National Insurance hike ‘tax on jobs’ could be ‘tipping point’ for UK economy

The government’s planned increase in National Insurance tax could be a “tipping point” for the UK economy, a top business group has warned.

Suren Thiru, head of economics at the British Chamber of Commerce (BCC), told the Standard that the government’s mooted one percentage point increase in National Insurance contributions could have a “knock on impact” on investment and job creation. Experts think the increase could raise up to £13bn, a cost borne by workers and businesses.

“Clearly, we’re at a very delicate point for the UK economy and the labour market,” Thiru said. “It makes it that much more difficult to keep people on and hire people.”

A growing number of business groups and think tanks have come out in opposition to the government’s plans for an increase in National Insurance tax to pay for social care. The plans were leaked to the press on Friday. Boris Johnson and Rishi Sunak will reportedly announce the changes in the coming days.

The looming tax rise plans have met with a wave of opposition from both politicians and business groups. Tory MPs and party grandees including Philip Hammond, Ken Clarke and Norman Lamont have spoken out against the policy, which goes against manifesto pledges made by the Conservative Party.

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“Businesses that have had such a difficult time over the last 18 months would find it hard to understand why the government would want to raise employer payroll taxes to pay for the necessary investment,” said Kitty Ussher, chief economist at the Institute of Directors.

A spokesperson for the Confederation of British Industry said: “Businesses have endured a torrid 18 months, and are now fighting to overcome crippling labour shortages which threaten to further undermine recovery prospects.

“Any increase to National Insurance would therefore come as a further barrier to both their immediate revival and their longer-term investment ambitions. While social care reforms are overdue and welcome, business would urge Government to explore all alternative funding options before enforcing what amounts to a tax on jobs which could derail the UK’s economic recovery.”

In a paper published on Monday, the Resolution Foundation said increases to National Insurance would be a “poor way” to raise revenue that would lock in unfairness and hit young workers hardest.

To make it fairer, the think tank recommended extending any National Insurance rises to working pensioners, increasing the threshold to £10,000 to protect low earners and increasing dividend tax and capital gains tax alongside National Insurance.