



Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
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by email: action.chancellors@hmtreasury.gov.uk

28th January 2022

Dear Chancellor

Scrap April's Proposed Rise in National Insurance Contributions

On 20th September 2021 I wrote to you on behalf of our members to express our concern that the forthcoming rise in National Insurance will have a negative and significant impact on our members and on the wider macroeconomy. I also expressed our disappointment that the tax rise had been put to Parliament without a detailed impact assessment, and without the usual scrutiny that comes from being part of a Finance Bill.

Since I wrote that letter, the evidence base against the tax rise has, to my mind, become even stronger. I am therefore writing once more to make the case for scrapping the tax rise before it comes into effect. I also note that in recent days both the Institute for Fiscal Studies and the National Institute for Economic and Social Research have advised that the fiscal position provides more room for manoeuvre in this regard than was previously thought.

1. It will reduce take-home pay, during a cost-of-living crisis

Inflation is running at a faster rate now than was presumed at the time the decision to raise national insurance was made. The evidence around inflation expectations from our members and from the Bank of England surveys is that this is now endemic, rather than transitory. In October 2021, the independent National Institute for Economic and Social Research (NIESR) confirmed that the tax will therefore “reduce real personal disposable incomes”.ⁱ

2. It will lead to job losses

Survey data from the Institute of Directors show that around one in five firms plan to reduce hiring as a direct result of the proposed increase in national insurance contributions.ⁱⁱ An analysis by the Federation of Small Businesses suggested that unemployment would rise by 50,000 due to the tax hike.ⁱⁱⁱ

3. It will damage the economy

Your own Department has stated that the tax will have a “significant macroeconomic impact”.^{iv} The NIESR report states that it will “reduce UK international competitiveness by reducing the attractiveness of the UK as a location” and over the longer term will lead to less investment that has a negative effect on growth.^v This is supported by Institute of Directors internal research that showed

more firms said they would reduce investment (15%) as a direct result of the tax than would increase it (10%).^{vi}

4. It will cause inflation to rise even further.

Businesses have to pay the tax regardless of whether they are profitable. In response, some firms say they will have no choice but to pass costs on to customers, raising inflation further. When asked how their organisation might respond to the tax, 38% of business leaders cited 'We will raise prices to offset some, or all, of the cost'.^{vii} This inflationary impact of the tax was confirmed by the Treasury Select Committee in their report yesterday who stated that the increase in employer National Insurance contributions would "act as a boost to inflation".^{viii}

5. It will hit hardest those firms that have already suffered the most from the pandemic

Because it is a tax on jobs, it affects labour-intensive companies more. According to NIESR these sectors include distribution, transport, hotels and restaurants, including many businesses that were worst affected by Covid.^{ix}

In my previous letter I also asked the Treasury, on behalf of our members, to conduct its own macroeconomic assessment of the impact of the proposed rise, and to take account of the results of this assessment before moving to the new system. **What is the government's view of the impact of the tax rise on the economy and on business?**

I urge you to think again about raising national insurance contributions and welcome an opportunity to discuss this difficult situation at your earliest convenience.

Yours sincerely



Jonathan Geldart
Director General

ⁱ <https://www.niesr.ac.uk/wp-content/uploads/2021/11/NIESR-Policy-Paper-030.pdf> (page 5)

ⁱⁱ <https://www.iod.com/news-campaigns/press-office/details/IOD-National-Insurance-increase-will-add-further-to-inflation-as-well-as-threatening-job>

ⁱⁱⁱ <https://www.fsb.org.uk/resources-page/unemployment-to-rise-by-50-000-due-to-jobs-tax-hike-new-analysis-finds.html>

^{iv} <https://www.gov.uk/government/publications/health-and-social-care-levy/health-and-social-care-levy> (paragraph 4.6)

^v <https://www.niesr.ac.uk/wp-content/uploads/2021/11/NIESR-Policy-Paper-030.pdf> (pages 3 and 5)

^{vi} <https://www.iod.com/news-campaigns/press-office/details/IOD-National-Insurance-increase-will-add-further-to-inflation-as-well-as-threatening-job>

^{vii} <https://www.iod.com/news-campaigns/press-office/details/IOD-National-Insurance-increase-will-add-further-to-inflation-as-well-as-threatening-job>

^{viii} <https://publications.parliament.uk/pa/cm5802/cmselect/cmtreasy/825/summary.html>

^{ix} <https://www.niesr.ac.uk/wp-content/uploads/2021/11/NIESR-Policy-Paper-030.pdf> (page 3)