



## Health and Social Care Levy – Impact for share incentive schemes

### Background

In September 2021, the government announced a new Health and Social Care Levy (“the Levy”) to apply across the UK to help fund the NHS and future adult social care.

From 6 April 2022 this will take the form of an increase of 1.25% in the headline rates of Class 1, Class 1A, Class 1B and Class 4 National Insurance Contributions (“NIC”). This will apply to working-age employees, the self-employed and employers. At the same time, income tax rates on dividends will also be increased by 1.25%.

From 6 April 2023, NIC rates will revert to the current level, and a separate Levy will be introduced at a rate of 1.25%. This will be payable by employees, employers and the self-employed, including employees and the self-employed who are over state pension age.

The amounts levied will create a ringfenced fund for health and social care and are expected to raise £12 billion per annum.

## Impact on share incentive schemes

We have summarised below some of the anticipated impacts of this NIC rise and the new Levy on share incentive schemes.

### Transfer of employer NIC to employees

Some companies require employees to bear the cost of the employer's NIC liability and transfer this either via a formal NIC election or through an agreement within the conditions of their share scheme.

With the increase in NIC rates from April 2022, employees who bear the cost of the employer liability will be subject to a "double" increase, with additional rate taxpayers paying an aggregate tax rate of 56.53%. Companies may want to consider how this will reduce the benefit of the award. In addition, from April 2023 the separate Levy may not be covered by existing arrangements to transfer the employer's liability (which likely refer solely to "National Insurance contributions").

### State pension age

Individuals above the state pension age do not pay NIC on any income they earn. This will continue to apply for the 2022/23 tax year but once the separate Levy is introduced from 6 April 2023, payments made to all individuals above state pension age will be subject to the 1.25% Levy including many share awards.

### Accounting costs

Companies will need to consider the increased employer NIC liabilities when accounting for their employee share schemes, and this could result in additional expenses for both the current and future accounting periods.

### Hedging

Some companies have arrangements in place to hedge the employer NIC liabilities arising in relation to share awards. Companies may want to review their hedging strategy to include the additional costs arising.

### Tax advantaged share plans

It is expected that from 6 April 2023 the Levy will apply whenever NIC is due. While it is not yet confirmed, this should mean that tax advantaged awards which are exempt from NIC will also be exempt from the Levy. This may make the use of UK tax advantaged share schemes (e.g. CSOP) more attractive. Companies may want to consider using these plans as a cost-effective way to provide rewards to employees.

### Internationally mobile employees

We understand the intention is that anyone exempt from UK NIC under international agreements will not be liable to the Levy and that individuals assigned outside the UK who remain liable to UK NIC will be within the scope of the Levy; however, no official statement to this effect has yet been released.

#### Deloitte's view

The increased charges from 6 April 2022 may be unwelcome for companies recovering from the effects of the pandemic.

The Levy is likely to increase the costs relating to employee share schemes, although there is the possibility of mitigating these by utilising UK tax advantaged plans.

Employers may want to consider the increased cost arising on existing and future awards, and any knock-on impact on existing incentive arrangements, such as hedging strategies or NIC transfer agreements.

Employers may also want to consider how to communicate the impact of the Levy to participants in their employee share schemes.

#### Who to contact

If you would like to discuss the above communication or any other equity services we provide (detailed [here](#)), please speak to your usual Deloitte contact or any of the following:

**Anita Grant**, Partner, 0118 322 2861 or [email](#)

**Liz Pierson**, Partner, 020 7303 4636 or [email](#)

**Arran Simpson**, Partner, 0161 455 8517 or [email](#)

**Matthew Crocker**, Partner, 020 7007 9845 or [email](#)

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