 billion of revenue might be raised as a result of this obviously required change to the UK tax system.

The three recommendations now made as part of the Taxing Wealth Report 2024 would, taking this latest proposal into account, raise total additional tax revenues of approximately £35.7 billion per annum.

The **note on which this blog post is based is available here**.