HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Mel Stride MP
Chair of the Treasury Committee
House of Commons
London
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(via email)

14 September 2021

Dear Mel

Health and Social Care Levy

Thank you for your letter of 13 September 2021 to the Chancellor about the Health and Social Care Levy. I am responding as Minister responsible for the UK tax system.

The Government is determined to move quickly to put in place a long term, sustainable source of revenue to give health care the extra funding needed to recover from the pandemic and to implement reform to social care as soon as possible. As you rightly point out, the Government has published a number of documents setting out how it will achieve this.

As you note, a preliminary financial analysis is set out in the technical annex to the document '*Building Back Better: Our Plan for Health and Social Care*[1]'.

Over and above this, the independent Office for Budget Responsibility will certify full policy costings in the usual way at the next fiscal event, which the Chancellor has confirmed will be the Budget on 27th October. As their remit requires, and in contrast to HM Treasury, which does not offer economic forecasts, the OBR will consider the economic effects of the levy and the additional spending that it funds in light of their updated economic and fiscal forecast, which they will publish alongside the Budget. The full costing will also rely on economic determinants from that forecast.

However, if I may, I would also like to take this opportunity to bring to your attention other information that has already been provided.

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1015736/Build_Back_Better-_Our_Plan_for_Health_and_Social_Care.pdf

TIIN Analysis

- Turning to the Tax Information and Impact note (TIIN); as you are aware, it is standard practice for HMRC to publish a TIIN for any tax change. Government takes this step to be as transparent as possible about the potential impacts of tax changes and has been producing these notes in exactly the way we see with the TIIN on the Levy since 2010.

- TIINs are a useful part of the process of explaining and understanding tax policy. However, it is important to be clear about the limitations of the analysis.

- These are technical documents which **only** consider the tax impacts and do not look at the cumulative picture.

- In this instance, that means the document is not a full and proper picture of the impact on families or the economy since it does not consider the around £12 billion a year for three years that the Levy will enable the Government to spend on health and social care. This spending will stimulate the economy.

- That is why it is important to note that HMRC's language in the Levy TIIN is deliberately conditional; HMRC have not modelled the macro-economic impacts or impact on family formation, and the assessment is based on a judgment considering only some elements of the tax points in isolation. The increase in dividend tax rates, which is highly progressive, was also not taken into account.

- As members of the MPC told your Committee last week: 'one should not ignore one half of that policy announcement as far as…their effects on the economy are concerned …this is not on the face of it a very significant tightening of fiscal policy'[2].

Exchequer Impacts of the Levy in isolation

- The Government will account for the revenue that will be raised by the Levy at the next fiscal event, when the costing will be certified by the OBR.

- As I have highlighted above, the Government expects the net revenue of the Levy and the increase to the rate of tax charged on dividend income to be around £12 billion per year on average over the next three years. This will be available for Health and Social care spending across the UK.

- Around £11.4 billion of this amount is accounted for by the Levy and around £0.6 billion from the increase to dividend tax rates. Both figures are calculated on the basis of their net impact across the tax and welfare system. The precise profile will vary, particularly in the earlier years after the tax changes have been introduced, due to the behavioural response of taxpayers to these changes.

- The net Levy revenue figure is calculated by taking the gross amount which we expect the Levy to raise (after accounting for its direct interactions with other taxes and

2 Dr Ben Broadbent to the Treasury

welfare), which is around £16.4 billion per year. A further adjustment is then needed for indirect effects, which reduce the net yield to the Government.

- As the methodology notes for HMRC's publication 'Direct Effects of Illustrative Tax Changes' show, a change to the rate of Class 1 employer NICs would be expected to have additional exchequer effects from earnings and business profits depending on the assumed incidence of an employer NICs rate increase.

- In order to calculate the net fiscal impact of the Levy it is necessary to estimate the impacts on the tax and welfare system that result from these indirect effects and subtract them from the gross revenue estimate. This is estimated to be around £3.2 billion per year.

- Finally, the estimated public sector employer contributions to the Levy are subtracted, as the Government intends to compensate departments and other public sector employers in England at the Spending Review for the increased cost of the Levy and provide Barnett consequentials on this funding to the devolved administrations. If the Government did not take this step then the spending power of public services, including the NHS, would be reduced. This adjustment reduces the amount that is available from the Levy to spend on health and social care by around £1.8 billion per year, bringing the total funding available to around £11.4 billion per year[3].

- The published TIIN set out that the operational costs to HMRC for the Levy were being quantified. It is not unusual for TIINs to be updated, and the Government will publish final estimates before the measure comes into effect in April 2022. I can update the Committee that the current estimate of HMRC operational costs is in the range of £40-50 million including IT costs and resource.

Impact on Businesses

- Employers will pay the Levy for employees earning above the Secondary Threshold (£8,840 in 2021-22), although existing reliefs will apply for employers of apprentices under the age of 25, all employees under the age of 21, veterans, and new employees in Freeports.

- The Employment Allowance allows eligible employers[4] to reduce their annual employer National Insurance liability by up to £4,000. An estimated 40 per cent of all employers[5], around 640,000 businesses, are expected not to pay the Levy due to the Employment Allowance in 2022-23.

- The next 40 per cent of businesses (665,000 employers) will face an average increase of just £450 per year, likely less than 0.1 per cent of their average turnover, and less than 1 per cent of their overall wage bill.

3. The adjustment for compensation of public sector employers for their contributions to the Levy includes compensation to the NHS and Local Government. However, this additional funding has not been included in the £12 billion figure for the additional funding being made available for health and social care across the UK as it will not represent an increase to spending power in these sectors.
4. For details see https://www.gov.uk/claim-employment-allowance/eligibility
5. Employers are defined as employers that have a wage bill with a NICs liability, and wage bill is defined as a wage subject to assessment for NICs.

Impact on Individuals

- The Levy is progressive. Under the Government's plans, 6.2 million individuals whose earnings are below £9,568 will not pay a penny, and those earning more will pay more.

- A typical basic rate taxpayer (earning £24,100) will contribute £180 (£3.46/week). A typical higher rate taxpayer (earning £67,100, top 15 per cent of earners) will contribute £715[6].

- Additional rate taxpayers make up just 2 per cent of individuals affected but will contribute nearly 20 per cent of the revenue raised from people.

- The highest earning 14 per cent will pay around half the revenues.

As ever,

Jesse

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6. Source: Forecast income levels for 2022-23 are from internal HMRC analysis based on HMRC's annual Survey of Personal Incomes, a representative sample of individuals in HMRC's PAYE, Self Assessment and repayment claims administrative systems. For further information, please see https://www.gov.uk/government/collections/income-tax-statistics-and-distributions.