Social Policy & Society: page 1 of 14
© The Author(s), 2024. Published by Cambridge University Press. This is an Open Access article, distributed under the terms of the Creative Commons Attribution-NonCommercial licence (https://creativecommons.org/licenses/by-nc/4.0/), which permits non-commercial re-use, distribution, and reproduction in any medium, provided the original work is properly cited. The written permission of Cambridge University Press must be obtained for commercial re-use. doi:10.1017/S147474642400037X

Taxation and Social Need: Lessons from the Short-Lived UK Health and Social Care Levy

Sally Ruane

De Montfort University, Leicester, UK
Email: sruane@dmu.ac.uk

Meeting social need is usually associated in social policy with the provision of benefits and public services, and the role of taxation often confined to an acknowledgement of its revenue-raising function for the purpose of funding them. Against a backdrop of multiple concurrent challenges shared by many high-income societies, including inadequate social care for an ageing population and unprecedented waiting lists for health care, the UK's experience of the short-lived Health and Social Care Levy is used as a case study to reveal how the relationship between taxation and social need is complex, mediated by a range of factors, and how these contributed to its abolition. The article proposes five different relationships between taxation and social need evident in the story of the rise and fall of the Levy.

Keywords: Taxation, social need, Health and Social Care Levy, health care, social care.

Introduction

High-income countries share a number of challenges in the post-pandemic period, not least of which is the requirement to make health and care systems more resilient to meet need. The SARS CoV-2 pandemic disrupted access to health care and greater reliance on telehealth increases the likelihood of widening inequalities in access through digital exclusion of older people, poorer people, and people in rural areas (OECD, 2022a). The reorientation of health systems around treating severe cases of Covid-19 reduced access to cancer screening and specialist consultations, resulting in delayed cancer diagnoses, with the consequent need for more complex treatment and reduced chances of survival. At the same time, many elective surgical procedures were suspended, leading to a significant backlog of elective care and longer waiting times, reducing patient satisfaction. The pandemic revealed pre-existing weaknesses in health systems including inadequate investment in public health and preventive measures to maximise health and reduce exposure to health risks, poor quality end-of-life care, a shortage of health workers, and structural and other difficulties in adapting to cope with crises and other surges in demand (OECD, 2022a; 2023).

The pandemic underscored the unavoidable inter-dependency of health and social care systems, reinforcing the significance of pre-existing weaknesses in social care, which in many countries is marred by fragmentation of responsibilities, lack of integration with health care, inadequately developed home care services, rehabilitation and prevention

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

strategies, chronic workforce shortages, reliance on informal care, and inequalities of access arising from heavy reliance on out-of-pocket expenses (Spasova *et al*., 2018). The ongoing importance of these challenges is reinforced by demographic trends in ageing and the old age dependency ratio and increases in age related public expenditure relative to gross domestic product GDP (EU Commission, 2021). These challenges and the associated costs of addressing them occur, however, in many countries in a context of straitened financial circumstances and electorally or fiscally unappealing options.

This article examines one major policy response to these challenges: the attempt to raise additional tax revenues to increase funding for health and social care in the UK, a country with persistent capacity shortages in both health and social care and unresolved problems in the social care funding system. The article examines the role of social need both in justifying the new Levy and as a ground of opposition to it. This examination is based on a close reading of general and specialist press reporting, parliamentary documents such as Hansard and House of Commons Library Briefings, analyses produced by specialist bodies such as think-tanks and research institutes, and responses published by stakeholder groups such as trade unions, business associations, and sector representatives.

Meeting social need is usually associated in social policy scholarship with the provision of benefits and public services. The role of taxation is often confined to an acknowledgement of its revenue-raising function – that is, to fund those benefits and services. However, the UK's experience of the Health and Social Care Levy reveals how the relationship between taxation and need is complex, mediated by wider social, political, and economic factors. The article examines how need has featured in the controversy surrounding the Health and Social Care Levy, announced by the UK government in September 2021, implemented in modified form in April 2022, and abolished in November 2022. The article shows how an analysis of the rise and fall of the Levy reveals different elements of the complex relationship between social need and taxation.

A brief overview of social need is followed by a discussion of the design, stated purpose and anticipated impact of the Health and Social Care Levy and then the grounds upon which it was opposed. The article focuses especially upon the role of social need in both the purpose of, and the opposition to the Levy. It then proposes five different ways in which taxation and social need are inter-related in the specific case of the Levy.

The introduction of the Levy was complex since an administratively separate tax could not be established until April 2023 while its introduction was sought twelve months earlier. Because the new Levy was based on National Insurance, the government elected to raise National Insurance Contributions in April 2022 on a temporary, one-year basis and then to apply the Levy as an administratively distinct tax from April 2023. As the experience and impact of these two approaches was identical in every respect bar the application of the 2023 Levy to the earned income of those above the state pension age, the term 'the Levy' will be used throughout this article to refer to both, unless otherwise indicated.

Social need in social policy

A need is something we require, something which is essential. Need is social when it is shared by many individuals, becomes a social phenomenon or feature of society, and when it entails a claim on society for a particular good or service (Spicker, 1993). What counts as a need or necessity and how broadly needs should be defined is open to interpretation and different approaches to measurement. The state plays a major role in

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

regulating the extent to which individuals and households can secure access to the necessities of life not only by shaping the design of and eligibility criteria for income support benefits and services such as health and social care but also by establishing setting public expenditure levels to fund them and tax liabilities. From a social needs perspective, health and social care needs may be conceptualised as those which can benefit from a specific health or social care intervention or from wider social and environmental changes (Wright *et al.*, 1998). Some would add that this implies not only the availability of an intervention which could be effective but also the availability of resources to provide it 'at reasonable cost' (Acheson, 1978). In both, access to publicly resourced services entails formal methods of expert assessment and more or less severe rationing processes.

With regard to meeting other necessities commonly purchased direct through household income, social policy approaches have focused on relative income levels or standards of living or a combination of the two in establishing a level of basic needs. The numbers of those unable to secure the necessities of life are greater than those counted by the more 'official' and commonly used relative income measure (Davis *et al.*, 2021). This is important in a context in which a new tax is being introduced. In its short life the Health and Social Care Levy was the subject of extensive political comment for its role in contributing to people's inability to meet their needs.

The UK Health and Social Care Levy and its basis in national insurance

In September 2021, the UK Johnson government announced plans to increase funding for health and social care through tax rises. The UK-wide tax rises entailed an increase of 1.25 per cent in dividend income tax and a new tax on earned income, a Health and Social Care Levy comprising a 1.25 per cent levy on that portion of income liable to National Insurance (NI) payments. As this Levy was based administratively on National Insurance, subject to the same reliefs, thresholds and requirements of the qualifying National Insurance contribution, it was to all intents and purposes a 1.25 per cent increase in National Insurance Contributions (NICs). In financial year 2022-2023, before the new Levy could be established as an administratively distinct tax on income, the 1.25 per cent levy was implemented through an increase in NI itself. The only departure from the NI model was that the 1.25 per cent Levy was applied to the earned income of those above the state pension age where standard NI was not.

While both the dividend tax rise and the new Levy were linked to additional funding for health and social care (HMG, 2021), only the revenues raised by the new Levy (including the NI rise in 2022–23) were hypothecated in law for expenditure on health and social care. Out of the twelve billion pounds the government believed would be raised by these tax rises, almost all of it, eleven point four billion pounds, would be raised by the new Levy.

Meeting health and social care need through the new Levy

The government explicitly connected the Levy's introduction to facilitating the treatment of patients whose diagnoses and elective care had been delayed by the Covid-19 pandemic and to the support of adults who needed social care, a system 'widely recognised' to be in need of reform.

The government's Command Paper, *Build Back Better: Our Plan for Health and Social Care* (HMG, 2021), stated that 'we all share a commitment' to ensure adults needing social

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

care were looked after, and that a better approach to funding social care was needed to provide a better quality of care and to protect families against its unpredictable and potentially catastrophic costs. The raising of additional revenues through the Levy was accompanied by a commitment to: raising the assets threshold below which individuals could expect public funding towards the costs of social care from £23,250 to £100,000; where assets exceeded £100,000, introducing a cap of £86,000 on the costs of personal care for which individuals would be liable; and improving access to Deferred Payment Agreements (DPAs) (by which local authorities pay up-front care costs and recover these costs plus interest upon the (often post-death) sale of the individual's home) (HMG, 2021: 5,7).

For the National Health Service (NHS), additional funding was required to enable the treatment of those on the waiting list for elective care (then thought to be five point five million people), to place greater emphasis on prevention in the NHS and, more generally, to put the NHS onto a 'sustainable footing' (HMG, 2021: 10). Extra funding was also required to enable those needing care to experience better coordinated care and in the right place for their needs, by bringing the NHS and social care systems more closely together.

The government stated that the scale of the challenge required a new approach. It pledged to spend an extra twelve billion pounds each year for the following three financial years in order to achieve these objectives. As this amounted to a 'significant and permanent' increase in spending, 'it would be irresponsible for it not to be fully funded, especially at a time when borrowing and debt had reached record levels' (HMG, 2021: 7).

The adequacy of the proposals in enabling health and social care needs to be met was immediately challenged by a range of critics including opposition politicians, think-tanks, and representatives of the social care sector. The independent Health Foundation stated that social care needed twenty five billion pounds *additional* funding over the three years (2022/23–2024/25) but that only five point four billion pounds in total would be made available to social care from the tax rises (Tallack *et al.*, 2021). There was no guarantee of extra funding for social care after the three years either (Curry, 2021; Mills, 2021; Murray, 2021). The £86,000 cap on social care cost would not save many householders from selling their homes since the cap applied only to 'personal care', leaving the much higher residential care cost elements of 'board and lodging' uncapped. The Secretary of State's claim that he would ensure individuals could access DPAs was not accompanied by details of the specific measures he would take to do this. As a result, critics believed the combined measures would fail to remove the risk of unpredictable and catastrophic social care costs and would fail to secure the stability of the sector. Some trade unions, concerned that low paid workers were being required to pay more tax, objected to a further tax on income rather than wealth and believed staff in health and social care would leave the sector to find better paid jobs elsewhere, undermining the sustainability of the institutions the Levy was supposed to strengthen, while fairer tax options were ignored by government (Pollock, 2021).

Others warned of the 'gravitational pull' of the NHS (Anandaciva, 2021), whereby the vast bulk of the additional revenues would go to the NHS, not social care. However, the sufficiency of the Levy proceeds to meet NHS patient need was also questioned. NHS Providers, representing NHS trusts, claimed there would be a three point three billion pounds shortfall in 2022-23 alone (Mescia, 2021). Think-tank experts tempered their welcome of the additional funding with warnings that, at a time of high vacancy rates (over

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

Table 1. Increase in the average tax liability and average annual income loss for the poorest UK households

	Average equivalised gross income in 2021/22	Proportion of households required to pay the tax	Increase in tax burden	Percentage loss of income	Loss of income
Decile 1	£16,312	14.4%	0.1 percentage points	−0.11	−£11
Decile 2	£21,695	30.7%	0.1 percentage points	−0.18	−£32
Decile 3	£29,425	39.9%	0.3 percentage points	−0.29	−£62

Sources: ONS (2023); ISER (2021).

100,000 vacancies in England alone), reducing the waiting list required an expansion of the workforce, which could come about only through commitment to a long-term plan (e.g. Murray, 2021).

Measures of the Levy's impact following the September 2021 announcement

Estimates of the net revenue to be raised by the new taxes varied. While the Government suggested twelve billion pounds annually, the Institute for Fiscal Studies estimated fourteen billion pounds. As well as affecting one point six million employers (HMRC, 2021), the Institute for Social and Economic Research (ISER) calculated that 57 per cent of households would pay more tax as a result of the new Levy and that it would, on average, raise the tax 'burden' (sic) by 0.8 per cent for UK taxpayers (ISER, 2021). Although the Levy was progressive in the sense that better-off households would contribute a higher proportion of their income than less well-off households, the ISER analysis found that 28 per cent of households in the poorest three deciles (by equivalised household disposable income) would see increases in their tax liabilities. This impact on the poorest 30 per cent of households, all with gross incomes below half the national average, is shown in Table 1.

ISER also found that while the Levy would slightly lessen inequality, reducing the Gini coefficient by zero point three Gini points, the drop in disposable income would increase poverty rates from 16.2 per cent to 16.3 per cent when measured through a fixed poverty line at 60 per cent of the median equivalised disposable income before the reform. Moreover, the increase would be felt especially among households with children, with no increase among pensioners (ISER, 2021).

Criticisms of the new Levy

The new Levy was subjected to sustained criticism from across the political spectrum from its announcement until its abolition. Part of this had to do with the electoral consequences for the ruling Conservative Party of (a) specifically, breaking a manifesto pledge not to increase NICs and (b) more generally, contradicting its philosophical stance favouring low taxes and small state. It was also criticised for the complexity it added to the tax system as a

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

Table 2. Tax rates for different income/profit sources payable by individuals, April 2022

Tax rates and personal allowance	Tax on earned income			Income tax on dividend income	Capital gains tax**
	Income tax	NI & HaSCL on employees	Total tax on earned income		
Tax-free allowance	£12,570*	£9,880		£2,000	£12,300
Basic rate	20%	13.25%	33.25%	8.75%	10% or 18%
Higher rate	40%	3.25%	43.25%	33.75%	20% or 28%
Additional rate	45%	3.25%	48.25%	39.35%	20% or 28%

*The personal allowance begins to be clawed back once an individual's income reaches £100,000.
**CGT – the higher rate in each cell is applied to gains on residential property only, although not on the sale of primary residences as any such gain is CGT exempt.

third tax on earned income (Adam *et al.*, 2021); the rather meaningless nature of its soft hypothecation to health and social care spending (Adam *et al.*, 2021); and its impact on businesses and the economy at a time when national output had only just recovered its pre-pandemic levels (Bilimoria, 2021; BBC, 2022). However, the strongest and most persistent criticisms of the Levy were couched either in terms of its unfairness or in terms of its incompatibility with other demands on people's income during a 'cost of living crisis'. Denunciation of the inadequacy for meeting health and social care needs was tempered by welcome for any additional funding.

There were several dimensions to the fairness critique. As it was based on national insurance, numerous sources of income escaped the new tax. These included rental income, pension income, profit from the sale of property, and income from interest on savings, annuities, and inheritance. Additionally, the Levy was not applied to income from financial assets, stocks, and shares, although these were subject to the dividend tax rise. Several critics pointed out that these forms of income tend to be enjoyed by the better off: thus, those better placed financially to meet their needs were, in relation to some of their income, protected from the new tax. Moreover, some forms of income attracted additional tax-free allowances and the tax rates to which these other forms of income were subject were lower than those applicable to earned income. Table 2 shows how selected non-earned forms of income, typically enjoyed by better off individuals, were subject to lower rates of tax in April 2022.

By contrast NI, and therefore the new Levy, was payable by people on low earnings – with a threshold set at annual income or (if self-employed) profit of £9,880 (calculated weekly). This concern was shared by Conservative members of Parliament who envisaged damage to their Party's electoral strategy, which depended for its effectiveness upon securing the votes of individuals based in de-industrialised constituencies in the Midlands and the North, who were typically younger and on lower incomes than traditional, more affluent Conservative supporters in the South and around London. A related concern was the generational impact of the new Levy. The Institute for Fiscal Studies calculated that only 2 per cent of Levy revenues would come from pensioner households, while two-thirds would come from households with adults under the age of fifty (Adam *et al.,* 2021).

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

Growing concerns about individuals' ability to afford the new Levy: interaction of the new Levy with wider fiscal and economic developments

As suggested above, when the new Levy was announced in September 2021, most of the unfairness critique focused on the differential liabilities of different sections of the population. Concern specifically about the *ability* of some people to pay the Levy was more often implied in criticism than openly stated. The Shadow Chancellor (Reeves, 2021) stated that some households were facing a number of financial threats including pay freezes, a freeze in the personal allowance for income tax, the prior reduction of income through the furlough scheme (which supported businesses during the pandemic to pay 80 per cent of employees' wages) and its imminent termination, and the reduction of twenty pounds per week for Universal Credit recipients.

Personal finance blogger, Alice Guy, believed that in this context, the new Levy could 'push more struggling families into poverty' (Guy, 2021), stating more explicitly that the new tax would make it impossible for some households to meet their needs. The member of parliament MP for Birkenhead reported that charities in his constituency were predicting that the impending return to the lower pre-pandemic rate of Universal Credit, coupled with rising energy bills, would force another 6,500 people in the Wirral into poverty and that the NI rise would make it even harder for thousands of constituents to make ends meet (Whitley, 2021). Some MPs quoted the startling His Majestys Revenue and Customs HMRC impact assessment, published at the time of the announcement:

> There may be an impact on family formation, stability or breakdown as individuals, who are currently just about managing financially, will see their disposable income reduce (HMRC, 2021).

Interaction of the new Levy with wider economic and geopolitical developments

As time passed, the Levy's perceived role in threatening householders' ability to meet necessary expenses was pushed to the foreground as a central criticism. As alarmed MPs had noted during the second reading of the bill, the threat that the new Levy posed could be understood only in terms of its interaction with other fiscal and economic factors: in other words, in terms of the context in which it was being introduced.

There were two dimensions of interaction. The first involved the interaction of the tax rise with the wider geopolitical and economic context, a major concern by early 2022. This included the erosion in the real value of incomes due to rising general inflation anticipated to reach levels not seen for forty years. The Office for Budget Responsibility (OBR)'s *The Economic and Fiscal Outlook Report* at the time of the March 2022 Spring Statement predicted a possible inflation rate of 8.7 per cent by the final three months of 2022 (OBR, 2022). The dramatic increases in oil, gas, and electricity prices were a particular concern, especially as the energy cap imposed by the regulator was due to rise significantly in April 2022. Oil and gas prices saw their highest levels in more than a decade (OBR, 2022) as a result of high global demand, controls over production by oil-producing nations, and sustained conflict in Ukraine. Prices were also inflated by wider supply chain problems and labour market tightening, exacerbated by Brexit, which resulted in higher wages in some sectors to attract or retain staff (OBR, 2022). Additionally, households were affected by Bank of England decisions to put up interest rates: by June

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

2022, interest rates had been raised five times over a six month period in a bid to reduce inflation. This raised homeowners' mortgage payments and other loan repayments.

The Office for Budget Responsibility predicted that real living standards would fall by 2.2 per cent during 2022-23, the largest financial year fall on record (OBR, 2022). Sir David Davis, a Conservative ex-Minister, couched the tax rises as inappropriate, since the original decision had been based on now out-of-date data:

> It was a judgment made on, frankly, quite a lot of wrong data. They didn't know at the time that by April we would have the highest inflation rate in thirty years, they didn't know that interest rates would be going up, council tax would be going up, the fuel price is about to jump by £700 a year for the average family. Therefore, they didn't know quite what pressure there would be on ordinary people (cited by Jolly and Partington, 2022).

It should be noted that some of the criticism framed in terms of 'ordinary people's' ability to cope financially was expressed by parliamentarians well-known for their belief in a low tax society and some of the ability-to-meet-needs-based criticism may have been a cover for a general anti-tax disposition or an additional expression of it.

Despite criticism of the Levy across the political spectrum, the Chancellor went ahead with its introduction in April 2022. However, he increased (from July 2022) the tax-free personal allowance for NI from £9,880 to £12,570, bringing it into line with the tax-free allowance applicable to income tax. The result reduced overall NICs for those earning under around £35,000 per year (Miller, 2022) and reduced NI revenues by six point three billion pounds, around half the value of the net increase expected from the Levy. Despite this modification, the April introduction of the new Levy triggered yet more criticism focused on the interaction of the new tax with other pressures on families. For example, the trade union UNISON drew attention to the rising costs associated with going to work:

> The cost of living is not the only thing on the up: the cost of working is getting more expensive too. There are rising costs for simply doing your job – whether it's the commute, childcare, using a vehicle for work, car-parking or taxes and, after more than a decade of real-terms pay cuts, public sector workers are being left seriously out of pocket (McAnea, 2022).

Interaction of the new Levy with other fiscal measures

The second type of interaction that affected perceptions of the new Levy concerned the way it interacted with other fiscal measures taken by the then Chancellor. We have already alluded to some of these measures which were cited at the time of the announcement: the removal of the £1,040 p.a. pandemic uplift to Universal Credit and the ending of the furlough scheme. However, by spring 2022, the changing economic context had altered the significance and impact of a number of fiscal measures.

The March 2021 Budget had announced a freeze in personal allowance and higher rate income tax thresholds, effective from April 2022 to March 2026. Initially considered to bring in eight billion pounds a year additional tax, ever higher rates of inflation made these freezes more valuable to the Chancellor and correspondingly more costly to income taxpayers, required to start paying income tax, or a higher rate, at income levels worth much less than they had been previously. In March 2022, the OBR calculated that these freezes would bring the Treasury almost eighteen billion pounds more a year by 2025/26

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

(OBR, 2022:98). Working Tax Credits calculated on the basis of gross income, not net income, could also be lost or reduced for the lowest paid.

The decision in the March 2021 Budget to increase corporation tax for businesses with annual profits above £50,000, with effect from April 2023, would also place pressure on businesses struggling with higher energy bills and now expected additionally to absorb increased NI payments. As many critics pointed out, this threatened the ability of businesses to maintain wage levels and remain solvent, threatening employees with unemployment and income loss (e.g. FSB, 2021).

The cancellation of the Health and Social Care Levy

The summer and autumn of 2022 saw further economic woe. The Bank of England warned in August of a recession between late 2022 and the end of 2023 (Jordan and Race, 2022) and the energy regulator's new price cap for late 2022 tripled the average energy bills of just twelve months earlier (BBC News, 2022).

Criticism of the Levy had not been quelled by its modified implementation; instead, it was given additional impetus by the conduct of then Prime Minister, Boris Johnson, whose repeated transgressions and leadership failures had weakened his standing vis-a-vis Conservative backbenchers. The stated desire to 'draw a line' under these failings and reaffirm Conservative values invigorated an anti-tax discourse among Conservative parliamentarians who wanted to exploit a weak prime minister to advance their policy preferences.

An important component of this discourse was the often repeated claim that taxes had reached their 'highest levels in seventy years'. This complaint, aired earlier, became a strapline for disgruntlement when criticism intensified following Johnson's resignation in July 2022 and for the leadership contest it triggered within the Conservative Party (Gill, 2022). Since the Chancellor, Rishi Sunak, who introduced the Levy and other tax rises designed to reduce borrowing and public debt after the pandemic, became a contender in the leadership election, taxation became a key battleground. The Chancellor defended not only his record but also his 'sound finance' tax philosophy and his opponent, indignant about high tax levels, advocated a free market, low tax approach to economic growth. The Chancellor's opponent, Liz Truss, made it a central plank of her campaign that she would reverse the NI rise. Although the principal justification was the primacy of economic growth, which would be 'choked off' by high taxes, the case for abolition was framed partially in terms of need since households would be better able to cope with rising costs if individuals could 'keep more of their own money' (Gill, 2022).

This proved the more popular vision among Conservative Party members and within two weeks of taking office, the new government headed by Liz Truss confirmed 'cancellation' of the Levy, a year after its first announcement and with effect from November 2022, as the first element of a major tax cutting programme.

Discussion - rethinking the role of taxation in meeting need

We propose a re-conceptualisation of the relationship between tax and social need. Taxes should not be understood as siloed within a 'tax system'. They form part of a complex and evolving set of social arrangements shaping the ability of individuals and households to meet their social needs; they are central to any consideration of how social need can be

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

met. This case study illustrates how taxes impose reductions in income and ability to spend, reducing the resources of many and pushing some into poverty. The satisfaction of need is not the result merely of the 'welfare function' of the state but is partly determined by the operation of a society's tax arrangements.

The analysis here of the Health and Social Care Levy demonstrates that our conceptualisation of the tax-social need relationship needs to go well beyond the revenue-raising function of tax. Instead, we propose that this case study draws attention to five different types of relationship between taxation and social need.

Taxes raise revenues to fund services

The first concerned the function that taxes play in raising revenues to fund services which address individuals' needs. The Levy was introduced explicitly to fund additional expenditure on the NHS and social care system, which were identified as failing to meet their clients' needs. The insufficiency of revenues raised to provide more and better care formed a significant focus of criticism when the new tax was announced, especially for social care due only a small proportion of revenues raised.

Relationship between tax and maintaining the value of the currency

Critics of conventional thinking have argued that taxation, rather than paying for government expenditure, has other macro-economic functions (e.g. Murphy, 2015). By taxing, government can reclaim money it has spent in the economy and prevent the over-supply of money in circulation, which could lead to inflation and push prices beyond the reach of some. Additionally, fiscal policies can secure or jeopardise the confidence of international financial investors, with implications for the costs of both government debt and household mortgages. The abolition of the Health and Social Care Levy formed the first part of a larger programme of tax cuts announced in Chancellor Kwarteng's fiscal statement in the short-lived Truss government. The absence of a plan to fund the abolition of the Levy and other tax cuts, totalling forty five billion pounds, undermined confidence and led to a rapid loss of value in the UK pound and volatility in financial markets, which raised the costs of government borrowing and mortgage costs for millions of homeowners. This exacerbated the cost of living crisis and affected the ability of more people to afford the necessities of life.

Taxes can induce fiscal impoverishment

Taxes reduce the spending power of individuals and households, and several analysts have investigated the role of taxes in pushing households into poverty in high-, middle-, and low-income countries (Martinez-Aguilar *et al*., 2017; Rossignolo, 2018; Schechtl, 2022). The Levy was persistently and corrosively criticised for forcing households into a position where they could no longer afford the necessities of life – thereby, to use Schechtl and O'Brien's (2022) term, inducing 'fiscal impoverishment'. Even before the very high levels of inflation and impact of the war in Ukraine, concern was expressed about the impact of the tax in the context of other policies. The danger of the Levy, combining with other economic, fiscal, and geopolitical developments, and undermining households' ability to secure the necessities of life, served as a lightning rod for criticism in 2022. The Chancellor's decision to increase the tax-free allowance for NI (and therefore the Levy)

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

can be seen as a political and fiscal response to concerns expressed about both fairness and the impact of the tax on social need.

It should be noted that the tax is unlikely to have posed the most significant threat to households' financial stability. For example, rising energy bills and mortgage repayments plus the effect of fiscal drag posed bigger threats (Waters and Wernham, 2022), However, the argument here is that the Levy's significance cannot be understood in isolation from the context of its introduction. In early 2022, the Levy represented a conscious, but avoidable, policy choice when rising inflation exacerbated by an external war was not perceived to be easily resolved through policy intervention.

Tax reliefs and meeting need

Although overlapping with the fiscal impoverishment argument above, we should conceptualise separately a fourth relationship between tax and addressing social need evident in this case study – the use of tax reliefs to meet need. The personal allowance was raised by over £2,500, reducing the numbers of low paid people paying NI and thus the new Levy. The subsequent decision by the *third* Chancellor of 2022, to freeze personal allowances for longer (till 2028) – following the loss of financial credibility consequent upon his predecessor's decision to abolish the Levy and introduce other tax cuts – eroded the value of this tax relief and brought *more* low paid people into the reach of NI.

Relationship between tax and the social policy goal of reducing severe inequality

Taxation can reduce or increase inequality within the multi-step process of household income redistribution, so a fifth aspect of the relationship between tax and social need concerns whether and to what extent the tax levied contributes to the social policy goal of redistribution and inequality reduction as part of the tax and benefits/public services system. Despite criticism of the Levy as unfair in its impact on liabilities, in its analysis of the dividend tax and NI rises back in September 2021 and its associated spending plans (an additional thirteen point three billion pounds spent on the NHS and social care across the four UK territories), the Treasury concluded that lower income households would be large net beneficiaries with the poorest 10 per cent of households benefitting most as a proportion of net income (HMT, 2021). The Treasury's analysis suggests that not only was the expenditure redistributive towards the less well-off but that the Levy itself reinforced rather than detracted from this by being progressive in nature and reducing inequality. It shows the impact for 2022-23 only, and pre-dates the decision to raise the tax-free allowance but the latter would have strengthened the Treasury's case. This is consistent with the ISER (2021) analysis.

Concluding remarks

The article demonstrates that analysis of a fundamental function of the welfare state, meeting social need, requires social policy scholars to go beyond examining public spending programmes and their effects to incorporate consideration of tax arrangements and their interactions with other critical features of society. Meeting need is complex and part of this complexity in the case of the Levy is the tension between meeting health and social care needs while ensuring households can afford the necessities of life in the

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

context of a particular approach to taxation. The significance of a tax, as well as its distributional impact, is established by the circumstances in which it occurs which are always specific to the social formation in which it occurs. The Health and Social Care Levy is not just a story about an increase in direct taxes and the troubled performance of social care and the NHS. It is also the story of free market ideology as a route to economic growth, fiscal credibility and competing conceptions of sound finance, social concern with equity, anti-tax philosophy, war in Europe and global economic developments, along with instability within the governing party and political ambition at a national level.

The Conservative government found itself under intense pressure to increase spending to meet health and social care need in the context of already high post-pandemic levels of public debt (96 per cent) and tax revenues relative to GDP. Its options were limited, however, by its own implicit preference for taxing income rather than wealth and earned income rather than unearned income and for protecting those with higher income and wealth. This ideological approach to tax and redistribution combined with other features of the Conservative Party, which served to create a crisis in the party and a crisis around the Levy. Chief amongst these were: poor party discipline, giving rise to outspoken criticism of the leadership's policy, a rebellion and then a new anti-Levy leadership; and survival in power dependent upon an electoral coalition which included working class voters from de-industrialised areas whose willingness to vote Conservative again would be jeopardised by further pressure on their incomes and a breach of an explicit promise not to raise national insurance. The choice of a new – and third – tax on income and the decision to make a special announcement independent of the Autumn Statement served to raise the profile of the tax and its political significance. Such wider contextual factors as the cost of living crisis, economic instability, and challenges to the Levy's fairness were used by rebellious Conservative parliamentarians to force first a modification and subsequently abolition. The last time a newly created tax was abolished in the UK occurred in 1991 with the Community Charge, popularly known as the 'Poll Tax'. Then, too, the context was an internally divided governing Conservative Party. While, however, public opposition played a key role in discrediting the poll tax, the opposition to the Levy was an elite one, with opinion polls never recording a majority of the public either in favour or against (e.g. Daly, 2022).

The Levy failed as an effort to meet social need and, with its collapse, health and social care did not receive the funding rises initially promised as part of *Build Back Better* (HMG, 2021). Ironically, despite criticism of a 'high tax burden', the UK's tax-to-GDP ratio was below that of most other Western European nations (OECD, 2022b). The UK was alone among advanced economies in introducing a major new tax on income to raise revenues in the context of the multiple challenges facing high income countries following the pandemic. Other governments are likely to have observed its fate closely, learning lessons from the way in which context allows meanings to be conferred upon a new tax and the dangers posed by party disunity.

References

Acheson, R. (1978) What is the need or health care?, *Canadian Medical Association Journal*, 118, 2, 108–11.

Adam, S., Delestre, I., Emmerson, C., Johnson, P., Joyce, R., Miller, H., Ogden, K., Phillips, D., Stockton, I., Stoye, G., Warner, M., Waters, T. and Zaranko, B. (2021) *An Initial Response to the Prime Minister's Announcement on Health, Social Care and National Insurance*, Institute for Fiscal Studies.

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

Anandaciva, S. (2021) 'A combined health and care levy could create as many problems as it solves', King's Fund, August 18.

BBC (2022) '"Lives at risk" without more help on energy bills', August 26. https://www.bbc.co.uk/news/business-62674301 [accessed 10.05.2024].

Bilimoria, K. (2021) 'Our reaction to Government plans for social care reform and funding', *Confederation of British Industry*, September 7. https://www.cbi.org.uk/media-centre/articles/our-reaction-to-government-plans-for-social-care-reform-and-funding/ [accessed 10.05.2024].

Curry, N. (2021) 'The health and care levy: what does it mean for social care?', *Nuffield Trust*, September 17.

Daly, P. (2022) 'Almost half of Britons know little or nothing about National Insurance rise', The Standard, February 16.

Davis, A., Hirsch, D., Padley, M. and Shepherd, C. (2021) *A Minimum Income Standard for the United Kingdom in 2021*, Joseph Rowntree Foundation.

EU Commission (2021) The 2021 Ageing Report: Economic and Budgetary Projections for EU Member States 2019-2070, Institutional Paper 148, EU Commission.

FSB (2021) 'Unemployment to rise by 50,000 due to jobs tax hike, new analysis finds, press release', *Federation of Small Businesses*, September 8. https://www.fsb.org.uk/resources-page/unemployment-to-rise-by-50-000-due-to-jobs-tax-hike-new-analysis-finds.html [accessed 10.05.2024].

Gill, K. (2022) 'Liz Truss scolds Rishi Sunak for "highest tax levels in 70 years"', *The Independent*, no date https://www.independent.co.uk/tv/news/liz-truss-rishi-sunak-tax-highest-b2125206.html [accessed 10.05.2024].

Guy, A. (2021) 'Health and Social Care Levy pushing families to the brink', September 15. https://www.fool.co.uk/2021/09/15/health-and-social-care-levy-pushing-families-to-the-brink/ [accessed 10.05.2024].

HMG (HM Government) (2021) *Build Back Better: Our Plan for Health and Social Care*, CP506, Her Majesty's Stationery Office.

HMRC (2021) *HMRC Impact Assessment – Health and Social Care Levy*, Her Majesty's Revenue and Customs, updated December 13. https://www.gov.uk/government/publications/health-and-social-care-levy/health-and-social-care-levy [accessed 10.05.2024].

HMT (2021) *Illustrative Analysis of the Impact of "Building Back Better: Our Plan for Health and Social Care" on Households*, Her Majesty's Treasury.

ISER (2021) How will the New Health and Social Care Levy Impact on Household Incomes, Colchester: Essex University Institute for Social and Economic Research, September 20. https://www.iser.essex.ac.uk/2021/09/20/-health-and-social-care-levy [accessed 10.05.2024].

Jolly, J. and Partington, R. (2022) 'Scrap national insurance rise, says ex-minister David Davis', The Guardian, January 24

Jordan, D. and Race, M. (2022) 'Bank of England warns the UK will fall into recession this year', BBC News August 5. https://www.bbc.co.uk/news/business-62405037 [accessed 10.05.2024].

Martinez-Aguilar, S., Fuchs, A., Ortiz-Juarez, E. and Del Carmen, G. (2017) The Impact of Fiscal Policy on Inequality and Poverty in Chile. Policy Research Working Paper No. WPS 7939.

McAnea, C. (2022) 'The chancellor should look again at the impact of NI tax hike, UNISON', April 6. https://www.unison.org.uk/news/general-secretary/2022/04/blog-the-chancellor-should-look-again-at-the-impact-of-ni-tax-hike/ [accessed 10.05.2024].

Mescia, C. (2021) 'Recent government funding announcements: what do they really mean for trusts?', NHS Providers https://nhsproviders.org/news-blogs/blogs/recent-government-funding-announcements-what-do-they-really-mean-for-trusts [accessed 10.05.2024].

Miller, H. (2022) Three things to know about National Insurance contributions and the upcoming changes, *Institute for Fiscal Studies*, April 5.

Mills, W. (2021) 'The government's plans for health and social care', *Reform*, September 8.

Murphy, R. (2015) *The Joy of Tax: How a Fair System can Create a Better Society*, London: Transworld.

Murray, R. (2021) 'Raising the levy: will the new health and social care tax work?', *King's Fund*, September 9.

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press

OBR (2022) *Economic and Fiscal Outlook*, Office for Budget Responsibility.
OECD (2022a) *Health at a Glance: Europe 2022*, OECD.
OECD (2022b) *Tax Revenues 2023: UK*, OECD.
OECD (2023) *Time for Better Care at End of Life*, OECD.
ONS (2023) *Effects of Taxes and Benefits on UK Household Income: Financial Year Ending 2022*, Office for National Statistics.
Pollock, J. (2021) 'Tory government's National Insurance hike aims to make workers pay for costs of rationed and privatised Social Care provision', Unite the Union. https://unitetheunionireland.org/2021/09/09/tory-governments-national-insurance-hike-aims-to-make-workers-pay-for-costs-of-rationed-and-privatised-social-care-provision/ [accessed 10.05.2024].
Reeves, R. (2021) *Why Labour will Vote Against a Rise in National Insurance*, Labour.Org September 8. https://labour.org.uk/press/rachel-reeves-speech-outlining-why-labour-will-vote-against-a-rise-in-national-insurance/ [accessed 10.05.2024].
Rossignolo, D. (2018) 'Argentina: Taxes, expenditures, poverty, and income distribution', in: N. C. Lustig, ed. *Commitment to Equity Handbook: Estimating the Impact of Fiscal Policy on Inequality and Poverty*. Washington: Brookings Institution, 516–553.
Schechtl, M. (2022) 'Taking from the disadvantaged? Consumption tax induced poverty across household types in eleven OECD countries', *Social Policy and Society* (online 13 April).
Schechtl, M. and O'Brien, R. (2022) 'Fiscal impoverishment in rich democracies', Luxembourg Income Study Working Paper No.31.
Spasova, S., Baeten, R., Coster, S., Ghailani, D., Peña-Casas, R. and Vanhercke, B. (2018) *Challenges in long-term care in Europe: A study of national polices 2018*, EU Commission.
Spicker, P. (1993) 'Needs and claims', *Social Policy and Administration*, 27, 1, 7–17.
Tallack, C., Shembavnekar, N., Boccarini, G., Rocks, S. and Finch, D. (2021) 'Spending Review 2021: What it means for health and social care', Health Foundation, November 1.
Waters, T. and Wernham, T. (2022) *Reforms, Roll-outs and Freezes in the Tax and Benefit System, IFS Green Budget*, London: Institute for Fiscal Studies.
Whitley, M. (2021) *Health and Social Care Bill, Second Reading*, Hansard.
Wright, J. Williams, R. and Wilkinson, J. (1998) Development and importance of health needs assessment, *British Medical Journal*, 316, 7140, 1310–1313.

https://doi.org/10.1017/S147474642400037X Published online by Cambridge University Press