



The Cost of Labour

By Daniel Herring

One of the main themes of Rachel Reeves's Budget last year was heaping more costs on businesses – in particular, by making it more expensive to employ people. Sadly, this year's Budget, and the Government's accompanying decisions on the minimum wage, continues the trend.

As the Centre for Policy Studies has warned, this is not just bad for the economy but for low-wage workers in general and young people in particular. Although those with a job will receive a boost to their incomes from increases to the minimum wage, many low wage workers will be without jobs, and many young people unable to get their foot in the door for their first job. Indeed, CPS modelling shows that the cost of employing a teenager on the minimum wage will have risen by £4,000 since Labour came to power – an extraordinary and damning statistic. The cost of employing older workers has also risen by £3,400, and the cost of employing apprentices by £2,900. Meanwhile, job vacancies have fallen to pandemic-era lows and unemployment has risen to 5%.

In 2025, decisions taken by the Government massively increased the cost of low-wage labour. In 2026, the cost will be even higher.

As of April 2026, the minimum wage will increase:

- From £12.21 to £12.71 for those aged 21 and over
- From £10.00 to £10.85 for those aged 18-20
- From £7.55 to £8.00 for those aged 16-17 and Apprentices

That means, from April 2026, it will cost a business £25,852 annually to hire a full-time, minimum-wage worker aged 21 or over, up from £24,806 in 2025 and £22,438 in 2024. This is a 15% increase since 2024, or £3,414.

However, the increase has been even larger for 18- to 20-year-olds and apprentices. For someone aged 18-20 working full-time on the minimum wage, the cost has increased from £15,652 in 2024 to £18,200 in 2025 to £19,747 in 2026. This is a two-year increase of 26%, or a cost of £4,095.

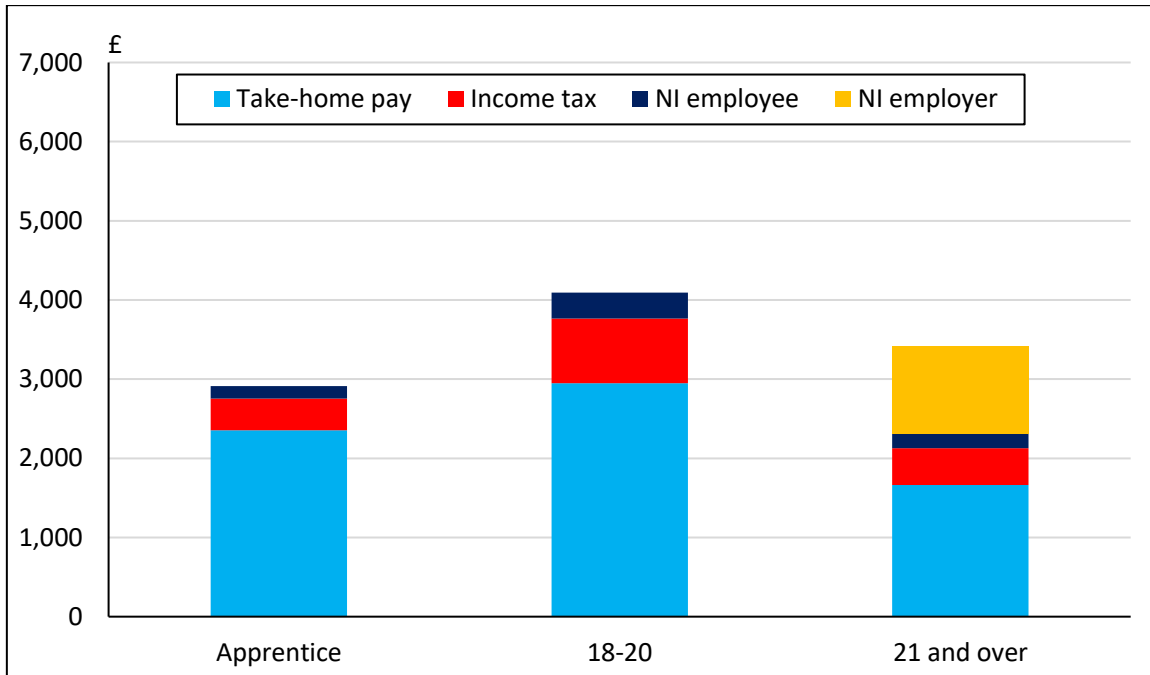
For apprentices, the increase is from £11,648 to £13,741 in 2025 and £14,560 in 2026, a two-year increase of 25%, and a cost of £2,912.

Even worse, much of this increase in cost is going not to the workers but to the Government. Those aged 21 and over will keep just half of the increase in labour costs via the higher minimum wage: the rest is taken in taxes. However, due to exemptions from employer National Insurance, those aged 18-20 and apprentices keep 72% and 81% respectively of the increase in costs as take-home pay.

We all want to see wage growth for low paid workers. But the only sustainable way to do this is by growing the economy and increasing worker productivity. Unfortunately, this Budget had little in it to transform the economy into one where everyone can see their pay grow year after year.



Increase in annual labour cost of a full-time minimum wage worker, from 2024 to 2026



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Methodology

We have assumed a minimum wage worker is paid for 35 hours per week, 52 weeks per year. The latest values for the national minimum wage are from the Low Pay Commission ([link](#)). A table with the minimum wage in earlier years can be found in this House of Commons briefing ([link](#)).

We have used National Insurance code H for apprentices and code M for 18-20 year olds ([link](#)). These codes mean there is no employer national insurance for those on the minimum wage.

To calculate the tax wedge, we add the wage and 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.



National Living Wage (21 and over)

Category	2024	2025	2026	Change, 2026 on 2024
Annual wage	£20,821	£22,222	£23,132	+11%
Income tax	£1,650	£1,930	£2,112	+28%
Employee NI	£659	£771	£844	+28%
Total employee taxes	£2,309	£2,701	£2,956	+28%
After tax wage	£18,512	£19,521	£20,176	+9%
Employer NI	£1,617	£2,583	£2,720	+68%
Total tax paid	£3,927	£5,285	£5,676	+45%
Labour cost (annual wage + employer NI)	£22,438	£24,806	£25,852	+15%
Tax wedge	17.5%	21.3%	22.0%	+4.4pp

18- to 20-year-old rate

Category	2024	2025	2026	Change, 2026 on 2024
Annual wage	£15,652	£18,200	£19,747	+26%
Income tax	£616	£1,126	£1,435	+133%
Employee NI	£245	£449	£573	+133%
Total employee taxes	£862	£1,575	£2,008	+133%
After tax wage	£14,790	£16,625	£17,739	+20%
Employer NI	£0	£0	£0	+0%
Total tax paid	£862	£1,575	£2,008	+133%
Labour cost (annual wage + employer NI)	£15,652	£18,200	£19,747	+26%
Tax wedge	5.5%	8.7%	10.2%	+4.7pp

Apprentice rate

Category	2024	2025	2026	Change, 2026 on 2024
Annual wage	£11,648	£13,741	£14,560	+25%
Income tax	£0	£234	£398	+£398
Employee NI	£0	£93	£158	+£158
Total employee taxes	£0	£327	£556	+£556
After tax wage	£11,648	£13,414	£14,004	+20%
Employer NI	£0	£0	£0	+0%
Total tax paid	£0	£327	£556	+£556
Labour cost (annual wage + employer NI)	£11,648	£13,741	£14,560	+25%
Tax wedge	0.0%	2.4%	3.8%	+3.8pp