How to mitigate the impact of new tax rise

The Health and Social Care Levy Act 2021 (the levy) was introduced to pay for an increase in funding for health and social care. The implementation of the levy will occur in two stages, both of which will have considerable impact on employers. So, what do employers need to know about the change, and what steps are available to help them mitigate any impact?

According to the Office for Budget Responsibility, the levy is expected to raise £12.4 billion a year over the next three years and, as National Insurance Contributions (NIC) is not a devolved tax, it will apply to the whole of the UK. IR35 legislation will also be affected by the changes, with the charge being included within the deemed employment tax and NIC calculations for workers who are engaged by the fee payer.

The two stages

The levy is being implemented in two stages in order to give HMRC time to update their systems. Firstly, from 6 April 2022, there will be a temporary 1.25% rise in NIC for employees, employers and self-employed individuals, while dividend income tax rates will also increase by 1.25%. This means that both Class 1/1A and 1B NIC rates will rise to 15.05% for employers. HMRC is also requesting that employers, where appropriate, include the following message on payslips: '1.25% uplift in NICs, funds NHS, health & social care'.

A separate levy, known as the Health and Social Care Levy, will then be introduced for the 2023/24 tax year, which will be shown separately on employees' pay slips. This new levy will apply to both the employer and employee at a rate of 1.25% – a combined levy rate of 2.5%. Class 1/1A and 1B rates will revert back to their normal levels. However, when the levy is a standalone charge it will continue to be charged on benefits attracting employer NIC liability (i.e., Class1A/B NIC). Employees over pension age will also be liable to pay the new levy, unlike ordinary NIC.

Overall, the new levy is expected to increase the monthly NIC bill of the average employer by approximately 10%, a considerable cost on top of the rising prices that businesses up and down the country are currently having to pay.

Steps to mitigate the impact of the levy

However, there are a number of steps that employers can take to reduce the impact of the levy before it comes into effect on 6 April 2022. Firstly, employers may wish to consider paying any discretionary bonuses to employees before the levy comes into effect.

Moreover, employers would be wise to review or make greater use of any salary sacrifice arrangements that are currently in place, including pension contributions for those employees who participate in defined contributions schemes, cycle-to-work schemes and any electric and ultra-low emission car schemes that employees are eligible to take part in.

If employers do not have schemes of this kind already in place, they should consider implementing them to reduce the earnings of employees upon which the levy will apply. Furthermore, both pension and electric car salary schemes are good retention and recruitment tools for employers to use.

Where employers have share incentive schemes in place, these schemes should be reviewed for any elections which may be in place where an employee is required to pay the employers Class 1 NIC liabilities and also amended to include the levy from 2023/24. In addition, employers would be wise to consider using tax advantaged share schemes in place of bonuses or increased remuneration.

For any employees that have been sent on secondment between the UK and countries not covered by any social security agreements, their NIC situation should be reviewed. Furthermore, where there is a secondee that has come from a country with whom the UK has not entered into a social security reciprocal agreement, there may be scope to employ the secondee locally prior to any secondment, thus reducing the NIC liabilities during the first 52 weeks of the secondment to the UK.

Existing policies, such as private medical care, should also be reviewed to identify any cost savings, while employers should consider making greater use of tax-exempt benefits such as annual medical check-ups or introducing discounts on goods and services. Businesses should also consider if it is possible to declare and pay dividends before 6 April 2022.

Finally, in addition to taking steps to mitigate the impact of the levy, employers must review their budgets and forecasts to ensure that the additional costs presented by the levy have been fully considered. These changes are likely to have a considerable impact on a business' costs, so it is therefore vital that all options are explored, and the required steps are taken to reduce the impact.

Please contact our employment tax team should you have any questions.

haysmacintyre

haysmacintyre
10 Queen Street Place
London EC4R 1AG

T 020 7969 5500
F 020 7969 5600
E marketing@haysmacintyre.com

www.haysmacintyre.com
@haysmacintyre

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Contacts

Nick Bustin
Employment Tax Director
T +44 (0)20 7969 5578
E nbustin@haysmacintyre.com

Dinesh Pancholi
Senior Manager
T +44 (0)20 7969 5672
E dpancholi@haysmacintyre.com

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