

National Insurance is complex and pointless and should be merged with income tax.

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Tim Leunig argues that the national insurance system is difficult to administer, and is overly complicated for both employers and employees. Merging it with income tax would be relatively simple – it is the best way forward.

The UK tax system was recently reviewed by a committee of [“some of the world’s finest economic brains”](#), headed by Nobel Prize Winner in Economics, Professor Sir James “Jim” Mirrlees.



The Committee’s [report](#) was wide-ranging, radical and generally right. There ARE good economic reasons to levy the full rate of VAT on “food, passenger transport, books and other reading matter, prescription drugs, children’s clothing, and domestic fuel and power” (p. 218).

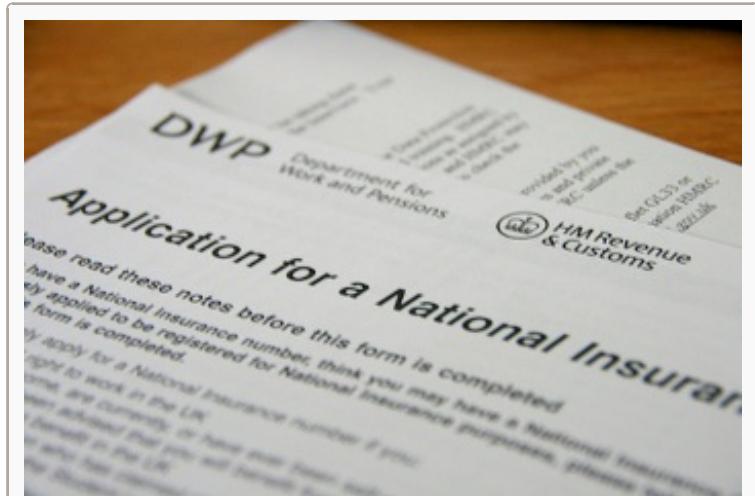
The report has been almost completely ignored, largely because it was wide-ranging and radical. Whatever the economics, no politician wants to be remembered as the person who levied VAT on “food, passenger transport, books and other reading matter, prescription drugs, children’s clothing, and domestic fuel and power” (p. 218).

Yet there is one aspect of the report that Government could and should follow: the integration of income tax and national insurance. Neither system is perfect. The income tax system, for example, has a total of eight different annual tax free allowances, which is approximately seven too many (why do blind people get a larger tax allowance, but not people with any other disability?).

The national insurance system is much, much worse, and as the report noted, “National Insurance no longer serves any purpose”. The system is fiendishly [complex](#). Employees’ national insurance is calculated by dividing income into up to six different categories, with a different rate on each which in turn depends on which of ten different categories the individual falls into. That is sixty rates in all. In addition, there are twenty different rebates for pensions. There is even a distinction between paying 0% of your income, and paying NIL. I would love to tell you what it is, but I am sorry I haven’t a clue.

The employer’s element of national insurance has 70 different categories in all. Furthermore, national insurance is worked out per employer, so a person with two part time jobs must be assessed twice, although they then may qualify for a rebate later. If they have self-employed income the system becomes even more complex.

The system is so complex even those who administer it have little clue. Recently, I received a letter stating that the administrators believed I paid too much national insurance last year. They required me to fill in a form giving my name (which was printed on the first page of the form they sent me), my employers (which they know), and the amount of national insurance that I paid last year (which they also know). They will now calculate whether I am owed a refund.



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I shall not hold my breath. The system is so complex that they have yet to work out my national insurance going back to 2002-3, for which they think I owe either £2.05 or £2.20, depending on which letter you read. Taking all the years together I think that they owe me about £100, whereas they think I owe them about £50. So far we have exchanged more than 20 letters on the subject, before I referred the matter to the Adjudicator. The Adjudicator agreed that I had received very poor service, and awarded me compensation,

but said they were also unable to work out the right answer.

We seem to have created a system that is behind the wit of both those who pay it and those who administer it. It would be perfectly possible to merge it with income tax in a way that creates relatively few winners or losers. Doing so is a no brainer.