News

What is the National Insurance rise? Boris Johnson’s tax hike and how much it will cost workers

EXPLAINED

The Prime Minister and Chancellor have doubled down on the controversial policy, but critics think the 1.25 percentage point increase will put even more pressure on households amid spiralling living costs

Boris Johnson and Rishi Sunak have confirmed the 1.25 percentage point rise in National Insurance (Photo: Dan Kitwood/Getty)

By Amy Walker

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The Prime Minister and the Chancellor have doubled down on a controversial £12bn rise in National Insurance – despite reports that Boris Johnson had been "wobbling" over the policy.

Writing in *The Sunday Times*, the pair insisted that the hike is "the right plan" and that they would follow through with the "progressive" policy, which is designed to tackle the Covid-induced NHS backlog and reform social care.

It comes after Mr Johnson faced pressure from some backbenchers to scrap or delay the tax rise while he awaits the findings of Whitehall and police inquiries into claims of lockdown-busting Downing Street parties.

Campaigners had also urged him to discard the policy at a time when households are already struggling with spiralling living costs.

Here we look at where the extra cash raised from the increase is set to be spent, and how it will impact workers.

What is the National Insurance and what is the increase?

From April, National Insurance (NI) is set to increase by 1.25 per cent for workers to raise extra funds for the NHS and social care.

NI contributions, which are deducted from your salary before you get paid, funds services including healthcare, as well as maternity, sick and bereavement pay, and the state pension.

Only those who are earning pay the levy, and stop paying when they reach the state retirement age. The amount people pay is determined by how much they earn.

People pay mandatory national insurance if they are over 16 and:

- an employee earning above £184 a week
- or self-employed and making a profit of £6,515 or more a year

How will it affect households?

Currently, employees pay 12 per cent NI on their earnings between £9,568 and £50,268. From April this will rise to 13.5 per cent, which is expected to disproportionately affect people bottom end of the income scale the most.

- Workers on a salary of £20,000 will pay an additional £130 a year
- Workers on £30,000 will pay around £255 more a year
- Workers on £40,000 will pay around £380 more a year
- Workers on £50,000 will pay around £505 more a year
- Workers on £80,000 or more will face an increase of £880

Those who are earning less than £9,880 a year will not have to pay the increase.

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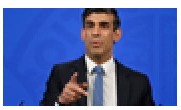

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What will the cash raised from the hike be spent on?

The Government says the changes are expected to raise £12bn a year which will initially be put towards easing Covid-induced pressure on the NHS. A proportion of the funds will then be put towards the social care system.

Their aim is to ensure that from October next year, people in England pay no more than £86,000 in care costs – although this does not include accommodation and food.

From April 2023, NI will return to its current rate but the extra tax will be collected by a new Health and Social Care Levy.

In their co-authored *Sunday Times* article, Mr Johnson and Mr Sunak argue that the policy "is progressive, in the sense that the burden falls most on those who can most afford it".

They argue that "every single penny" will go on crucial objectives to improve NHS services, "including 9m more checks, scans and operations, and 50,000 more nurses, as well as boosting social care".

What are the arguments against the hike?

Critics believe the NI hike should be scrapped because it will make things even harder for families amid rising energy costs and food bills.

Baroness Ros Altmann, a former Conservative minister, called on the Government last week to do the "brave thing" and "hit the pause button".

"Just as their bills will be soaring, people's pay packets will be reduced by the extra NI they have to pay," she warned. "Now is not the moment to add to the burden on hard-pressed working families who are already on a financial knife-edge."

Senior Tory MPs, including Robert Jenrick and Mel Stride had also called for a delay to the policy. Mr Jenrick said 2022 would already be "exceptionally hard" for households.

Labour is also opposed to the rise, with leader Keir Starmer warning that the increase was the "wrong thing to do" as people face rising living costs.