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SOCIAL CARE & THE NATIONAL INSURANCE TAX RISES ! – WHAT HAPPENS NEXT !

BACKGROUND

As a result of an effort by the Government to deal with the issue of '**reforming social care'** and also supporting the NHS post the COVID pandemic across the UK, the Government announced some new tax changes **- to fund an amount of £12 billion per year !**

Obviously part of the expected '**positive**' benefits of the additional social care funding, will be changes to the amount of savings/assets that can be retained when a family member has to move into care, along with 'caps' on total costs etc.

These changes are initially going to result in an increase in **National insurance (NI) contributions** for working adults of 1.25% (and Employers), as well as an increase by in the tax levied on dividend earnings !

KEY DETAILS

In practice, the changes will take effect in two stages:

- **From April 2022** - **National Insurance contributions (NICs)** will increase by an amount of 1.25% for **one year only** from April 2022 for all taxpayers i.e.

  - Employees
  - Employers, and the
  - Self-employed

  The changes will therefore impact **Class 1** (***both Employee and Employer*** will pay an additional 1.25% each), **Class 1A and 1B** and **Class 4** (self-employed) NICs.

  Please note - those above State Pension Age are **NOT** impacted by the April 2022 changes.

- At the same time **(April 2022),** there will also be an increase by 1.25% in the rate of income tax which is paid by taxpayers who receive dividend income from shares.

- **From April 2023** – the increase in **National Insurance contributions (NICs)** will be replaced with a new 'ringfenced' **Health and Social Care Levy** of 1.25% for all taxpayers i.e.

  - Employees
  - Employers, and the
  - Self-employed

  It will again impact **Class 1** (Employee and Employer), **Class 1A and 1B** and **Class 4** (self-employed) NICs.

  Please note – unlike the changes in April 2022, this new **Health and Social Care Levy** will apply to those over State Pension age - who are in work.

- When the new levy comes into effect, the **National Insurance** rates will revert back to their current levels

- The increase by 1.25% in the rate of income tax which is paid by taxpayers who receive dividend income from shares will remain as per April 2022.

- The **Health and Social Care Levy** will be operated using the usual thresholds etc for National Insurance, and will be administered by HMRC and collected through the current processes being used for NICs e.g. **Pay As You Earn and Self Assessment.**

NEXT STEPS

In simple terms, our view is that this is a **'tax increase'** for Employees **AND** Employers from April 2022**,** and will add to the costs of taking on additional employees !

We also believe that it can be viewed as a **tax on small business** i.e. not only adding to the costs of employment, but also to the costs of taking remuneration from that small business !

Per some initial comments from the **Chartered Institute of Taxation (CIOT)**, they have also highlighted some additional issues, as follows:

1. The avoidance of **Employer NICs** is one of the main drivers of misclassification of individuals as self-employed rather than employed (i.e. false self-employment), and this increase in the rate of employer NICs is likely to exacerbate this problem.
2. By supplementing the **National Insurance** increase with a rise of the same size in tax on dividends the Government have ensured that those who take their income in dividend form will contribute to the costs of the health and social care package they have announced - **BUT those who make a living from letting out property, for example, will NOT be affected by the tax increases announced today.**
3. It represents a significant increase in tax **on employment and business**, in order to, among other things, help more people keep their homes and other assets in old age and pass them on to their descendants when they die. That is, taxing working age people more to protect the property wealth of older people.
4. The new **Health and Social Care Levy**, by being established separately from **National Insurance** (and with slightly different rules), represents a further complication of the tax system.
5. HMRC will need to build the systems to collect the levy. It Is hard to avoid seeing this as a diversion of scarce IT and other resources at a time when HMRC's services to taxpayers and their agents are under severe strain.

Contact us at Sakura if you want to discuss any steps that you may be able to take ahead of April 2022 or to discuss these changes in some further details ! Contact us on 0207 952 1230 or damian@sakurabusiness.co.uk