JOBS FOUNDATION

Getting Britain Working

The case for Employer NICs relief on welfare to work

Jamie Booth - May 2025

The transition from welfare to work represents one of the most significant challenges in addressing poverty and economic inactivity. Businesses across the UK play a vital role in this transition, offering the possibility of employment, training opportunities, and support to individuals from disadvantaged backgrounds.

Policy Background

Currently 9.22 million working-age adults in the UK are economically inactive, representing an inactivity rate of 21.4 per cent (ONS, April 2025). The UK is the only G7 country that has seen rising economic inactivity since the pandemic, with UK economic inactivity increasing by 0.9 per cent, compared to a 1.6 per cent decrease in France and a 2.4 per cent decrease in Germany when comparing Q4 2019 to Q4 2024 (House of Commons, 2025). Of this, long-term sickness is the leading cause for economic inactivity, with there currently being around 2.8 million working age adults economically inactive due to long-term sickness: a rise of around 800,000 since the pandemic (ONS, April 2025). The claimant count (the number of people claiming unemployment related benefits) was 536,000 higher in February 2025 than in March 2020 (ONS, April 2025).

Current Costs

The costs of the UK's current levels of economic inactivity are increasingly high. An unemployed single adult in the UK receiving the Universal Credit Standard Allowance currently receives £393.45 per month, equating to £4,721.40 per year (BBC, 2024). This can be significantly higher if the claimant is eligible for housing support or additional entitlements for disabilities or children. This does not include any further foregoing of revenue to the Exchequer of revenue from employment taxes or consumption taxes.

The Secretary of State for Work and Pensions, Liz Kendall, has announced various reform packages – the Get Britain Working White Paper and the Pathways to Work Green Paper – which correctly identify the scale of the problem of growing worklessness, and make a start on reforming the incentives that are pushing people towards welfare. However, even with the cuts that the Government have announced to welfare, spending in this area is still projected to significantly increase, with health-related welfare spend set to increase by over £30 billion by 2030. The OBR projects that spending on health-related benefits will increase by an average of 5.3 per cent a year over the course of this Parliament (CPS, 2025), meaning that welfare spending will grow significantly higher than the projected GDP growth rate, which is ultimately fundamentally unsustainable and is already crowding out investment in other areas like defence and infrastructure.

The Government has an ambition of boosting the employment rate to 80 per cent, bringing two million more people into the labour force who are currently economically inactive. But, despite initial progress being made on reforming the welfare system to incentivise work, there has been a lack of focus on the other side of the equation: making sure that there are both the jobs available for people to fill, and businesses willing to take the risk on hiring people from long-term inactivity or unemployment.

There are currently around 800,000 job vacancies, so even assuming that it were to be desirable or possible to fill every job vacancy – this means that there is a need to create roughly 1.2 million new jobs to achieve the Government's ambitions on employment.

Hiring people from long-term inactivity or unemployment represents an additional cost for businesses. We know that in the short run, these groups often require bespoke support, including extra training, flexible working patterns, or are initially less productive than more experienced employees. This means that firms can be less inclined to make these hires as opposed to recruiting people with more established work history.

Policy Solution

To incentivise firms to recruit individuals from long-term unemployment or inactivity, we propose that if a business recruits someone from long-term unemployment (defined as someone who has been out of employment for 12 months or longer) or economic inactivity (including, for example, young NEETs or those on disability benefit), they would receive a 100 per cent reduction in the Employer National Insurance Contributions for their first year in employment up to the upper secondary threshold of £967 per week.

This cut to NICs contributions would apply to those from:

- Long-term unemployed: 323,000 individuals (Statistica, 2025)
- Economically inactive who want a job: 1.6 million individuals (ONS)
- Total: 1.9 million individuals.

Whilst there is a much larger group of economically inactive people in the UK, we have chosen this group as the pool most receptive to work. This would be operationalised through a separate Tax Code, as is currently the case for those that receive NICs breaks due to their veteran status. There is also precedent with the Double Contribution Convention which exempts temporary workers from 21 countries (now set to include India following the recent UK/India trade deal) from paying NICs.

The Impact

We estimate that introducing this policy would result in the cost to a business of employing a full-time worker on the minimum wage falling by 10.41 per cent. Assuming a labour elasticity rate of -0.5 (detailed below), this would result in a 5.21 per cent increase in the demand for labour from these identified groups. We would infer that this would result in an increase in demand for labour of roughly 100,070 jobs.

The total cost to the Exchequer of the policy would be approximately £258,480,810 in year one of foregone employer NICs. However, considering other forms of taxation, this policy would in reality be at least cost neutral, and in all likelihood, actually provide additional revenue for the Exchequer. Assuming a 35-hour week on the national minimum wage, an additional 100,000 individuals in work would yield in an additional £270,289,070 of revenue from employee income tax and employee national insurance contributions. We can also expect that this would save significant amounts of money on the welfare budget, however this falls outside of this analysis.

Empirical Assumptions

The elasticity of demand for labour is estimated by Lichter, Peichl & Siegloch (2015) to be around -0.4 to -0.6, meaning that a ten per cent reduction in costs of labour should lead to a 4 to 6 per cent increase in labour demand. These figures are broadly replicated across a range of economic studies, as well as in case studies of countries that have reduced payroll taxes in a similar way.

Linking to the impact of the recent rise to employer NICs, the Oxford Economics institute estimated that the increase in NICs rates from 13.8 per cent to 15 per cent alongside the reduction in the threshold for payments from £9,100 per annum to £5,000 per annum would result in a fall in employment of 0.2 per cent. However, they acknowledge that their modelling on this could yield nonlinear results, with the actual impact on jobs being bigger than initial modelling would indicate.

This appears to be the case. The British Chamber of Commerce (2025) has found that 82 per cent of firms surveyed stated that the National Insurance rise will impact their business, with 58 per cent stating that this will impact recruitment. The Chartered Institute of Professional Development (2025) has found that 1-in-4 employers are planning to make redundancies over the next three months, with 32 per cent of businesses stating that they planned to reduce the number of employees through redundancies or recruiting fewer workers. Clearly, there is a strong link between payroll taxes and employment levels, that goes far higher than what Oxford Economics have estimated.

Existing Precedent

As mentioned above, it should be noted that there is an existing precedent for this scheme. In 2020, then-Chancellor Rishi Sunak announced that employers who hire ex-armed forces personnel would not have to pay employer NICs during their first year of employment, aimed to boost the number of veterans who immediately enter the workplace. This is facilitated through a zero rate of Employer NICs on salaries below £50,270 a year, with a separate National Insurance category to be used when submitting payroll reports to HMRC. This was recently extended by the current Government to remain in place until at least April 2026. Employers hiring those under 21 similarly do not have to pay Class 1 Employer NICs up to the lower earnings limit for these workers.

Simply displacing demand for other workers?

One could argue that this will incentivise businesses to hire people from long-term unemployment over those with more experience or better CVs. However, we already have a long precedent of creating incentives to boost demand for labour from underrepresented groups. For example, the minimum wage rate varies dependent on one's age. From 2014 to 2020, the minimum wage was broken down into four age categories – 25+, 21-24, 18-20, and 16-17. During this time period, compared to the 25+ category, the average wage was 8.05 per cent lower for 21–24-year-olds, 24.8 per cent lower for 18–20-year-olds, and 46.33 per cent lower for 16–17-year-olds. Even today, those aged 18-20 earn 18.1 per cent less than those aged 21 and over. This means that it is significantly cheaper for firms to recruit younger employees than older employees, with this receiving little criticism as having a detrimental impact on hiring older employees.

Indeed, these differential wage rates are justified by the Low Pay Commission as helping encourage younger people into the workforce. The Low Pay Commission cites the fact that younger workers have lower average experience, higher training costs, or a weaker bargaining position as reasons why the minimum wage must be lower to sustain higher employment rates amongst younger people. Clearly, the same factors apply to those coming from long-term unemployment too, and this group must also have a framework that incentivises their hiring.

There is also the argument that this could cause firms to hire those who have been long-term inactive, reap the benefits of a lower NICs rate for the initial year-long tax break, and then lay-off these workers and repeat the process. Without considering that this would be counterproductive and costly for firms due to the training and investment they had put into hiring these workers, this would almost certainly be illegal under both current employment legislation, as well as new provisions in the Employment Rights Bill.

Conclusion

The Government should be congratulated on their ambition to get the employment rate back up to 80 per cent, and Liz Kendall has made a solid start on delivering this, but the ambition won't be realised without additional jobs being created by the business community. We hope that this cost neutral proposal to encourage businesses to do their bit to get two million people into work will be looked at carefully by the Treasury and included in the Autumn Budget.

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About the Jobs Foundation

The Jobs Foundation was co-founded by Lord Matthew Elliott and Georgiana Bristol in 2023 to champion the role of business as a force for good. The charity supports the crucial role companies play giving people a step up in life by providing jobs and training opportunities and ensures that businesses in the UK have the policy environment they need to thrive. The Jobs Foundation has developed an expertise in the subject of worklessness, how best to get people from welfare into work, and the crucial role that businesses play in this process. A good overview of this subject can be found in the foundational research of the Jobs Foundation, *Two Million Jobs: How businesses play a crucial role in taking people from welfare into work*.