

THE IMPACT OF THE NLW ON NATIONAL INSURANCE CONTRIBUTIONS IN THE UK HOSPITALITY INDUSTRY

Increases in the National Living Wage are putting significant pressure on the UK Hospitality Industry. By 2024, we estimate that increasing the NLW to 66% of the median wage will lead to 217,000 fewer jobs than leaving the NLW at 60% of median earnings, or a reduction in the total hospitality workforce of -6.2%. Furthermore, we estimate that it will lead to a reduction in investment spend of over £7.5bn over the next four years, compared to keeping the NLW at 60% of median earnings.

Over the next four years, the increases in NLW will add £6bn to the wage bill of the hospitality sector, with a further £0.5bn of extra employer National Insurance Contributions on top of this. This report explores changes that could be made to the National Insurance thresholds to reduce the pressure on the industry from these incremental cost increases, with the aim of protecting employment and investment in a sector that employs 3.3m people.



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Impact of NLW Changes on NICs

Below we show the impact of recent and proposed changes to the National Living Wages, and the impact that this has had on the wage bill of the UK hospitality industry, including the impact on employer's National Insurance Contributions which have increased disproportionately faster than the underlying wage growth.

The data and its conclusions are based upon underlying employment and wage rate data from the Office of National Statistics (ONS), with estimates and analysis by Ignite Economics. The base data refers to the narrow SIC definition of the Accommodation and Food & Beverage Service Activities segment of the economy, rather than the wider hospitality industry, and therefore the actual monetary impact on the wider hospitality impact would be greater than the estimates contained below, although the relative (percentage) impact should be of a similar nature. All the analysis is based upon a stable level of employment / hours worked.

Current Impact of NLW

2018 to 2020

- Between 2018 and 2020, the main rate of the NLW has increased by 89p per hour, or 11%, and we estimate that this will add £3bn to the wage bill of the hospitality industry. While the National Insurance thresholds for April 2020 are yet to be announced, given recent changes, we estimate an increase to £170 per week; this is a lower increase than that of the NLW, making the NI contributions rise relatively faster than the underlying strong wage growth.

Figure 1: Comparison of Employment Costs 2020 vs 2018

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2018	7.83	162	31.8	2.06	33.9	6.5%
2020	8.72	170	34.8	2.33	37.2	6.7%
Change	0.89	8	3.0	0.27	3.3	0.2%
Change (%)	11%	5%	10%	13%	10%	

Source: Ignite Economics estimates

- The 13% increase in employer's National Insurance Contributions take the total increase in wage bill to £3.3bn per year, in just two years. Over this period, employer's NIC has is forecast to increase from 6.5% of the underlying wage bill to 6.7% of the underlying wage bill. With the NLW set to increase to 66% of median wage by 2024, unless there is a significant rebasing of the NIC thresholds, the NICs will continue to grow at a disproportionately faster rate than underlying earnings.

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Forecast Impact of NLW (2020-2024)

2020 to 2024 (based on 2024 NLW at 60% of median wage)

- If the NLW were to remain at 60% of the median wage by 2024, we estimate the increase in NICs to remain at a similar rate to that of the underlying wage increase (based on an annual NIC threshold increase of £4-5 per week).

Figure 2: Comparison of Employment Costs 2024 (NLW at 60% of median earnings) vs 2020

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2020	8.72	170	34.8	2.33	37.2	6.7%
2024 (@ 60% Median Wage)	9.75	190	38.3	2.52	40.9	6.6%
Change	1.03	20	3.5	0.19	3.7	-0.1%
Change (%)	12%	12%	10%	8%	10%	

Source: Ignite Economics estimates

- This results in a total increase in employment costs from underlying wage growth and employer NICs of £3.7bn by 2024. Although this does lead to an increase in employer's NICs of over £190m over the next four years, it does slightly reduce the proportion of NI contributions to 6.6% of underlying wages.

2020 to 2024 (based on 2024 NLW at 66% of median wage)

- When we re-run this analysis based on a NLW of 66% of median earnings in 2024, but making no adjustment to the increase in the NIC Threshold, the employer NI contribution increases by 0.2 percentage points to 6.9% of the underlying wage cost, increasing by almost £500m.

Figure 3: Comparison of Employment Growth with NLW at 60% and 66% of Median Wage in 2024

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2020	8.72	170	34.8	2.33	37.2	6.7%
2024 (@ 66% Median Wage)	10.50	190	40.8	2.82	43.6	6.9%
Change	1.78	20	6.0	0.49	6.5	0.2%
Change (%)	20%	12%	17%	21%	17%	

Source: Ignite Economics estimates

- With the underlying wage cost increasing by £6.0bn, another £0.5bn of extra employer NICs takes the total impact to the industry to almost £6.5bn of incremental annual wage costs by 2024.
- Rather than being penalised by NIC increases above the rate of the underlying wage growth, the Government could use NIC thresholds and rates to help soften the impact of the large proposed changes in the NLW over the next four years, to protect employment and investment.

Potential Changes in NLW Thresholds

Employer NIC 'Freeze' in Total Amounts Paid

- By increasing the NLW to 66% of median wage by 2024 (and extending it to cover 21-24 yr olds) rather than maintaining it at 60% of median wage, the underlying wage cost increases by £2.5bn, or 6%. However, the increase in employer's NICs is double this at 12%, leading to a further £0.3bn increase in employment costs.

Figure 4: Comparison of Employment Costs 2024 (NLW at 60% vs 66% of median earnings)

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2024 (@ 60% Median Wage)	9.75	190	38.3	2.52	40.9	6.6%
2024 (@ 66% Median Wage)	10.50	190	40.8	2.82	43.6	6.9%
Change	0.75	0	2.5	0.30	2.8	0.3%
Change (%)	8%	0%	6%	12%	7%	

Source: Ignite Economics estimates

- The purported aim of the continued increases in NLW is to increase the income of the lowest paid, rather than to increase Government tax revenues. Therefore, if the Government were to increase the NLW threshold to £216 per week by 2024, this would keep the employer's NI contributions at £2.52bn by 2024 – the same level that they would have been had the NLW been kept at 60% of median wage.

Figure 5: Increase in NIC Threshold to Maintain NIC Total Amount Paid at 2024 (60% NLW) Levels

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2024 (@ 60% Median Wage)	9.75	190	38.3	2.52	40.9	6.6%
2024 (@ 66% Median Wage)	10.50	216	40.8	2.52	43.3	6.2%
Change	0.75	26	2.5	-	2.5	-0.4%
Change (%)	8%	14%	6%	0%	6%	

Source: Ignite Economics estimates

- This would reduce the employer's NIC by -0.4 percentage points to 6.2% of the underlying wage cost – bringing it back to a similar level to what it was at c. 5 years ago. If the Government were to go one step further and keep the total NICs at the same level as at 2020, this would mean increasing the threshold to £233 per week. This 'NIC freeze' would still lead to a wage cost increase of £6.0bn per year by 2024, or +16% compared to 2020 levels.

Figure 6: Increase in NIC Threshold to Maintain NIC Total Amount Paid at 2020 Levels

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2020	8.72	170	34.8	2.33	37.2	6.7%
2024 (@ 66% Median Wage)	10.50	233	40.8	2.33	43.1	5.7%
Change	1.78	63	6.0	-	6.0	-1.0%
Change (%)	20%	37%	17%	0%	16%	

Source: Ignite Economics estimates

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Employer NICs used to offset 1/3 of the increase in NLW

- Below we examine the thresholds that would be needed were to Government to use the employer NICs as a mechanism to offset part of the increase in wage costs that will come from an increase in the NLW to 66% of median wage by 2024, rather than maintaining it at 60% of median wage.
- The incremental wage cost is forecast to be £2.5bn per annum in 2024, and therefore to offset a third of this, the NIC threshold must increase to bring the NIC contributions down to £1.70bn per annum. Based on the current 13.8% NIC rate, this would equate to a NI Threshold of £303 per week for the hospitality industry by 2024.

Figure 7: Increase in NIC Threshold to Offset 1/3 of the NLW Increase

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2024 (@ 60% Median Wage)	9.75	190	38.3	2.52	40.9	6.6%
2024 (@ 66% Median Wage)	10.50	303	40.8	1.70	42.5	4.2%
Change	0.75	113	2.5	(0.82)	1.6	-2.4%
Change (%)	8%	59%	6%	-33%	4%	

Source: Ignite Economics estimates

- This would reduce the amount paid in employer NICs to £1.70bn in 2024, compared to our current forecast of £2.52bn under the scenario of a NLW at 60% of median wage, and £2.82bn under the scenario of a NLW at 66% of median wage.
- If the government were to reduce the employer NIC rate for the hospitality industry to 10% (from the current 13.8%), then the increase in threshold would be lower at £230 per week.

Figure 8: Increase in NIC Threshold to Offset 1/3 of the NLW Increase – at 10% NIC Rate

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2024 (@ 60% Median Wage)	9.75	190	38.3	2.52	40.9	6.6%
2024 (@ 66% Median Wage)	10.50	230	40.8	1.70	42.5	4.2%
Change	0.75	40	2.5	(0.82)	1.6	-2.4%
Change (%)	8%	21%	6%	-33%	4%	

Source: Ignite Economics estimates

- Under the scenario of the current assumed NI Threshold in 2024 of £190 per week, to offset a third of the impact of the increase in NLW median wage (and therefore reduce the employer NIC to £1.70bn), the employer NIC rate for the hospitality industry would have to fall to 8.3%.

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Increase NIC Threshold to £12,500 per annum

- Below we examine the impact of increasing the employer NIC threshold to the same level as that of income tax – i.e. £12,500 per annum, which equates to £240 per week.
- Compared to 2020, this would lead to a slight reduction in the total amount of employer NIC of -3%, or c.£70m in the hospitality industry. The overall wage cost would still be substantially higher at an £5.9bn increase per annum, or c.16% growth over the next four years.

Figure 9: Increase in NIC Threshold to Income Tax Threshold – 2024 vs 2020

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2020	8.72	170	34.8	2.33	37.2	6.7%
2024 (@ 66% Median Wage)	10.50	240	40.8	2.26	43.1	5.5%
Change	1.78	70	6.0	(0.07)	5.9	-1.2%
Change (%)	20%	41%	17%	-3%	16%	

Source: Ignite Economics estimates

- When compared to what our assumed 2024 forecast would be under the scenario of a NLW at 60% of median wage, the total employer NIC contribution of £2.26bn would be 10% lower than the £2.52bn that we currently model. However, the £260m saving for employers would represent only a tenth of the increase in underlying wage bill of £2.5bn that will arise from the increase in the NLW to 66% of median wage.

Figure 10: Increase in NIC Threshold to Income Tax Threshold – 2024 66% NLW vs 60% NLW

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2024 (@ 60% Median Wage)	9.75	190	38.3	2.52	40.9	6.6%
2024 (@ 66% Median Wage)	10.50	240	40.8	2.26	43.1	5.5%
Change	0.75	50	2.5	(0.26)	2.2	-1.0%
Change (%)	8%	26%	6%	-10%	5%	

Source: Ignite Economics estimates

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Increase NIC Threshold to £12,500 per annum – reduced rate to 10%

- Below we examine the impact of increasing the employer NIC threshold to the same level as that of income tax – i.e. £12,500 per annum, which equates to £240 per week, but coupled with a reduced rate of 10%.
- Compared to 2020, this would lead to a decrease in the total amount of employer NIC of -30%, or c.£690m in the hospitality industry. The overall wage cost would still be substantially higher at a £5.3bn increase per annum, or c.14% growth over the next four years.

Figure 11: Increase in NIC Threshold to Income Tax Threshold, and Reduced 10% Rate – 2024 vs 2020

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2020	8.72	170	34.8	2.33	37.2	6.7%
2024 (@ 66% Median Wage)	10.50	240	40.8	1.64	42.4	4.0%
Change	1.78	70	6.0	(0.69)	5.3	-2.7%
Change (%)	20%	41%	17%	-30%	14%	

Source: Ignite Economics estimates

- When compared to what our assumed 2024 forecast would be under the scenario of a NLW at 60% of median wage, the total employer NIC contribution of £1.64bn would be -35% lower than the £2.52bn we currently model. However, the £880m saving for employers would still represent only 35% of the increase in underlying wage bill of £2.5bn that will arise from the increase in the NLW to 66% of median wage.

Figure 12: Increase in NIC Threshold to Income Tax Threshold, and Reduced 10% Rate – 2024 66% NLW vs 60% NLW

	NLW Rate (£ per hour)	NI Threshold (£ per week)	Wage Cost (£bn per year)	Employer's NIC (£bn per year)	Total Wage Cost (£bn per year)	Employer's NIC as % of Wage Cost
2024 (@ 60% Median Wage)	9.75	190	38.3	2.52	40.9	6.6%
2024 (@ 66% Median Wage)	10.50	240	40.8	1.64	42.4	4.0%
Change	0.75	50	2.5	(0.88)	1.6	-2.6%
Change (%)	8%	26%	6%	-35%	4%	

Source: Ignite Economics estimates