TAX ALERT

September 2021

TAX RISE WILL HIT WORKERS, EMPLOYERS AND SAVERS

Following the bumper tax rises announced in the March Budget, yesterday saw a further fiscal response from the government to pay for the cost of the pandemic. Designed to finance NHS Covid backlogs and "the biggest catch-up programme in the history of the NHS", as well as social care costs, the Prime Minister outlined a series of tax rises from April 2022. These comprise:

- A 2.5% aggregate tax rise on earnings, comprising a 1.25% rise in Class 1 employee's national insurance contributions (NICs), and a 1.25% rise in Class 1 employer's NICs
- A 1.25% increase in Class 4 NICs for the self-employed
- A 1.25% rise in income tax on dividends from shares

The NICs charges are, in essence, a new tax since from 2023/24 they will be badged as a "health and social care levy" and appear as a separate item on payslips. The new NICs charges will also apply to workers over the State Pension Age.

Rishi Sunak, the Chancellor of the Exchequer, said:

"With national debt set to reach nearly 100% of GDP and our borrowing levels high as a result of the pandemic, we must take the difficult decisions. So we have made the tough but responsible choice to raise taxes. And the only way to raise such significant sums is from income tax, VAT or national insurance contributions (NICs). We believe NICs is the fairest and most progressive approach."

The Institute of Fiscal Studies said that:

"Following a rise in income tax of £8 billion and in corporation tax of £17 billion in the March Budget – the biggest tax raising Budget since Spring 1993 – the Chancellor has announced further tax rises of £14 billion or 0.6% of national income, which if delivered will raise the tax burden in the UK to the highest-ever sustained level."

Despite the NICs levy also applying to workers over the State Pension Age, the tax rises will fall most heavily on the young (whose income is generally derived from working) rather than pensioners (whose income is generally derived from pensions which are not subject to the NICs levy). The combined NICs rate on employee and employer income will rise from 22.7% to 24.6%, reflecting the increasing focus of taxation on earned income, and substantially raising the cost of employment.

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The dividend tax rise of 1.25% will hit not only the notional target of those who structure their employment via a company in order to pay themselves dividends rather than a salary, but it will also hit investors and savers. The top rate of income tax on dividends will become 39.35%. One therefore might expect to see a fuller flow of dividends before the new rate bites on 6 April 2022. The attraction of selling a cash rich company, and paying only 20% capital gains tax, rather than taking dividends will also increase, although there is extensive anti-avoidance legislation which can apply to such a strategy.

The changes mean that Boris Johnson has broken his 2019 General Election pledge not to raise VAT, income tax or NICs. With this pledge broken, the way may therefore be open to further tax rises, particularly in view of the Chancellor's admission yesterday that the only way to raise significant sums to reduce the national debt is through raising income tax, VAT or NICs.

Finally, the government announced that the Autumn Budget will take place on 27 October, in just seven weeks' time. It would appear therefore that we will not have long to wait to find out about further tax rises.

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