Class 4 NICs - Repeal of certain Class 4 National Insurance contributions Reliefs

Who is likely to be affected?

The self-employed.

General description of the measure

Two reliefs will be repealed. They represent reliefs that are now redundant due to the introduction of independent taxation and the abolition of the aggregation of income by section 32 of the Finance Act 1988.

Policy objective

These repeals support the Government's objective of simplifying the tax system and are part of a package of measures which will repeal reliefs that are no longer necessary, have outlived their policy rationale or are distortive.

Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 tax reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

Consultation on the abolition of 36 reliefs was published on 27 May 2011 and views were requested on the Government's proposals to repeal these reliefs. The government response was published on 6 December 2011. These documents are available on both HM Treasury and HM Revenue & Customs websites.

This Tax Information and Impact Note (TIIN) replaces the TIIN published on 6 December 2011.

Detailed proposal

Operative date

The measure to remove these two reliefs will take effect on 6 April 2014.

Current law

Paragraph 3(3) Schedule 2 of the Social Security Contributions and Benefits Act 1992 (SSCBA) contains a provision that enabled certain losses that arose either to a self-employed person, or their spouse, from income other than a trade, profession or vocation to be set off against the amount of profits chargeable to Class 4 National Insurance contributions (NICs). The provision covers the tax year 1989-90 or any previous year of assessment. The relief was a transitional provision and maintained the loss relief determined under previous rules. The losses can be carried forward indefinitely, but must be given against profits of the earliest year possible.

Paragraph 9 Schedule 2 SSCBA contains a provision that enabled certain losses that arose to a self employed person, from income other than a trade, profession or vocation to be set off against the amount of profits chargeable to Class 4 NICs for the tax year 1989-90 and previous years of assessment. This was a transitional provision and the need for it has now expired. It does though set out the order of set-off for trading losses in calculating the amount of profits of gains on which Class 4 NICs is due. However Para 3(5) Schedule 2 SSCBA sets out the allowable reliefs and the order of set-off for Class 4 NICs.

The measure repeals the equivalent provisions in the Social Security Contributions and Benefits (Northern Ireland) Act 1992

Proposed revisions

The reliefs will be repealed by primary legislation.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-	nil	nil	nil	nil
	This measure is not expected to have an exchequer impact.					
Economic impact	This measure has no significant economic impacts.					
Impact on individuals and households	Class 4 NICs paid by the self-employed do not count towards any benefit entitlement. Due to the passage of time and the existence of other legislation the provisions to be repealed have expired or become redundant. It is therefore expected that the abolition of these reliefs will not impact on any individuals or households.					
Equalities impacts	Potential impacts have been considered and no different impact has been identified on people with protected characteristics					
Impact on business including civil society organisations	As more than 20 years since the latest year in which the relevant losses could have been incurred the use of the reliefs is likely to be small (if at all), although the losses can be carried forward indefinitely. As such, the impact on micro businesses' compliance costs and administrative burdens is likely to be negligible or the relief and its effect have been superseded by legislation.					
Operational impact (£m) (HMRC or other)	There will be no operational impact for HMRC.					
Other impacts	Small firms impact test: Operating the relief would have had an impact on sole proprietors and partners when it was available. The single response (from a representative body) to the consultation specifically about this relief, however, clearly suggests that it is now redundant and that there will, therefore, be no impact on small firms from its abolition.					

Monitoring and evaluation

The changes do not require monitoring or evaluation. It removes an unnecessary exemption and a redundant election. Any correspondence received on the impact of the repeals will be dealt with on a case by case basis.

Further advice

If you have any questions about this measure, please contact Raj Nayyar on 0207 147 2521 or e-mail: raj.nayyar@hmrc.gsi.gov.uk

Declaration

David Gauke MP, the Exchequer Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.