

Of all the options available to pay for social care nat...

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I have posted this threat to Twitter this morning:

The idea that national insurance should pay for the increased cost of social care for the elderly is hideous. It reveals that the government does not know how tax works, how the economy functions, or how tax impacts inequality. A thread.....

The Times has reported that the government is planning to increase the national insurance paid by both employers and employees to pay for the UK's social care crisis. As tax decisions go, this one would be terrible.



It's true that we have a social care crisis in the UK. Just as we need more healthcare, education, police, justice services, environmental protection and much more, so do we also need more social care.

Ultimately, the government has to at some time decide that what the people of this country needs is not more takeaways, nor more mobile phones, or gambling, alcohol or television channels, but is instead fundamental public services.

All public services are paid for in the same way. The government decides to provide them. It passes a budget to approve the spending. And using the authority of

Parliament the government then tells the Bank of England to pay the resulting bills.

The Bank of England will then always pay whatever the government commands it to do. It simply advances the funds required to the government on overdraft. It has a legal obligation to do so. It cannot say no.

The government then has a decision as to what to do with the overdraft. It can clear it with tax. It can borrow. It can create new money using quantitative easing. And it could, although it's choosing not to do so, leave it on overdraft, which it calls the Ways and Means Account.

So, the first thing to note about tackling the social care crisis is that the decision to spend is not dependent on the ability to raise tax to pay for the cost. To pretend that's the case is false: like more than £300bn of spend in the last year it could be paid for with QE.

Or the government could borrow. Or simply run a cost free overdraft with the Bank of England. There are choices. And right now, there's no evidence that any of these non-tax options will create inflation. Borrowing might even reduce inflation in asset prices e.g. shares.

I make the point to make clear that the decision to tackle the social care crisis is independent of any decision on how to clear the overdraft that doing so will create for the government and the Bank of England. To pretend otherwise is false.

But if the government chooses to tax, why use national insurance? The UK tax system can and should be used to shape society in the UK for the advantage of all who live here. It should, in itself, be used to tackle social problems.

We have a social care problem, but we also have a problem with a shortage of well-paid work, businesses under cost pressure because of the Covid crisis, and with massive inequality which has been fuelled by the government deficits over the last year.

It seems it is not widely understood that every pound of government deficit does, by definition, increase private wealth by an equal amount. It has to. After all, someone has to get the pound that was created and not taxed back. A private person does.

More than £300 billion has been pumped into the economy by way of government deficit spending in the last year. Thank goodness for that. It kept the economy going. It was essential. But it has meant that the wealthiest in the UK are now a lot wealthier.

So, now the government wants to tax, knowing these facts. And what it's deciding to do is in the face of them increase national insurance charges to pay for a social care crisis.

National insurance is a deeply regressive, and very unfair tax. It starts being paid when a person earns just over £9,500 a year (worked out weekly). Income tax is not paid until

a person earns the equivalent of £12,570 a year. That's the first unfairness.

Then national insurance is charged at 12% on the employee and 13.8% on the employer (which is a cost that economists agree effectively comes out of wages, so it's really paid by the employee). That's a combined tax of near enough 25.8%, higher than basic rate income tax.

Add on to that the fact that national insurance largely stops, by falling to 2%, when wages reach £50,268 a year (current rates), and the tax suddenly looks very far from progressive.

In other words, what the government is going to do is ask those on the lowest pay to suffer a tax increase to pay for social care. It will, in real terms, charge those on higher pay less as a proportion of their total discretionary income.

It will ask vulnerable employers to pay more. That threatens smaller business in particular. It also encourages more tax evasion.

And the young will pay more to subsidise the old when the young already get a pretty poor deal on everything else in life, from paying for their education that those in retirement never did, to facing higher house prices, onwards.

Now consider the alternatives. I'll mention four, but there are more. These all leave those on lowest incomes alone. They all target wealth - where we know the capacity to pay has gone up most. And they don't harm employment.

First, equalise the tax rate on capital gains tax and income tax. Why should capital gains be taxed at rates that are often half those that would be paid on income? Capital gains tax is paid by the wealthy: they should be taxed more to tackle inequality.

Second, reduce the capital gains tax annual allowance. Why should the wealthy who have capital gains get two annual allowances of tax free income a year when the rest of us get one? This bias in their favour should be eliminated, or reduced dramatically.

Third, reintroduce an investment income surcharge. This is an additional tax at 15% on investment income due because there is no national insurance paid on interest, dividends, rents and other investment incomes.

Because national insurance is not charged on investment income the tax rate due on it is massively less than that due on work. That is absurd, and socially wholly unjust. Why should the wealthy pay much less tax than everyone else?

A 15% additional tax on investment income existed until about 1985. Reintroduce it, giving a higher allowance to pensioners if need be, and recreate social justice.

And fourth, cut the massive subsidy - costing over £10bn a year - on the pension

contributions of some of the wealthiest in society. Why should the savings of the wealthy be so heavily subsidised when there is a need for social care?

Add all those up - or just do some of them - and the supposed £10bn required to pay for social care is readily available without ever hitting the least well off, the young, the employed and small employers hard, which is what the government plans instead.

What is more, the problem of excess wealth is tackled, and some of the supposed inflation pressure in the economy - which is being created largely by the wealthy - will also be reduced.

The government need not tax if it wants to pay for additional social care. But if it decides to do so it must tax in ways that ensure that social justice is delivered. National insurance cannot deliver social justice. My suggestions can. Why are they getting this wrong?