

# National Insurance Contributions

## Consultation Report

Public consultation on National Insurance Reform  
Proposals – July to October 2022

Summary of responses

**February 2023**





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# Minister's Foreword



The National Insurance system is one of the key foundations of our welfare state. It is our third largest source of government revenue and via the Manx National Insurance Fund provides for the majority of pensions and benefits on the Island. Additionally, a portion of the National Insurance collected is allocated to our National Health Service.

It is our responsibility to ensure that the Manx National Insurance Fund meets the needs of the Island and provides our residents with the benefits and services they rightly deserve. This can only be achieved by securing the Fund's long term sustainability.

I would like to thank everyone who responded to this public consultation including employers, the Chamber of Commerce and the Department for Enterprise who reiterated the link between revenue generation and the Economic Strategy.

Your feedback will help us determine our next steps in securing the future of the National Insurance Fund. Further detailed proposals will be publically consulted on as required.

**Hon. Dr. Alexander Allinson, MHK  
Minister for the Treasury**

# Introduction

## Categories of respondents



In July 2022, the Treasury issued a consultation, "National Insurance Reform Proposals" which sought views in relation to National Insurance reform proposals.

Three hundred and thirty two responses were received, three hundred and twenty nine of which were submitted online.

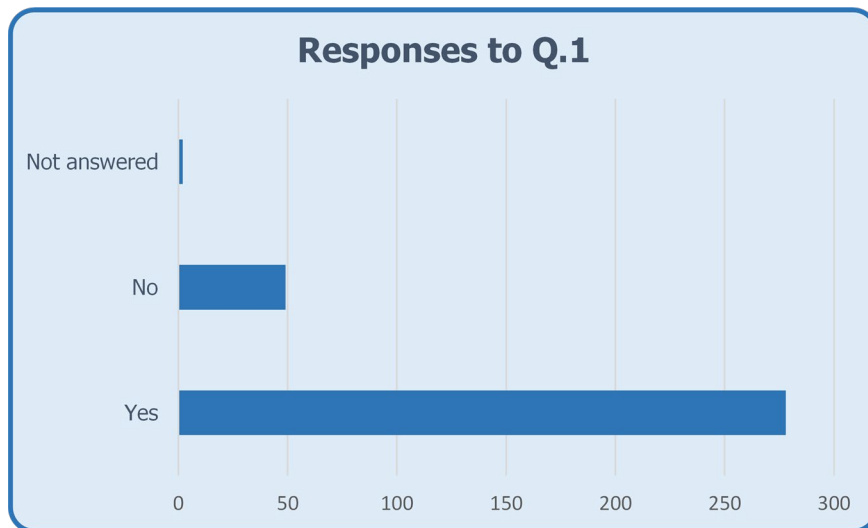
194 of the 329 online responses received were from employed individuals. The graph beside details the responses received from each of the different categories.

Two of the three responses not submitted online were from the Department for Enterprise and the Isle of Man Chamber of Commerce, which, in the main, were 'freeform' commentary.

This document provides a summary of the comments received and the Treasury's response.

# Question 1

**Do you think all working persons (under state pension age) should pay NICs irrespective of how they structure their affairs?**



## Key findings

The vast majority of respondents, 278, were in favour of all working age persons making National Insurance contributions.

Fairness and contributions being made by all individuals were the most featured points made in the comments.

A number of respondents, a mixture of those who answered yes and no, are of the opinion that National Insurance should be optional; those who choose not to pay would not have an entitlement to State Retirement Pension, contributory benefits or state provided healthcare.

13 of 34 owner managed businesses who responded to the consultation answered yes to this question.

That being said the risks and financial uncertainty undertaken by owner managed businesses along with contributions by way of Employer National Insurance were reflected in a number of responses.

## Sample of comments received to Question 1

“It is unfair to those paying a full share of their National Insurance Contributions that individuals who are self-employed or business owners can limit their contributions but receive the same benefits in terms of healthcare and pension.”

“There are ways in which people can structure their affairs to pay significantly less NI than people in substantially similar scenarios. This is unfair as they are taking advantage of legislative loopholes.”

“It is inequitable that there remains loopholes for business owners to avoid paying NI contributions through the way they pay themselves, and this is also depriving Treasury of the necessary income to maintain adequate spend levels social security payments and health and social care provisions. The NHS allocation has been artificially held back for too long, which is unrealistic and unsustainable given the funding pressures on the NHS.”

“It is only fair that all people with an income should pay NI to access benefits and healthcare provision.”

“The self-employed and business owners are invariably entrepreneurs and there needs to be some recognition for the huge financial risks there are in running your own business.”

“Business owners already pay a greater percentage of National Insurance via ENI. The use of Dividends is often a way of mitigating the high level of contribution that a business owners would pay. So if you contemplate hitting hard-pressed business owners with additional NI charges then remove the ENI contribution (or reduce it significantly) as you will hurt business growth and indeed business survival for fledgling companies.”

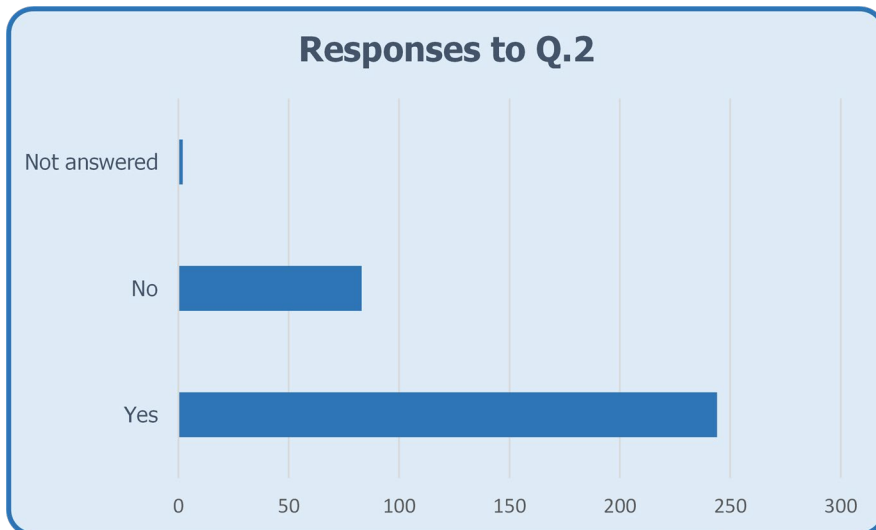
## Summary

This question received significant support. Fairness, mainly based on entitlement to the health service, benefits and state pension, being the main driver.

Treasury will now consider how to best address the fairness of National Insurance contributions going forward and engage the public in a future consultation on more detailed proposals by the summer of 2023.

# Question 2

**Do you think that an employee who 'owns' their business (OMB) should pay National Insurance which aligns with that of a self-employed individual?**



## Key findings

A significant proportion of respondents, 244, support the alignment of National Insurance contributions for owner managed businesses with that of the self-employed.

Like question 1, fairness was most commonly raised point with comments particularly highlighting the importance of equal contributions and contributions that are the same as employed individuals.

A number of respondents were of the opinion that the current National Insurance position of owner managed businesses is a loophole which needs removed.

Only 21% of owner managed businesses answered yes to this question. Those not in favour cited, in the main, risk taking and disincentivising entrepreneurship as reasons for their disagreement.

## Sample of comments received to Question 2

"There should be no loopholes for OMB to build entitlement without payment of NIC i.e. salary above LEL but just below PT."

"The level of NICs should be aligned across the board, regardless of employment status. The present provision invites the creation of artificial working arrangements in terms of who own a business, as well as who is contracted to support a business."

"I really feel strongly that all people should pay the same rate as ordinary employed people."

"The ongoing retention of such loopholes are potentially damaging to the Island's international reputation and to the public purse also at a time when public finances are increasingly under pressure."

"I think irrespective of work structure, all working persons should pay NI based on income from all sources, the same as an employed person. Any potential backlash of this change could be offset by a lowering of the NI contributions required as all should be paying their fair share."

"Why isn't the system simplified so that all earning just attract the rate?"

OMB should pay the same as employed  
Self-employed should pay the same as employed  
Income = NI liability"

## Summary

The vast majority of respondents, 74.16%, were in favour of National Insurance contributions for owner managed businesses being aligned with that of self-employed individuals.

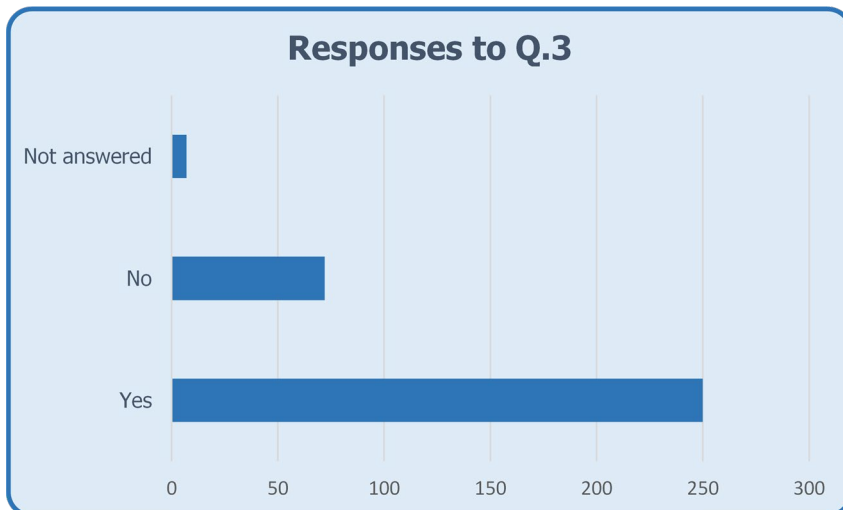
Fairness has been the overarching point raised in respect of both questions 1 and 2.

Treasury will now consider how best to address the payment of National Insurance contributions in respect of owner managed businesses and engage the public in a future consultation on more detailed proposals by the summer of 2023.



# Question 3

**Do you agree that the merged payment of Class 2 and Class 4 National Insurance should be due and payable on 6<sup>th</sup> January following the year of assessment?**



## Key findings

75.99% of respondents supported the merging of Class 2 and Class 4 payments for payment by 6<sup>th</sup> January annually.

A simplified system was favoured by a number of respondents, however not necessarily on an annual basis. Some respondents did not feel a lump sum was ideal, nor a payment around Christmas time with suggestions of monthly payments. Others felt that one rate of National Insurance paid by everyone would be simpler.

Paying in advance was raised as a potential concern in respect of some industries whereas on the other hand it was pointed out that small local businesses operated by sole traders who are struggling with their cash flow find the fixed weekly rate for class 2 NIC easier to budget.

A few responses felt that more detail was required as to how the payments would be merged.

## Sample of comments received to Question 3

"Small businesses do not need additional larger bills in January. The system should remain as is regarding class 2 with weekly/monthly collection."

"All rates the same - payable monthly - on assessment like income tax"

"Simplify tax! No benefit for anyone for complicating tax, except maybe accountants."

"This should help cash flows for the business"

"You should not ask questions like this without outlining (with examples) the financial impact."

"Yes in the interest of simplification there should only be one charge to NI in respect of self-employed income. However, the NI liability to self-employed persons should be more reflective of the benefits that will be accrued and the clear difference between employed and non-employed persons should be reduced. No it should be due 1st April as straight after Christmas is very tight for people so would be fair to give people time."

"This is administratively practical for both tax payer and treasury"

"No payment should be in advance, Cash flow is sometimes 150 days late in our industry and if the government run on the basis that everyone has perfect cash flow it will cause problems."

## Summary

Although there was significant support for merging the payments of Class 2 and Class 4 some suggestions were received regarding frequency and timing.

Treasury will now consider the best way forward and will commit to giving at least 12 months advance notice of any change to the payment of Class 2 and Class 4 National Insurance contributions.

# Question 4

**Do you have any further information or comments that you may consider relevant?**

135 respondents answered this question.

## Key findings

This non-quantitative question required 'freeform' commentary. It was aimed at receiving further information or comments in respect of aligning definitions.

The majority of respondents who offered 'freeform commentary' did so in respect of National Insurance in general and not the aligning of definitions with income tax.

The few respondents who did respond on the alignment of definitions had differing opinions. One respondent felt that alignment should be abolishing National Insurance, another felt alignment is a good idea while another thought the definitions being aligned and their effect should be specifically consulted on.

## Summary

Treasury will consider all general comments made in respect of National Insurance and where appropriate consult on any future changes.

Treasury intends to align the definitions of employment income and benefits by virtue of employment. Should Treasury consider there to be a direct effect on the public it will consult with the public on detailed proposals.

# Chamber of Commerce

The Chamber of Commerce surveyed its membership on questions 1 and 2 of the consultation. Of the 40 members of Chamber who responded to the survey, 62.5% responded in the negative to both question 1 and question 2.

As with the responses received directly the responses in favour focussed on the fairness of the system and that those who may need to rely on state services should contribute equally, regardless of how they structure their affairs, i.e. employed or self-employed.

The majority of submissions were negative however and included various arguments similar to those raised by direct respondents. Examples of the reasons given:

in respect of question 1:

- owners of OMBs bear considerable financial risk;
- often have no guaranteed income or pension yet may have invested heavily into the business;
- OMBs are the "lifblood of any growing economy"; and
- the suggestion of a reduced rate or some other form of allowance for the self-employed and owner managed businesses to reflect the risk that these individuals are taking by choosing not to be employed.

in respect of question 2:

- tax is payable on dividends and so, ultimately, the contributions balance out;
- the question pre-supposes that OMBs are structured **in order to** avoid NICs which is not the case;
- one response indicated that if the proposal were to be progressed, they would cease to trade;
- the proposal removes any incentive to be entrepreneurial; and
- the owners of OMBs pay tax and NI on their directors' salary.

Question 3 was not put separately by Chamber to its members. However, two responses were received: one was positive, based on the assumption that the proposal leads to a reduction in the administration of both self-employed individuals and Treasury; one negative, on the basis that the proposal would create additional cash flow pressure at the start of what is for many companies the new financial year, for self-employed individuals this could create a strain on cash flows and the timing of this & the other changes set out in the proposed reform are badly timed given the current fragile economy & ever increasing overhead costs associated with running a business. Question 4 was not put separately by Chamber to its members and no feedback was received.

# Conclusion

Treasury are of the view that there is strong support for the initial reform of National Insurance.

There is an overarching desire from the public for fairness and that is the principle on which Treasury will move forward. All responses to the consultation will be considered in developing the next steps.

Any changes to National Insurance contributions in respect of owner managed businesses will be further consulted on when detailed proposals are available.

Treasury will give at least 12 months advance notice in respect of changes to Class 2 and Class 4 payments.

National Insurance definitions of employment income and benefits by virtue of employment will be aligned with the Income Tax definitions. At present, Treasury do not see this impacting directly on taxpayers but if the position changes in this regard further public consultation will take place.

# Delivery Plan

## Merged Payment of Class 2 and Class 4 National Insurance

February 2023 – Commence project to merge payment of Class 2 and 4 National Insurance to be due on 6<sup>th</sup> January following the year of tax assessment.

January 2024 – Implement merged payments of Class 2 and 4 National Insurance for the 2024/25 tax year due and payable on 6<sup>th</sup> January 2026.

## Address fairness in relation to Owner Managed Businesses (OMB's)

Spring 2023 – Commence a working party to identify methods to ensure fairness in relation to OMB's and the amount of National Insurance payable.

Winter 2023 - Consult on proposals to ensure fairness in relation to OMB's and the amount of National Insurance payable.

2024/25 – Commence project and draft legislation on National Insurance and OMB's.