advice and support for older age
Independent Age

A taxing question: how to pay for free personal care

Contents

Executive summary

Chronic underfunding of social care in England has brought care for the elderly to the brink of collapse.

If current trends continue, support to vulnerable older people will continue to decline, access to social care will predominantly become a service based on ability to pay, and many older people will be left to fend for themselves and forced into crisis. Not only are older people increasingly being let down by a social care system that doesn't work for them, but such pressures are increasingly leading to unnecessary demands on already stretched Accident and Emergency services and the wider NHS.

Urgent action is needed now to stop any further decline in social care and support. The forthcoming social care green paper, the Budget, local government settlement, and Spending Review, all present clear opportunities, individually or collectively, to do this. A new long-term settlement for social care is crucial.

To help inform how best to fund social care, Independent Age commissioned Grant Thornton UK LLP and the Social Market Foundation to assess the effectiveness of nine social care funding policy options available to the government to pay for social care in the future. Each policy option was assessed against the costs of: (1) maintaining current levels of support (2) government preferred cap and floor reforms (3) introducing free personal care.

This analysis has revealed a number of important findings that must be considered when planning the future of the social care system:

1 **Several of the funding options that are regularly put forward as solutions to the underfunding of social care don't even come close to addressing the current funding gap, let alone paying for reforms to the system.** These are:

- increasing business rates
- increasing Corporation Tax
- increasing Council Tax
- increasing Inheritance Tax
- charging National Insurance to the working population over the state pension age

2 **There are several funding options which do raise significant amounts of money and could fund reforms to the social care system, but will result in a growing funding gap by 2030/31.** These are:

- increasing Income Tax
- increasing National Insurance
- introducing an age-related levy from 40 years of age to state pension age
- introducing the payment of a lump sum contribution of £30,000 at state pension age

3 **No one funding option will sufficiently address the funding gap and the necessary reforms to create a social care system that meets the needs of older people in the future.** Funding options that do raise significant amounts of money to pay for reforms to the social care system will not keep pace with the ever-widening funding gap. This means additional action and commitments will be required. This could be done by:

1. **Increasing the level of tax-take on any new funding option:** this will ensure sufficient funding is raised to address the need for social care reforms or
2. **Tax now, tax later:** accepting that there will need to be two tax rises between now and 2030/31 to address the funding gap and;
3. **Addressing the demand for social care, not just plugging the gap:** by realigning current public spending to deliver a wholesale transformation of public health and prevention. This could be done by better utilising the NHS budget towards these goals, and increasing public health budgets with the aim to reduce demands on high cost health and social care provision.

There is a relatively small difference between the costs of the government's proposal to introduce a cap and floor and the option to introduce free personal care for all older people based on current eligibility criteria. While an increased floor would allow more older people with modest assets to benefit from means tested support, the government proposed cap, which does not include hotel costs for residential care, would be of limited benefit to the majority of older people. Even with the cap, individuals with the highest care needs will continue to incur costs well in excess of £100,000. The cap is also unlikely to benefit those with low domiciliary care needs, even if they are chronic and experienced over a long time.

If people are to pay more to fund social care, then it must be clear that they are not just being asked to fund a system that in many cases is not meeting their needs or expectations in terms of availability and quality. They must be reassured they are in fact funding a much improved system that addresses previous failings. Introducing free personal care will result in significant benefits for all older people, enabling them to live in their own homes for longer and supporting them to live independent lives for as long as possible.

A new long-term settlement for care: free personal care

Based on this analysis, and the care and support needs of older people today and in the future, Independent Age is calling for the introduction of free personal care for older people. Initially this will be based on current eligibility criteria, but the ultimate goal is that all older people who need personal care will receive it free at the point of need.

Ending the crisis in social care is achievable with the political will and commitment. Independent Age calls on the government to take the following steps to deliver a social care system that supports older people in later life, reducing their reliance on NHS and statutory services, and enabling them to live with dignity, independence and control in later life:

1. Allocate immediate funding to ensure the funding gap does not increase as a minimum.
2. Introduce a social care contribution aligned to a commitment to provide free personal care.
3. Commit within the NHS 10-year plan, and social care reforms, to radically reform public health and preventative care, to enhance older people's independence.

Introduction

Independent Age commissioned Grant Thornton UK LLP to create a model that would identify how much money would be generated by a number of different policy options available to the government to fill the ever-widening social care funding gap in England. At the same time, we asked the Social Market Foundation to look at the financial impact these policy options would have on individuals of different ages, with different income and wealth. The result is a comprehensive analysis of the relative merits of different funding policy options, key aspects of which are contained in this report[1].

Nine different policy options have been proposed at various times during the prolonged discussion of the future funding of social care. They were analysed by both organisations:

1 **Increasing Income Tax by 1%**
2 **Increasing National Insurance for both employees and employers by 0.5%**
3 **Charging National Insurance to the working population over the age of 65**
4 **Introducing an age-related levy of 0.7% to the working population aged 40 and over**
5 **Introducing a one-off payment at age 65**
6 **Increasing Inheritance Tax by 2%**
7 **Increasing Council Tax by 3%**
8 **Increasing Corporation Tax by 1%**
9 **Increasing business rates by 3%**

To assess the effectiveness of each policy option, the amount of money generated by each option was considered against three different funding gaps. These were calculated on the basis of difference between projected government spending and the total estimated cost of:

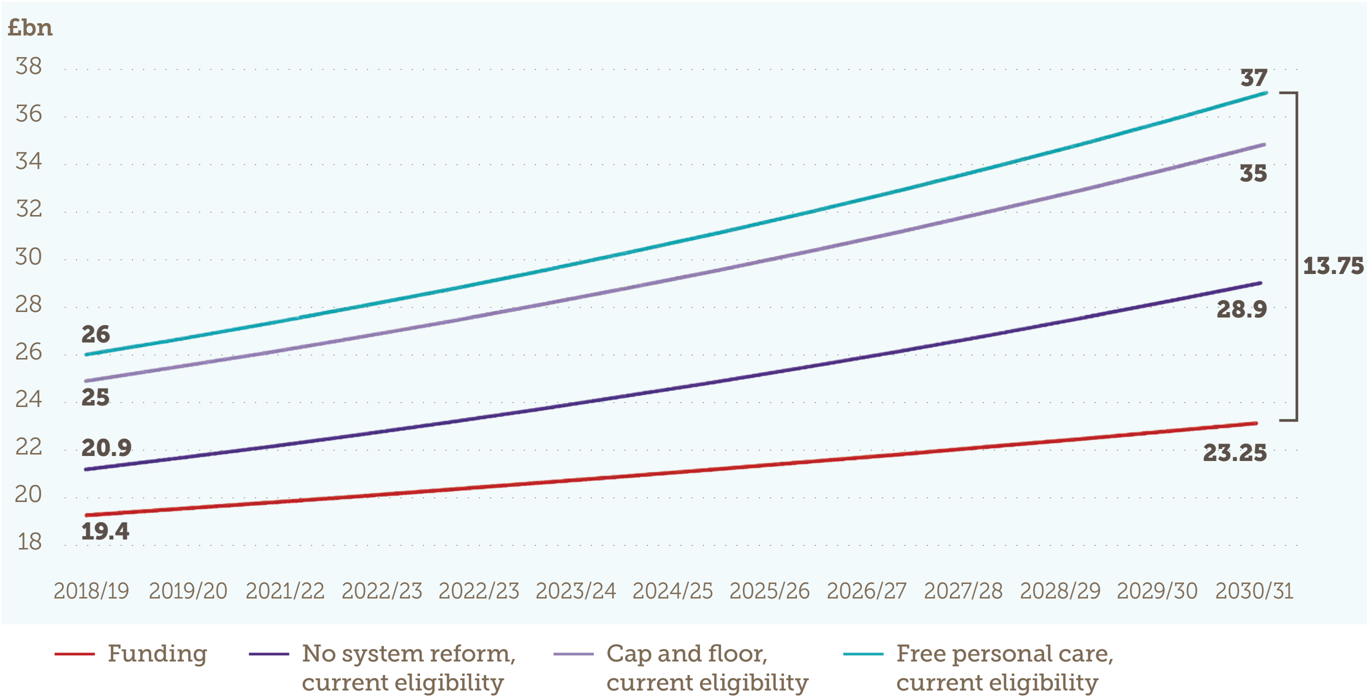
	Cost in 2020/21 (millions)	Gap in 2020/21 (millions)[3]	Cost in 2030/31 (millions)	Gap in 2030/31 (millions)[4]
Maintaining the current system at 2015/16 levels of demand and eligibility	20,900	1.525	28,862	5,612
Reforms to introduce a cap and floor at 2015/16 levels of demand and eligibility[2]	25,000	5,625	35,000	11,750
Reforms to introduce free personal care at 2015/16 levels of demand and eligibility	26,000	6,625	37,000	13,750

Source: Grant Thornton UK LLP

1 Grant Thornton UK LLP's full report on their modelling prepared for Independent Age is available on Independent Age's website: www.independentage.org/policy-and-research/research-reports. The Social Market Foundation's report will be available on www.smf.co.uk. Both organisations retained editorial independence.
2 A cap of £75,000 and a floor of £100,000 were considered for the purposes of the modelling.
3 Based on projected government spending on social care in 2020/21 of £19.375 billion (Kings Fund/Health Foundation).
4 Based on projected government spending in 2030/31 of £23.25 billion (Kings Fund/Health Foundation).

As shown in the graph below, in all four scenarios, the social care funding gaps widen markedly from government funding within the period up to 2031/32. This calls into question whether a solution to the current funding gap would be sustainable over the relatively short period of a decade.

Social care funding gap raised by each option – in current prices



Source: Grant Thornton UK LLP

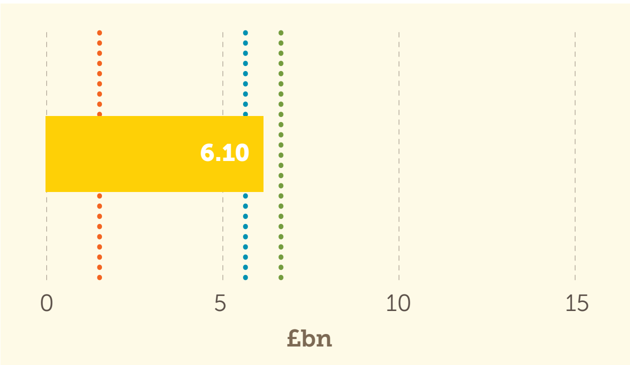
In fact, when projections for the nine funding options are plotted against the three funding gaps, a number of important points become clear. First, several of the funding options don't even come close to addressing the current funding gap, let alone paying for reforms to the system. Second, none of the funding options, at their initial levels, would fund more than the future demand for care in the current system.

On the following pages, we assess each of the nine funding policy options in more detail against the three different funding gaps. We identify how much money each funding option would generate and how much would be needed to pay for free personal care. We also describe the financial impact on people and regions in England of implementing each of the options.

Increasing Income Tax

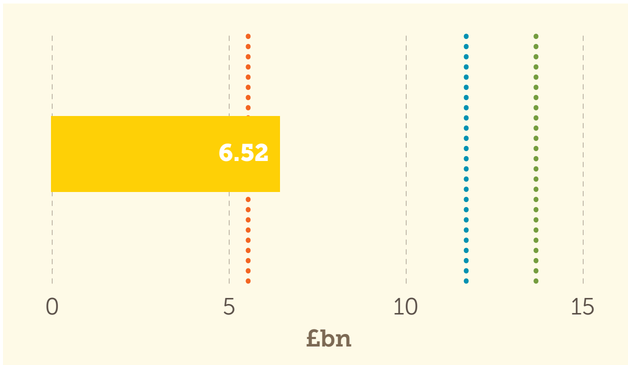
Increasing all rates of Income Tax by 1% would generate an extra **£6.10 billion** in 2020/21. In the short term, this would be enough to maintain both the 2015/16 levels of demand and also fund cap and floor reforms, but would not raise enough funds to pay for free personal care. However, by 2031, this increase would only raise enough to maintain 2015/16 levels of demand for care.

Funding raised in 2020/21 in current prices



Current system – Maintain 2015/16 levels
Reforms – Cap and Floor
Reforms – Free personal care

Funding raised in 2030/31 in current prices



Current system – Maintain 2015/16 levels
Reforms – Cap and Floor
Reforms – Free personal care

Source: Grant Thornton UK LLP

In order for Income Tax to close the gap between government spending and the cost of free personal care in 2021, it would need to be increased by 1.09%. To do the same in 2031, Income Tax would need to be increased by 2.11%.

Who would be affected by an increase in Income Tax?

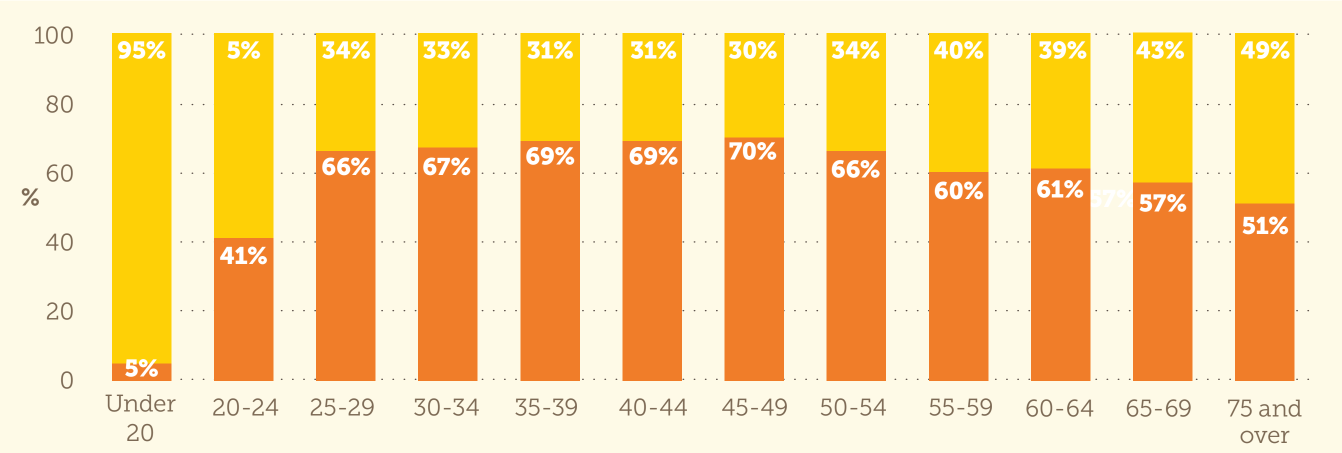
London and the South East combined would contribute 49% of all funding raised nationally from an increase in Income Tax, growing to 49.1% in 2031. The 10 local authorities that would account for the largest amounts of generated income are all based in either the South East, East or London.

Income tax is a progressive policy and, while the tax would be paid by individuals with differing levels of income, the amount they pay is based upon their earnings. However, the Income Tax status of an individual is not influenced by their level of wealth[1]. Over a quarter (28%) of those with negative wealth, for instance, pay Income Tax (these individuals may have large loans or overdrafts). Less than half of those with more than £500,000 in wealth pay Income Tax; these people could be in retirement.

58% of English adults paid Income Tax in 2014/15[2]. The vast majority of those who pay Income Tax are basic rate tax payers, and most are of working age. However, as shown in the following chart, the proportion of individuals beyond the state pension age who pay Income Tax is still considerable. This is because it does not take a very high personal income to go above the Income Tax threshold (£11,500) when their state pension (maximum of £8,546.20) is taken into account.

1 Our wealth measure is net household wealth per adult, which includes financial and property assets, but does not include the value of any pensions.
2 From HMRC data and ONS population figures.

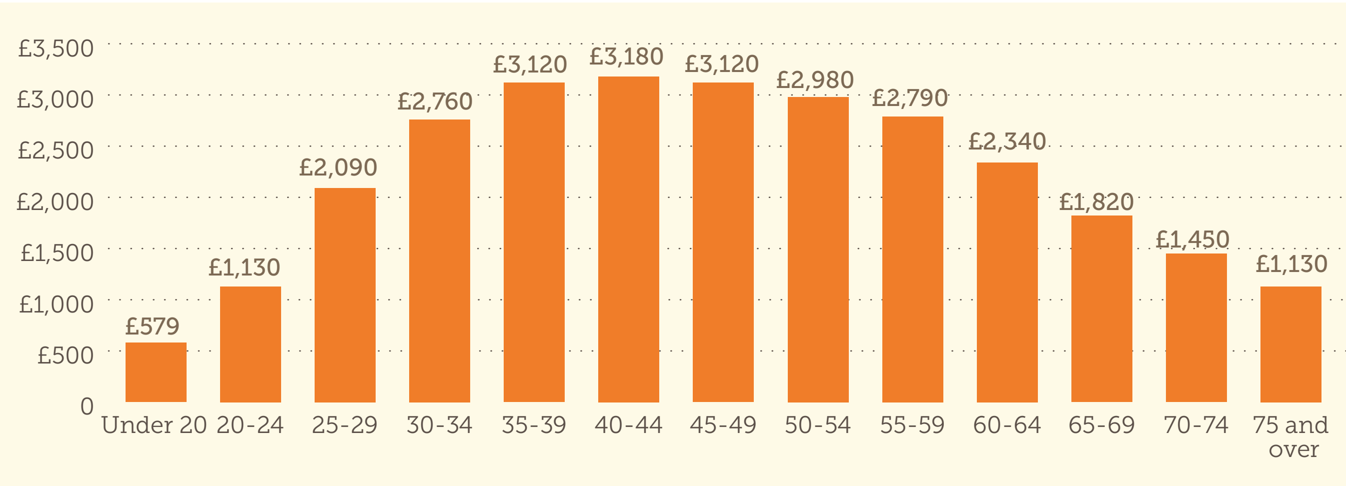
Income tax status by age



Source: HMRC 2018

The amount of tax paid varies substantially by age, with those aged between 35 and 49 paying on average over £3,000 per annum compared to £1,130 for those aged over 75:

Median Income Tax paid per annum by age



Source: HMRC 2018

What would this cost an individual?*

An individual earning the national average salary of £26,832 currently pays a monthly tax contribution of £249.40. If their Income Tax contribution was increased by 1%, they would pay an extra £12.47 per month, which equates to £7,033 over 47 years.

A higher tax earner who earns £98,175 per year currently pays a monthly Income Tax contribution of £2,301.80. If Income Tax was increased by 1%, they would pay an extra £57.55 per month, which equates to £32,458 over 47 years.

* Both scenarios are based on an individual earning the stated salary from age 18 to 65 (used here as a proxy for the state pension age). The purpose of these scenarios is to compare the monthly and lifetime contributions made to this funding option with the costs the individuals could incur if they had to pay for their own personal care in later life. Currently, personal care at home costs on average £15 per hour, and residential care (excluding hotel fees) costs £1,500 per month or £18,000 per year.

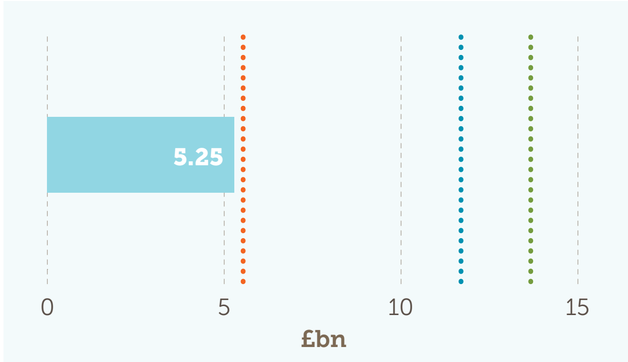
Increasing National Insurance

An increase of 0.5% applied to the employee main rate, employee additional rate and employer rate would raise **£4.92 billion** in 2020/21. In the short term, this would raise enough to maintain the current system at 15/16 levels, but would not raise enough to fund cap and floor reforms or free personal care. However, by 2030/31, the funding option would not quite raise enough to maintain the current system at 2015/16 levels.

Funding raised in 2020/21 in current prices

Current system – Maintain 2015/16 levels
Reforms – Cap and Floor
Reforms – Free personal care

Funding raised in 2030/31 in current prices



Current system – Maintain 2015/16 levels
Reforms – Cap and Floor
Reforms – Free personal care

Source: Grant Thornton UK LLP

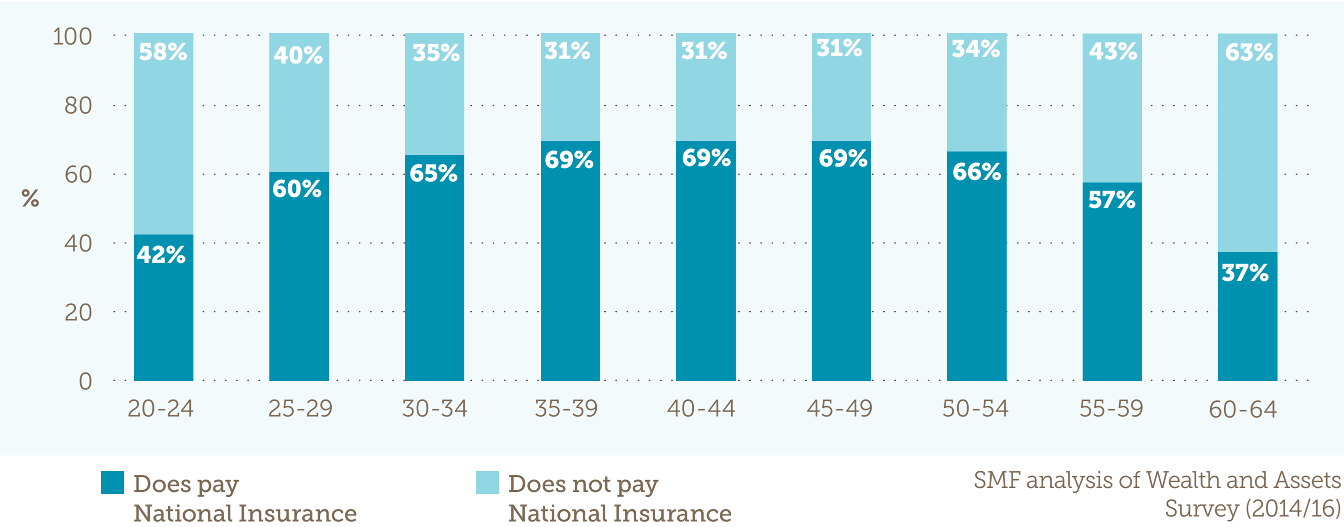
In order for National Insurance to close the gap between government spending and the cost of free personal care in 2021, it would need to be increased by 0.68%. To do the same in 2031, National Insurance would need to be increased by 1.31%.

Who would be affected by an increase in National Insurance?

The regions that would raise the most from an increase in National Insurance by 2020/21 are London (21.8%), the South East (19.6%) and the East of England (11.9%). Nearly two-thirds (65%) of individuals in the South East pay National Insurance, compared to 55% in the North East.

National Insurance is only payable by those under state pension age. As can be seen from the following graph, the likelihood of paying it is related to age. Individuals aged 35 to 54 are the most likely to be paying National Insurance. Those who are younger, or approaching retirement, are less likely to be paying it.

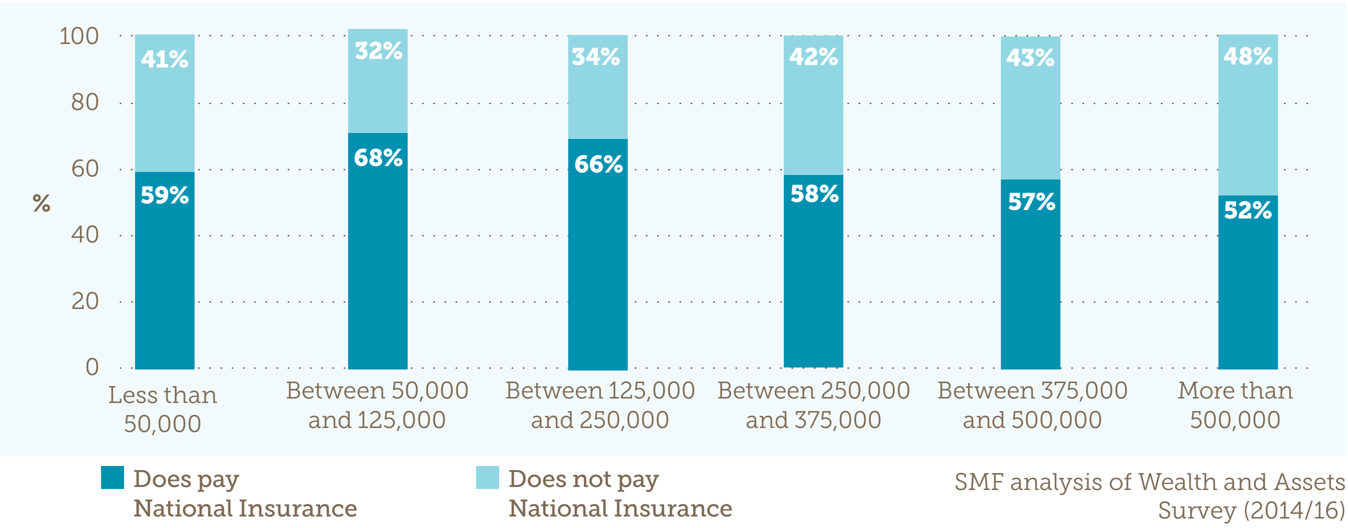
Age distribution by National Insurance payment status, those aged 20 to 64



SMF analysis of Wealth and Assets Survey (2014/16)

More than two-thirds of those with household wealth per adult of between £50,000 and £125,000 pay National Insurance compared to just over half of those with over £500,000 in wealth:

Household wealth per adult by National Insurance payment status, those aged 20 to 64



SMF analysis of Wealth and Assets Survey (2014/16)

There could be several reasons why those with large amounts of wealth are not paying National Insurance. Those in the upper age groups who are approaching retirement currently have a high volume of housing wealth and may be working reduced hours. They may also be reliant on sources of income other than from their earnings.

What would this cost an individual?*

An individual earning the national average salary of £26,832 currently pays a monthly National Insurance contribution of £184.08. If their NI contribution was increased by 1%, they would pay an extra £7.67 per month, which equates to £4,325 over 47 years.

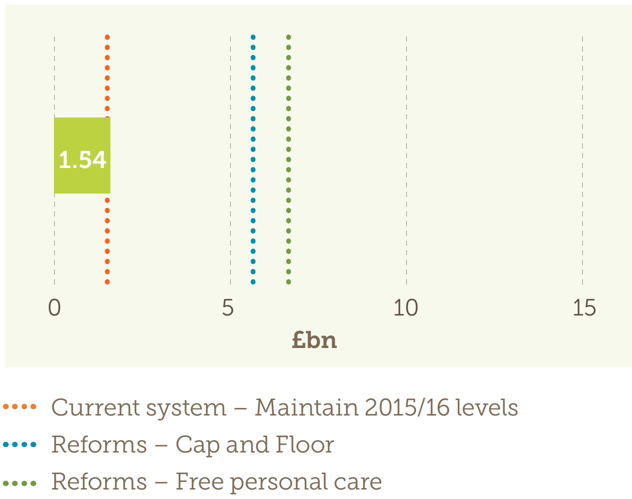
A higher tax earner who earns £98,175 per year currently pays a monthly National Insurance contribution of £465.68. If their NI contribution was increased by 1%, they would pay an extra £19.40 per month, which equates to £10,941.60 over 47 years.

* See footnote on page 9

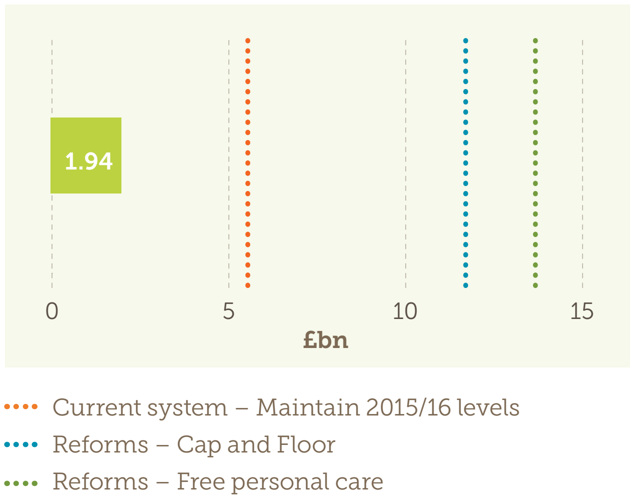
Charging NI to those working beyond state pension age

Currently, once an individual is over state pension age, they are no longer required to pay National Insurance regardless of income or company profit. If National Insurance was also collected from the working population aged over 65, it would raise **£1.54 billion** by 2020/21. In the short term this would almost meet the funding required to maintain the current system at 2015/16 levels, but would not pay for cap and floor reforms nor for free personal care. By 2030/31, this policy would raise less than a third of the amount required to maintain the current system at 2015/16 levels.

Funding raised in 2020/21 in current prices



Funding raised in 2030/31 in current prices



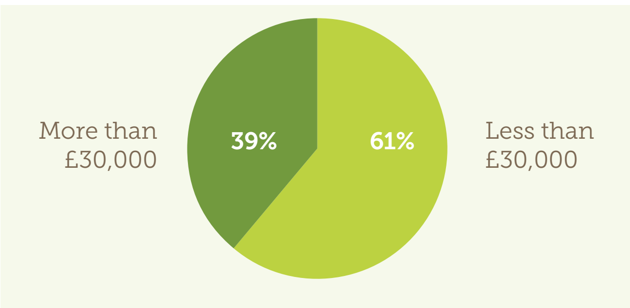
Source: Grant Thornton UK LLP

Who would be affected by collecting National Insurance from working pensioners?

9% of people in England continue to work beyond the age of 65. Of those that do, 39% would be liable to pay National Insurance based upon their earnings. This means that 3% of the over 65 population in England would be affected by the proposed changes, equivalent to more than 250,000 people.

Lower income individuals – those earning less than £30,000 per year – make up the majority of those who would have to pay National Insurance:

Income distribution of those who would be liable to pay NI over the age of 65



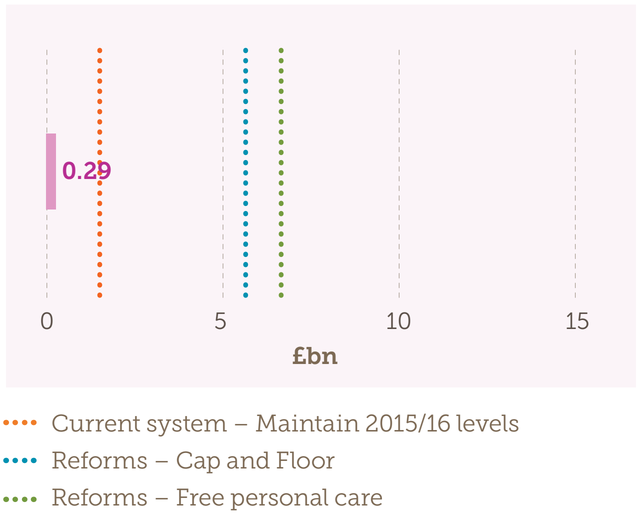
SMF analysis of Wealth and Assets Survey (2014/16)

It is worth noting, however, that three out of four of those who would be liable to pay National Insurance are aged 65 to 69. Therefore, while this policy may appear to be targeted at the age group that use social care services, the vast majority of those who would be paying the policy are only slightly older than working age.

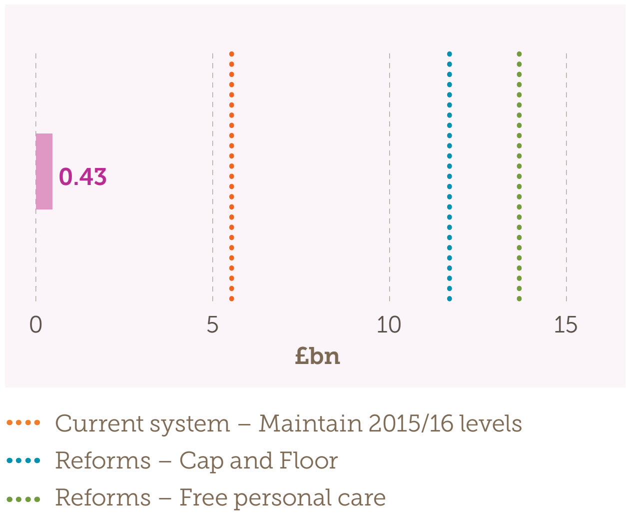
Increasing Inheritance Tax

An increase in Inheritance Tax of 2% by 2020/21 would raise **£290 million**, which is less than 20% of the funding required to maintain the current social care system at 2015/16 levels. By 2030/31, Inheritance Tax would need to be raised by over 26% to just maintain the current system at 2015/16 levels.

Funding raised in 2020/21 in current prices



Funding raised in 2030/31 in current prices



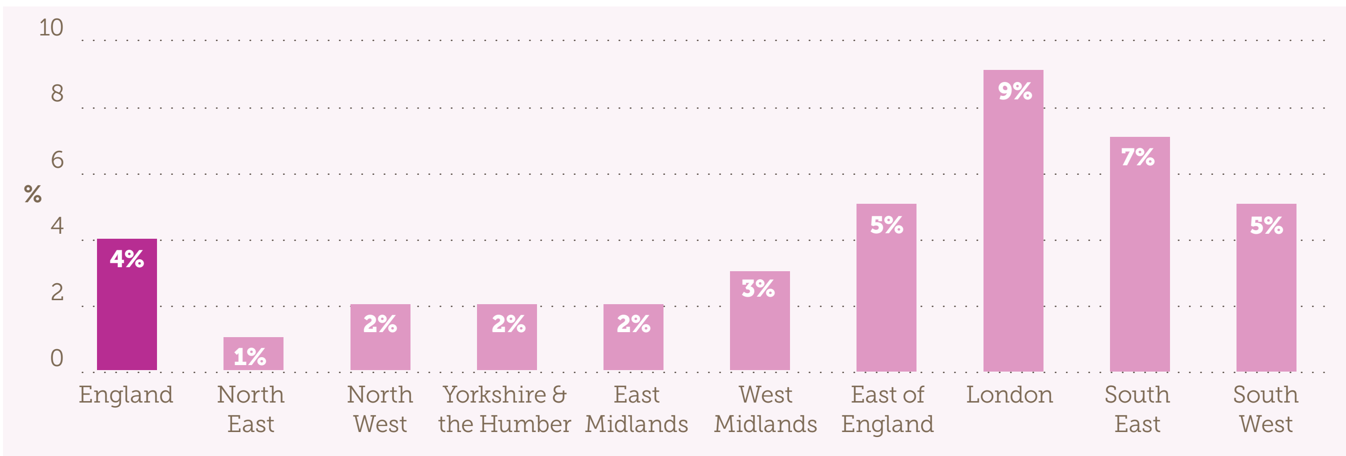
Source: Grant Thornton UK LLP

Who would be affected by an increase in Inheritance Tax?

This policy raises funds from individuals who are deceased and therefore tends to fall upon the older generations. In 2014/15, only 4% of deaths were liable to Inheritance Tax, which raised a total of £3.8bn. In 2016/17, Inheritance Tax raised £4.8bn.

As the value of an individual's estate is likely to be linked to the value of their home, there are large differences between the proportion of deaths liable to Inheritance Tax by region. Increasing Inheritance Tax as a means to raise funds for social care would therefore have most impact among those in London and the South East. In the North East, fewer than 2% of deaths are liable to Inheritance Tax, which is less than half of the English average. In contrast, in London, 9% of deaths are liable to Inheritance Tax, which is more than double the English average.

Proportion of deaths liable to Inheritance Tax by region, 2014–15

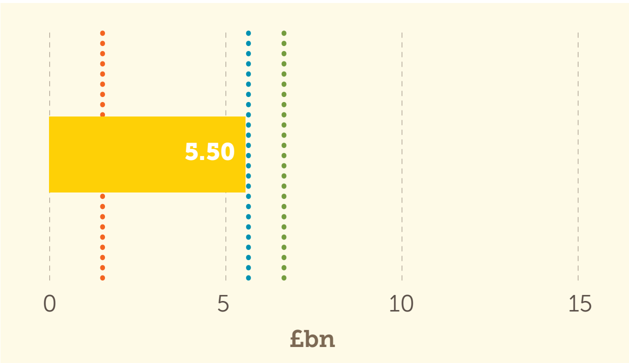


Source: HMRC (2017)

Introducing an age-related levy to the working population aged 40 and over

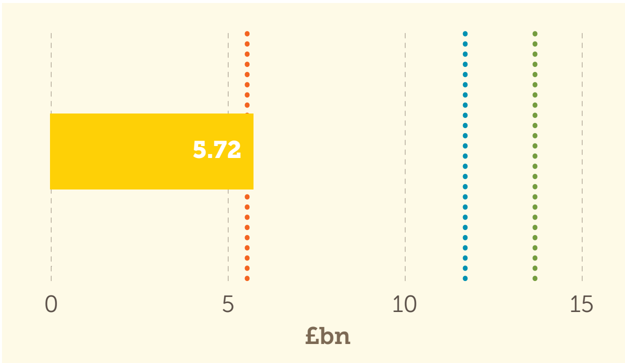
In Japan, from the age of 40 a levy of 0.7% is applied to both the employer and employee. If a similar policy was implemented in England, by 2020/21 this would raise **£5.50 billion**. In the short term, this would be enough funding to maintain the current system at 2015/16 levels, but slightly less than is needed for the cap and floor reforms and not enough to fund free personal care. By 2030/31, the age-related levy would raise slightly less than is needed to maintain the current system under 2015/16 levels.

Funding raised in 2020/21 in current prices



- Current system – Maintain 2015/16 levels
- Reforms – Cap and Floor
- Reforms – Free personal care

Funding raised in 2030/31 in current prices



- Current system – Maintain 2015/16 levels
- Reforms – Cap and Floor
- Reforms – Free personal care

Source: Grant Thornton UK LLP

In order for the age-related levy to close the gap between government spending and the cost of free personal care in 2021, it would need to be increased by 0.84%. To do the same in 2031, the levy would need to be increased by 1.69%.

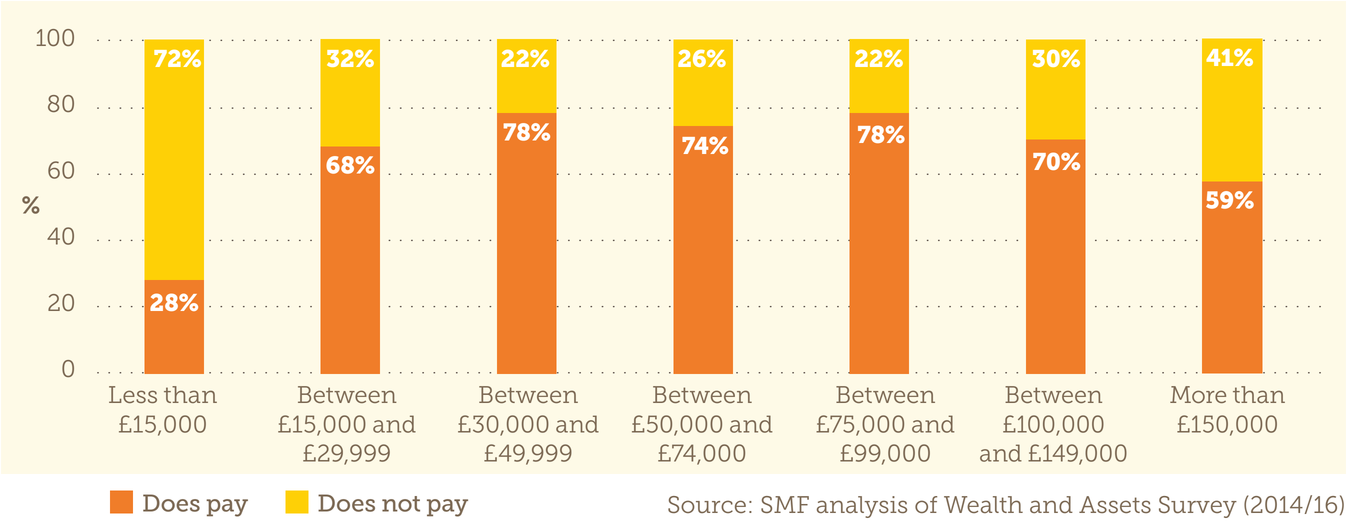
Who would be affected by the introduction on an age-related levy?

By 2020/21 London (22.4%) would contribute the most through an age-related levy, followed by the South East (20.3%) and East of England (12.0%).

The majority of individuals aged 40 to state pension age would pay the age-related levy regardless of wealth.

The following graph shows a clear relationship between payment of the age-related levy and household income per adult, at least for the initial income groups. However, as the level of household income per adult increases, the likelihood of paying the levy reduces:

Income distribution by age-related levy payment status, those aged 40 to 64

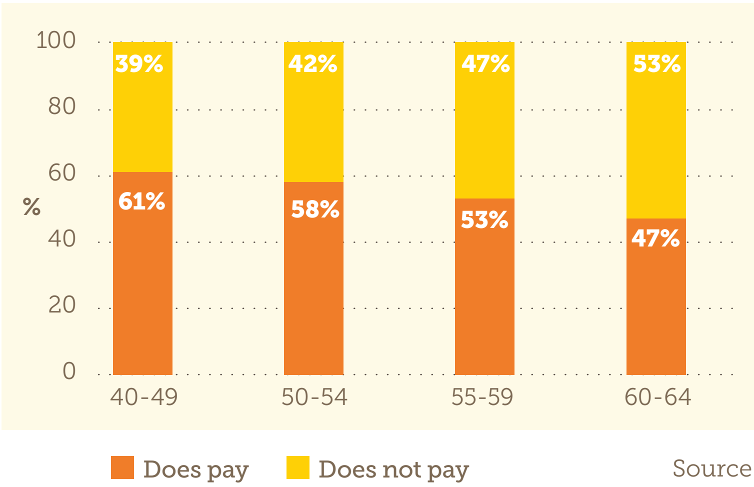


Source: SMF analysis of Wealth and Assets Survey (2014/16)

However, household income per adult does not directly reflect an individual's earnings. Those in the upper income groups who would not have to pay the age-related levy may live with high income earners, or they may have income from sources that do not contribute to the Income Tax threshold that has been applied for the age-related levy.

Due to the earnings of those within the upper age brackets, those aged under 54 are the most likely to pay the age-related levy:

Age distribution by age-related levy payment status, those aged 40 to 64



Source: SMF analysis of Wealth and Assets Survey (2014/16)

What would this cost an individual?*

An individual earning the national average salary of £26,832 currently pays a monthly tax contribution of £249.40. If the age-related levy was introduced on their fortieth birthday, they would pay an extra £8.73 per month, which equates to £2,619 over 25 years.

A higher tax earner who earns £98,175 per year currently pays a monthly Income Tax contribution of £2,301.80. With the age-related levy from age 40, they would pay an extra £40.27 per month, which equates to £12,081 over 25 years.

* See footnote on page 9

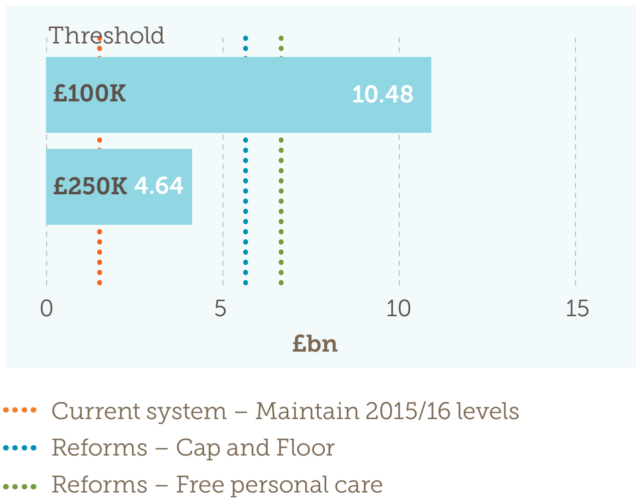
Introducing a one-off payment at state pension age

In this policy option, a lump sum of £30,000 would be payable at state pension age. The funds raised would be dependent on the assets threshold set for eligibility to pay the lump sum. The Social Market Foundation has considered two scenarios where the thresholds are set at a net household wealth of £100,000 or £250,000.

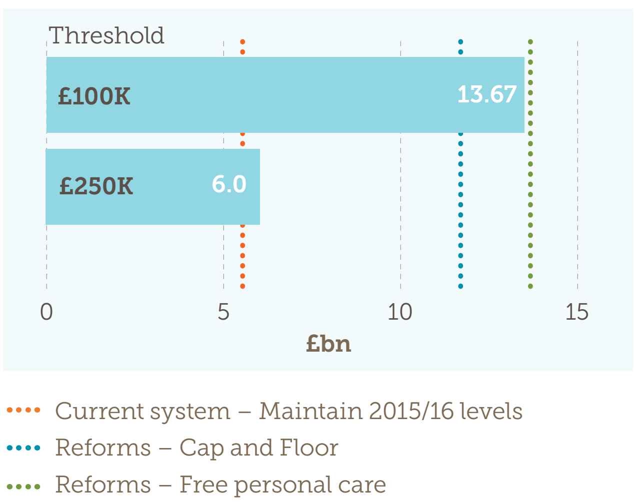
If the asset threshold was set at £100,000, everyone with net household wealth per adult of £100,000 or more would pay the lump sum of £30,000. This would raise **£10.48 billion** in 2020/21, which would be enough to maintain the current system at 2015/16 levels, fund the cap and floor reforms, and also fund free personal care. By 2030/31, a lump sum at this payment threshold would raise **£13.67 billion**, which would still be enough to maintain the current system at 2015/16 levels, fund the cap and floor reforms, but would be slightly less than is needed to fund free personal care.

If only those with net household wealth per adult over £250,000 were required to pay the lump sum, by 2020/21 it would raise **£4.64 billion**. In the short term, this would raise enough to maintain the current system at 2015/16 levels, but would be less than is needed to fund the cap and floor reforms or free personal care. By 2030/31, a lump sum at this payment threshold would raise **£6 billion**, which would still be enough to maintain the current system at 2015/16 levels, but would be less than is needed to fund the cap and floor reforms or free personal care.

Funding raised in 2020/21 in current prices



Funding raised in 2030/31 in current prices



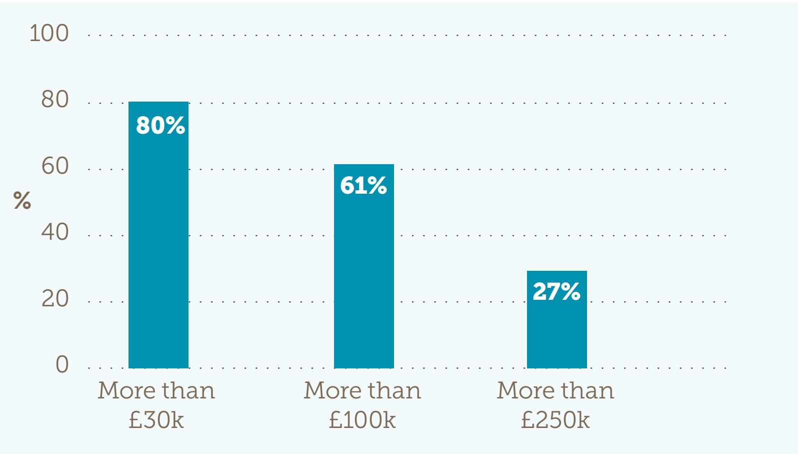
Who would be affected by the lump sum payment?

The proportion of funds raised per region would depend on the level at which the threshold for net household wealth per adult is set. Generally, by 2020/21 the region that will raise the most will be the South East, followed by London and the East of England.

This policy would require all individuals with sufficient net household wealth per adult to pay a lump sum for their future social care needs at state pension age. In England, it is projected that there will be 572,620 people aged 65 in 2020/21, and 746,795 in 2030/31.

Of this population, where the threshold is set will affect the number who are liable to pay the lump sum:

Proportion of individuals with net household wealth per adult above a predetermined threshold, aged 60 to 69



Source: SMF analysis of Wealth and Assets Survey (2014/16)

As we know, there are a number of older individuals in different areas of the country who are asset rich but income poor due to house price growth. The graph below shows the proportion of individuals who would be liable for the payment at 65 based upon their gross household income per adult and assuming an asset threshold of £100,000 and also £250,000:

Proportion of individuals liable to pay by income group, based on £100,000 and £250,000 thresholds, aged 60 to 69

Source: SMF analysis of Wealth and Assets Survey (2014/16)

As can been seen, with the threshold set at £100,000, 43% of those with a household income per adult of less than £15,000 would be required to pay the lump sum. For some of these individuals, the ability to defer payment until death may help meet the payment requirements.

If the threshold is set at £250,000, a much smaller number of individuals with relatively low income would be liable to pay the lump sum. Only 11% of those with income of less than £15,000 would be required to pay:

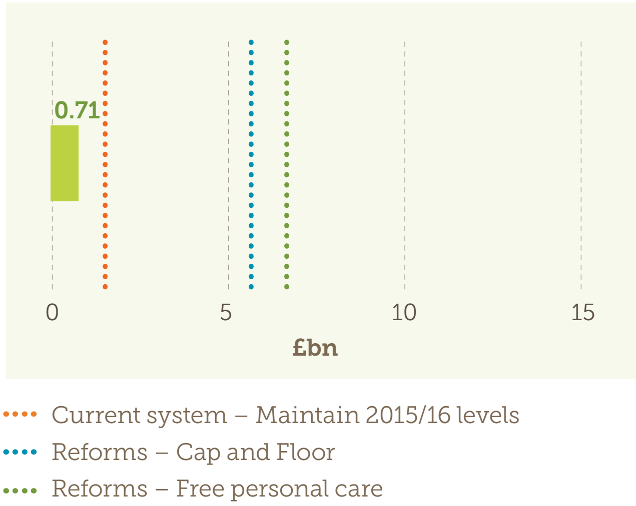
For the government, a benefit of collecting a lump sum payment at state pension age, rather than upon death, is that individuals would have less opportunity to exhaust their assets or to take steps to avoid the tax. However, as a considerable proportion of individuals will have illiquid assets, this payment could be deferred until death, while incentives could also be offered for individuals to pay early.

Increasing Council Tax

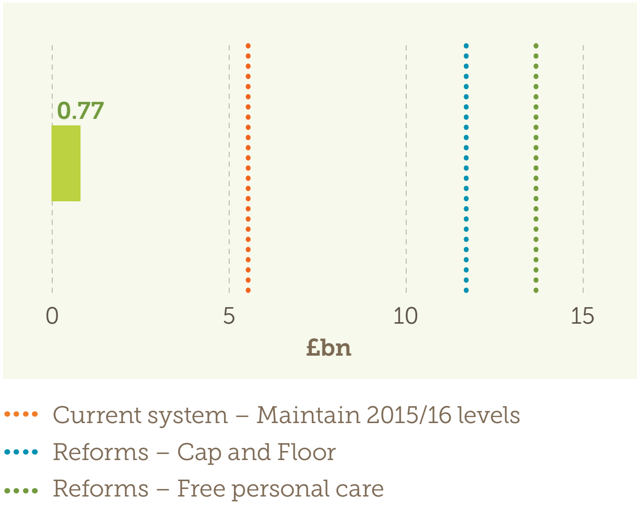
A 3% increase in the rate of Council Tax would raise **£710 million** in 2020/21, which is less than half the amount needed to maintain the current system at 2015/16 levels. By 2030/31, this funding option would raise less than one fifth of what is needed to maintain the current system at 2015/16 levels.

In order for an increase in Council Tax to pay for free personal care in 2020/21, it would need to be increased by more than 27%, and by more than 53% to achieve the same in 2030/31.

Funding raised in 2020/21 in current prices



Funding raised in 2030/31 in current prices

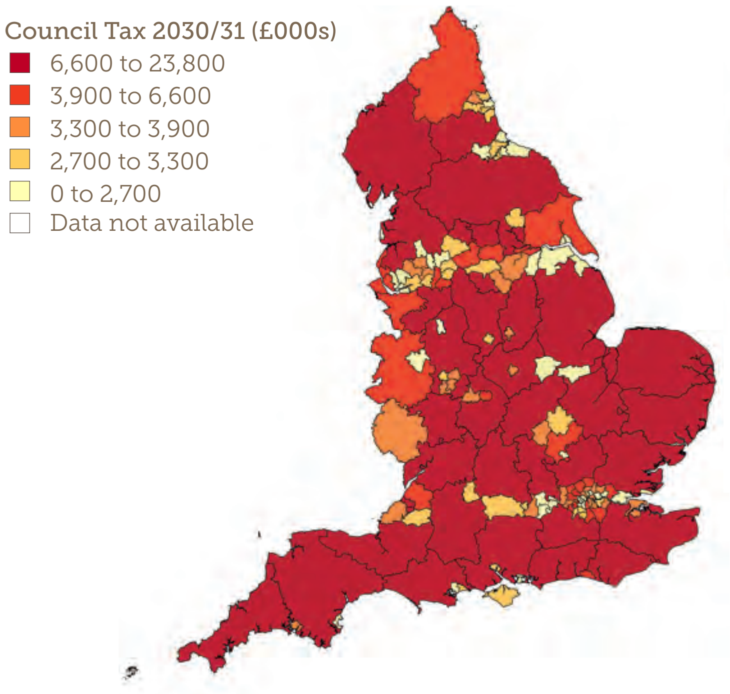


Source: Grant Thornton UK LLP

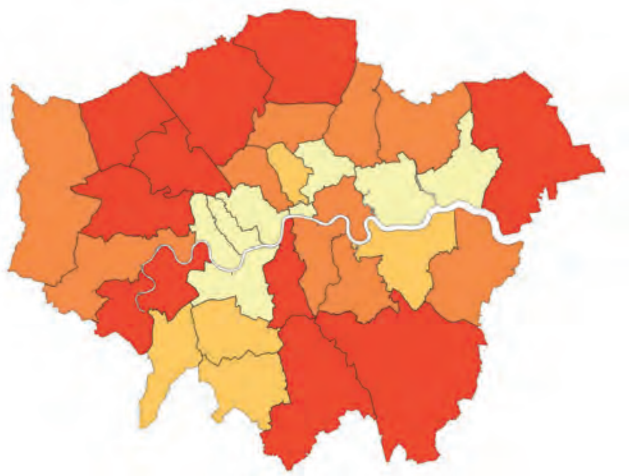
Who would be affected by an increase in Council Tax?

By 2020/21 the South East (18.9%) is expected to raise the most of all regions, followed by London (14.3%) and the North West (12.5%). There are expected to be very minor changes to the proportional breakdown by 2030/31.

Council Tax funding, 2030/31 – Local Authorities in England



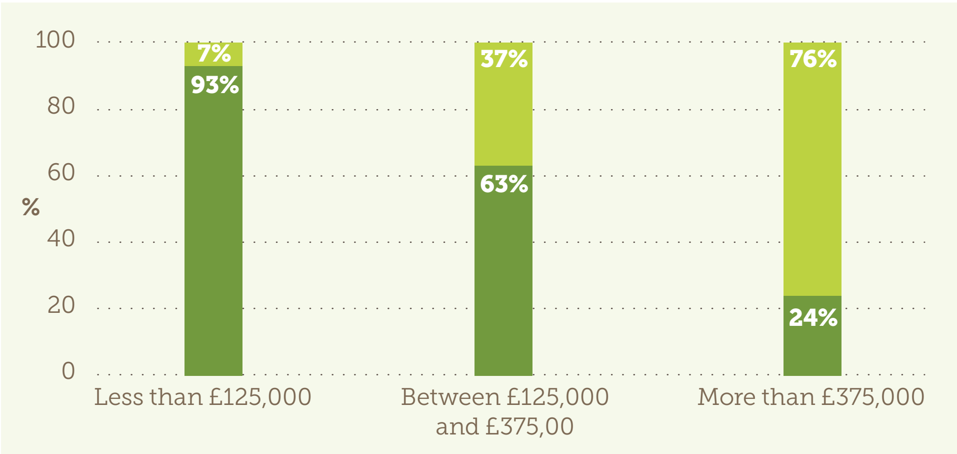
Council Tax funding, 2030/31 – Local Authorities in London



Source: Grant Thornton UK LLP

More than nine out of 10 who have a net household wealth per adult of below £125,000 pay the lower bands of Council Tax. However, a quarter of those with more than £375,000 in household wealth per adult also pay the lower bands of Council Tax. This is due in part to the difference between the historic value of the property (valued for Council Tax some years ago) and its current value, which would affect their current household wealth.

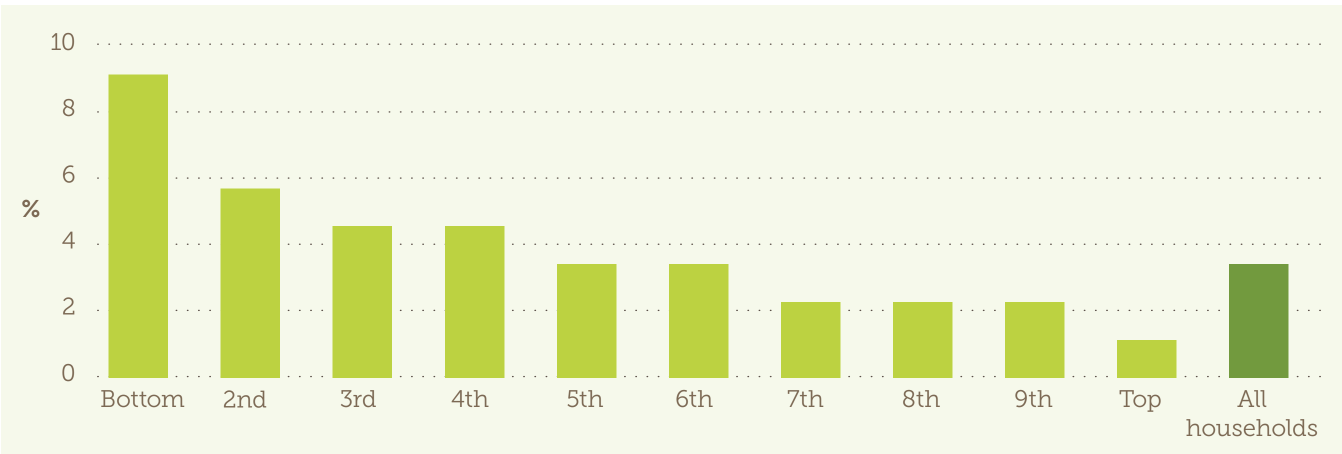
Council Tax band by household wealth per adult



Source: SMF analysis of Wealth and Assets Survey (2014/16)

As Council Tax is based on property not income, there is little difference in the proportions paying Council Tax by income. However, those on the lowest incomes tend to spend a much larger proportion of their gross income on Council Tax. As can be seen from the graph below, those in the bottom income decile spend almost 8% of their gross income on Council Tax, whereas those in the top decile spend just over 1%:

Council Tax band by household wealth per adult



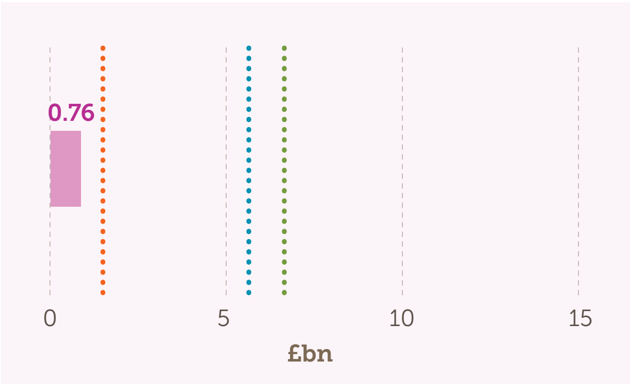
Source: ONS (2018)

There's another difficulty with using Council Tax as a method of raising social care funds. Many of the areas with the highest need for additional social care funding are unable to raise the necessary funds because of lower numbers of properties and the number of discounts and exemptions being applied. Attempts to further increase Council Tax to fund social care is therefore likely to lead to even worse funding gaps for many local authorities.

Increasing business rates

Increasing business rates by 3% would generate an extra **£760 million** by 2020/21, just half of what is needed to maintain the 2015/16 levels of demand. By 2030/31, this increase in business rates would raise a sixth of what is needed to maintain 2015/16 levels of demand.

Funding raised in 2020/21 in current prices



•••• Current system – Maintain 2015/16 levels
•••• Reforms – Cap and Floor
•••• Reforms – Free personal care

Funding raised in 2030/31 in current prices

•••• Current system – Maintain 2015/16 levels
•••• Reforms – Cap and Floor
•••• Reforms – Free personal care

Source: Grant Thornton UK LLP

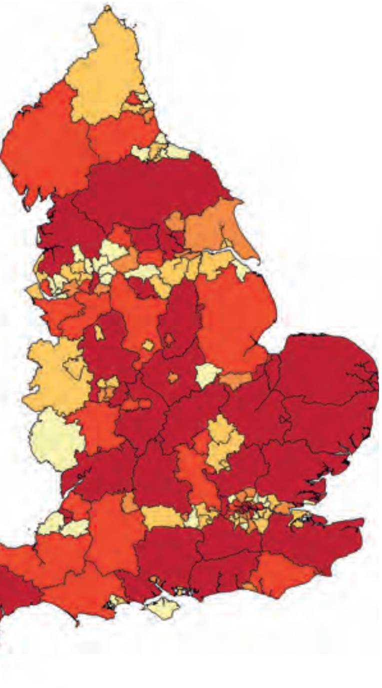
In order for business rates to close the gap between government spending and the cost of free personal care in 2021, it would need to be increased by 26%. To do the same in 2031, Corporation Tax would need to be increased by 54%.

Who would be affected by an increase in business rates?

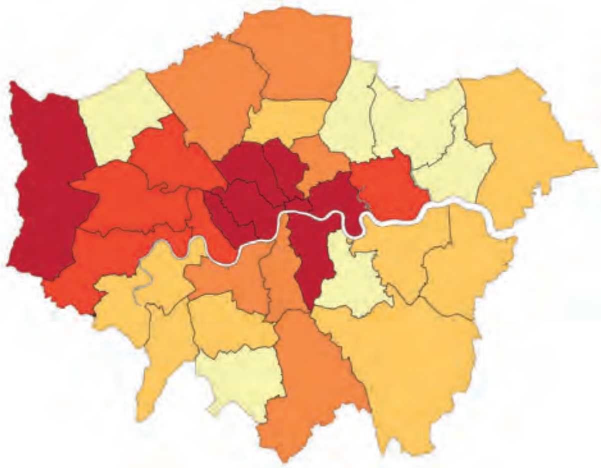
An increase in business rates would affect most businesses with commercial properties such as shops or offices. The extra cost could put some businesses, especially smaller ones in economically deprived areas, at risk of closure. The local authorities that will raise the most through business rates by 2020/21 are expected to be Westminster (£55.3m), the City of London (£29.8m) and Kent (£17.8m). The diagrams below show the distributional impact of business rates in 2030/31.

Business rate funding 2030/31 – Local Authorities in England

Business rates 2030/31 (£000s)
- 6,700 to 55,400
- 3,700 to 6,700
- 3,000 to 3,700
- 2,100 to 3,000
- 0 to 2,100
- Data not available



Business rate funding 2030/31 – Local Authorities in London

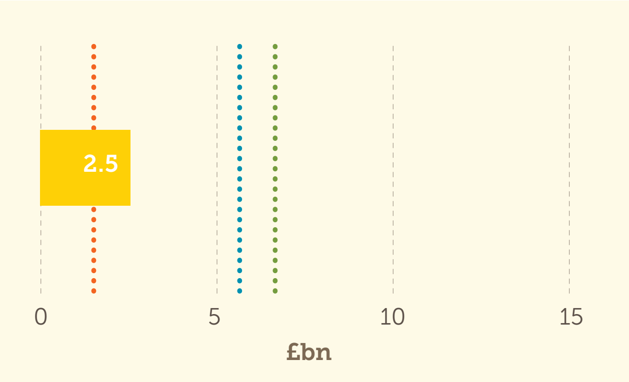


Source: Grant Thornton UK LLP

Increasing Corporation Tax

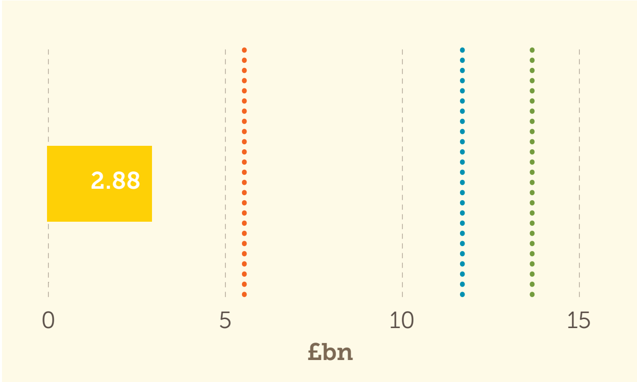
Increasing Corporation Tax by 1% would generate an extra **£2.5 billion** by 2020/21. This would be enough to maintain the 2015/16 levels of demand, but only half the money needed to fund cap and floor reforms. By 2031, this increase would only raise enough for half of the money needed to maintain 2015/16 levels of demand for care.

Funding raised in 2020/21 in current prices



Current system – Maintain 2015/16 levels
Reforms – Cap and Floor
Reforms – Free personal care

Funding raised in 2030/31 in current prices



Current system – Maintain 2015/16 levels
Reforms – Cap and Floor
Reforms – Free personal care

Source: Grant Thornton UK LLP

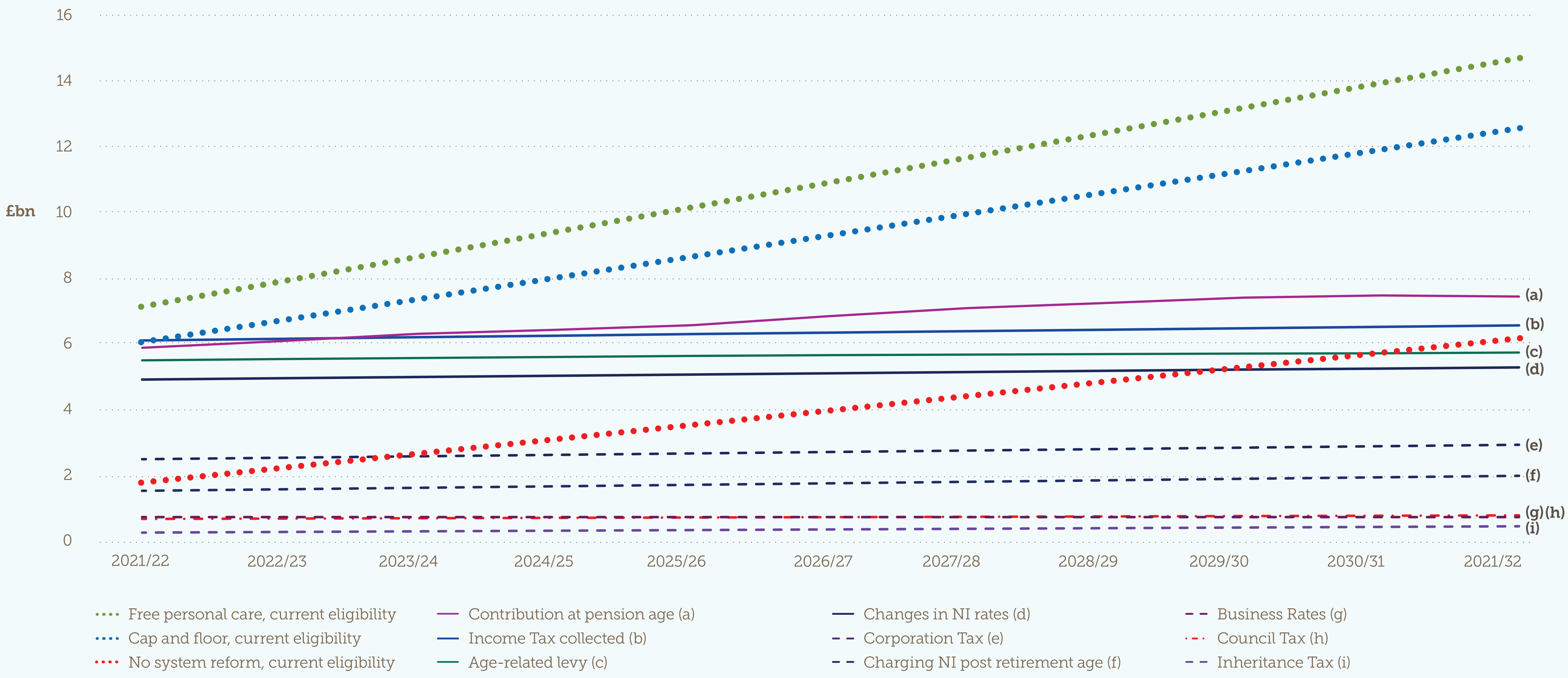
In order for Corporation Tax to close the gap between government spending and the cost of free personal care in 2021, it would need to be increased by 2.65%. To do the same in 2031, Corporation Tax would need to be increased by 4.77%.

Who would be affected by an increase in Corporation Tax?

The impact of an increase in Corporation Tax can be difficult to assess. However, the impact on company profits caused by such an increase could be expected to lead to reduced investment, lower wages and fewer jobs opportunities, as well as increased prices for consumers.

A comparison of all the different policy options against the funding gaps

Social care funding gap and funding raised by each option – in current prices



Source: Grant Thornton

Conclusion

Providing older people with the necessary care and support they need to maintain their independence, dignity and ability to enjoy later life is what we expect in a compassionate society. However, today, in England, accessing such support has become a game of chance: based on where you live, your social class, and your ability to pay.

The social care system is on the brink of collapse. Starved of vital funding for many years by successive governments, local authorities have been forced to strip back support, and ration services resulting in a crisis and high needs system. Compounding this pressure, demand for social care support, particularly for older people, is ever increasing. Repeated alarm bells from authoritative bodies and organisations such as the Care Quality Commission, various parliamentary select committees, and the Association of Directors of Adult Social Services, have been explicit in the need to address the chronic underfunding of social care.

If current trends continue, support to vulnerable older people from the social care system will continue to diminish and access to social care will predominantly become a service based on ability to pay. This will leave many older people left to fend for themselves and forced into crisis – putting unnecessary additional pressures on an already overstretched NHS.

To stand by and do nothing would show how little we value the older population. Urgent action is needed to stop the spiralling decline of social care. The Budget and forthcoming Spending Review present clear opportunities to do this. However, a short-term funding plug alone will not be sufficient. A new long-term settlement for social care is crucial.

A new long-term settlement for social care: free personal care

There is a relatively small difference in terms of costs between the government's proposal of introducing a cap and floor, and the option to offer free personal care, based on current eligibility. In 2020/21, the difference in costs between cap and floor reforms and free personal care equates to £1 billion, rising to £2 billion in 2030/31.

As Independent Age has previously described[1], a cap that does not include hotel costs for residential care would be of limited benefit to the majority of older people. Even with the cap, individuals with the highest care needs will continue to see their costs rise to well over £100,000. The cap model is also unlikely to benefit those with low domiciliary care needs, even if they are chronic and experienced over a long time.

By contrast, introducing **free personal care** will result in significant benefits for all older people, enabling them to live in their own homes for longer and supporting them to live independent lives for as long as possible. Not only that, but such a policy would be hugely popular with older people and the wider population. The entitlement to free personal care would also send a clear message about how we, as a country, value the dignity and independence of older people in later life.

In addition, free personal care would also reduce delayed transfers of care (DTOC), and promote the integration of health and social care – two key government priorities. In Scotland, where personal care has been free for those aged over 65 since 2002, there has been a significant decrease in the number of DTOCs, and the increased spending on social care has resulted in lower spending overall on health and care for older people[2].

From a political perspective, aligning a new tax with something those who pay will get in return is an easier sell than purely increasing tax to fund a social care system that, in many cases, is not meeting the needs or expectations of the public. It also meets the test of fairness, as well as being universally accessible.

This is why Independent Age is calling for the introduction of free personal care for older people. Initially this will be based on current eligibility criteria, but the ultimate goal is that all older people who need personal care will receive it free at the point of need.

So what are the funding options?

A range of different funding options for social care have been advocated from individual inheritance, businesses and corporations, and lump sum contributions, to general taxation through Income Tax and National Insurance. All have been worthy of consideration.

However, based on the view that any new funding policy option should seek tangible improvements in social care provision, it is clear that some of the prescribed funding options, in isolation, will not deliver this. These are increasing business rates or Corporation Tax, increasing Council Tax or Inheritance Tax, or charging National Insurance for the over 65s.

1 Will the cap fit? report, www.independentage.org/policy-and-research/research-reports/will-cap-fit
2 Bell D et al (2013) Free personal care for older people: A wider perspective on its costs. University of Strathclyde, Glasgow. https://strathprints.strath.ac.uk/46778/2/ FEC_36_3_2013_BellDNFRutherfordAWrightRE.

Our analysis shows that there are a number of policy options that yield significant income to help fund social care reform. These are increasing Income Tax or National Insurance, or introducing an age-related levy at 40 years old, or a lump sum contribution of £30,000 at 65 years old. Using variations on the percentage increases would mean that any one of these options would yield sufficient amounts to increase social care spending and provide free personal care. Of course, there is also flexibility in the way in which any one (or more) of these options could be applied.

It is clear, however, that even the "high income" funding options will, by 2030/31, still leave a sizable funding gap of around £5 billion or more for cap and floor reforms or free personal care unless there are increased changes in the level of taxation. This presents a significant challenge to policymakers which can be addressed in a number of ways, including:

What is personal care?

Personal care describes the support a person receives for everyday activities. These include getting in and out of bed, getting to the toilet and having a bath or shower, getting dressed, shopping or preparing a meal.

1. **Increasing the level of tax-take on any new funding option**: This will ensure sufficient funding is raised to address the need for social care reforms or;
2. **Tax now, tax later**: Accepting that there will need to be two tax rises between now and 2030/31 to address the funding gap and
3. **Addressing the demand for social care, not just plugging the gap**: By realigning current public spending to deliver a wholesale transformation of public health and prevention. This could be done by better utilising the NHS budget towards these goals, and increasing public health budgets with the aim to reduce demands on high cost health and social care provision.

A way forward

The following steps set out a pathway to addressing the underfunding of social care. The intention is to deliver sustainable change, alongside a commitment to increase the responsiveness of social care through free personal care for all:

1. **Allocate immediate funding to ensure the funding gap does not increase as a minimum.**
2. **Introduce a social care contribution aligned to a commitment to provide free personal care.**
3. **Commit within the NHS 10-year plan, and social care reforms, to radically reform public health and preventative care, to enhance older people's independence.**

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