New Tax Increase Announced

The launch of a social care levy from 2022 will see all taxpayers facing a 1.25% tax charge under government plans, while dividend tax will also rise

From next April the government will create a UK-wide, 1.25% health and social care levy on earned income, hypothecated in law to health and social care, with dividends rates increasing by the same amount. There will also be changes to the amount of savings people can retain when facing a move into care costs and a cap on total cost liability for anyone paying for care home accommodation and care.

The new tax marks a major departure from the Conservatives' manifesto which committed to the triple lock on income tax, national insurance and VAT.

Although it was originally floated as an increase in national insurance contributions (NICs), it will now be ringfenced purely for health and social care costs. The levy will be paid by businesses and individuals, including the self-employed, from April 2022, and this will be extended in April 2023 to workers who continue to work after state pension age. Legislation will be passed to ensure that the charge is an independent tax, discrete from NICs and it will take a year for HMRC to update its systems to accommodate the levy as a separate charge, as opposed to a NICs' increase on payslips.

This means that people earning £24,000, less than the average wage, would pay an additional £260 a year for the levy, which will be clearly indicated as the social levy on pay slips. Anyone earning less than £9,680 will not have to pay the levy.

A typical higher rate taxpayer earning £67,100 will contribute £715. Additional rate taxpayers make up just 2% of individuals affected but will contribute nearly 20% of the revenue raised from individuals.

The dividend tax increase will be legislated in the next Finance Bill and the government said that additional and higher rate taxpayers are expected to contribute

Existing NICs reliefs to support employers will apply to the Levy. Companies employing apprentices under the age of 25, all people under the age of 21, veterans and employers in freeports will not pay the levy for these employees as long as their yearly gross earnings are less than £50,270, or £25,000 for new freeport employees.

Care cost cap

There will also be wide-ranging changes to the costs paid by people facing residential care. The PM set out plans for a limit on what people can be expected to pay. From April 2023, no-one starting care will have to pay more than £86,000 towards their care.

Currently, anyone in England with assets over £23,250 must pay for their care in full.

The savings limit will also be increased to £20,000 from the current £14,000, which means that they will not have to make any contribution to care costs.

Meanwhile anyone with assets between £20,000 and £100,000 will be eligible for some means-tested support. This new upper capital limit of £100,000 is more than four times the current limit. However, if a person's total assets are over £100,000, full fees must be paid.

The supporting document primarily sets out ongoing issues with NHS backlogs and plans to address this, but also gives brief details on how the new asset limits will work.

When these reforms are implemented, around 150,000 people will directly benefit at any one point in time.

A white paper on integrated health and social care will be released later this year setting out more detailed plans.

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