

Health and social care levy: reforming our existing National Insurance system could raise the revenue needed in a much fairer way



Andy Summers writes that reforming health and social care funding by focusing tax rises on younger and lower earners is a political choice. He explains how fixing the biggest gaps in our existing National Insurance system would bring in more revenue than the government's new levy and would be fairer than the current plan.

Social care reform is long overdue, and the government should be applauded for having finally brought forward proposals where politicians of all parties have previously ducked the issue.

However, the government's new Health and Social Care Levy is the wrong way to fund it. Despite some last-minute tweaks – adding the levy to pensioners and shareholders – the vast majority of new revenue will come from increasing existing National Insurance rates. Raising these rates is not a new move – the Tories are aping Gordon Brown, who put a penny on rates after pledging not to in Labour's 2001 manifesto.

But adding a new levy without fixing the current National Insurance system is a missed opportunity. National Insurance is arbitrary, regressive, and unequal in application. It is arbitrary because an employee pays more than someone who is self-employed, who pays more than a landlord receiving rent (who pays no National Insurance at all). The new levy makes these disparities worse. It is also regressive because the amount of National Insurance that a person pays, as a proportion of their income, actually falls as their income increases. The new levy does nothing to correct this. And it is unequal because although the levy puts a token burden on pensioners (1.25p in the pound), this is far short of the National Insurance rates that those below pension age must pay.

Many people will say that the PM has put himself in an impossible bind: he's promised not to increase the rates of Income Tax, National Insurance or VAT, but these are the only three taxes where serious money can be found.

That's not right. There are plenty of other ways that a (willing) government could raise significant revenues, more fairly and efficiently than this National Insurance rise. For instance, [raising capital gains tax rates](#) to match income tax would raise around £14 billion: more than the PM is currently targeting from the new levy. [Removing inheritance tax exemptions](#) – without changing the thresholds or rates – could raise up to £7 billion. Or, most controversially, a [new one-off wealth tax](#) could raise a whopping £80 billion, at a rate of 1% per year over five years, on personal fortunes exceeding £2 million. But if this government is committed to the myth that health and social care must be funded from National Insurance, it should do so by fixing the gaps in our current system, not by adding a new levy on top.

In a [new report](#), we have modelled how much the government could raise by removing the current anomalies whereby investment income, and people of pension age, are exempt from National Insurance. The result: scrapping these two exemptions would raise an additional £12 billion – almost exactly what the PM is targeting from his new levy. If we also equalised the National Insurance paid on high earnings (above £50k) with the rate already paid by lower earners, this could raise an additional £20 billion. That could make a big dent in NHS waiting times or help catch up our schools – as well as fixing social care. Or it could be used to fund a *cut* in the main rates of National Insurance by 1.25p.

Compared with the government's plan, our proposed reforms would raise more of the revenue from London and the South East, and from older, wealthier individuals. These are the same people most likely to benefit from a cap on social care costs.

There are plenty of alternatives to this National Insurance hike, if only the government was looking in the right places. Not doing so is a political choice. To govern is to choose, and the PM will find out soon enough if he made the right decision.

About the Author

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