HM Treasury

Illustrative analysis of the impact of "Building Back Better: Our Plan for Health and Social Care" on households

September 2021

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1. This document sets out illustrative analysis of the impact of the combined tax and spending announcements set out in "Building Back Better: Our Plan for Health and Social Care" on household incomes. It shows the immediate, short-run change in income as a result of increases in employee and self-employed National Insurance contributions (NICs) and rates of dividend taxation, alongside an estimate of where benefits from new health and social care spending may fall. These initial estimates will be refined as further modelling is done to understand the impacts of additional tax and spend. A full distributional analysis, showing the impacts of all tax and spending decisions (including this package), will be published alongside the upcoming Budget and Spending Review.

2. This analysis is presented in the year 2022-23. To illustrate who might typically benefit from health and social care spending we have assumed the new funding has a distributional impact similar to past spending (see the Methodology section for further details). It's worth noting that the distributional impacts of the package will evolve over time. For example, from 2023-24 the increase in NICs will be replaced by a new Health and Social Care Levy, which will also apply to working individuals above State Pension age. The benefits of the cap on social care costs will also take some time to reach steady state, because care users will take time to reach the limit. Therefore, health spending will receive a more immediate uplift, with adult social care spending increasing over time.

3. The impact of the increase in employer NICs is not captured here, consistent with the Treasury's standard approach to distributional analysis. Whether, how, and when employers will pass on the impact of this is unclear, particularly in the short run; businesses may choose to adjust wages, prices, or profits, for example, and the distributional impact of each of these can vary. For this reason, we have excluded these impacts in the analysis presented below, though recognise that households will nonetheless be impacted by this part of the package.

4. Charts 1.A and 1.B set out the estimated change in net household incomes, in 2022-23, from:
    - A 1.25% increase in Class 1 (Employee) and Class 4 (Self-Employed, including Partners) NICs, to main and higher rates. As set out in para 3, the 1.25% increase in Class 1 secondary (Employer) NICs is not included here.
    - A 1.25% increase in dividend tax rates
    - An additional £13.3bn on health and social care[1]

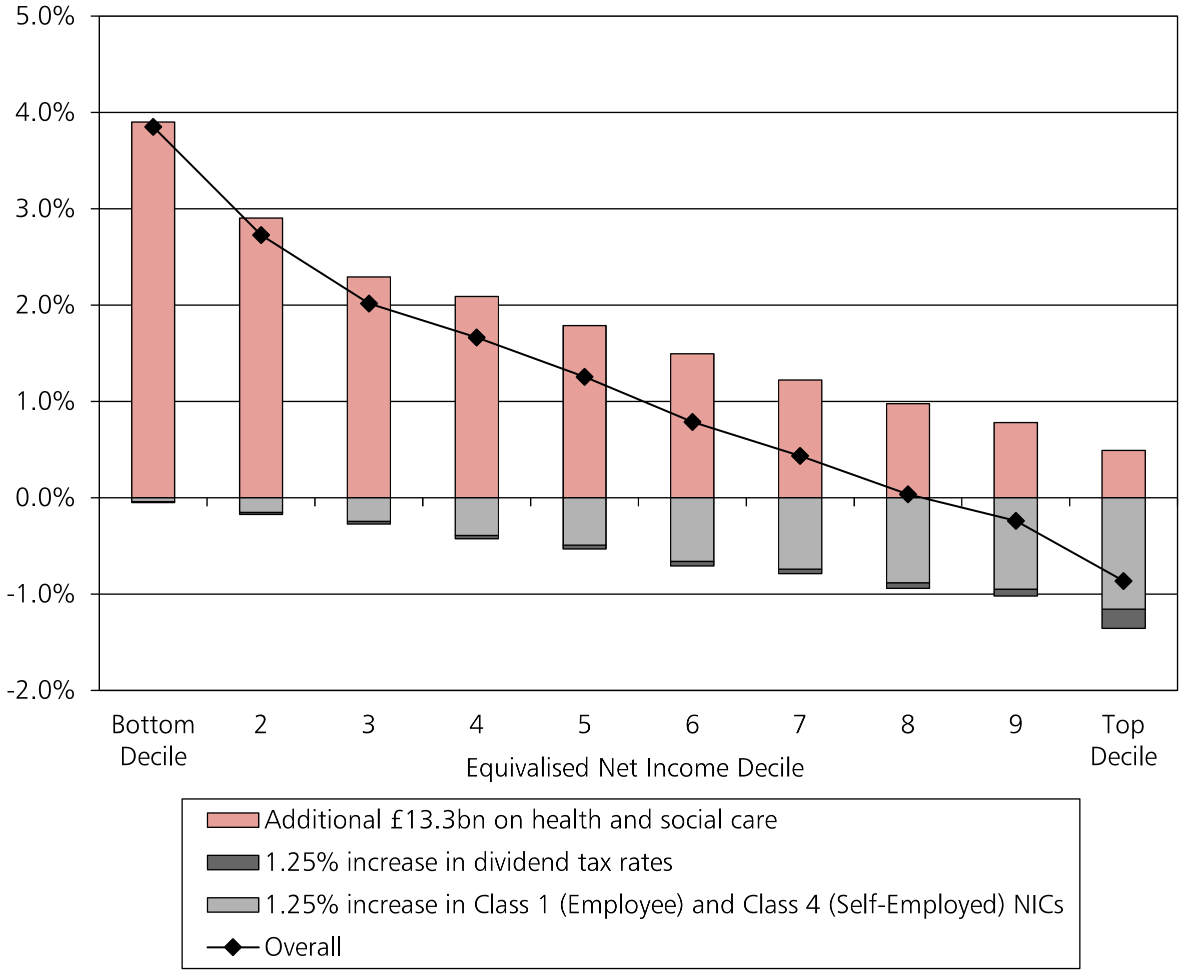
5. Chart 1.A shows these impacts as a proportion of net household income, across the household income distribution, while Chart 1.B is expressed in annual cash terms. Additionally, Chart 1.C sets out our estimate of the proportion of revenue raised, and benefit received, within each income decile.

6. As the charts show (subject to the assumptions used in this modelling), in 2022-23:

[1] Modelling assumes revenues are added to health and social care spending in Scotland, Wales and Northern Ireland.

- Lower-income households will be large net beneficiaries from this package, with the poorest households gaining most (as a proportion of income).[2]
- The 20% highest income households will contribute more than 40 times that of the 20% lowest income households.
- Over a third of the overall tax increases (and over half the increase in dividend tax rates) will come from the top 10% of households, with the majority coming from the top 20% of households

Chart 1.A: Impact of tax and spending decisions on households in 2022-23, as a percentage of net income, by income decile



[2] Note that, because we've excluded employer NICs in this analysis, total tax raised and spend received in these charts will not completely align. However, even if we were to assume that employer NICs impacts pass wholly through to wages, we expect that the poorest households still stand to benefit the most as a proportion of income.

Chart 1.B: Impact of tax and spending decisions on households in 2022-23, in cash terms (£ per year), by income decile

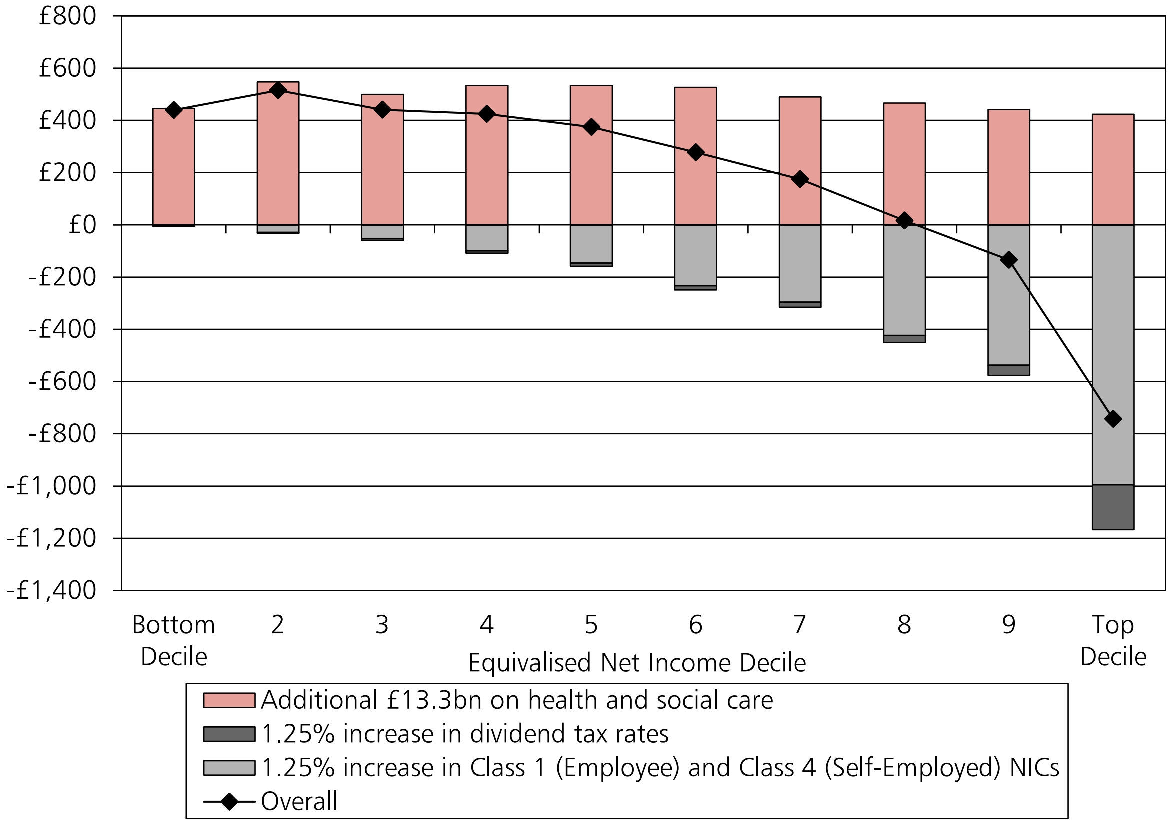
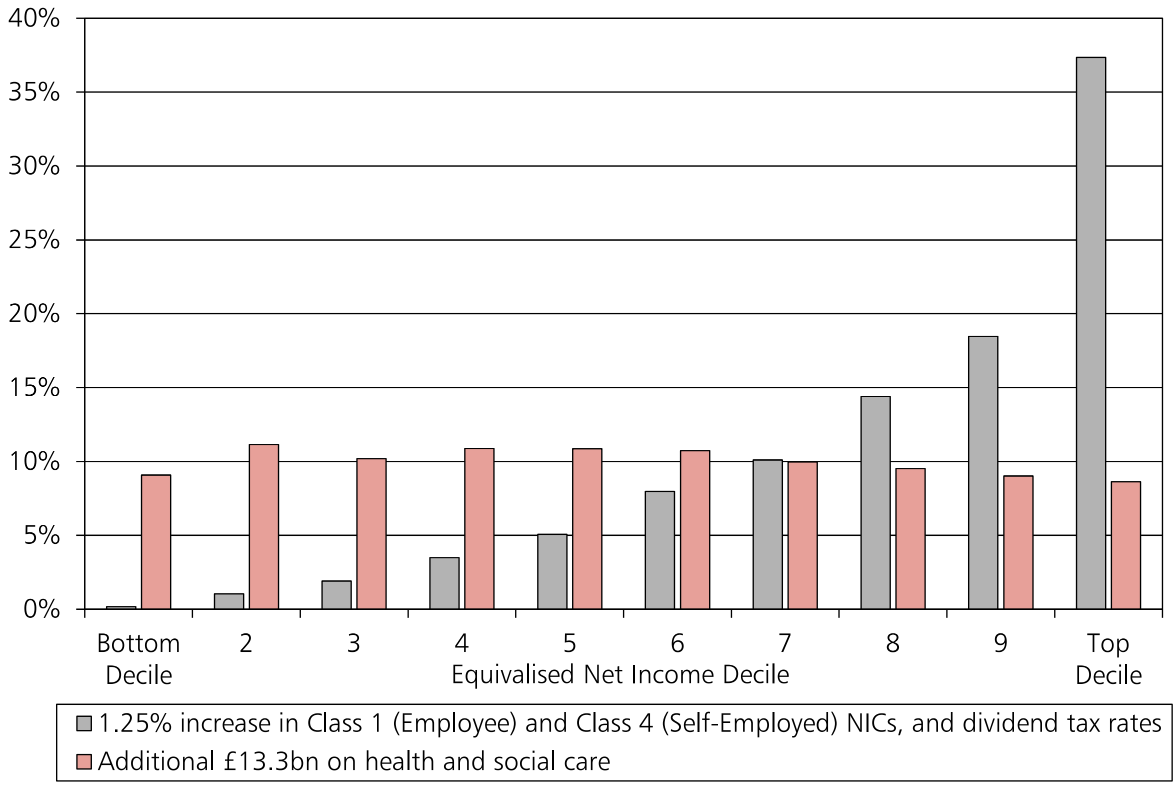


Chart 1.C: Distribution of additional tax raised, and benefit received from additional public spending, by household income decile, 2022-23



Methodology

7. The analysis presented here is derived from modelling and data from a range of different sources:

    - Employee and self-employed NICs impacts are estimated using HM Treasury's distributional analysis model (the Intra-Governmental Tax and Benefit Microsimulation model (IGOTM)), using data derived from the Office for National Statistics' Living Costs and Food Survey. For a more detailed overview of this model, and the underlying data and definitions used, see Chapter 3 of 'Impact on households: distributional analysis to accompany Budget 2021' (HM Treasury, March 2021).[3]
    - The dividend tax analysis is derived from internal HMRC estimates of the impact of this measure on different income tax bands, based on Budget 2021 economic determinants. We then apportion these impacts onto Charts 1.A -1.C by looking at where individual income taxpayers, in each band, sit in the household income distribution. This analysis looks at static impacts, which does not take into account behavioural responses.
    - To illustrate the typical beneficiaries of health and social care spending we have used distributions derived from HM Treasury's public service spending model, which is based on historical data of how the use of services (in this instance, health and social care) varies across household characteristics.[4,5] We recognise that the distribution of this new spend may differ from these historical estimates and, also, that the distributional impacts of this package will evolve over time.

[3] https://www.gov.uk/government/publications/budget-2021-documents

[4] The modelling is consistent with the 'Impact on households: distributional analysis to accompany Budget 2021' publication linked to above, which again contains a more detailed overview of this model and the data/assumptions.

[5] Modelling includes all new social care spending. However, some of the new spending will benefit individuals in residential care homes who do not reside in the private household population, the population on which charts in this document are based. This decision is not expected to affect the broad distributional picture presented here.