

# Health and Social Care Levy - Incidence on London Households

October 2021

## Purpose

This note sets out GLA Economics' illustrative estimate of the incidence on London households of the planned introduction of the Health and Social Care Levy from 2023/24 (preceded by an interim increase in national insurance contributions (NICs) in 2022/23).

## Health and Social Care Levy

In September 2021, the Government announced that it will introduce a UK-wide 1.25% Health and Social Care Levy (from here onwards, 'the levy') based on NICs which will be ringfenced to fund the investment in health and social care<sup>1</sup>.

The levy will apply from financial year 2023/24. As an interim measure, in financial year 2022/23 NICs will increase by 1.25 percentage points. NIC rates will then come down to their 2020/21 levels from April 2023 when the levy comes into effect as a legislatively separate fiscal instrument, replacing the NIC surcharge. The interim increase in NICs will not apply to earnings of those above state pension age, although from 2023/24 the levy will apply to workers above the state retirement age<sup>2</sup>.

## Estimating impact on London's households

In order to produce an illustrative estimate of the incidence of the levy on London households, we have followed a simple approach involving the following steps:

- **Estimating regional NIC revenues in 2019/20 as a proportion of the UK's total revenue, based on ONS Country and Regional Public Sector Finances data** (Table 1). By comparing the share of NIC revenues with shares of people in employment, Table 1 highlights that London already makes a disproportionate contribution to NIC revenues, reflecting higher gross pay levels.
- **Taking the Government's estimate of the net tax revenue increase due to the levy once indirect effects (e.g., interactions with welfare payments) and compensation of public sector employers are accounted for.** This is equal to £11.4bn (Table 2).

---

<sup>1</sup> See: HM Government, [Build Back Better: Our Plan for Health and Social Care](#), September 2021

<sup>2</sup> See a recent briefing by the [Institute for Government](#) for a table of NIC and levy rates in future financial years.

- **Applying the proportions in Table 1 to the total in Table 2, to derive an estimate of the incidence on London and other regions/countries.** Overall we estimate that the impact on London households will add up to around £2.3bn per year (Table 3).

## Caveats

- It is unclear to what extent the employer element of the levy will be passed on to households. Businesses may see a reduction in their profits, or they may attempt to pass on the levy to workers (through lower wages), to consumers (through higher sale prices) or to suppliers (by negotiating lower prices). The Treasury's distributional analysis leaves out impacts on employers from its calculations because of this uncertainty, which appears to be in line with the Treasury's standard approach<sup>3</sup>. For the purpose of this analysis of regional incidence we have taken a different approach and assumed that the ultimate incidence of the employer element of the levy will fall entirely on households.
- The analysis is very high-level, and by drawing on the 2019/20 NIC revenue data as the basis for estimating impacts it will not reflect the potential for some of the levy's distinctive traits (predominantly the fact that the levy also applies to earners above state pension age) to alter the incidence across regions. Nor will it reflect the potential for general change in earnings (past and future) to affect regional shares.
- The analysis is very top down and other approaches to regional incidence analysis are possible. Using a more bottom-up approach (starting from estimates of average income loss per household) the Institute for Fiscal Studies ends up with a similar estimate to ours in terms of London impact<sup>4</sup>.
- These calculations are exclusively focussed on the Social Health and Care Levy element of the funding package set out by the Health and Social Care policy paper. It has not looked at the Dividend Tax increase element of the package.

**Table 1: NIC revenues and employment by region in 2019/20**

	Revenue (£m)	%	Employment	%
North East	4,475	3.1%	1,204,500	3.7%
Yorkshire and the Humber	9,578	6.6%	2,591,800	7.9%
North West	13,470	9.3%	3,485,600	10.7%
East Midlands	9,099	6.3%	2,359,300	7.2%
West Midlands	10,984	7.6%	2,772,100	8.5%
East of England	14,669	10.1%	3,106,100	9.5%
<b>London</b>	<b>29,169</b>	<b>20.1%</b>	<b>4,723,900</b>	<b>14.5%</b>
South East	23,535	16.2%	4,662,300	14.3%
South West	10,459	7.2%	2,793,900	8.5%
Wales	5,025	3.5%	1,460,000	4.5%
Scotland	11,425	7.9%	2,656,700	8.1%
Northern Ireland	3,094	2.1%	874,900	2.7%
<b>UK Total</b>	<b>144,982</b>		<b>32,691,200</b>	

Source: NIC revenue estimates are from the [ONS Country and Regional Public Sector Finances, FYE 2020: Revenue Tables](#). Employment estimates are ONS estimates from the Annual Population Survey, taken from [nomis](#).

<sup>3</sup> See: HM Treasury, [Impact of "Building Back Better: Our Plan for Health and Social Care" on households](#), September 2021.

<sup>4</sup> Based on personal communications with Institute for Fiscal Studies analysts.

**Table 2: HM Government estimates of tax raised through the Health and Social Care Levy**

Additional tax revenue raised	£13.2bn
Compensation for the public sector employers' for higher NICs	-£1.8bn
Net revenue raised for the Exchequer	£11.4bn

Source: HM Government, [Build Back Better: Our Plan for Health and Social Care](#), September 2021

**Table 3: Illustrative estimates of regional and country impacts**

	Revenue increase (£m)
North East	352
Yorkshire and the Humber	753
North West	1,059
East Midlands	715
West Midlands	864
East of England	1,153
<b>London</b>	<b>2,294</b>
South East	1,851
South West	822
Wales	395
Scotland	898
Northern Ireland	243
<b>UK Total</b>	<b>11,400</b>

Source: GLA Economics calculations based on ONS Country and Regional Public Sector Finances statistics and Nomis data on regional employment, plus HM Government estimates of the impacts of the levy.

**END**