

Health and Social Care Levy

the impact on employers and employees

The Government is introducing a new UK-wide Health and Social Care Levy which will mean significant extra costs for both employers and employees. Self-employed people and those receiving dividend income will also be impacted.



The Levy will be charged at 1.25 percentage points on amounts such as employee earnings that are subject to National Insurance Contributions (NIC). Funds raised by the Levy will be ringfenced for health and social care purposes.

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A standalone Levy charge will be introduced from April 2023, to give HMRC time to put in place systems and procedures to deal with what will effectively be a new tax. Until the Levy is introduced, most NIC rates will rise temporarily by 1.25 percentage points from April 2022.

The increase will affect:

- **Employers and employees - Class 1 NIC** – payable on amounts such as salary, bonuses etc paid via PAYE
- **Employers - Class 1A NIC** – payable on benefits-in-kind provided to employees and reported via P11Ds
- **Employers - Class 1B NIC** – payable under a PAYE Settlement Agreement (PSA)
- **Self-employed - Class 4 NIC** – payable on profits earned by self-employed people. (Note: The flat-rate Class 2 NIC payable by the self-employed, and Class 3 NIC payable by those wishing to plug gaps in their contribution history, will not increase.)

There will also be a 1.25 percentage point increase in the rate of income tax payable on dividend payments. This is designed to prevent avoidance by shifting income from salary, which is liable to NIC, to dividends, which are not.



What will this mean for employers and employees?

As highlighted above, employers pay NIC in several ways - on salaries, bonuses, and many employee benefits. The rates for those different kinds of NIC are all currently 13.8%. Following the 1.25 percentage point increase in NIC from April 2022, and subsequent Levy from April 2023, employers will pay NIC at an effective rate of 15.05%.

Employees have NIC deducted at source at different rates depending on their level of earnings, and each of those rates will also increase by 1.25 percentage points.

These are significant extra costs at a time when many employers and their employees are facing the challenges of Covid and Brexit.

Could salary sacrifice arrangements help mitigate these costs?

At present, NIC savings are possible using salary sacrifice, where employees forego salary on which NIC is payable in exchange for more NIC (and tax) efficient benefits in kind.

Salary sacrifice is a key feature of employers' flexible benefit arrangements, including where salary is sacrificed

for enhanced employer pension contributions or to provide Ultra Low Emissions Vehicles such as Electric Vehicles (EVs).

It is not yet known whether the new Levy will be directly compatible with salary sacrifice, especially post-April 2023 when it is separated out from mainstream NIC. However, we expect salary sacrifice will continue to offer potentially attractive NIC savings on the current rates of employer and employee NIC, which could help offset some of the additional costs arising from the Levy. For example, a salary sacrifice of £2,000 in return for a NIC-free employer pension contribution would save employer NIC (15.05%) of £300. For an employee earning £38,000 of pay subject to NIC, the Levy (1.25%) would cost the employer £475. So in this example the sacrifice could save nearly two-thirds of the cost of the Levy.

Salary sacrifice arrangements that deliver benefits which employees value highly, such as pension contributions and EVs, can also be a key recruitment and retention tool, and drive greater employee engagement. Employers who have not yet implemented these arrangements should consider the advantages they can offer.



Our Human Capital Advisory team can provide you with support on the Health and Social Care Levy and around the implementation of effective salary sacrifice / flexible benefit arrangements. If you would like more information please contact us.



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