



THE NATIONAL INSURANCE RISES ARE ALMOST HERE – 6TH APRIL 2022 !

Although there has been much discussion since before Christmas 2021 about the Government's announcement that it would increase both the rates of National Insurance (NI) **AND** tax on dividends by 1.25%, there has **NOT** been a 'U-turn' by the Government - **although a change was announced last week to the NI thresholds which offsets some of the increase !**

However the National insurance (NI) and tax changes will now increase and **apply from the start of the 2022/23 tax year i.e. 6th April 2022.**

The Health and Social Care Levy Act 2021 was passed in October 2021 and in practice delivers a **'transitional'** increase in National insurance of 1.25% for the coming 12 months, which will then be replaced by a more formal health and social care levy – **which will take effect from the tax year 2023/24 !**

What this means is that from 6th April 2022 :

1. For National insurance (NI) :

- **for Class 1 NICs (Employees)** - 12% in 2021/22 becomes 13.25% and the additional primary percentage (2%) becomes 3.25%
- **for Secondary Class 1 NICs (Employers)** - 13.8% in 2021/22 becomes 15.05%
- **for Class 4 NICs (Self Employed)** - 9% in 2021/22 becomes 10.25% and the additional percentage (2%) becomes 3.25%.

2. Dividends :

- although National insurance itself is not due in respect of **'Dividends'**, the changes also include an adjustment at the same time to the rates of tax applicable to **'Dividends'** - **these will also rise by the same 1.25% !**

Finally, and perhaps somewhat surprisingly, HMRC has asked Employers to include the following message on all payslips between **6th April 2022 and 5th April 2023:**

- **"1.25% uplift in NICs funds NHS, health and social care"**

And although it is an 'optional' change, it is aimed at reminding employees of the reason(s) why there is a further **'dent'** in their take home pay !

WHAT HAS CHANGED ?

1. From 6th April 2022, the rates of **National insurance** for Classes 1, 1A and 1B will increase by 1.25% meaning that Employers NI will increase – **which will make employment more expensive for businesses !**
2. From 6th April 2022, similarly most employees will suffer higher levels of NI deductions from their salary !
3. From 6th April 2022, Self employed individuals, will also **be subject to the increases in** National insurance with Class 4 rates also increasing by the same 1.25% for 2022/23.



4. From 6th April 2022, the rates of tax on dividends will also change. **Therefore the ordinary rate will increase to 8.75% (from 7.5%), the upper rate will increase to 33.75% (from 32.5%) and the additional rate will increase to 39.35% (from 38.1%)**
5. From 6th April 2023, the increase in the National insurance rates will drop back to 2021/22 levels, **but instead will be replaced by the Health and Social Care Levy (at 1.25%)**
6. As part of the Government's recent '**Spring Statement**' and under the **National Insurance Contributions (Increase of Thresholds) Bill**, the National Insurance (Primary) threshold and Lower Profits Limit – which impacts employees and the self employed (**BUT NOT Employers !**) will increase to £12,570 to match the Personal Tax Free Allowance for income tax.

This occurs in July 2022 and partially offsets some of the impact of the 1.25% NI increase – **although the increase commences on 6th April 2022 !**

7. Finally there are also ongoing '**freezes**' in the Personal Allowance (or 'tax free allowance (TFA)') AND the basic rate thresholds i.e. the threshold above which higher tax rates are applied to earnings – **which are not due to be increased again until 2026 !**

WHAT HAS STAYED THE SAME ?

With a number of tax rates etc changing from 6th April 2022, it is worth just highlighting some of those reliefs and allowances that have remain unchanged (**and remain valuable to taxpayers**) i.e.

1. The **Dividend allowance** continues to be fixed at £2,000 for all taxpayers i.e. '**tax free**' allowance for dividends
2. The **Employment Allowance**, which can be set against an Employer's National insurance costs has been increased by £1,000 for 2022/23 (from £4,000 to £5,000 per annum).

WHAT ARE THE NEXT STEPS ?

There is probably not a great deal that can be actioned ahead of this change i.e. the increase in the National insurance rates by 1.25% will of course, increase the costs of '**doing business**', but are probably not high enough to justify significant changes in salaries or recruitment levels.

It may make financial sense to take some additional dividends ahead of the 5th April 2022 to avoid the higher dividend rates from April 2022, however with the increase in the NI threshold it means that, for example, directors taking a small salary at or about the Personal '**tax free**' allowance rate (£12,500) will be in no worse a position as previously.

Contact us on 0207 952 1230 or damian@sakurabusiness.co.uk if you want to discuss any of the these issues in more detail.