Title: The expected impact of changes in National Insurance Contributions on UK firms

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Abstract: *In the 2024 Autumn Budget, the UK Government announced increases to employer National insurance contributions (NICs). These changes came into effect on 6 April 2025. In this post, we use the Decision Maker Panel survey to study how UK firms expect to respond to these changes and to analyse the effects on firm expectations. Firms expect to adjust in multiple ways, including by lowering profit margins, wages, and employment, as well as by increasing own prices. The changes in employer NICs are already being reflected in firm expectations about future employment, prices, and wages, with the largest effects so far on employment expectations.*

In the 2024 Autumn Budget, the UK Government announced increases in employer National insurance contributions (NICs).[i] In April 2025, employer NICs increased from 13.8% to 15% and the threshold at which employers start paying NICs for each employee was reduced. These changes are partly offset by an increase in the Employment Allowance, which eligible employers can claim on their NICs liabilities. The change to employer NICs was the largest of a set of taxation measures announced in the Budget and is forecast to raise around £25.7 billion per year by 2029/30.[ii] In this post, we use a new survey question in the Decision Maker Panel (DMP) survey to analyse how UK firms expect to adjust to the announced changes in employer NICs. We also study how firm employment, own-price, and wage expectations have evolved since the Budget to quantify the potential effects of the policy announcement over the year ahead.

Higher employer NICs represent an increase in labour costs for firms. In response, businesses can adjust in at least four different (non-mutually exclusive) ways: (i) absorbing higher costs in their profit margins, (ii) increasing output prices to cover higher costs, (iii) lowering wages offered to employees, or (iv) reducing the number of employees or reducing hours worked. In a meta-analysis from 52 empirical papers, Melguizo and Gonzalez-Paramo (2013) show that workers bear around two-thirds of the tax burden from increases to social security contributions in the long-run, but with substantial heterogeneity in these estimates. Bell et al. (2002) focus on the 1999 UK employer NICs reform and show using industry-level data that increases in NICs led to reductions in nominal wage growth and increases in producer prices; the effects on employment were smaller. Adam et al. (2019) separately analyse employee and employer NICs changes over 1982-2025. Lower marginal employee NICs led workers to increase hours worked, whereas lower average employer NICs led to lower hourly labour costs. Related research has shown that higher place-based payroll taxes in Norway lower regional employment (Ku et al. 2020) and lower payroll taxes for young workers in Sweden

[1] Any views expressed are solely those of the authors and so cannot be taken to represent those of the Bank of England or to state Bank of England policy.

lower youth unemployment (Saez et al. 2019). Overall, the range of estimates depend on the specific policy changes, short- versus long-term effects, and whether aggregate or local effects are analysed. They also likely depend on the state of the economy when the policies are announced.

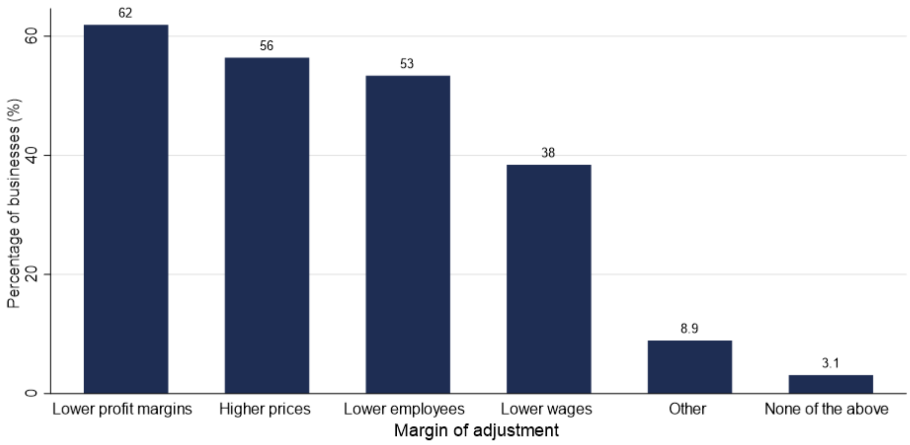
The Decision Maker Panel (DMP)

We use firm-level data from the Decision Maker Panel (DMP) survey. The DMP is a monthly survey of CEOs, CFOs, and Finance Directors across businesses in the UK.[iii] It was launched in 2016. Firms are regularly asked about their realisations and their year-ahead expectations for a number of variables, including own prices, sales, employment, and capital expenditure. Between November 2024 and January 2025, a new question was added to the survey asking firms how they expect to respond to the changes in employer NICs announced in the Autumn Budget. It received responses from 2,299 firms. We combine these responses with firm expectations for their own-prices, employment, and wages to analyse whether expectations have changed after the Budget announcement depending on the reported margins of adjustment. We note that the policy changes took effect in April 2025. Therefore, the results in this post (using data up to March 2025) reflect firm expectations and potential anticipation effects.

Expected margins of adjustment

Figure 1 summarises the expected use of different margins of adjustment (employers can choose more than one) to the announced changes in employer NICs. Overall, firms expect to adjust along multiple margins – only one-third of firms selected a single margin, whereas 55% selected either two or three margins of adjustment. The most common response was lowering profit margins, selected by 62% of businesses. In addition, more than half of businesses expected to increase their prices (56%) or lower the number of employees (53%). Around 38% of firms expected to lower wages in response to employer NICs.[iv]

Figure 1 Firms expect to respond to higher employer NICs along multiple margins



Notes: The figure is based on responses to the question: 'How do you expect your business to respond to the changes to employer National Insurance contributions announced in the November 2024 Budget?' Firms could select multiple margins of adjustment and therefore the percentages do not sum to 100. The figure is based on responses from 2,299 firms over November 2024 to January 2025. Results are weighted by employment and industry shares.

The expected margins of adjustment vary by different firm characteristics. We find that larger firms (100+ employees) are more likely to increase their prices, lower employees, and lower wages. For smaller firms (10-99 employees), lowering profit margins was the dominant expected margins of adjustment, perhaps reflecting limited power over prices and wages, and fewer workers. Firms more exposed to the National Living Wage (defined as 15% or more employees at NLW in 2024) were more likely to select higher prices, lower employees, and lower profit margins. They were less likely to lower wages, which would be consistent with increases in NLW constraining firms from using this margin of adjustment.

The responses to the DMP survey question provide an early indication of how firms plan to adjust to the NICs increase, but they do not inform on the magnitude of any adjustment. We next consider how firm employment, own-price, and wage expectations have evolved, depending on whether they have selected the specific margins of adjustment. This allows us to quantify the impact of the Budget announcement on firm expectations, by analysing changes in the aggregate time series since October as well as using a difference-in-differences empirical strategy.

Expected impact of changes in employer NICs

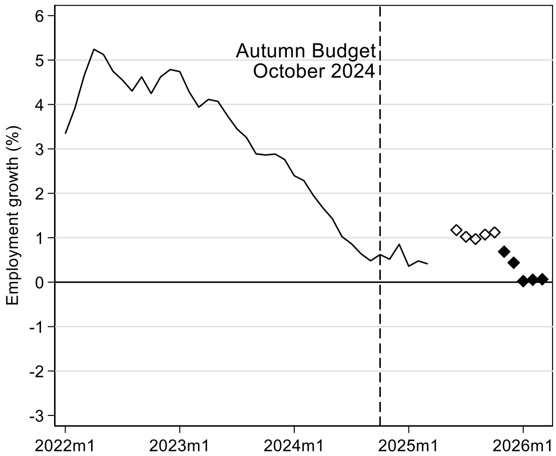
Figure 2 presents the trends in realised and expected employment growth. Across the full sample (Panel A), expected employment growth fell sharply from 1.1% in the three months to October 2024 (pre-Budget) to 0.1% in the three months to March 2025 (diamond markers). Realised employment growth has been more stable and declined marginally from 0.6% in the three months to October to 0.4% in the three months to March (solid black line).

The aggregate series mask a growing divergence across firms depending on their employment response to the change in employer NICs (Panel B). Year-ahead employment growth expectations have remained stable since the Autumn Budget at just over 2% for firms not planning to reduce employment in response to the NICs increase (navy diamonds). Meanwhile firms who say that they will lower employment in response to higher NICs have lowered their expectations for year-ahead employment growth from 0.9% in the three months to October to -1.7% by the three months to March (red diamonds). Realised employment growth has also fallen for these firms since the Budget announcement, to -1.5% in the three months to March 2025 (red solid line).

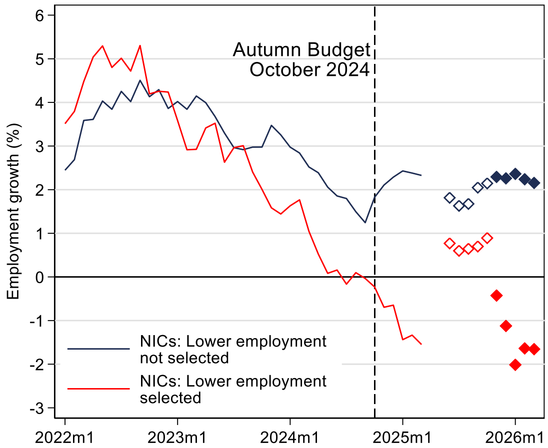
In further analysis, we run difference-in-differences regressions, comparing how expectations have changed pre- vs. post-Budget for different margins of adjustment while also controlling for firm fixed effects and realised employment growth. This analysis suggests the changes in NICs have lowered aggregate expected employment growth by 1.4 percentage points since the Budget announcement. The NICs increase may not be the only factor that can explain the differences between these two groups and expected employment growth was already on a downward trend prior to the policy announcement. Nevertheless, the data suggest that the NICs increase has played an important role in explaining why employment expectations have weakened since the Budget. The estimated employment effect is larger than forecast by the Office for Budget Responsibility (OBR), who expect NICs to reduce labour supply (both employment and hours worked) by 0.2% by 2029-30 (OBR 2024, 2025).

Figure 2 Firms which expect to lower the number of employees in response to NICs have reported a sharp drop in employment growth expectations

Panel A Full sample



Panel B Split by NICs employment response

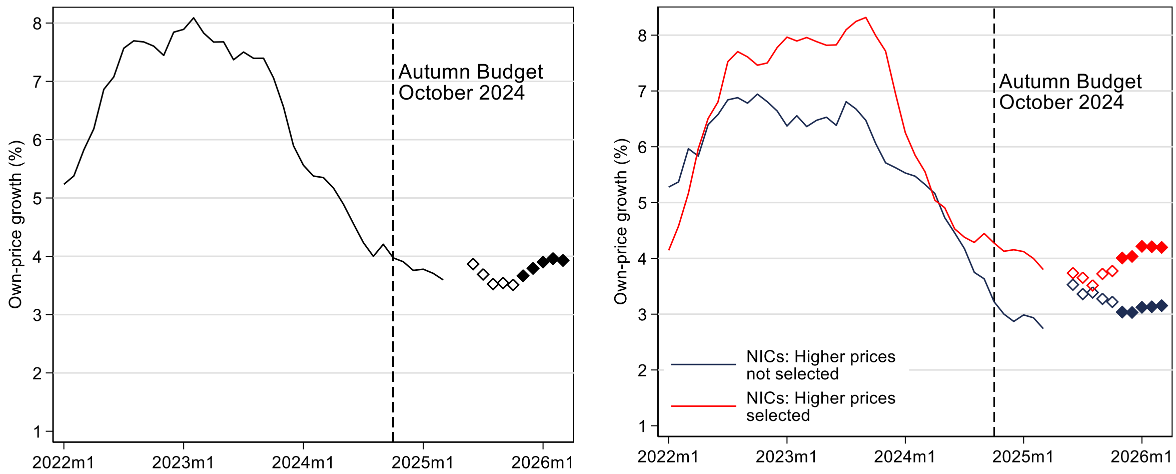


Notes: This figure shows realised (solid lines) and expected year-ahead (diamond markers) employment growth for the full sample (Panel A) and split by whether firms expect to lower employment in response to the announced changes in employer NICs (Panel B). The series are three-month moving averages. Hollow diamond markers are expectations reported pre-Budget. Solid diamond markers include expectations reported post-Budget announcement. The series are weighted by industry and employment shares.

We next consider trends in realised and expected own-price growth. Across all firms, expected price growth has increased from 3.5% in the three months to October 2024 to 3.9% in the three months to March 2025 (Figure 3, Panel A). In particular, firms that expected to increase their prices in response to the NICs increase have increased their expectations for own-price growth over the year ahead from 3.8% before the Budget (in the three months to October) to 4.2% in the three months to March (Panel B, red diamonds). In contrast, firms that did not plan to adjust prices in response to NICs have reported stable own-price expectations at around 3.2% since October. Further difference-in-differences analysis estimates that the increase in NICs has added around 0.2 percentages points to aggregate expected own-price growth since the Budget announcement.

Figure 3 Firms which expect to increase prices in response to NICs have reported an increase in expected own-price growth

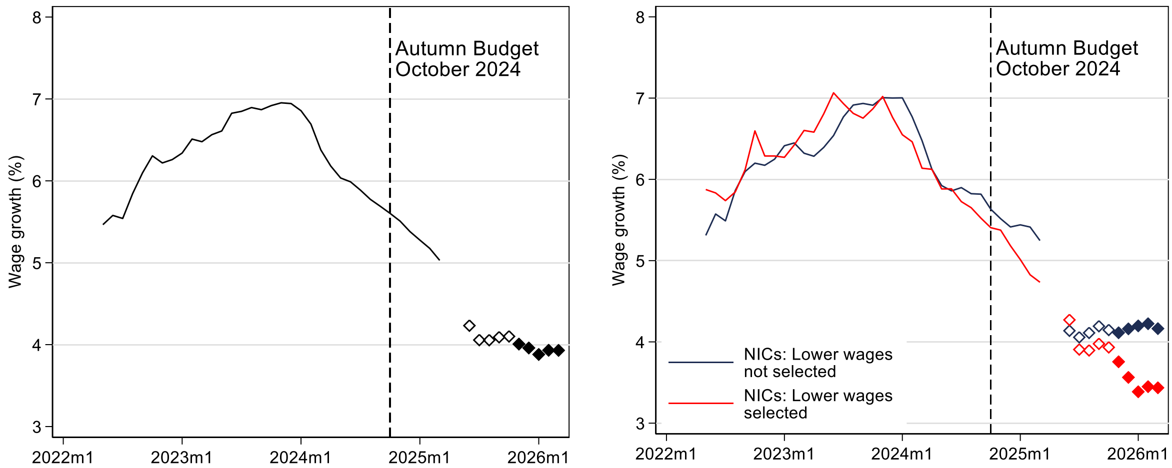
Panel A Full sample *Panel B Split by NICs price response*



Notes: This figure shows realised (solid lines) and expected year-ahead (diamond markers) own-price growth for the full sample (Panel A) and split by whether firms expect to increase prices in response to the announced changes in employer NICs (Panel B). The series are three-month moving averages. Hollow diamond markers are expectations reported pre-Budget. Solid diamond markers include expectations reported post-Budget announcement. The series are weighted by industry and employment shares.

Figure 4 Firms which expect to lower wages in response to NICs have reported lower expected wage growth

Panel A Full sample *Panel B Split by NICs wage response*



Notes: This figure shows realised (solid lines) and expected year-ahead (diamond markers) wage growth for the full sample (Panel A) and split by whether firms expect to lower wages in response to the announced changes in employer NICs (Panel B). The series are three-month moving averages. Hollow diamond markers are expectations reported pre-Budget. Solid diamond markers include expectations reported post-Budget announcement. The series are weighted by industry and employment shares.

Finally, in Figure 4 we analyse trends in wage growth and wage growth expectations. Across the full sample (Panel A), expected wage growth has declined marginally from 4.1% in the three months to October 2024 to 3.9% in the three months to March 2025. Wage growth expectations over the year ahead have been little changed since October at just over 4% for firms that did not expect the increase in employer NICs to have an impact on their wage growth (Panel B, navy diamonds). However, there has been a decline in wage growth expectations for firms who said that the NICs increases would affect wage growth in their business. These have fallen from 3.9% in the three months to October to 3.4% in the three months to March. Difference-in-differences specifications suggest higher NICs have lowered aggregate wage growth expectations by around 0.2 percentage points since the Budget. These negative effects are even stronger for firms which had a higher share of part-time workers in 2024. However, the effects are likely to be at least partly offset by increases in the National Living Wage (NLW), which will constrain the extent to which firms can lower wages, particularly at the lower end of the wage distribution.[v]

Conclusion

In April 2025, the changes to employer National insurance contribution announced in the Autumn Budget last year came into effect. This post shows that firms expect to adjust to these changes in multiple ways, including by lowering profit margins, wages, and employment, as well as increasing own prices. The changes in employer NICs are already being reflected in firm expectations about future employment, prices, and wages. The effects on employment expectations are particularly large and could reflect constraints faced by firm in adjusting other margins (such as squeezed profit margins or simultaneous increases in the National Living Wage). We will continue to monitor how firms adjust to the increase in NICs, as well as interactions with other policy changes such as the National Living Wage.

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[i] https://www.gov.uk/government/publications/autumn-budget-2024

[ii] https://lordslibrary.parliament.uk/autumn-budget-2024-key-announcements-and-analysis/#heading-3 The updated forecast from the Office for Budget Responsibility (OBR 2025) in March 2025 does not materially change this forecast.

[iii] Monthly aggregated statistics on key variables are available on the DMP website: https://decisionmakerpanel.co.uk/ See Bunn et al. (2024) for further details.

[iv] Several other business surveys have asked firms how they plan to respond to labour market policies announced in the Autumn Budget. The questions differ across surveys in what options are provided and what policies are referred to. But one general observation is that firms plan to adjust along multiple margins. See Box D of the February 2025 Monetary Policy Report for further details (Bank of England 2025)

[v] As part of the Autumn Budget, it was announced that the National Living Wage for those 21 years and older would increase by 6.7% from £11.44 to £12.21 per hour. This change would also take effect from April 2025.