Punching Down

How Labour's jobs tax hits the lowest-paid the most

In April, rates of employer's National Insurance will rise sharply. This is one of the largest single tax increases in British history, and – given the likely impact on business and employment – one of the most damaging.

Already, the economic impacts of the tax rise are being felt, as businesses slow their hiring and investment plans. But this is not just a bad tax because of its economic impacts, but because it is regressive – disproportionately affecting those on the lower incomes. Indeed, new analysis from the Centre for Policy Studies shows that thanks to the rise in employer NI, and the lowering of the threshold at which it is paid, the tax burden on minimum wage labour – ie, the cost of employing those at the bottom of the income scale – will be highest on record, at 21%. Coupled with increases to the minimum wage, it will cost £2,367 more to employ a full-time worker on the minimum wage than it did in 2024 – which will have an obvious impact on hiring decisions.

The tax burden on labour is known as the 'tax wedge'. The higher the tax wedge, the more costly is to for businesses to create and sustain jobs, all else being equal.

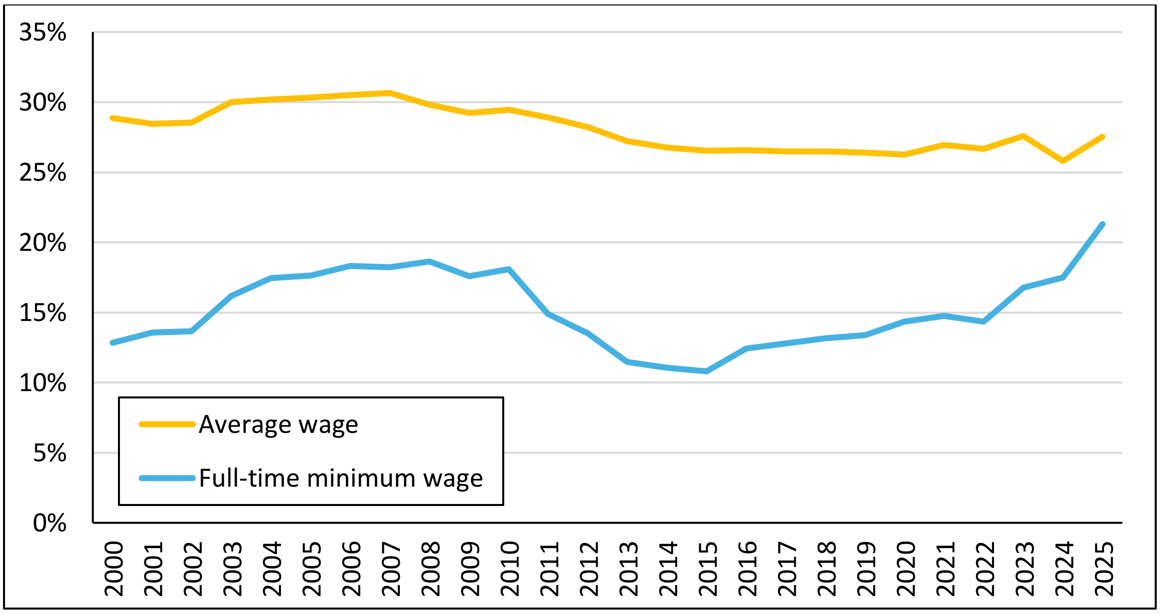
As the graph below shows, following the introduction of the minimum wage in 1999 the tax wedge on minimum wage employment rose during the 2000s and was 18% in 2010. Subsequently the Coalition government reduced this to 11% in 2015, primarily by increasing the income tax personal allowance. This change reduced the tax wedge on employment most dramatically for low wage workers, but also lowered it for those on the average wage.

From 2015, the wedge gradually increased for low-income workers, thanks mostly to fiscal drag – as wages increased with inflation, the personal allowance stayed the same in nominal terms. But even so, at 17.5% in 2024, the tax wedge on minimum wage labour was still lower than in 2010.

However, the latest rise in employer NI and the dramatic reduction in the threshold at which it is paid under Rachel Reeves means that for a full-time minimum wage worker, 21.3% of the labour cost will now be spent on taxes. The employer would pay £2,583 in employer NI, compared to £1,617 in 2024. Each week, an employer will be paying £50 per minimum wage employee, instead of £31 in 2024 – a whopping 60% increase.

This tax on jobs will directly undermine businesses, making hiring more costly. In turn, this will undermine economic growth and reduce opportunities for the lowest paid workers in particular. This cuts across Labour's targets on increasing living standards and reducing economic inactivity from a near-record 9.3 million working-age people.

Tax wedge on minimum wage and average wage employment



It's also worth noting that the rise in the minimum wage next year will further increase costs for business. From 2025, a full-time minimum wage worker will cost an employer £24,800 per year. This is £2,367 more than 2024. The two biggest reasons for the increase are:

- The rise in the minimum wage from £11.44 to £12.21 (an increase of £1,401)
- Raising the rate of employer National Insurance and lowering the rate at which it applies from £9,100 per year to £5,000 (£966)
- Labour's jobs tax thus accounts for over 40% of the increased cost to businesses of hiring minimum wage workers

Methodology

We have assumed a minimum wage worker who earns the highest minimum wage possible (£12.21 in 2025, £11.44 in 2024) and is paid for 35 hours per week, 52 weeks per year. A table with the minimum wage in earlier years can be found in this House of Commons briefing (link). The average wage is taken from the Office for National Statistics' Monthly Wages and Salary Survey (link). We took the average value for each year (data are given for each month).

The higher National Insurance rates that applied from 4 April 2022 to 5 November 2022 have been ignored. This was the Health and Social Care levy (a 1.25% increase to employee and employer NI), that was introduced by Rishi Sunak as Chancellor, and cancelled by Kwasi Kwarteng (Jeremy Hunt did not reinstate it). Including this would not materially affect the analysis.

To calculate the tax wedge, we add the wage and the employer National Insurance to get the total cost of labour. We then sum income tax, employee NI and employer NI, and divide this by the total cost of labour. In 2024 and 2025, that looks like:

Changes in wages and taxes paid for a minimum wage worker

Category	**2024**	**2025**	**% change**
Annual wage	£20,821	£22,222	+ 7%
Income tax	£1,650	£1,930	+ 17%
NI employee	£659	£771	+ 17%
Total employee taxes	**£2,309**	**£2,701**	**+ 17%**
After tax wage	£18,512	£19,521	+ 5%
NI employer	£1,617	£2,583	+ 60%
Total tax paid	**£3,927**	**£5,285**	**+ 35%**
Labour cost (annual wage +employer NI)	£22,438	£24,806	+ 11%
Tax wedge	**17.5%**	**21.3%**	**+ 3.8 pp**