Health and social care levy

TTL NEWSLETTER SERVICE ARTICLE **September 2021**

On 7 September 2021, prime minister Boris Johnson announced new provisions to pay for health and social care. These provisions have two elements:

- a new health and social care levy, and
- an increase of 1.25% in the rates of income tax on dividends.

These two provisions are introduced from April 2022, though the levy is introduced in two stages. The levy is expected to bring in £11.4 billion a year, and the dividend increase £0.6 billion. For the first three years, the bulk of this revenue will go to the National Health Service.

From 6 April 2022, the levy is in effect introduced as a **national insurance charge**. The rates for classes 1, 1A, 1B and 4 national insurance each increase by 1.25%. There is no change to the rates for class 2 or 3 national insurance.

Under present rules, an employee pays 12% national insurance on annual incomes between £9,568 and £50,270, and pays 2% on income above that figure. From 6 April 2022, for one year only, the 12% rises to 13.25% and the 2% rate rises to 3.25%. The draft regulations appear not to impose this additional charge on the reduced rate that is paid by some women who married before May 1977.

There are 6.2 million people who earn less than the earnings threshold. They are not affected by this change. The average taxpayer earns £24,100 a year. He or she will pay an extra £180 a year. The richest 14% of earners will pay 50% of the additional charge.

The employer's rate is 13.8% on all income above £9,568 a year with no upper limit. From 6 April 2022 for one year, this rises to 15.05%.

There are several provisions that excuse an employer paying employer's national insurance. These include the employment allowance that allows some employers to deduct £4,000 a year. There are exemptions for employees under 21, apprentices under 25, military personnel moving to civilian work and (soon) workers in freeports. All these provisions apply to employer's national insurance in 2022/23.

The self-employed pay 9% **class 4** contributions on earnings between £9,568 and £50,270, and 2% on earnings above. Those rates change to 10.25% and 3.25% respectively.

National insurance is payable by employees and self-employed between the ages of 16 and 66. Employers pay national insurance for employees aged 16 and above with no upper age limit. This increase in national insurance does not affect employees aged 66 or over, though it does affect their employers.

From **6 April 2023,** national insurance rates return to the rates for 2021/22. Instead there is a new tax called health and social care levy. This will be shown as a separate deduction on payslips. The employee will pay 1.25% of earnings above the earnings threshold of £9,568 (or possibly a slightly higher figure). The employer will also pay 1.25% on earnings above this threshold.

The levy is subject to the same reliefs as currently apply to employer's national insurance.

Unlike national insurance, this new levy is paid by all employees and self-employed over 16 with no upper age limit. Employees and self-employed workers will pay the levy even if they are over 66.

The levy will be administered by HMRC and be paid through the PAYE system. These changes will be given effect in Finance Act 2022 and in social security law.

The other side of this equation is a **cap on social care.** This cap applies from October 2023 – 18 months after the tax provisions. It limits a person's expenditure on care to a lifetime limit of £86,000.

If a person's wealth, including the value of their owned home, is less than £20,000, they pay nothing. If it is between £20,000 and £100,000, payments are capped at 20% of wealth each year until the lifetime limit has been reached. Otherwise payments must be made until they have reached £86,000. The government expects the finance sector to develop insurance products to cover this expenditure.

The rules up to 30 September 2023 are that only those with assets below £14,000 pay nothing, Those with assets above £23,500 pay the full cost of care.

The £86,000 only applies to care costs in dealing with activities of daily living (ADL). These are basically washing, dressing and feeding. The cap does not apply to other costs such as residential accommodation, food, outings and similar. About one million people need help with ADL.

Provisions are to be introduced so that no-one has to sell their home to go into care.

There are some related changes to other welfare provisions. The government says that it will end the practice whereby privately funded residents of care homes pay up to 40% more to subsidise council funded residents. There will be other changes to means-tested benefits.