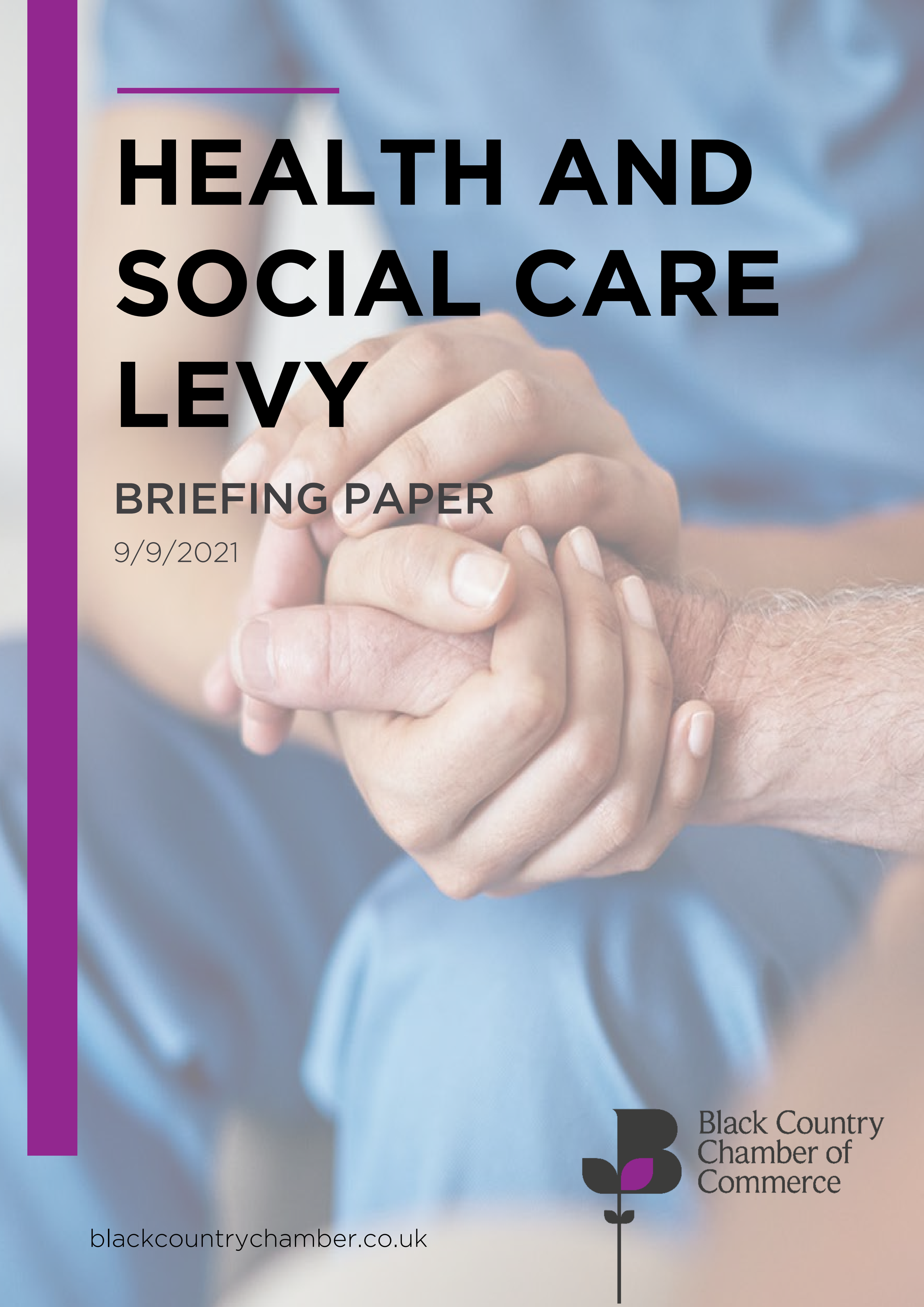


# HEALTH AND SOCIAL CARE LEVY

## BRIEFING PAPER

9/9/2021

Black Country Chamber of Commerce

## Health and Social Care Levy: Background

As part of the UK Government's 'Build Back Better' campaign, the Prime Minister set out a plan to help the National Health Service (NHS) recover from the COVID-19 pandemic and support improvements to the social care system in the UK.

Politicians on both sides of the house have long agreed on the need to reform England's social care system, which helps older and working-age people with high care needs to carry out tasks such as washing, dressing, eating and taking medication.

Additionally, there has been a gap in funding for the NHS for a number of years and COVID-19 has stretched the healthcare system to its limits with waiting times set to increase further. A proportion of this funding will be to help fill this gap.

## How will the levy work?

On Wednesday 8th September 2021, MPs voted 319 to 248 in favour of this bill, which included the 1.25 percentage point rise in National Insurance for workers and employers to help fund health and social care.

National Insurance is a tax paid by employers and on employee's earnings. It is automatically deducted from workers' pay packets via the pay as you earn (PAYE) tax code and goes straight to HM Revenue and Customs (HMRC).

Employers and employees currently pay Class 1 National Insurance, which is based on how much an employee earns. The rate is currently 13.8% for employers, while employees pay 12% on their earnings, between £9,564 and £50,268 a year. Anything earned over this amount is taxed at 2%.

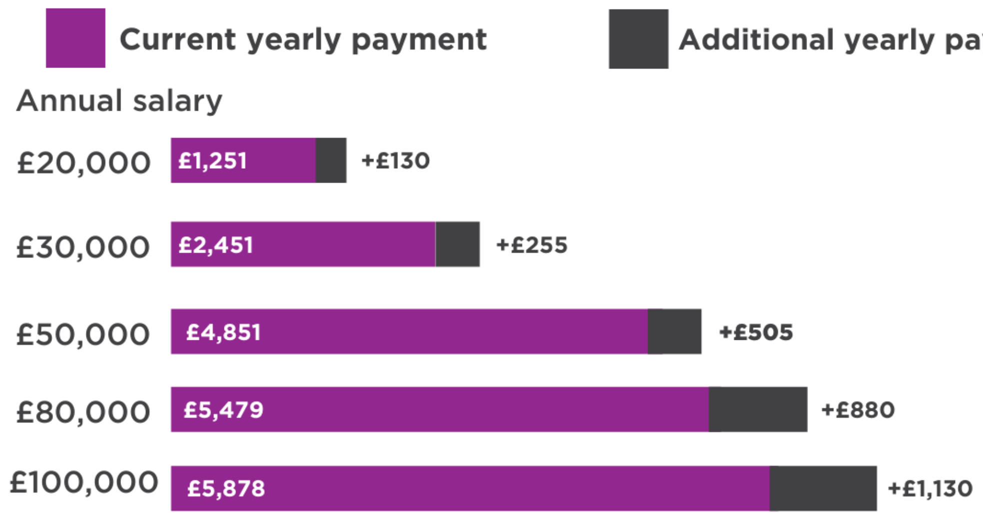
- 1.25 percentage points on national insurance rates and dividend tax rates
- The levy will be paid by working adults including those over the state pension age. From April 2022, while systems are being updated, NICs rates will rise by 1.25 points.
- Employed pensioners will pay the new NIC rates for first time
- Tax increases to be consolidated into a new health and social care levy by April 2023 will be visible as a separate line on an individual's payslip. It is at this point that working adults above pension age will contribute to the levy.

In its 2019 manifesto, the government promised a long-term solution for social care and that it would not raise National Insurance or income tax. However, due to added pressures placed on the NHS following the COVID-19 outbreak, it today announced a 1.25 percentage point increase in National Insurance for both employers and employees. The rule changes will come into effect on 6 April 2022, at the start of the new tax year.

## Example

As an example, a staff member on a gross salary of £18,000, would currently pay £1,012.32 in national insurance. With the 1.25 percentage point rise, this figure increases to £1,117.77 a year. That means individuals would pay an additional £105. Employer contributions on the same salary would go from £1,264.08 to £1,378.58, resulting in an increase of £115. The image below shows an example of how the levy will affect a range of salaries.

### Increases to employee National Insurance contributions




Source: Gov.uk

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## How will the additional tax on dividends work?

Taxes on company dividend payments are set to increase by 1.25 percentage points from April 2022 as part of social care reforms.

As part of the scheme, basic-rate payers will now pay 8.75 per cent tax on dividends, up from 7.5 per cent. Higher-rate payers are now expected to pay 33.75 per cent, up from 32.5 per cent, and top-rate payers will pay 39.35 per cent up from 38.1 percent.

There is also a £2,000 dividend tax-free allowance on top of the £12,570 personal allowance if a person only receives income via dividends. However, dividends held inside an Isa will not be taxed.

Anyone taking home more than £2,000 a year are set to face a slightly higher bill:

- Basic-rate payers receiving £3,000 in dividends must pay dividend tax on £1,000 and see their bill rise from £75 to £82.50.
- Anyone taking £10,000 in dividend payments needs to pay 33.75 per cent on £8,000 of dividends with a dividend tax bill of £2,700. This is an increase of £100 from the current system.
- A sole trader who pays the top-rate of 45 per cent income tax and takes £25,000 in dividends would pay the new 39.35 per cent rate on £23,000.

## How will the levy be used?

The introduction of the UK-wide 1.25% 'Health and Social Care Levy', which will come into play from April 2022, on earned income, along with a dividend tax rate increasing by the same amount, will raise almost £36 billion over the next three years and will contribute to better healthcare and improvement in technology and systems.

### Health wins big

- £11.2bn additional spending in 2022-23 across the UK
- Distributed as normal to England, Scotland, Wales and Northern Ireland
- Money to clear backlog of operations and reduce waiting lists
- Provides more secure health funding until 2024-25.

### Incremental reform to social care

- Cap of £86,000 on individuals' social care spending from October 2023
- Provides insurance so people do not have to fear huge bills
- One in seven people face social care costs above £100,000 at age 65
- All costs paid by the state once private assets fall below £20,000.

## Get in touch

If you or your business would like to learn more about the Levy or how it may impact you, get in touch with our Policy team or explore our website to see how you can get involved with our campaign and lobbying work.

A membership with the Black Country Chamber of Commerce will give you access to a wide range of business guidance, savings, and support on everything from policy to international trade.

To learn more about our membership, visit our webpage here or book an appointment with one of our advisors.

Contact: External Affairs Team

Email: policy@blackcountrychamber.co.uk

Explore our campaigns: blackcountrychamber.co.uk

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*The information in this paper is correct as of 9/9/21.*

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