The Cost of Labour 2026 update

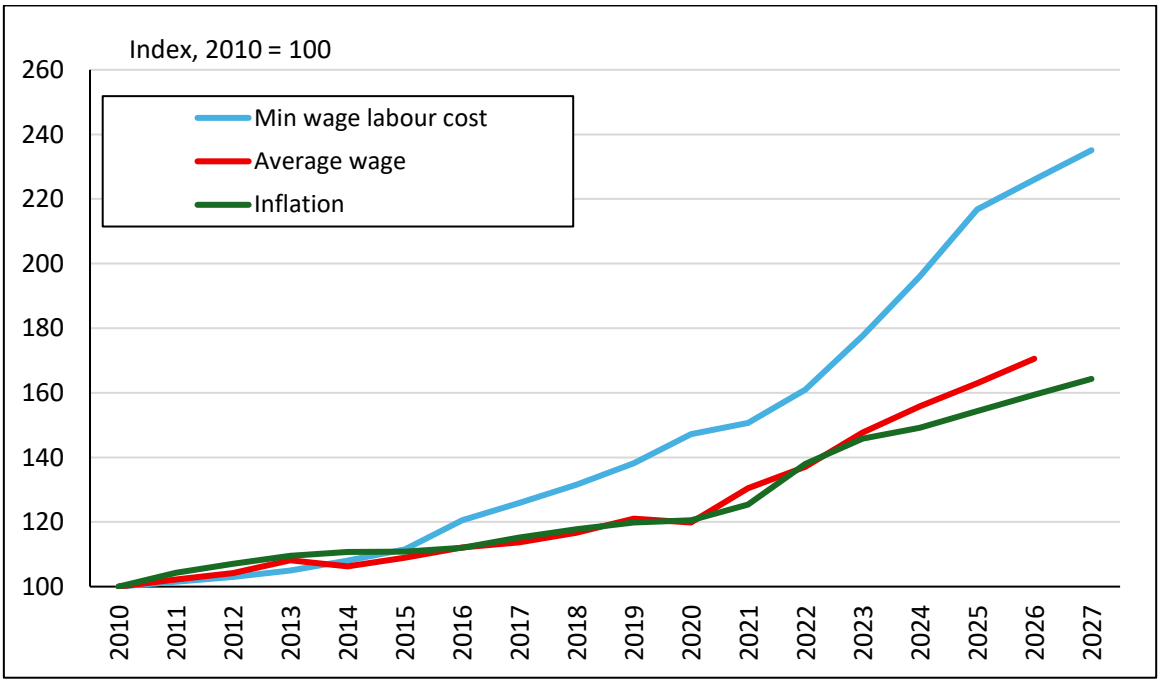
By Daniel Herring

One of the themes of the Labour Government is the increased costs it has put on business. One of the largest costs it has increased is the cost of minimum wage labour. This year's Budget carries on that trend.

This is bad for business and many younger workers as well. In nominal terms, since Labour came to office, the annual cost of minimum wage labour has risen from £22,438 to £26,900. This is an increase in the labour cost of 20%, while CPI inflation will have only increased by 10.1%.

Looking back, the rise in the cost of minimum wage labour began in 2015, when the Conservative government promised to increase the minimum wage to 60% of median earnings (and later, to two thirds). This rise has been faster than increases in the average weekly wage and inflation. While income tax thresholds have stayed frozen, this has meant that a full-time minimum wage earner is halfway to paying the higher rate of income tax – in 2000, it was one fifth of the way. The other major change comes in 2025, with the increase in employer national insurance.

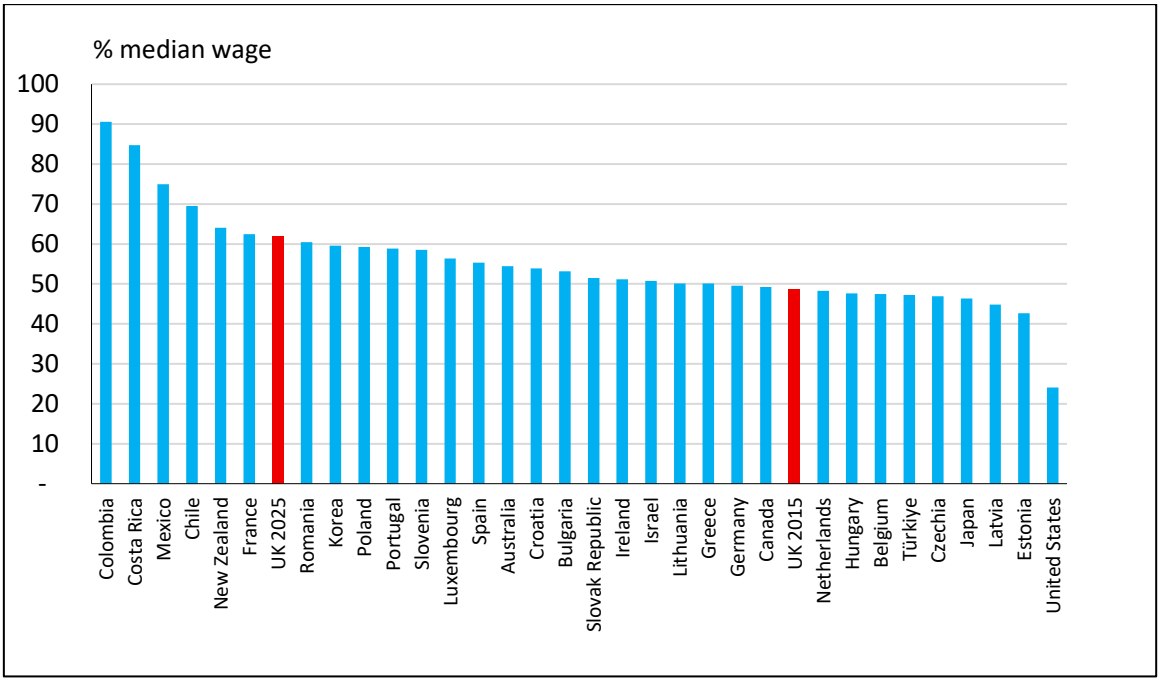
Growth in Inflation, Minimum wage labour cost, Average wage



Minimum wage labour cost is the cost of employing someone full time on the minimum wage

The UK now has one of the most uncompetitive minimum wages in the OECD, with the seventh highest in the OECD for countries which have a minimum wage (relative to median wages). Had it remained at the 2015 level, it would be the tenth lowest.

Minimum relative to median wages of full-time workers (2025 or latest, and UK 2015)



Source: OECD (graph includes some non-OECD countries)

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In 2025, decisions taken by the Government massively increased the cost of low-wage labour. In 2027, the cost will be even higher.

As of April 2027, the minimum wage will increase:

- From £12.71 to £13.21 for those aged 21 and over
- From £10.85 to £11.27 for those aged 18-20
- From £8.00 to £8.31 for those aged 16-17 and Apprentices

That means, from April 2027, it will cost a business £26,900 annually to hire a full-time, minimum-wage worker aged 21 or over, up from £25,853 in 2026, £24,807 in 2025 and £22,438 in 2024. This is a 20% increase since 2024, or £4,462.

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 £20,511 in 2027. This is a three-year increase of 31%, or £4,859.

Apprentices and under 18s have increased from £11,648 in 2024 to £15,124 in 2027. This is an increase of 30%, or £3,476.

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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 Gov.UK (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.

Median wage data comes from the ONS "EARN01: Average Weekly Earnings" (link) (sheet is "1. AWE Total Pay" indicator "KAB9). Inflation data is from the OBR EFO October 2026 spreadsheet: "October 2026 Economic and fiscal outlook – detailed forecast tables: economy" (link)

Data for the OECD comes from "Employment protection and minimum wages" (link)

National Living Wage (21 and over)

Category	2024	2025	2026	2027	2024-2027 % change
Annual wage	£20,821	£22,222	£23,132	£24,042	+15%
Income tax	£1,650	£1,930	£2,112	£2,294	+39%
Employee NI	£659	£771	£844	£917	+39%
Total employee taxes	£2,309	£2,701	£2,956	£3,211	+39%
After tax wage	**£18,512**	**£19,521**	**£20,176**	**£20,831**	**+13%**
Employer NI	£1,617	£2,585	£2,721	£2,858	+77%
Total tax paid	£3,927	£5,286	£5,677	£6,069	+55%
Labour cost (annual wage + employer NI)	**£22,438**	**£24,807**	**£25,853**	**£26,900**	**+20%**
Tax wedge	17.5%	21.3%	22.0%	22.6%	+5.1 pp

National Minimum Wage (18-20)

Category	2024	2025	2026	2027	2024-2027 % change
Annual wage	£15,652	£18,200	£19,747	£20,511	+31%
Income tax	£616	£1,126	£1,435	£1,588	+158%
Employee NI	£245	£449	£573	£634	+158%
Total employee taxes	£862	£1,575	£2,008	£2,222	+158%
After tax wage	**£14,790**	**£16,625**	**£17,739**	**£18,289**	**+24%**
Employer NI	£0	£0	£0	£0	+£0
Total tax paid	£862	£1,575	£2,008	£2,222	+158%
Labour cost (annual wage + employer NI)	**£15,652**	**£18,200**	**£19,747**	**£20,511**	**+31%**
Tax wedge	5.5%	8.7%	10.2%	10.8%	+5.3pp

National Minimum Wage (apprentices and under 18)

Category	2024	2025	2026	2027	2024-2027 % change
Annual wage	£11,648	£13,741	£14,560	£15,124	+30%
Income tax	£0	£234	£398	£511	+£511
Employee NI	£0	£93	£158	£203	+£203
Total employee taxes	£0	£327	£556	£714	+£714
After tax wage	**£11,648**	**£13,414**	**£14,004**	**£14,410**	**+24%**
Employer NI	£0	£0	£0	£0	+£0
Total tax paid	£0	£327	£556	£714	+£714
Labour cost (annual wage + employer NI)	**£11,648**	**£13,741**	**£14,560**	**£15,124**	**+30%**
Tax wedge	0.0%	2.4%	3.8%	4.7%	+4.7 pp