Social Care: Reform and Funding – 7 September 2021

HIGHLIGHTS

- Government reforms to social care will impact those entering care in England from October 2023.
- The cap for full self-funding will rise to £100,000 from £23,250.
- The lower end means test capital limit will rise to £20,000 from £14,250.
- A total lifetime fee cap will initially be set at £86,000.
- A new 'Health and Social Care Levy' (HSCL) of 1.25% will be added to national insurance contributions for 2022/23. From 2023/24 this will be a separate charge enabling the HSCL to be levied on employees and the self-employed over state pension age (SPA).
- Dividend tax rates will rise by 1.25% from 2022/23.vb

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INTRODUCTION

The question of how to fund social care is one that has dogged politicians of all parties for decades. On entering Downing Street in July 2019, the Prime Minister Boris Johnson said "…we will fix the crisis in social care once and for all, and with a clear plan we have prepared…". On Tuesday 7 September 2021, details of that plan finally emerged.

THE SOCIAL CARE PROPOSALS

The government's reforms will use the existing framework of the Care Act 2014, which in turn was based on a set of proposals developed in the Dilnot report on social care of a decade ago. The new reforms will only apply to care in England, as Wales, Northern Ireland and Scotland have their own care schemes and funding mechanisms.

The main changes, which apply to those *starting care* from October 2023, are:

Capital means testing

The current English system requires anyone with capital of over £23,250 to fund all their care costs – 'self-funding'. The value of an individual's home is generally counted towards the capital means test unless it is occupied by a partner, dependant, or relative aged at least 60. The new rules raise the cap for full fee payment to £100,000, compared with the £118,000 proposed alongside the Care Act 2014.

At the lower end of the capital means test, there is currently no requirement to use any savings to help meet care fees if wealth is below £14,250 (although there may still be an income-based means tested contribution). This limit will rise to £20,000.

Between the upper and lower capital limits there is currently an 'income tariff' contribution of £1 a week for each £250 (or part thereof) of capital above £14,250, an effective rate of 20.8%. The new regime will continue to have an income tariff between the new limits of £20,000 and £100,000. The government's paper says that this will be levied at "no more than 20 per cent", which points to little if any change. At worst, it implies a contribution of £16,000 a year for someone with capital just below the new £100,000 ceiling.

Total fees cap

Currently there is no direct cap on the total amount that an individual can be required to pay for their care. For those entering care from October 2023, there will be a new fee cap, set at £86,000 initially (against £72,000 envisaged alongside the Care Act 2014). The cap will only apply to the costs of personal care, not accommodation charges (sometimes referred to as 'hotel' costs).

The Care Act 2014 based the personal care cost ceiling on the fees that would be paid by the relevant local authority, which are typically much less than self-funders are charged by their care providers. The government says existing Care Act legislation will be used to "ensure that self-funders are able to ask their Local Authority to arrange their care for them so that they can find better value care". Quite what this will mean in practice is unclear – to date care providers have used self-funders to subsidise the fees charged to local authorities.

NHS-funded Nursing Care (FNC)
Currently the individual's care/nursing home is directly paid £187.60 a week to meet the cost of care from registered nurses. This is not means tested and it appears that this payment will continue after October 2023. Full care costs are met under the NHS Continuing Healthcare (CHC) provisions, but these set highly restricted circumstances for payment.

MEETING THE COST

The Institute for Fiscal Studies (IFS) described the measures to meet the proposed costs of the reform as "A Budget in all but name". The amount raised, which the IFS puts at
£14 billion a year, will be directed mainly at dealing with the NHS's Covid related issues until the new care provisions start to operate in two years' time. There are two tax increases to fund the costs involved.

National insurance contributions
As was widely trailed, the bulk of the cost will be met by increasing national insurance contributions (NICs). The mechanics of this are that:

- *In 2022/23* there will be a new 1.25% 'Health and Social Care Levy'(HSCL), operated as an increase on Class 1 (employer and employee) and Class 4 main and higher NIC rates. Thus, all the main in-work NIC rates will rise, although Class 2 (self-employed) flat-rate payments will be unaffected.
- *In 2023/24*, NIC rates will return to their current (2021/22) levels and the HSCL will reappear as a separate 1.25% charge. This separation is necessary to allow the HSCL to be charged on the earnings of employees and the self-employed who are over SPA – currently 66. At present employees and the self-employed past SPA do not pay NICs, although employers generally pay Class 1 NICs regardless of employee age.
- The current employer NIC reliefs, e.g. for apprentices under 25, will continue to apply.

NICs: 2021/22 – 2023/24

Tax Year	**Employer* %**	**Employee %**		**Self-employed %**	
		Main	**Higher**	**Main**	**Higher**
2021/22: NICs	13.80	12.00	2.00	9.00	2.00
2022/23: NICs	15.05	13.25	3.25	10.25	3.25
2023/24: NICs	13.80	12.00	2.00	9.00	2.00
HSCL	1.25	1.25	1.25	1.25	1.25
Threshold (21/22)	£8,840	£9,568	£50,270	£9,568	£50,270

** Under the Employment Allowance employers do not have pay the first £4,000 of Class 1 NICs unless the sole employee is a director OR total NICs for the previous tax year are £100,000 or more.*

Dividends

From 2022/23, all dividend tax rates will rise by 1.25%. This move is designed to discourage private company owners from drawing remuneration as NIC-free dividends, but in practice it is likely to have the opposite effect. Including dividends also has the political benefit of raising some revenue (albeit a small amount) from the wealthy retired, who pay no NICs.

Dividend tax: 2021/22 and 2022/23

Tax Year	**Basic rate %**	**Higher rate %**	**Additional rate %**
2021/22	7.50	32.50	38.10
2022/23 onwards	8.75	33.75	39.35

SCOTLAND, WALES AND NORTHERN IRELAND

NICs and, to a lesser extent, dividends were chosen to fund the social care reform because, unlike income tax on earnings, they are not devolved taxes. As a result, residents of Wales, Northern Ireland and Scotland will suffer increased tax bills for a reform limited to England. However, the amounts raised will be returned to the devolved nations' health and social care services (not the devolved governments) via the Barnett formula.