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Straightening out the costs

An assessment of the economic impacts of
proposed minimum wage and employment tax
measures on the hair and beauty sector.

January 2025

pragmatix
advisory



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Straightening out the costs

A report for the National Hair and Beauty
Federation (NHBF)

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Disclaimer

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Registered in England number 12403422. Registered address: 146 New London Road, Chelmsford, Essex
CM2 0AW. VAT Registration Number 340 8912 04

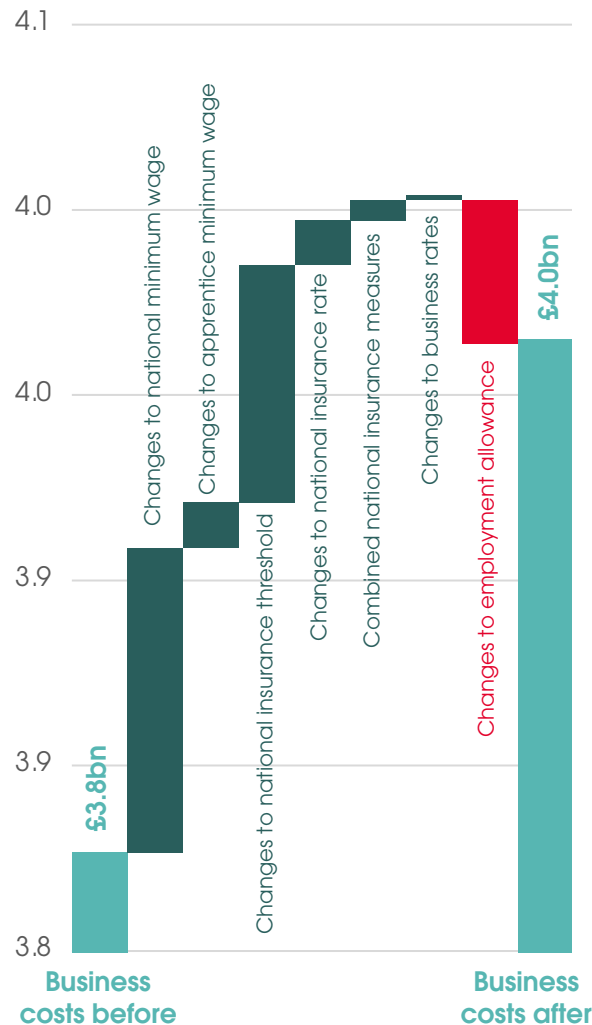
Contents

Executive summary	5
The importance of the hair and beauty sector	8
The impact of policy changes on the hair and beauty sector	13
The impact of policy changes on hair and beauty businesses	24
The impact of changing business models	32
Support options	35
Appendix	42

Executive summary

The National Hair and Beauty Federation (NHBF) has commissioned Pragmatix Advisory to evaluate the impact measures announced in the Autumn 2024 Budget on the hair and beauty sector.

Impact of proposed policy changes on business costs
Hair and beauty sector,
United Kingdom, £ billions



Economic impact modelling suggest that policy measures announced in the Autumn 2024 Budget will increase costs for hair and beauty businesses, impacting their financial stability and operating decisions.

This research focuses on seven key measures which will significantly impact the sector, including changes to the National Minimum Wage, Apprenticeship Minimum Wage rates, employer National Insurance contributions (NICs), Employment Allowance, business rates and business rates relief. These policies are of particular significance as hair and beauty businesses are unique in nature, with staff costs typically around 60 per cent - notably higher than the likes of hospitality where staff costs account for approximately 28 per cent.

Based on official government statistics and responses to the NHBF January 2025 State of the Industry Survey, the proposed policy changes are estimated to increase costs for the hair and beauty sector by £139 million. Labour costs are expected to rise by four per cent, equivalent to £100 million across the sector. This increase is driven by the rise in the National Minimum Wage from £11.44 to £12.21 per hour for adults aged 21 and over, and similar increases for apprentices. Additionally, the changes in the thresholds and rates for employer NICs will further strain businesses' finances. The threshold for employer NICs liability will drop from £9,100 to £5,000 per employee, and the rate will increase from 13.8 per cent to fifteen per cent.

In response to these changes, businesses plan to take several actions to manage the higher costs. Seven in ten businesses intend to increase prices, while 45 per cent will reduce staff hours, potentially impacting service quality and customer satisfaction. Additionally, 45 per cent of hair and beauty businesses said they will reduce the number of employees, with an average reduction of 2.7 full-time equivalent staff. To maintain fair wage structures, 46 per cent of businesses plan to increase salaries beyond those on the minimum wage. This approach helps preserve wage differentials and ensures that more experienced or skilled workers feel valued and fairly compensated, but it will drive up costs for employers.

Financially, the sector is expected to face several challenges. Profits are projected to decrease by fifteen per cent, driven by rising labour costs and reduced consumer demand. Turnover is anticipated to decline by £20 million. Employer NICs are expected to rise by £100 million due to lower thresholds and higher rates. Consequently, corporation tax revenue is estimated to fall by seventeen per cent, from £240 million to £200 million. On a more positive note, Employment Allowance is predicted to increase by £69 million, or 56 per cent, providing some relief to businesses.

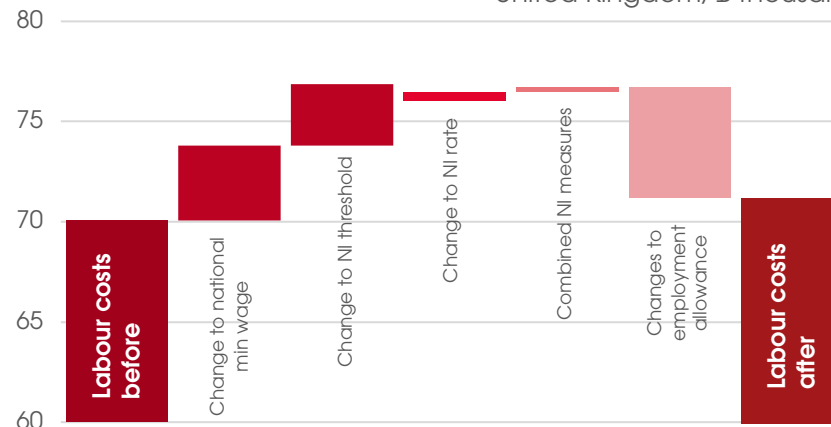
Modelling suggests the measures announced in the Autumn Budget could have a negative impact on tax revenues paid by hair and beauty businesses.

Overall tax revenue is expected to decrease by four per cent, or £44 million across the sector, net of Employment Allowance. VAT paid is estimated to fall by 0.5 per cent, equivalent to £2.5 million. Furthermore, nineteen per cent of businesses, approximately 9,370, plan to shift to self-employed models. This shift is likely driven by a desire to avoid the increased costs associated with traditional employment structures. For 'micro' businesses with fewer than four employees, the budget is likely to add £1,130 in costs, while 'mini' businesses with ten employees can expect to face £10,370 in additional costs per year.

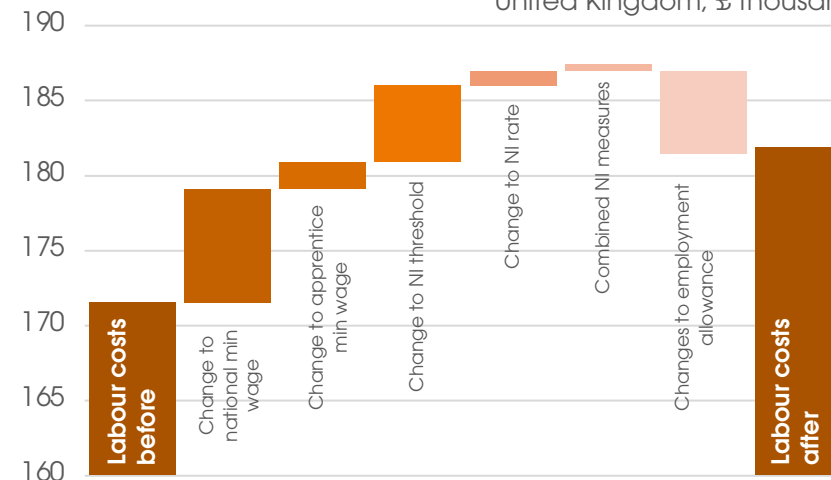
The transition to self-employed models could have significant implications for tax receipts, above and beyond those directly attributable to the measures announced in the budget. Businesses that move to self-employment models will no longer pay corporation tax, and many will not meet the VAT threshold of £90,000, leading to reduced VAT contributions. Additionally, with fewer employers paying NICs, overall contributions could decrease. Modelling suggests this shift would reduce tax receipts from hairdressing businesses by £40 million, with a further £33 million loss if beauty businesses with a turnover under £500,000 transition to hybrid models of renting space to self-employed workers.

The proposed policy changes in the Autumn 2024 budget will significantly impact the hair and beauty sector, leading to increased costs, reduced profits and a shift in employment structures. While businesses plan to respond by increasing prices and adjusting staff hours, government should be prepared for overall tax revenue from the sector to decrease. The NHBf's State of the Industry survey employment and the economic impact modelling underscore the importance of supporting the sector, which plays an important role in female and youth employment and contributes significantly to local economies.

Impact of proposed policy changes on labour costs
Micro hairdressing / barbering business, United Kingdom, £ thousands



Impact of proposed policy changes on labour costs
Mini hairdressing / barbering business, United Kingdom, £ thousands



Importance of the hair and beauty sector

- This section highlights the importance of the sector to the United Kingdom economy.

NHBF keen to understand impact of budget

The National Hair and Beauty Federation (NHBF) commissioned Pragmatix Advisory to assess the likely impact of minimum wage, employment tax and business rate related measures announced in the Autumn 2024 Budget on the hair and beauty sector.

This research considers the implications of seven measures:

1. Changes in the National Minimum Wage (including from £11.44 to £12.21 per hour in the headline adult 21 years and over rate)
2. Changes in Apprenticeship Minimum Wage rates (including from £6.40 to £7.55 for under 18's, £8.60 to £10.00 for those aged between 18 and 20 and £11.44 to £12.21 for those aged 21 and over, assuming rates fall outside of the first-year minimum apprentice rate)
3. Changes in the thresholds for employer National Insurance contributions (from £9,100 to £5,000 per employee for employers with Secondary Class 1 National Insurance contributions liability)
4. Changes in the rates of employer National Insurance contributions (from 13.8 per cent to fifteen per cent for employers with Secondary Class 1 National Insurance contributions liability)
5. Changes in the level of and basis for Employment Allowance (from £5,000 available to employers with secondary Class 1 NICs liability below £100,000 to £10,500 available to all eligible businesses and charities)
6. Changes to the standard multiplier and freezing of the small business multiplier used to calculate business rates (from 0.546 to 0.555 for the standard multiplier and 0.499 for the small business multiplier)
7. Changes to the business rates relief in line with the retail, hospitality and leisure scheme (from 75 per cent to 40 per cent)

Our analysis is based on bespoke, stylised spreadsheet modelling of data on wages and the distribution of wages in the sector, data on the number of enterprises by size in the hair and beauty sector, and the number of people in employment in the sector. This has been sourced from both the Office for National Statistics and NOMIS. It includes registered businesses, and unregistered businesses (those not registered for PAYE or VAT).

Our definition of the 'hair and beauty sector' is based on that outlined by the NHBF in their report, NHBF Industry Statistics 2023. We used an estimate produced by the Office for National Statistics for the total number of employees across the whole subsector, which we have split across individual subsectors using shares derived from NOMIS.

Sector is important contributor to national economy

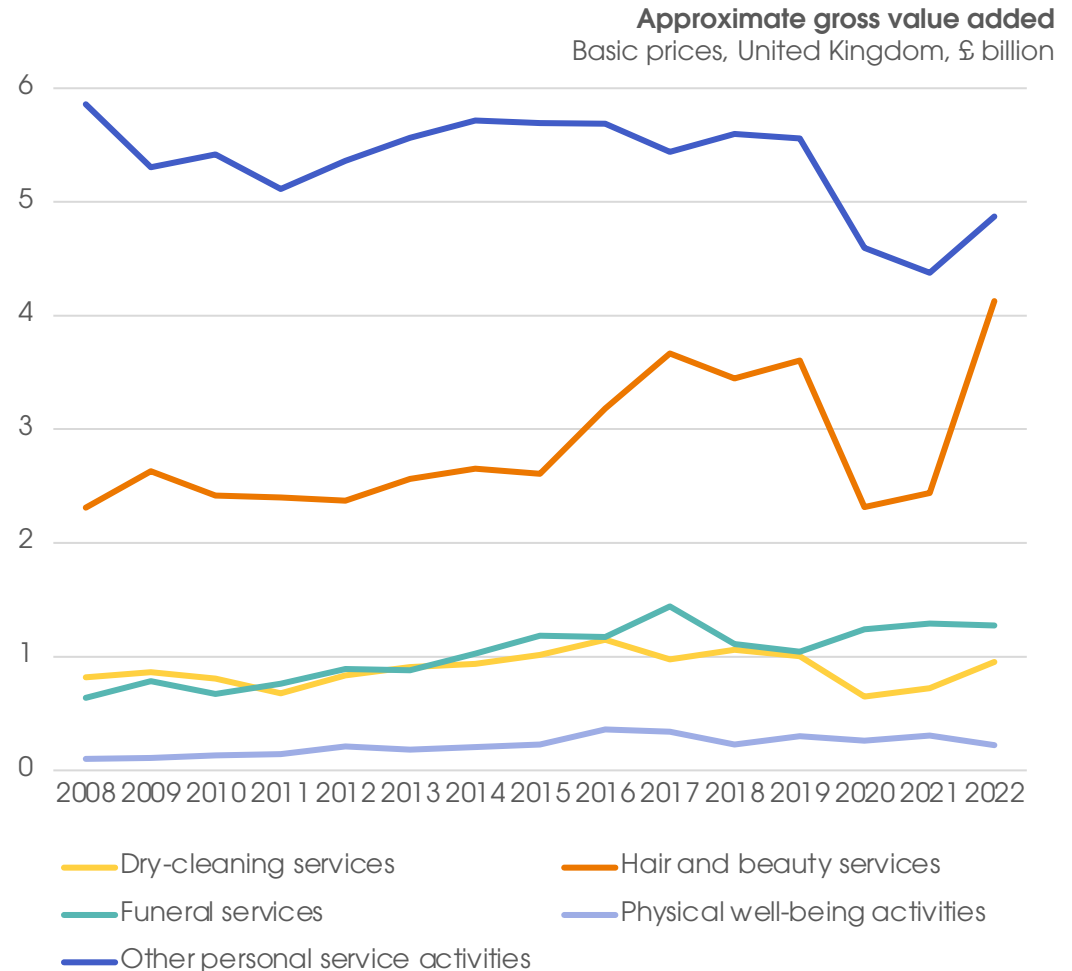
Hair and beauty services' contribution to the economy has grown in recent years.

The hair and beauty sector is a significant part of the United Kingdom economy, employing a substantial number of people. Government statistics show there were around 50,000 PAYE registered businesses operating in the United Kingdom last year.

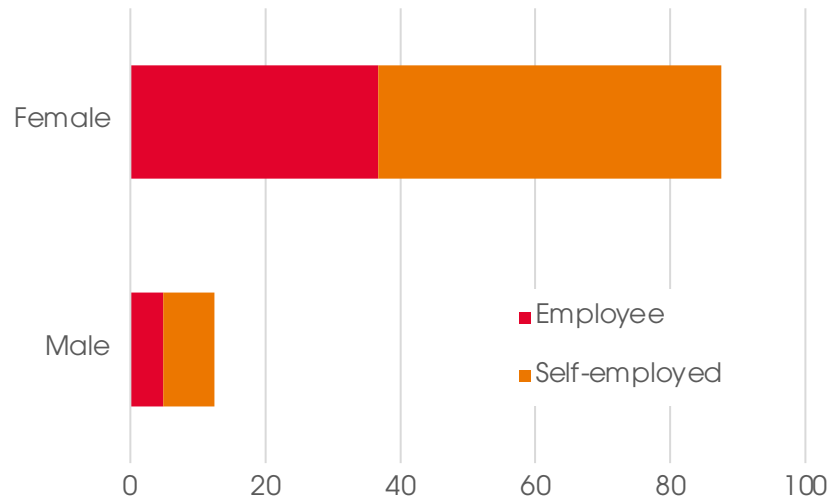
The sector is predominantly made up of small and micro businesses, with 95 per cent of businesses employing fewer than ten people. The industry's contribution to the economy is not only financial, but also social, as it provides services that enhance personal well-being and confidence.

Hair and beauty services are categorised under non-medical personal service activities alongside services such as dry-cleaning and physical well-being activities. Of all the activities within this category, hair and beauty services contribute the second largest amount, with contributions in 2022 reaching just over £4 billion.

A data request to the Office for National Statistics shows that the sector grew by over £1 billion in value between 2022 and 2023, with gross value added increasing to £5.8 billion.



Hair and beauty sector jobs by type*
United Kingdom, July 2023 to June 2024, per cent



Hair and beauty businesses have been on the rise across the United Kingdom.

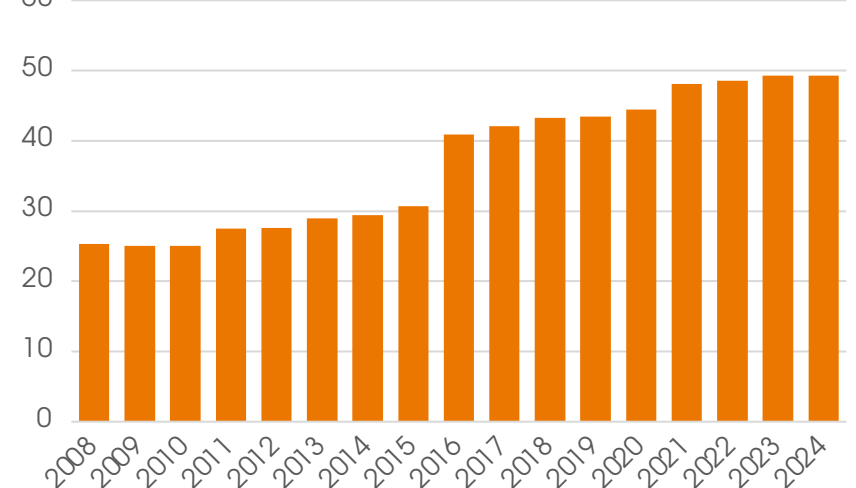
Between 2020 and 2024, VAT and / or PAYE registered hair and beauty enterprises have grown by about eleven per cent.

The hair and beauty sector offers women flexible and accessible opportunities to run their own business.

Between 2023 and 2024, women accounted for approximately 87 percent of the sector’s workforce.

Around 51 per cent of women in the sector are self-employed, contributing to an overall self-employment rate of nearly 60 per cent, significantly higher than the national average of just over 13 per cent.

Hair and beauty enterprises
VAT and/or PAYE registered, United Kingdom, thousands



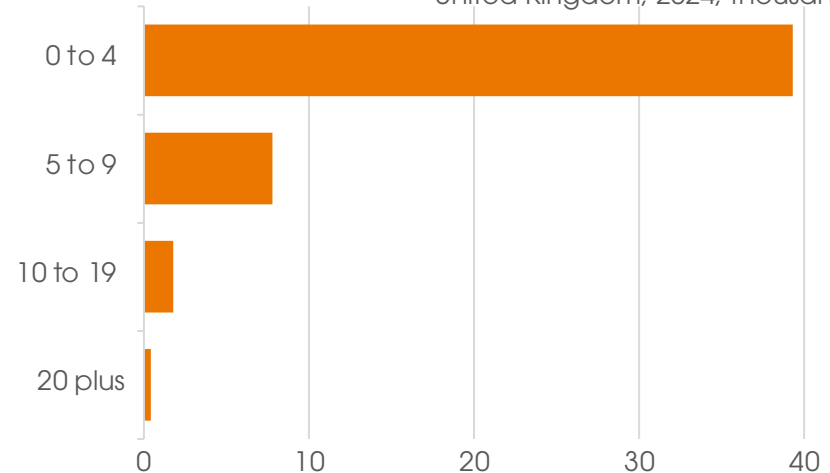
*excludes salon managers and owners ; Source: Office for National Statistics

The majority of hair and beauty enterprises operate on a small scale, with high staff costs.

Around 80 per cent of hair and beauty enterprises have four employees or less. With such small teams, businesses in the sector may be more susceptible to market fluctuations compared to larger enterprises, as they often have limited resources and a greater dependence on a small workforce.

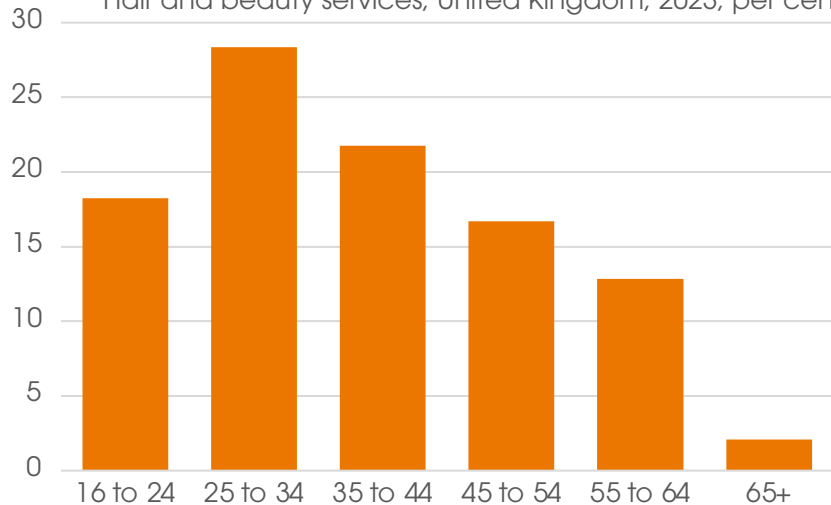
Hair and beauty businesses have a unique nature, with staff costs typically around 60 per cent, as reported by businesses to the NHBF. This is notably higher than in most hospitality businesses where staff costs account for approximately 28 per cent of total expenses, according to a 2022 report for UKHospitality. The high staff costs in the hair and beauty sector reflect the labour-intensive nature of the services provided.

Number of enterprises by employment size band
VAT and / or PAYE registered enterprises, United Kingdom, 2024, thousands



Share of total employment by age group

Hair and beauty services, United Kingdom, 2023, per cent



Around half of the hair and beauty services workforce is under 34.

The hair and beauty sector employs a high proportion of young people, playing an important role in providing entry-level opportunities, fostering skill development, and supporting career progression for individuals at the start of their professional careers.

The impact of policy changes on the hair and beauty sector

This section considers the implications of seven different measures on the hair and beauty sector:

1. Changes in the National Minimum Wage (including from £11.44 to £12.21 per hour in the headline adult 21 years and over rate)
2. Changes in Apprenticeship Minimum Wage rates (including from £6.40 to £7.55 for under 18's, £8.60 to £10.00 for those aged between 18 and 20 and £11.44 to £12.21 for those aged 21 and over, assuming rates outside of the first-year minimum rate)
3. Changes in the thresholds for employer National Insurance contributions (from £9,100 to £5,000 per employee for employers with Secondary Class 1 National Insurance contributions liability)
4. Changes in the rates of employer National Insurance contributions (from 13.8 per cent to fifteen per cent for employers with Secondary Class 1 National Insurance contributions liability)
5. Changes in the level of and basis for Employment Allowance (from £5,000 available to employers with secondary Class 1 NICs liability below £100,000 to £10,500 available to all eligible businesses and charities)
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7. Changes to the business rates relief in line with the retail, hospitality and leisure scheme (from 75 per cent to 40 per cent)

Sector set to face higher business costs

We have evaluated the likely impacts of the minimum wage, employment tax, and business rate measures introduced in the Autumn 2024 Budget on the hair and beauty sector.

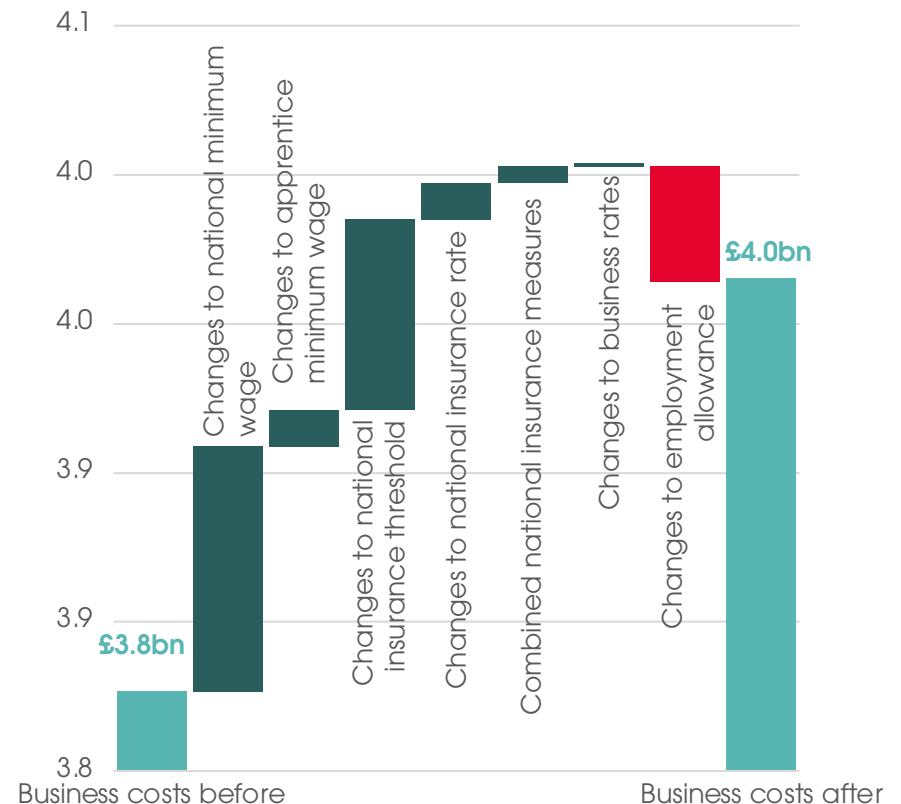
To do this we utilised the NHBF’s State of the Industry survey and official government statistics to determine the most likely employer responses and their impacts.

The survey provided critical insights into how businesses within the sector might respond to the proposed policy changes. Specifically, it asked businesses how they would respond to a minimum wage increase, whether they would reduce jobs and working hours, increase pay for other employees or raise prices to manage costs.

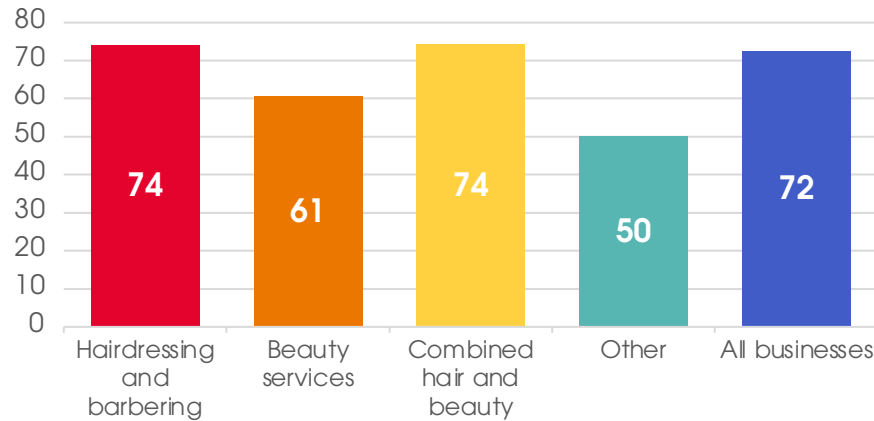
These findings were integrated into our economic impact model to estimate the potential consequences for the sector. The model accounted for variations in employer behaviours. Weightings derived from the survey results were factored into the model to ensure that the predicted impacts aligned with the distribution of likely responses within the sector.

Before accounting for any business responses, the proposed policy changes are estimated to increase costs for the hair and beauty sector by £139 million.

Impact of proposed policy changes on business costs
Hair and beauty sector, United Kingdom, £ billions



Proportion of survey respondents planning to increase prices due to changes proposed in budget
January 2025, United Kingdom, per cent



Just under half of survey respondents say they will reduce staff hours.

One potential way to reduce costs in response to the measures announced is to reduce staff hours. According to the State of the Industry survey, 45 per cent of hair and beauty businesses indicated they would take this approach.

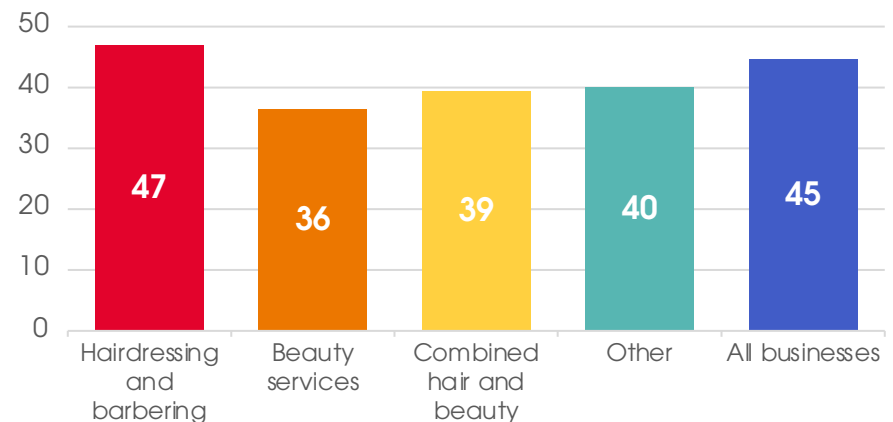
By reducing staff hours, businesses aim to manage the increase expenses without compromising their financial stability. This strategy should allow them to maintain their current workforce while reducing costs. However, it may also lead to reduced service and longer waiting times for clients potentially impacting customer satisfaction. It may also lead to a loss of staff, who go elsewhere due to the need for full-time working hours, or switch to self-employed working.

A majority of businesses plan to increase prices in response to changes proposed in the Autumn budget.

The NHBF’s January State of the Industry survey revealed that 72 per cent of hair and beauty businesses in the United Kingdom plan to increase their prices due to the measures proposed in the autumn budget. This is the highest percentage recorded since the survey began.

The increase in the National Minimum Wage and Apprenticeship Minimum Wage rates will directly raise labour costs for these businesses. Additionally, the lower threshold and higher rates for employer National Insurance contributions will put further strain on their finances. While the adjustment to the Employer Allowance will positively impact some businesses, the reduction in business rates relief will negatively impact their overall expenses. Given these financial pressures, many business will find it necessary to adjust their prices to maintain profitability.

Proportion of survey respondents planning to reduce staff or apprentice hours due to changes proposed in budget
January 2025, United Kingdom, per cent



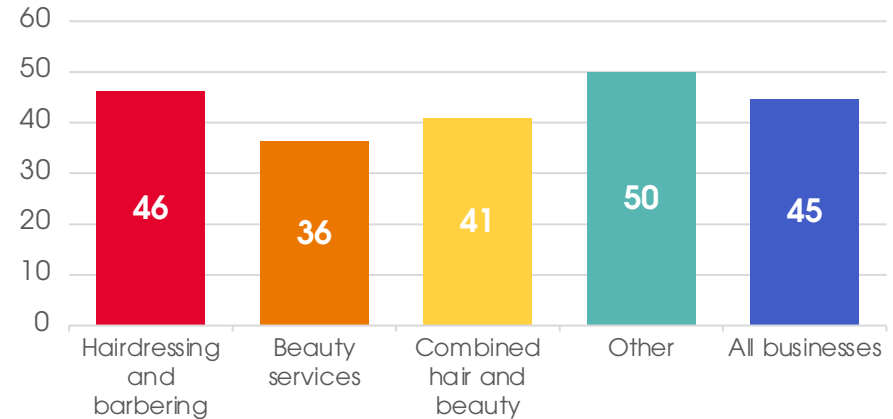
Close to half of businesses said they would reduce the number of employees.

In response to the autumn budget, 45 per cent of hair and beauty businesses indicated that they would reduce the number of people they employed to manage increased costs.

Business owners expect that the budget's measures such as higher National Minimum Wage and Apprenticeship Minimum Wage rates, along with higher employer National Insurance contributions will significantly raise their labour costs.

Proportion of survey respondents planning to reduce their number of staff due to changes proposed in budget

January 2025, United Kingdom, per cent



Average reduction in number of full-time equivalent staff for those survey respondents who said they would reduce staff due to proposed budget changes

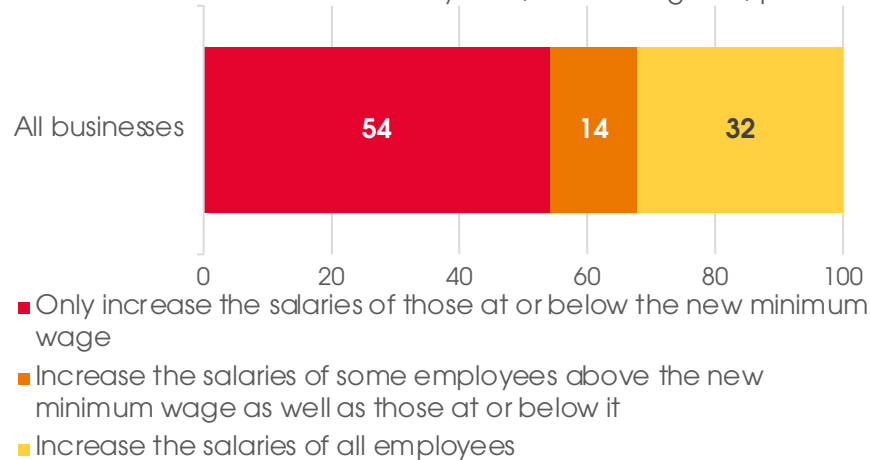
January 2025, United Kingdom, employees per business



Of those who would cut staff, the average reduction in the number of full-time equivalent staff was around 2.7 full-time equivalent.

While reducing the workforce may help businesses lower their overall wage bill and manage the additional financial burdens imposed by the budget, it means fewer staff members to handle the same workload. This could lead to fewer appointments available, and potentially a loss of clients and income.

Survey respondents most likely response to an increase in the minimum wage
January 2025, United Kingdom, per cent



Around 46 per cent of businesses said they would increase salaries beyond the minimum wage increase.

Other employers said they would feel the need to increase wages for all workers, not just those on minimum wage, to address pay differentials. When the minimum wage rises, it can compress the pay gap between lower-paid and higher-paid employees.

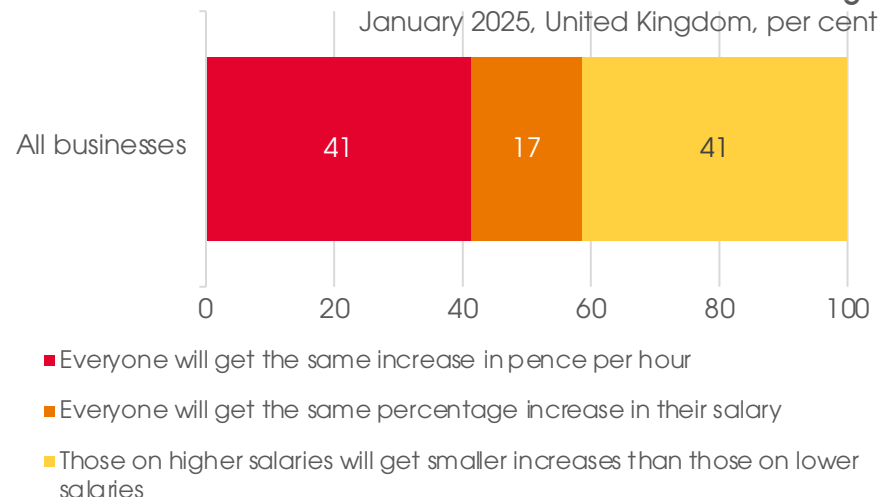
To maintain fair and motivating wage structures, employers may raise wages across the board. This helps preserve the different levels of roles and responsibilities, ensuring more experienced or skilled workers feel valued and fairly compensated. Additionally, it can prevent dissatisfaction and potential turnover among employees who might feel undervalued.

The impact of a minimum wage increase is likely to vary depending on how employers choose to respond.

Some employers said they would choose to increase wages only for those on minimum wage, likely to limit costs. By limiting wage increases to the minimum wage earners, businesses can comply with legal requirements without significantly impacting their overall payroll expenses.

This strategy is particularly useful for businesses operating on very tight margins, as it helps them balance compliance with financial sustainability. Approximately 54 per cent of employers responding to the State of the Industry survey said they would be most likely to implement a minimum wage only increase.

Survey respondents increasing wages for all staff, most likely response to an increase in the minimum wage
January 2025, United Kingdom, per cent



Employment rights bill likely to add further strain

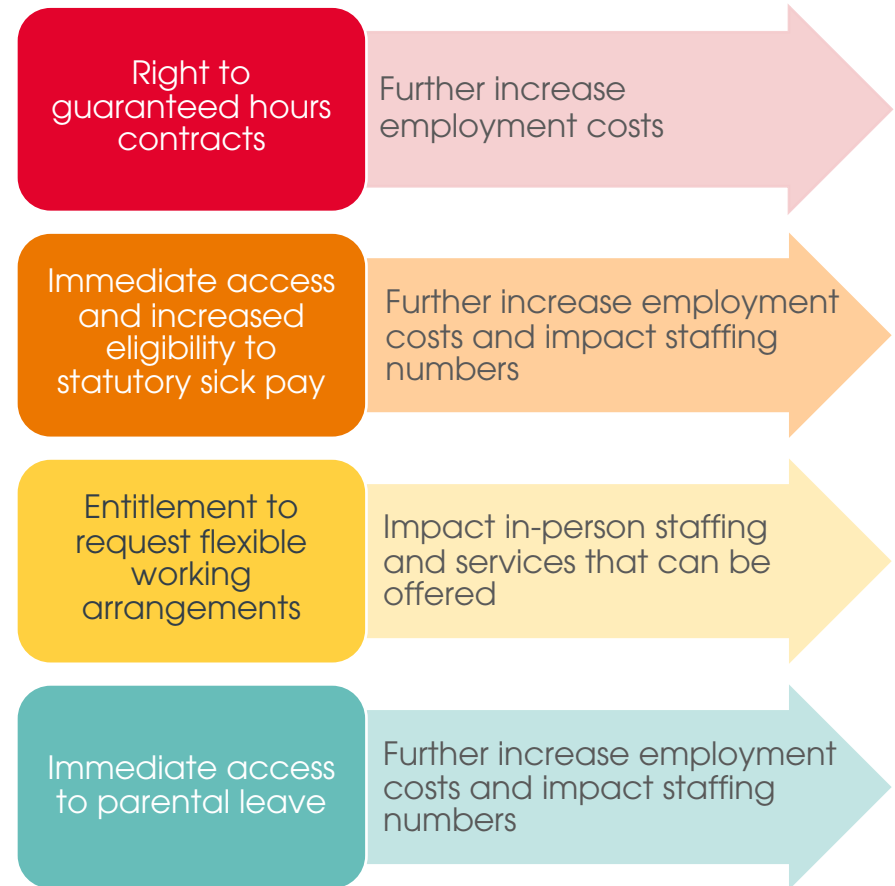
Alongside measures announced in the Autumn 2024 Budget, those introduced under the Employment Rights Bill, which are set to take effect later down the line in 2026, could significantly impact hair and beauty businesses.

The Employment Rights Bill is part of the Labour government’s broader ‘Make Work Pay’ initiative and introduces a range of policy measures aimed at strengthening rights and protections for employees, workers, and trade unions. These measures aim to create a fairer and more supportive working environment by addressing key issues such as flexible working, fair pay, and leave entitlements.

Currently in the consultation phase, the policy measures outlined in the Employment Rights Bill could have a significant impact on hair and beauty businesses, potentially adding to the challenges faced by an industry already under considerable strain.

If enacted, measures currently outlined could give workers the right to guaranteed hours, immediate access to statutory sick pay with the removal of the lower earnings limit for eligibility, the immediate right to request flexible working arrangements and access to benefits like parental leave from the first day of employment.

The NHBF’s September State of the Industry Survey provided feedback from businesses on their likely response to the Employment Rights Bill. This feedback was used in our economic impact model to help estimate the impact of the measures announced in the bill.

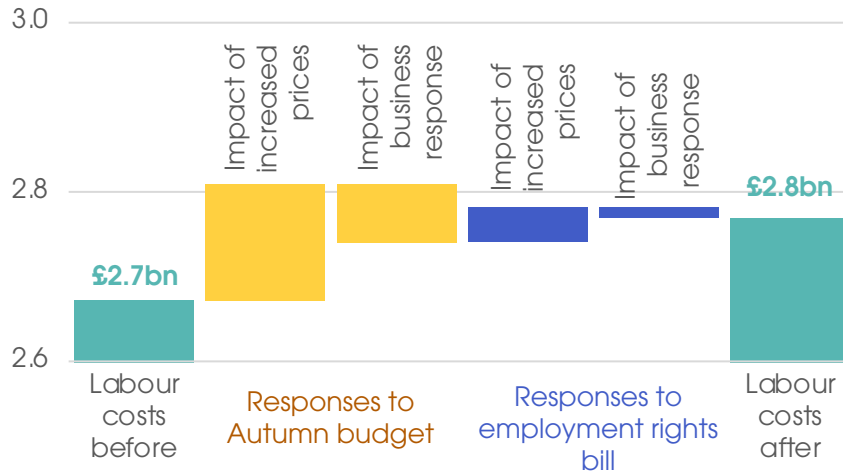


Proposed policy measures and their potential impacts on hair and beauty businesses

Employment Rights Bill, United Kingdom

Impact of proposed policy changes on labour costs

Hair and beauty sector, United Kingdom,
based on 2023/24 figures, £ billions



Profits in the hair and beauty sector are calculated to decrease by fifteen per cent.

The initial rise in prices is expected to impact profits, driven largely by rising labour costs and partly by a reduction in consumer demand. In response to these challenges, businesses are likely to implement cost-cutting measures, such as reducing working hours or downsizing staff.

Combined, these factors contribute to a £100 million reduction in profits across the sector.

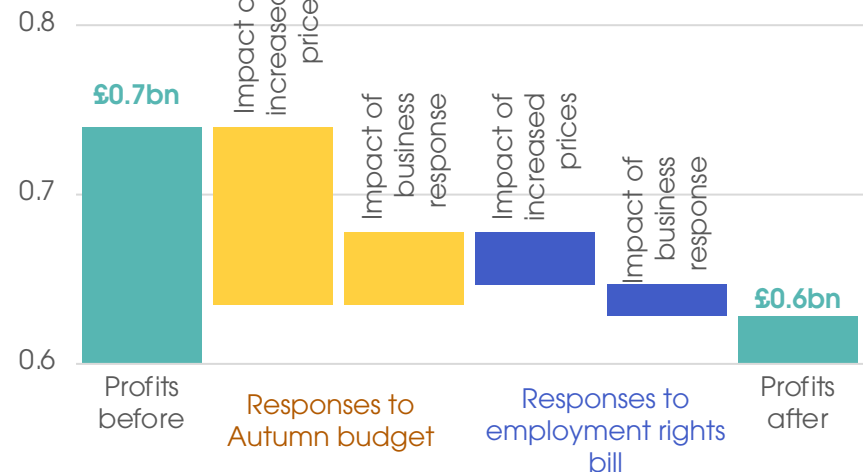
In reaction to the proposed policy changes in the autumn budget and the Employment Rights Bill, businesses may opt to raise prices.

This, in turn, may lead to shifts in consumer demand and prompt businesses to cut staff or reduce working hours.

Our model estimates that in response to the autumn budget and the Employment Rights Bill, labour costs are estimated to increase by four per cent. This is equivalent to almost £100 million in higher labour costs across the sector.

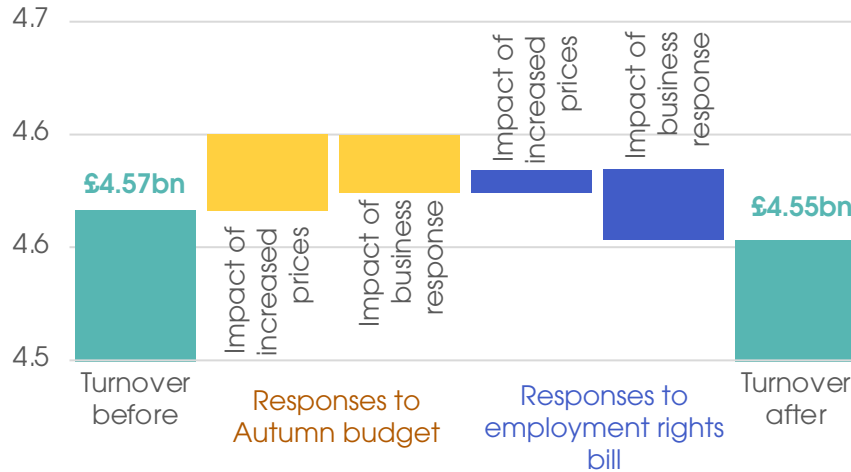
Impact of proposed policy changes on profits

Hair and beauty sector, United Kingdom,
based on 2022/23 figures, £ billions



Impact of proposed policy changes on turnover

Hair and beauty sector, United Kingdom,
based on 2022/23 figures, £ billions

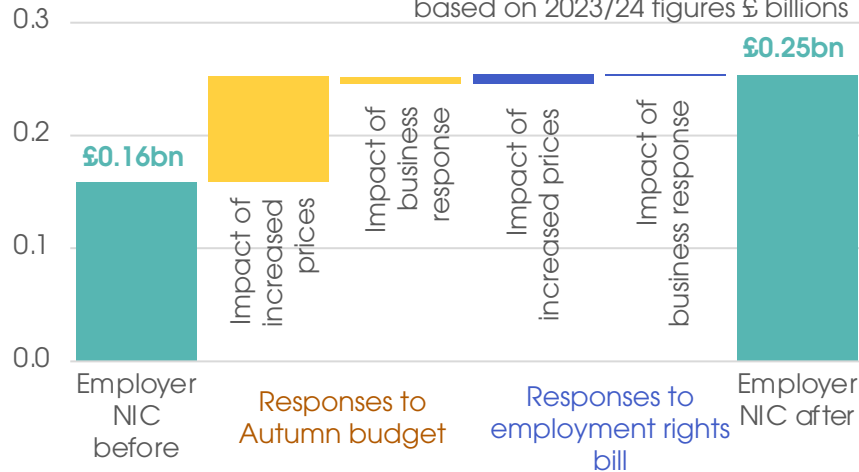


Turnover is anticipated to decline slightly from £4.57 billion to £4.55 billion.

The projected impact on turnover in the hair and beauty sector is expected to be minimal, with an estimated decrease of £20 million.

Impact of proposed policy changes on employer national insurance contributions

Hair and beauty sector, United Kingdom, based on 2023/24 figures £ billions



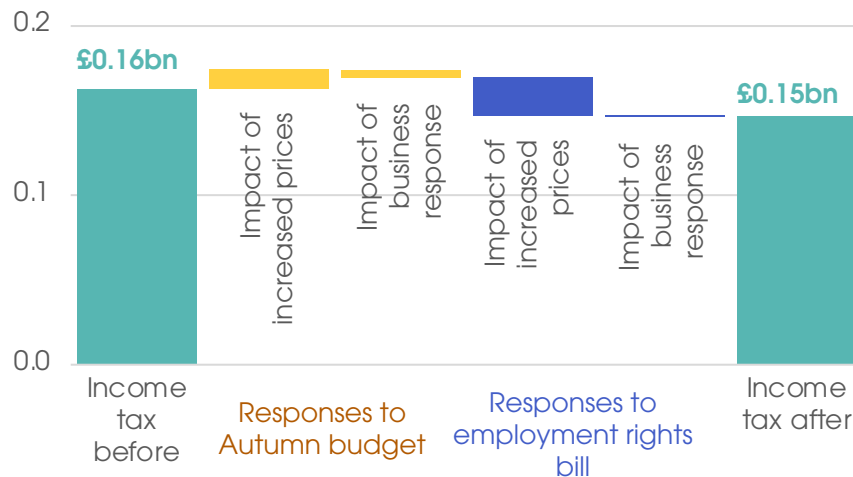
Employer national insurance contributions are expected to rise whilst employee national insurance contributions and income tax fall.

The proposed changes to employer national insurance contributions include lowering the thresholds for liability from £9,100 to £5,000 per employee and increasing the contributions rate from 13.8 per cent to fifteen per cent for employers with Secondary Class 1 National Insurance liability. As a result, employer National Insurance contributions are expected to rise by just under £100 million.

In response to the proposed policy changes in the autumn budget and the Employment Rights Bill, businesses will respond by reducing staff and working hours. This will result in a decline in employee National Insurance contributions and income tax paid to the exchequer.

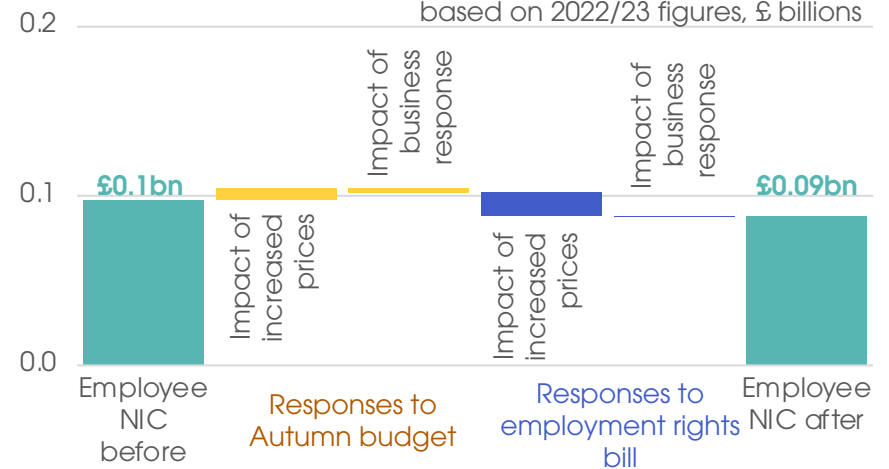
Impact of proposed policy changes on income tax

Hair and beauty sector, United Kingdom, based on 2023/24, £ billions



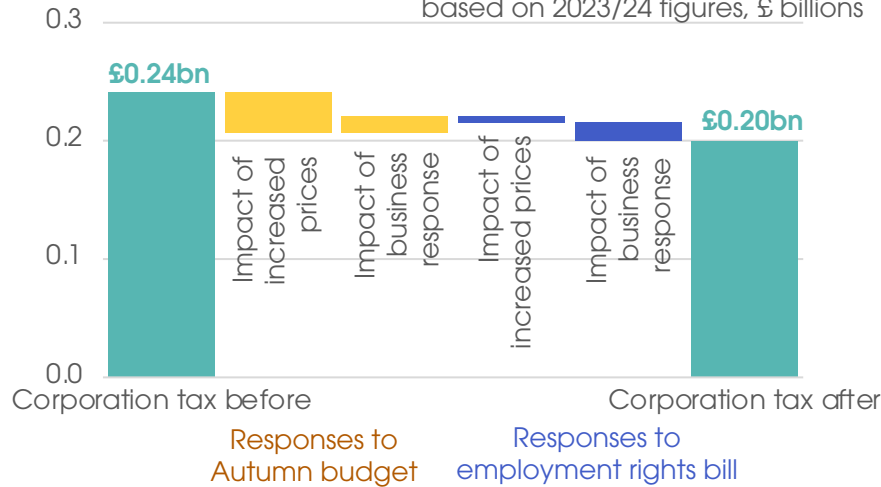
Impact of proposed policy changes on employee national insurance contributions

Hair and beauty sector, United Kingdom, based on 2022/23 figures, £ billions



Impact of proposed policy changes on corporation tax

Hair and beauty sector, United Kingdom, based on 2023/24 figures, £ billions



Corporation tax is estimated to fall by seventeen per cent following businesses' response to the proposed policy changes.

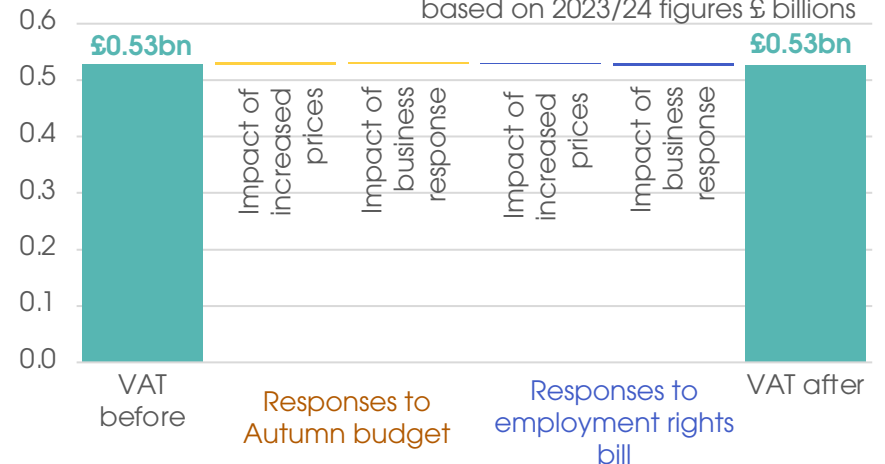
Businesses are expected to face higher labour costs which impact profitability. With profits calculated to fall, businesses will correspondingly pay less in corporation tax. This is reflected in the estimated reduction in corporation tax revenue from the sector from, £240 million to £200 million.

Estimated impact from autumn budget to value added tax is minimal.

Value added tax is expected to fall by 0.5 per cent, equivalent to £2.5 million across the sector.

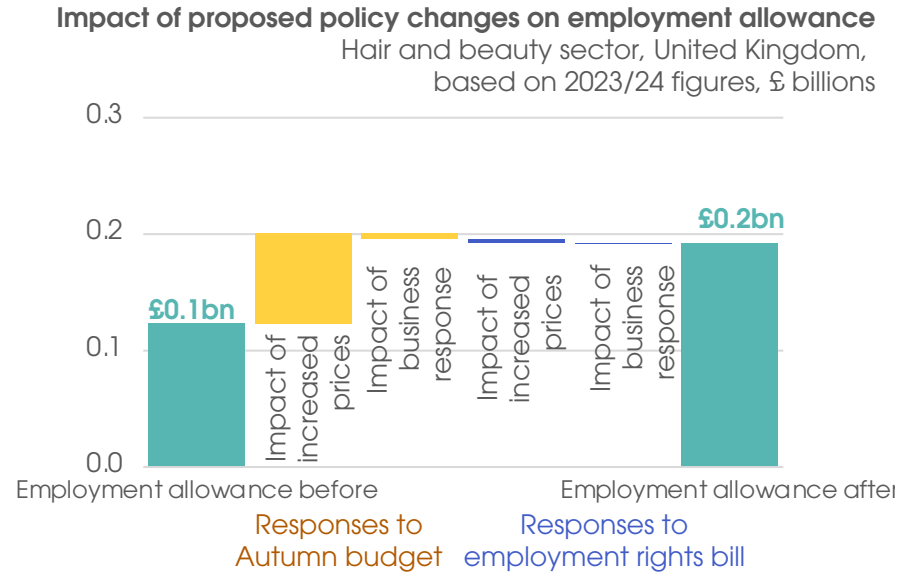
Impact of proposed policy changes on value added tax

Hair and beauty sector, United Kingdom, based on 2023/24 figures £ billions

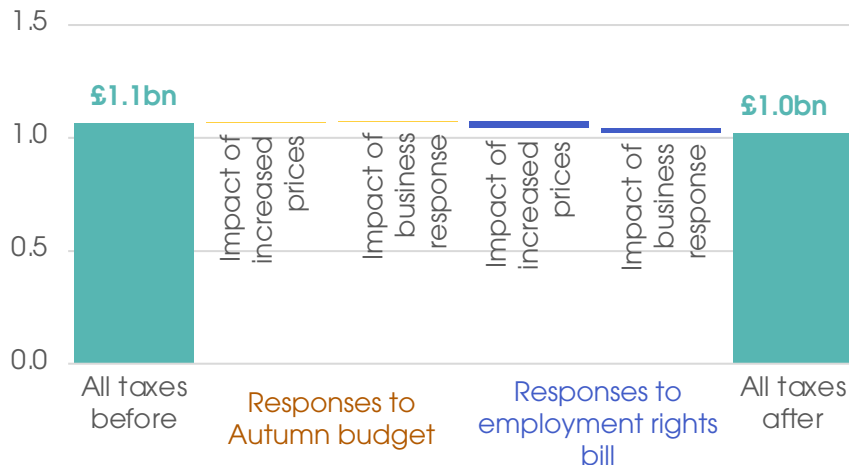


Employment allowance paid is predicted to increase by 56 per cent.

Our model estimated employment allowance will rise by £69 million across the hair and beauty sector.



Impact of proposed policy changes on all taxes
Hair and beauty sector, United Kingdom, based on 2023/24 figures £ billions



Net of employment allowance, all taxes are calculated to decrease by four per cent, or by £44 million across the whole sector.

This decline reflects the combined impact of policy changes in the Autumn budget and the employment rights bill, as businesses adjust to increased costs and respond by scaling back their workforce, leading to reduced tax revenues overall.

The impact of policy changes on hair and beauty businesses

This section considers the implications of measures announced in the autumn budget on costs for different sizes of hair and beauty businesses. Data used in the modelling was derived from the Annual Survey of Hours and Earnings (ASHE) for 2024 provided by the Office for National Statistics, and the NHBF's State of the Industry Survey, undertaken in January 2025.

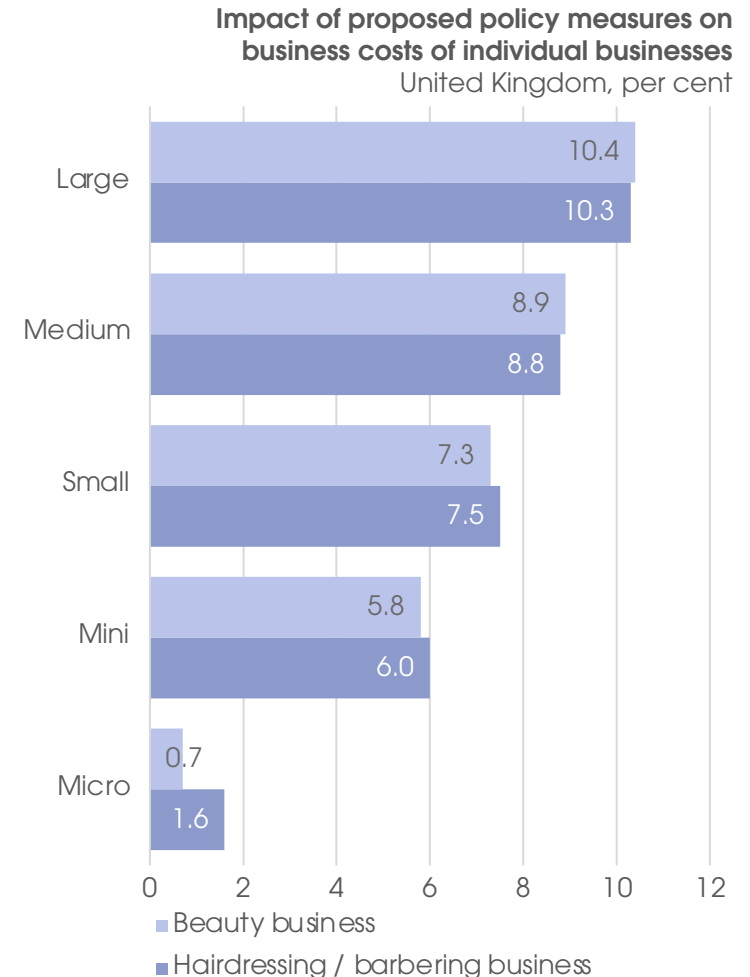
Individual businesses face increase in costs

We assessed the potential impacts on costs of policy changes announced in the Autumn Budget on individual businesses in the hair and beauty sector.

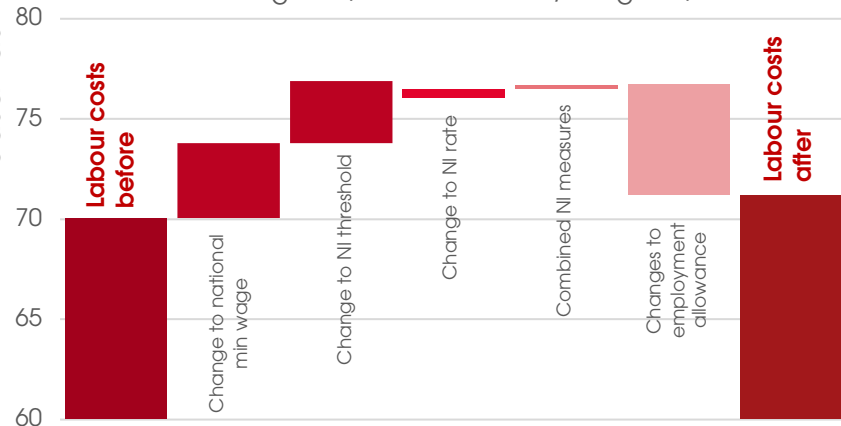
The businesses we assessed ranged in size from micro, businesses with four employees, to large businesses with 100 employees. The model looked at the impact of the following policies on five different sizes of business:

- Changes in the National Minimum Wage rates
- Changes in Apprenticeship Minimum Wage rates
- Changes in the thresholds for employer National Insurance contributions
- Changes in the rates of employer National Insurance contributions
- Changes in the level of and basis for Employment Allowance
- Changes to the standard multiplier and freezing of the small business multiplier used to calculate business rates
- Changes to the business rates relief in line with the retail, hospitality and leisure scheme

Increases to the minimum wage rarely affect only those earning the minimum, as employers often raise wages more broadly to preserve pay differentials. Our model takes this into account and looks at what we believe to be the most likely response of businesses, based on the responses of hair and beauty business owners to the NHBF's January 2025 State of the Industry survey.



Impact of proposed policy changes on labour costs
Micro hairdressing / barbering business,
 United Kingdom, based on 2023/24 figures, £ thousands



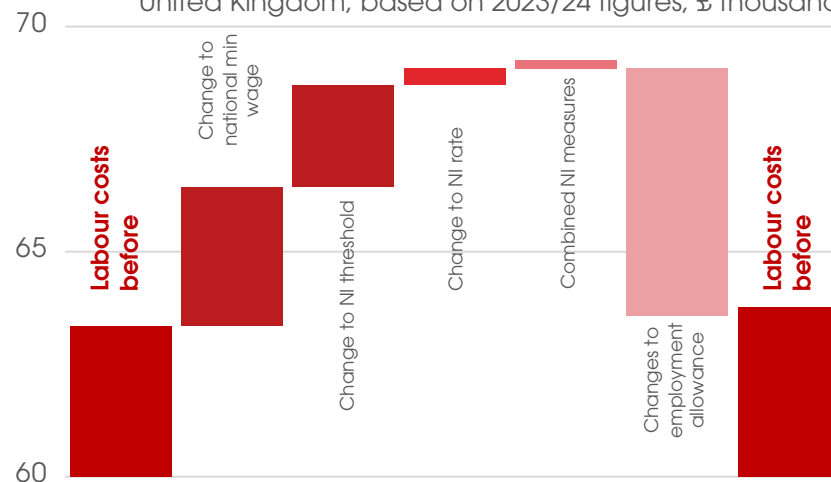
Micro hairdressing and barbering businesses are estimated to be worse off under the proposed policy measures.

Labour costs are estimated to increase by £1,130 (1.6 per cent) for micro hairdressing and barbering businesses.

Micro beauty businesses should also expect small increases to employee costs.

For micro beauty businesses, a cost increase of £415 (0.7 per cent) is estimated under the new proposed policy measures.

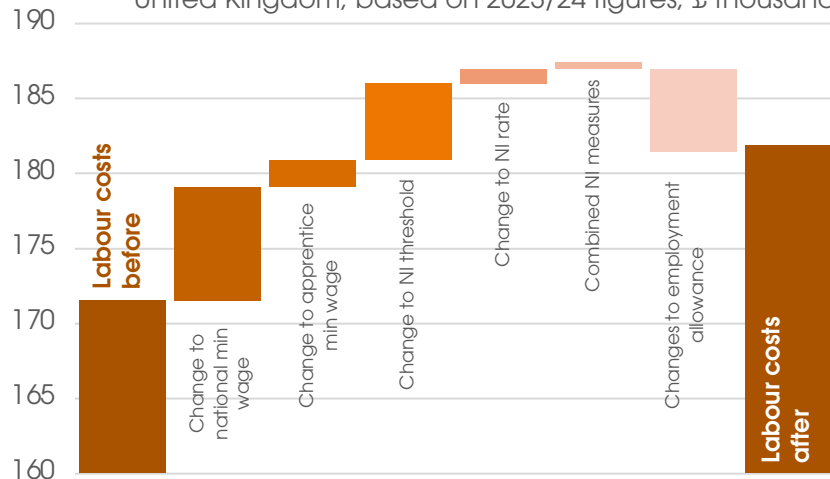
Impact of proposed policy changes on labour costs
Micro beauty business,
 United Kingdom, based on 2023/24 figures, £ thousands



Impact of proposed policy changes on labour costs

Mini hairdressing / barbering business,

United Kingdom, based on 2023/24 figures, £ thousands



Hairdressing and barbering businesses with ten employees are estimated to see employee costs increase substantially.

Employee costs are estimated to increase by six per cent, which equates to around £10,370 per year.

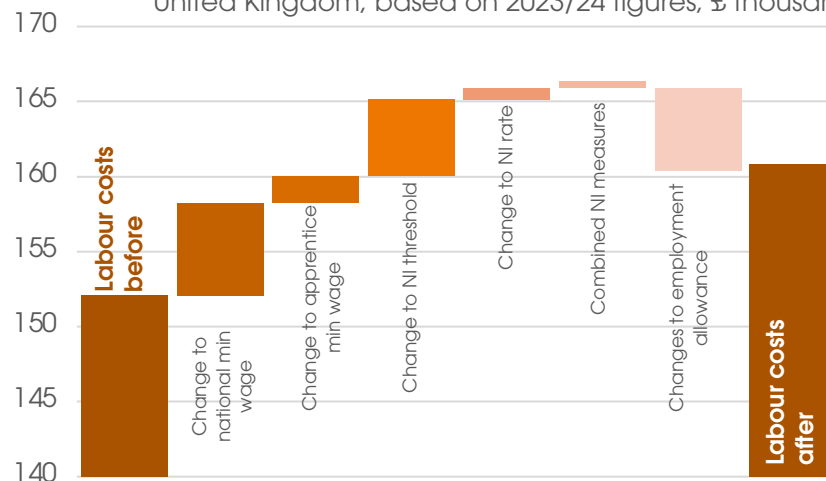
Mini beauty businesses are also estimated to see an increase in employee costs of 5.8 per cent.

Employment costs for mini beauty businesses are estimated to rise by £8,780 per year.

Impact of proposed policy changes on labour costs

Mini beauty business,

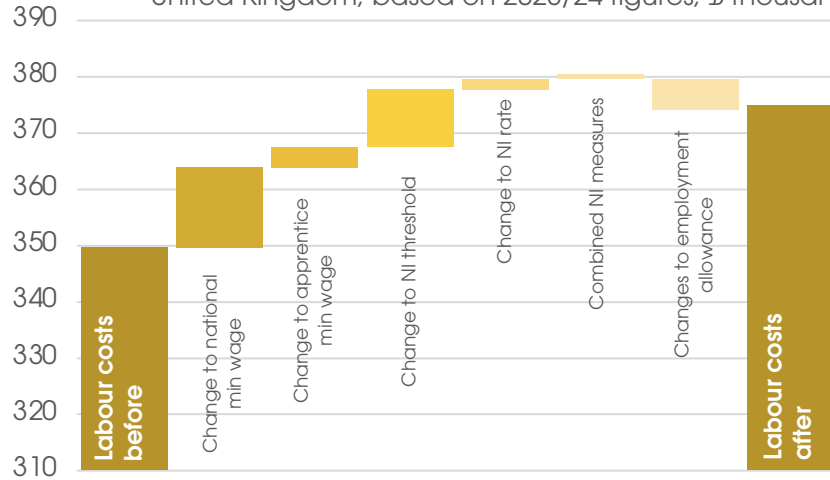
United Kingdom, based on 2023/24 figures, £ thousands



Impact of proposed policy changes on labour costs

Small hairdressing / barbering business,

United Kingdom, based on 2023/24 figures, £ thousands



For small hairdressing and barbering businesses, increases in employment costs are even more substantial.

Labour costs are estimated to rise by £25,329 (7.2 per cent) for small hairdressing and barbering businesses.

Business rates will increase by eight per cent, or by £897.

Small beauty businesses will see similar impacts.

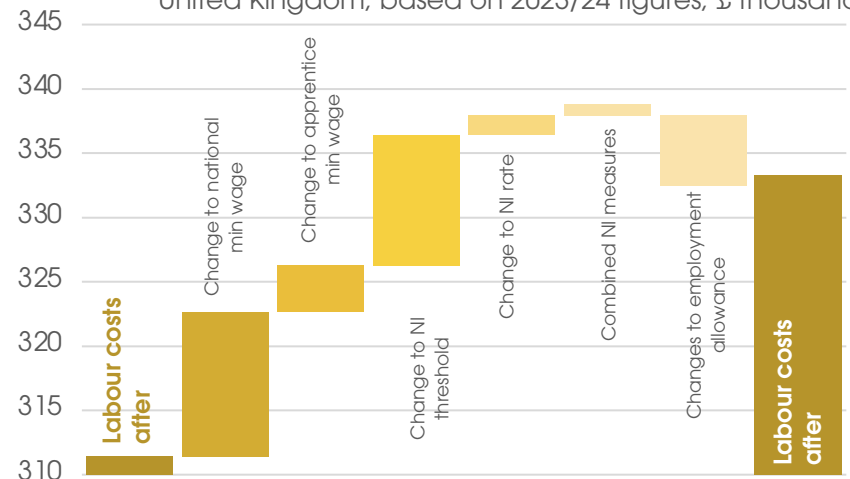
Small beauty businesses are estimated to see an increase of £21,892 (seven per cent) in labour costs.

Business rates are calculated to increase by seven per cent, equivalent to £897.

Impact of proposed policy changes on employee costs

Small beauty business,

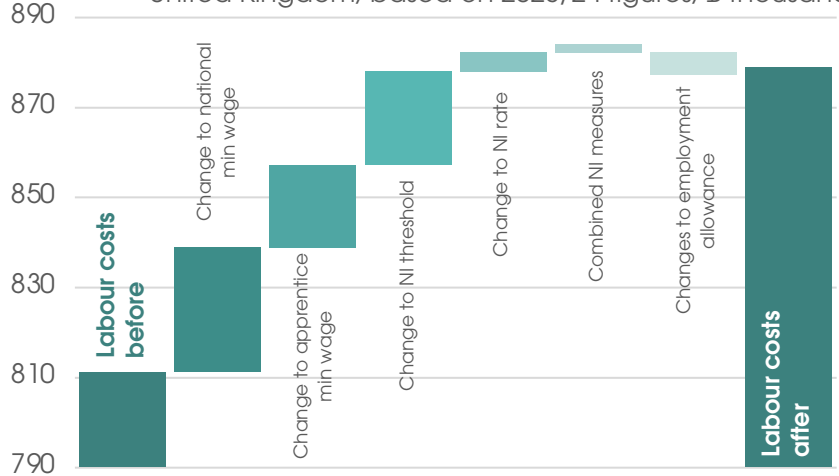
United Kingdom, based on 2023/24 figures, £ thousands



Impact of proposed policy changes on labour costs

Medium hairdressing / barbering business,

United Kingdom, based on 2023/24 figures, £ thousands



Medium hairdressing and barbering businesses will have to allocate an additional £71,625 to business costs.

Labour costs will rise by £67,704 with business rates increasing by £3,921. This equates to a nine per cent impact on total business costs.

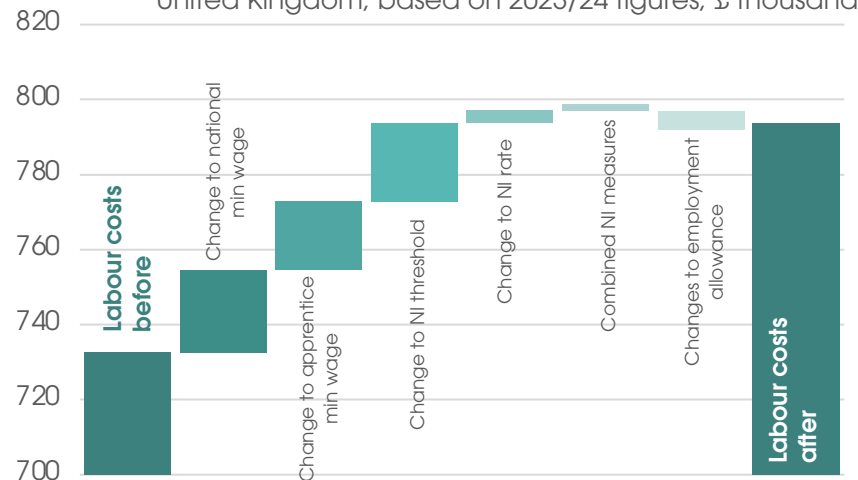
Medium beauty businesses should also be prepared to spend more on business costs.

With an estimated cost increase of £65,153 (8.9 per cent) expected, £61,232 will be in labour costs and £3,921 in business rates.

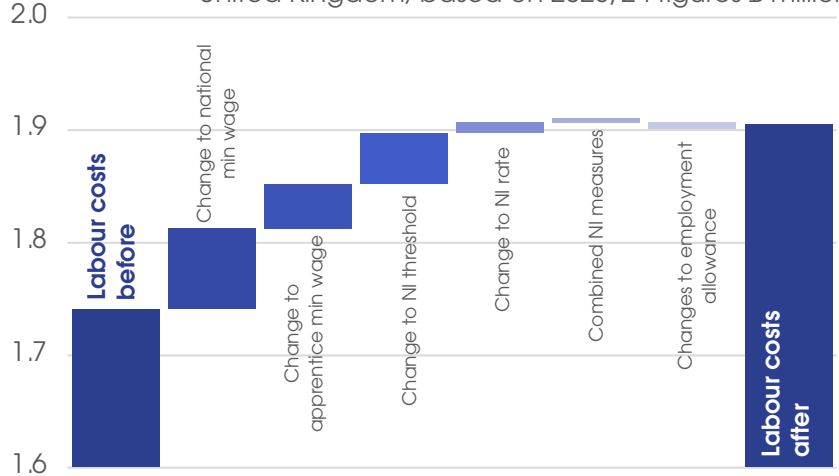
Impact of proposed policy changes on labour costs

Medium beauty business,

United Kingdom, based on 2023/24 figures, £ thousands



Impact of proposed policy changes on labour costs
Large hairdressing / barbering business, United Kingdom, based on 2023/24 figures £ millions



Large hairdressing and barbering businesses will see steep rises in business costs.

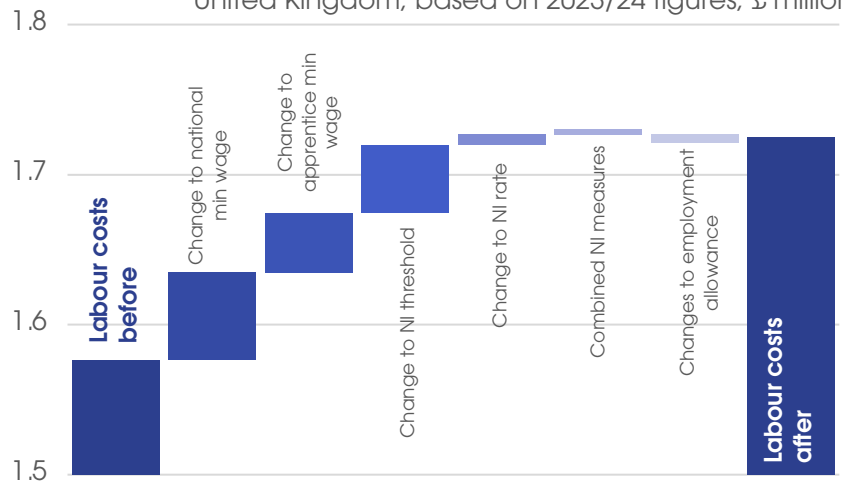
Increases of £178,830 (10.3 per cent) are estimated for large hairdressing and barbering businesses.

Labour costs will rise by £163,811 with business costs increasing by £15, 016.

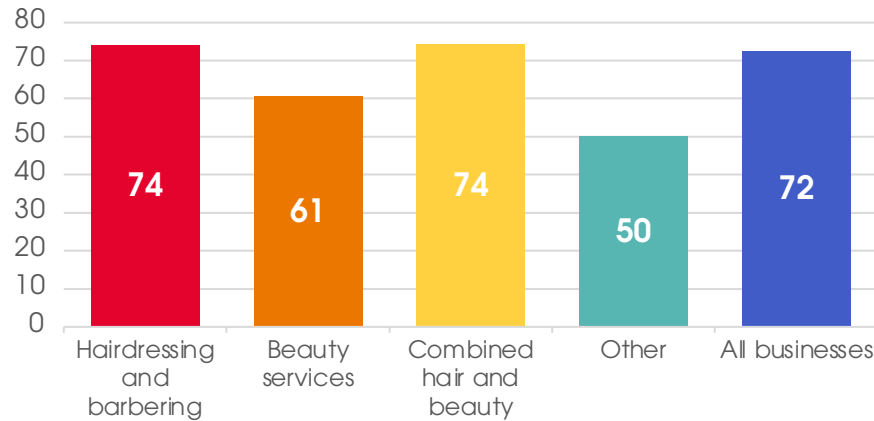
But large beauty businesses will see the greatest impacts.

The estimated rise in business costs is £163,770 (10.4 per cent) for large beauty businesses.

Impact of proposed policy changes on labour costs
Large beauty business, United Kingdom, based on 2023/24 figures, £ millions



Proportion of survey respondents planning to increase prices due to changes proposed in budget
January 2025, United Kingdom, per cent



Taking on fewer apprentices will impact the future skills and recruitment pipeline.

Apprenticeships are crucial for developing skilled workers who can contribute to the business' growth and sustainability. By reducing the number of apprentices in response to the budget, as over half of business plan to, businesses may face a shortage of trained staff in the future, leading to operational challenges and potentially higher recruitment costs.

Additionally, fewer apprenticeship opportunities can limit the sector's talent pool, making it harder to find qualified employees. This can result in increase competition for skilled workers and potentially higher wages to attract and retain talent.

Budget response could have negative impact on business demand.

Almost three quarters of businesses said they would be increasing their prices to mitigate the impact of the budget, something that could have significant effect on demand.

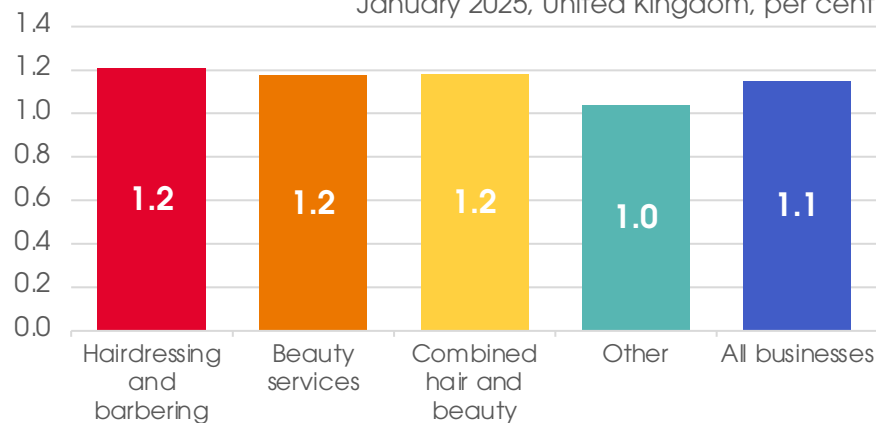
While these services are often considered essential for many people, higher prices may lead to clients reducing the frequency of their visits if they become less affordable. This decrease in demand can be particularly challenging for businesses that rely on regular, repeat customers.

Proportion of survey respondents planning to take on fewer apprentices due to changes proposed in budget
January 2025, United Kingdom, per cent



Average reduction in number of apprentices for those survey respondents who said they would reduce apprentices due to proposed budget changes

January 2025, United Kingdom, per cent



On average, businesses anticipate hiring one fewer apprentice in response to the proposed budget changes.

Among the 56 percent of businesses planning to reduce their apprentice intake, this would result in approximately 1,300 fewer apprentices across the sector—a reduction of 11 percent in the total number of apprentices.

The impact of changing business models

This section considers the implications businesses shifting from employing staff to self-employed and hybrid business models due to measures announced in the autumn budget.

Some businesses will move into self employment

We have modelled the potential impact on tax receipts for businesses transitioning to a model of employing self employed staff.

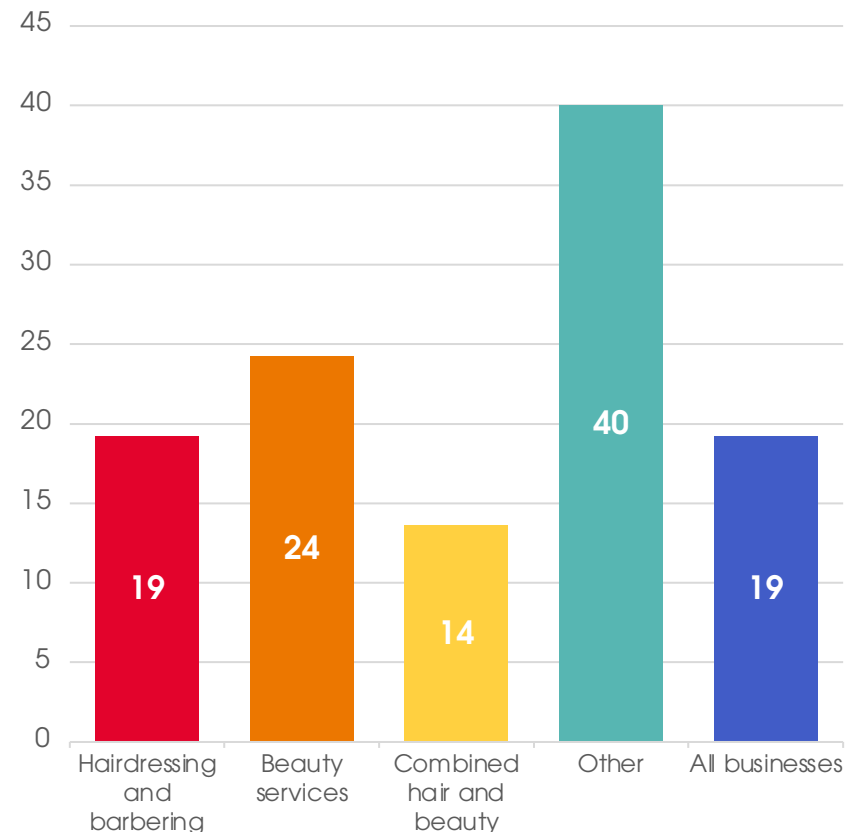
As a result of the proposed policy changes in the Autumn Budget, some businesses are expected to transition to self employment models.

In the NHBF's January 2025 State of the Industry Survey, we asked hairdressing and barbering and beauty businesses how likely they were to switch to employing self-employed workers in response to the proposed policy changes with nineteen per cent of hair and beauty businesses planning to make that shift. This is equivalent to 9,370 businesses across the entire sector.

This transition is likely to have significant impact on tax receipts, including:

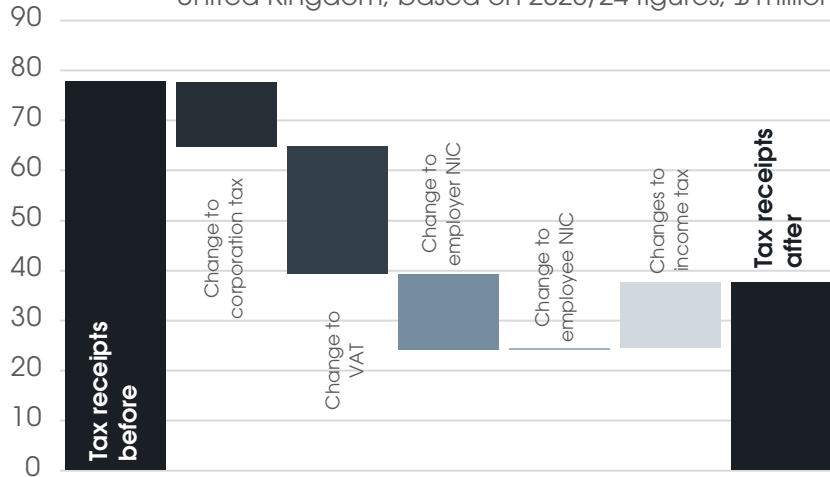
- Loss of corporation tax: businesses transitioning to self employment will no longer pay corporation tax
- Loss of Value Added Tax: self employed businesses are unlikely to meet the VAT threshold of £90,000, leading to reduced VAT contributions.
- Loss of employer National Insurance contributions: with fewer employers paying National Insurance, overall contributions to this will decrease

Proportion of survey respondents planning to switch from employing staff to contracting self-employed workers due to changes proposed in budget
January 2025, United Kingdom, per cent



Impact of moving into self employment on tax receipts

Hairdressing / barbering businesses with turnover up to £499,999, United Kingdom, based on 2023/24 figures, £ millions



Overall, the impact of hairdressing and barbering business moving to self-employed models will reduce tax receipts by £40 million.

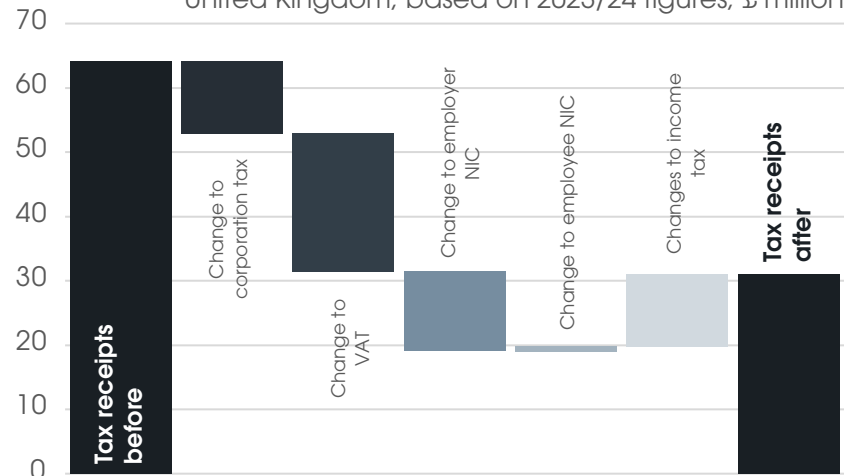
It is expected that a majority of businesses transitioning into a self-employed model would primarily consist of the smaller and smallest businesses in the sector.

For these businesses, the shift away from traditional employment structures would result in no longer having to pay corporation tax and employer National Insurance contributions, and for some, no longer having to pay Value Added Tax.

If beauty businesses with a turnover of under £500,000 transition to a model of renting space to self-employed workers, Treasury could lose £33 million in tax receipts.

Impact of moving into self employment on tax receipts

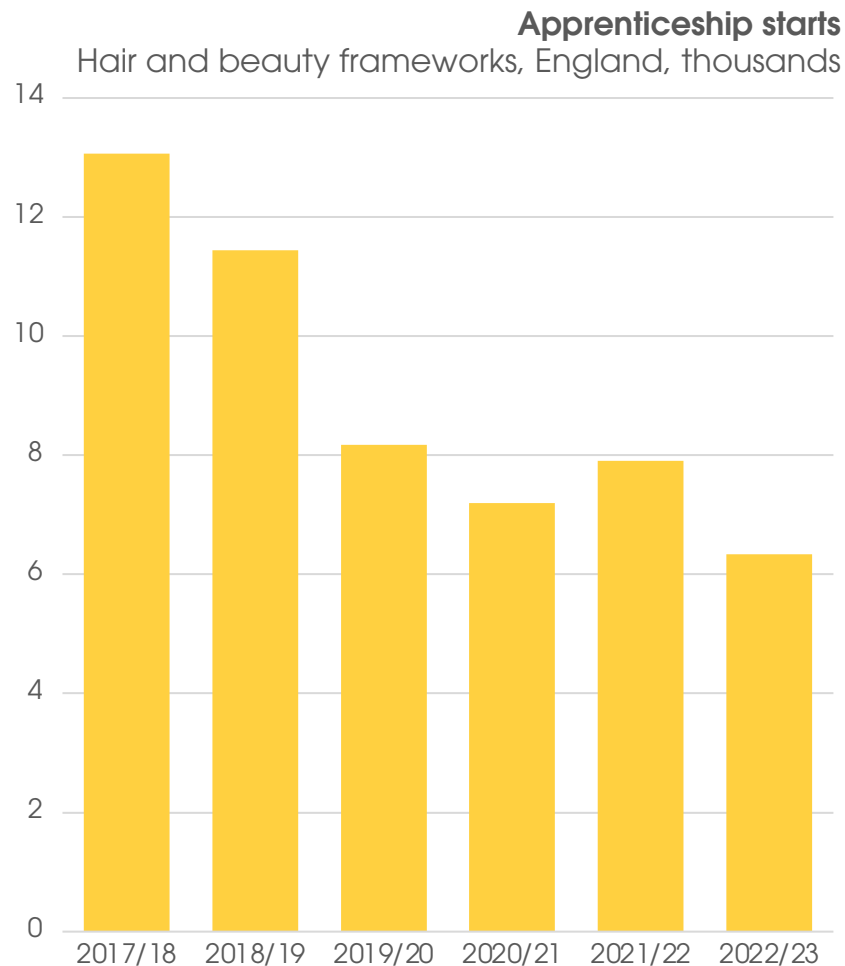
Beauty businesses with turnover up to £499,999, United Kingdom, based on 2023/24 figures, £ millions



Support options

- This section outlines potential support options suggested by the NHBF

Industry likely to face higher employment costs

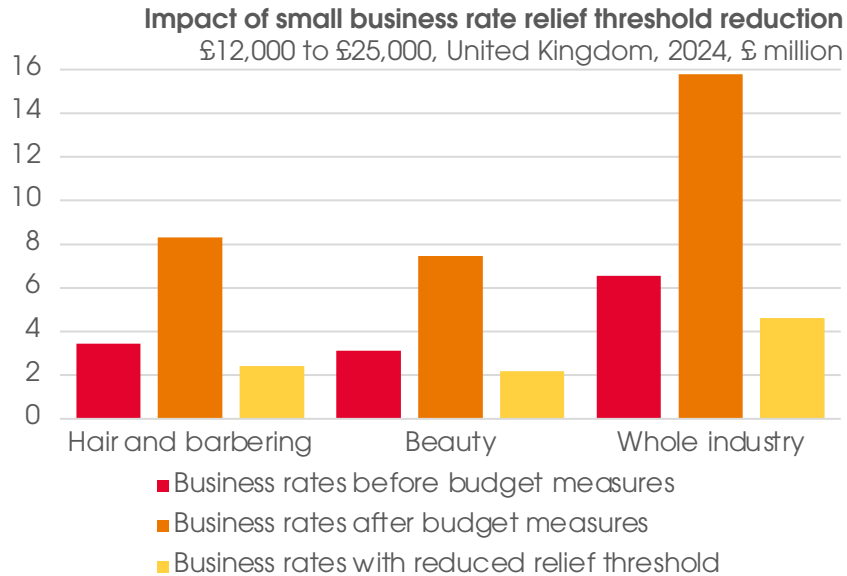


A cash incentive that offsets the additional costs of training an apprentice is another potential option that could support businesses in the sector.

The NHBF suggests that a one-off cash incentive of at least £3,000 could support businesses that hire apprentices with the costs of training and wages, particularly in light of proposed increases to apprentice wage rates. This financial support could provide much-needed relief for employers, making it more feasible to invest in apprenticeships despite rising costs. Since 2017, hair and beauty apprenticeship starts have fallen by 52 per cent, despite a slight increase in 2021/22. This decline highlights the need for targeted measures to address the challenges businesses face in taking on apprentices.

A £3,000 incentive could play a key role in reversing this trend by reducing the perceived financial risks for employers, especially for micro and small businesses. By lowering the barriers to hiring apprentices, this initiative could encourage more businesses to facilitate apprenticeships, helping to foster growth and ensure a pipeline of skilled workers in the sector.

Another potential support measure to help businesses address the rising costs of hiring an apprentice is to more effectively allocate unspent levy funds. This approach could provide greater access to levy funds, enabling more businesses in the sector to manage increasing expenses.



Less costly option for government could be flexibility for businesses operating multiple salons.

The NHBF has also suggested implementing a tiered approach to Small Business Rates Relief, where businesses with multiple salons can benefit from adjusted rates relieve based on the number of properties they operate. This approach would ensure that businesses with higher operational costs, who will see staff costs rise by the highest percentage, receive adequate support.

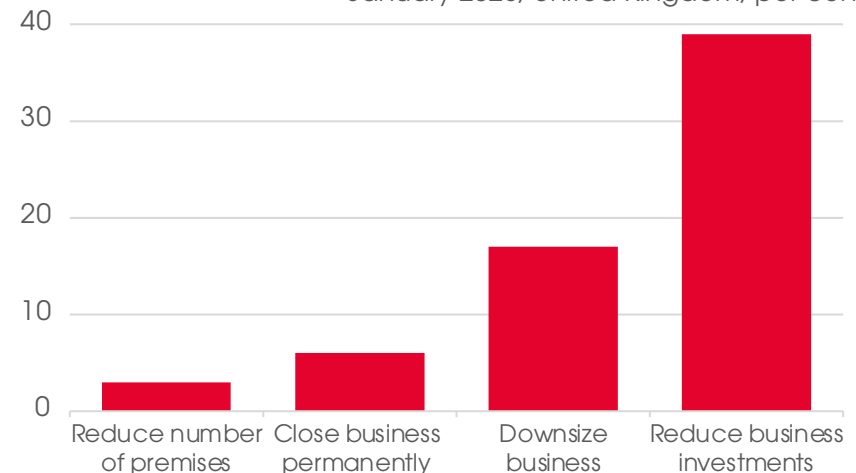
Providing targeted relief to businesses with multiple locations helps ensure their financial stability amidst rising costs, and by alleviating some of the financial pressures, businesses can maintain their workforce, reducing the likelihood of staff being laid off.

Raising the qualification threshold for small business rate relief from £12,000 to £25,000 is another potential support measure.

The NHBF propose raising the rateable value threshold for business properties eligible for small business rate relief as it could help small businesses in the sector manage the anticipated increases in business costs.

Our modelling indicates that raising the qualification threshold for small business rate relief, provided appropriate budget measures are implemented, would lead to a reduction in business rates for the sector, estimated at approximately £11 million. This adjustment could provide much-needed financial relief for smaller enterprises, allowing them to reinvest savings into their businesses, such as improving facilities, hiring staff, or expanding services.

Survey respondents plans due to changes proposed in budget
January 2025, United Kingdom, per cent

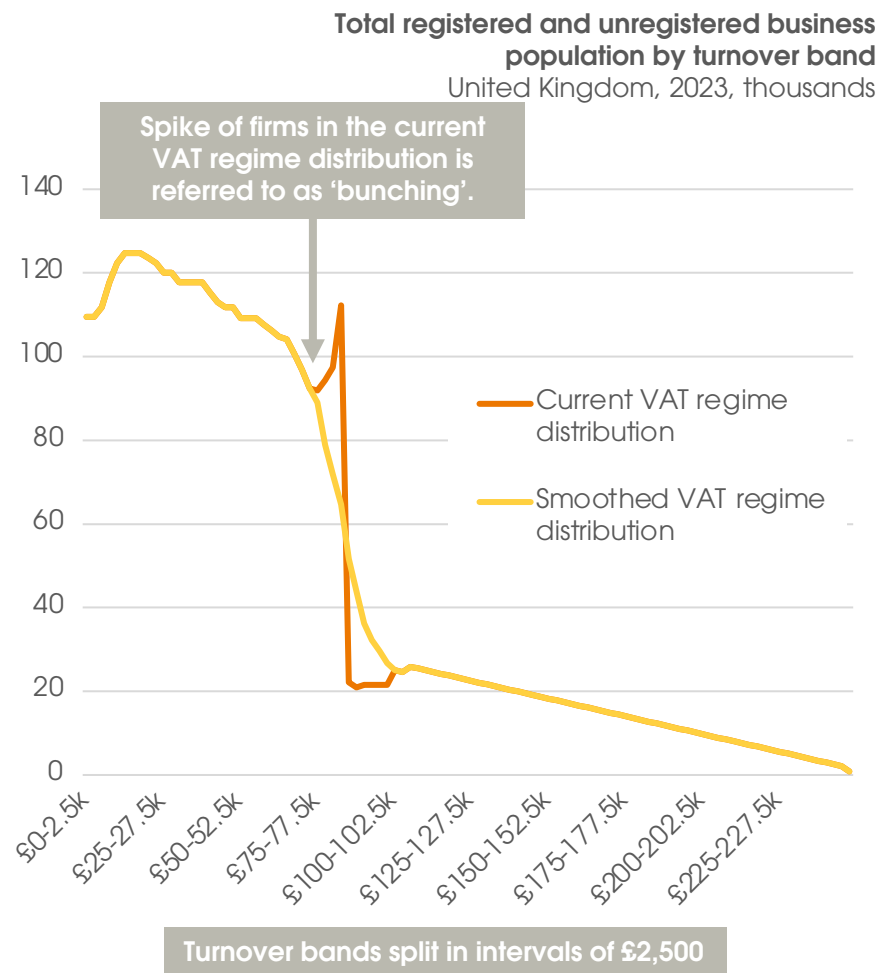


Changes to VAT regime remain an option

In 2023, the NHBF undertook research to model different options for a smoothing mechanism around the VAT threshold to support businesses and avoid the VAT "cliff edge."

In the United Kingdom, approximately 2.7 million businesses remitted VAT in the 2022-23 fiscal year, making VAT the third largest contributor to public sector receipts. The 2023 report found that reforming the VAT regime to implement a graduated threshold could offer significant benefits to both businesses and the Treasury. At the time, options from the Office for Tax Simplification included lowering or raising the VAT threshold. However, any threshold creates an incentive for businesses to operate below it. Instead, a graduated approach to the threshold would help to mitigate its distortive effects. With lower VAT rates across wider taxable turnover brackets, the system is smoother for businesses entering the VAT system than it would have otherwise been with a threshold at £85,000 (or £90,000 as it is now) and binary rates of either zero or twenty per cent.

The research suggested that a graduated approach would ease the administrative and compliance burdens for businesses entering the VAT system, reducing the incentive to operate below the threshold and mitigating fraud risks. This type of reform is particularly supported by the hair and beauty sector, where 86 per cent of businesses surveyed either strongly agree or agree that the hair and beauty sector could grow faster if there was a graduated approach to the VAT threshold.



There are fiscally neutral VAT reform options

There are several options for implementing a graduated VAT threshold that smooths entry into the VAT system while remaining fiscally neutral.

The 2023 report modelled various scenarios of tiered VAT rates, all of which ensured the Treasury would see no loss in revenues. The research found that system with tiered VAT rates could capture more VAT-applicable turnover, potentially increasing declared turnover by £25.2 million and adding £2.2 million in VAT revenue, with £33 million from the hair and beauty sector alone.

Under a moderately graduated scenario, an estimated 698,000 businesses would report VAT that otherwise wouldn't have. This was estimated to impose an additional administrative burden on £688 million on businesses, or 31 per cent of the increased tax take, and £4.3 million on the the government. For the hair and beauty sector, the additional administrative burden was estimated to be around 2.5 per cent of average labour costs.

Transition to a graduated VAT regime would require careful consideration of the level of graduation, government advice rollout, and impact on international tax treaties. Despite the administrative concerns, a graduated VAT system could enhance revenue collection and support small businesses by easing their entry into the VAT system.

Fewer businesses are in VAT range than would have been otherwise. Bigger intervals between VAT rates.

More businesses are in VAT range than would have been otherwise. Smaller intervals between VAT rates.

Smoothed VAT regime	Starting threshold	Threshold with tax rate of twenty per cent	Tiered VAT percentage point jumps Per cent
Least graduated	£80,000	£90,000	4.16
Somewhat graduated	£72,500	£100,000	1.68
Moderately graduated	£65,000	£110,000	1.07
More graduated	£57,500	£120,000	0.78
Most graduated	£50,000	£130,000	0.62

"Avoiding the cliff edge" report smoothing mechanism scenarios 2023

Finland lowered VAT for hairdressers & barbers

Finland implemented a uniform reduction in VAT rates for hairdressers and barbers from 22 per cent to eight per cent over 2007-2011. Over this period, the VAT rate for similar services such as beauty salons remained unchanged.

This VAT reduction, which was not introduced in a tiered or gradual VAT system, was first passed for four years and later extended to five, so was not a permanent policy change. The rate for similar sectors with typically small businesses carrying out labour intensive services stayed the same (such as beauty salons, day spas, massage services, physiotherapists, dry cleaning and repair services). Interestingly, hairdressers provided hairdressing services at the reduced rate between 2007 and 2011, but also sold hair care products at the standard tax rate during the same period.

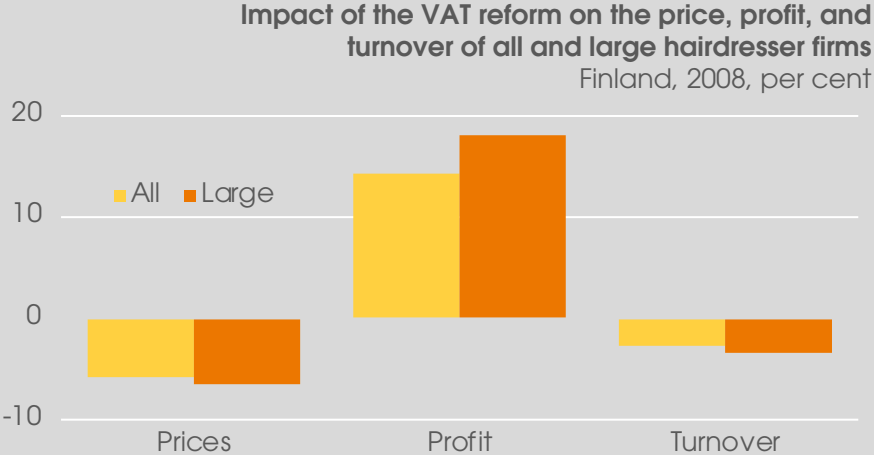
Finland’s reduction in VAT for hairdressers was in part encouraged by the European Commission who wanted to reduce the tax rate for labour intensive services to increase employment within those sectors.

Analysis by Finland’s VATT Institute for Economic Research found that the sectors with the **uniform reduction in VAT rates** and those without **did not differ in terms of bunching behaviour in the distribution**, even though the VAT rate for hairdressers and barbers had reduced by fourteen percentage points compared to beauty salons, for example. It’s important to note that the bunching behaviour in this scenario could be attributed to the fact that the VAT system was not tiered or gradual, making it

unclear how distribution patterns might evolve in such a system.

The results from Finland’s experiment with VAT rate reduction for specific sectors suggest that hairdressers were able to **cut their prices by six per cent and increase their profits significantly**. It is possible that, had the VAT cut been permanent, firms would have behaved differently as some firms were reluctant to change their prices over the short-term. Further, the uncertainty over the future of the lower tax rate could have discouraged more entry.

Finland and Sweden have similar VAT systems and business tax structures, which makes it a useful comparator for analysing the growth effects of the Finnish threshold. In 2005-2013, the average annual growth of firms under the threshold in Finland was zero, whereas in Sweden it was ten to fifteen per cent.



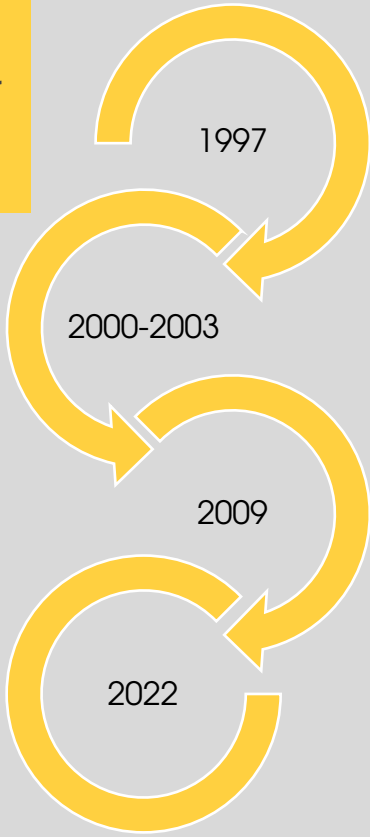
Source: VATT Institute for Economic Research, Finland. The effects of size-based regulation on small firms

Low VAT for Dutch labour-intensive services

The newly formed Government of the Republic of Ireland has also pledged its support for Irish SMEs in 2025, with proposed changes to the VAT rate for the retail and hospitality sectors among the key measures.

Introduction of the low tax experiment in the Netherlands. 17.5 per cent reduced to six per cent.

New government formed and uncertainty over the future of the low VAT rate.



1997
Research showed low VAT rate had positive results on the hidden economy and on employment.

2000-2003
Low VAT rate on hairdressing services gained permanent status.

A long and intensive lobbying process on the national and European stages led to the Netherlands arriving at a low VAT rate for labour-intensive services, including the hairdressing industry.

In 2000, the Netherlands lowered the VAT rate for labour-intensive services, including the hairdressing industry, for a trial period of three years. The introduction of the six per cent rate (previously it had been 17.5 per cent) led to the creation of 4,000 new jobs in the hairdressing industry in the Netherlands. With the introduction of the lowered rate, hairdressers were able to lower their prices, benefiting the consumer.

The low VAT rate was extended throughout the 2000s, with it gaining permanent status in 2009. Research indicated self-employed workers in the hairdressing industry increased by 5,000.

With the change in government in 2022, there are discussions of increasing the current low VAT rate of nine per cent for labour-intensive services to the current standard rate of 21 per cent. Though it would add 59 million Euros in net revenue for the government, this increase is predicted to cost 4,900 jobs.

Timeline of the low VAT rate for labour-intensive services Netherlands, 1997-2022

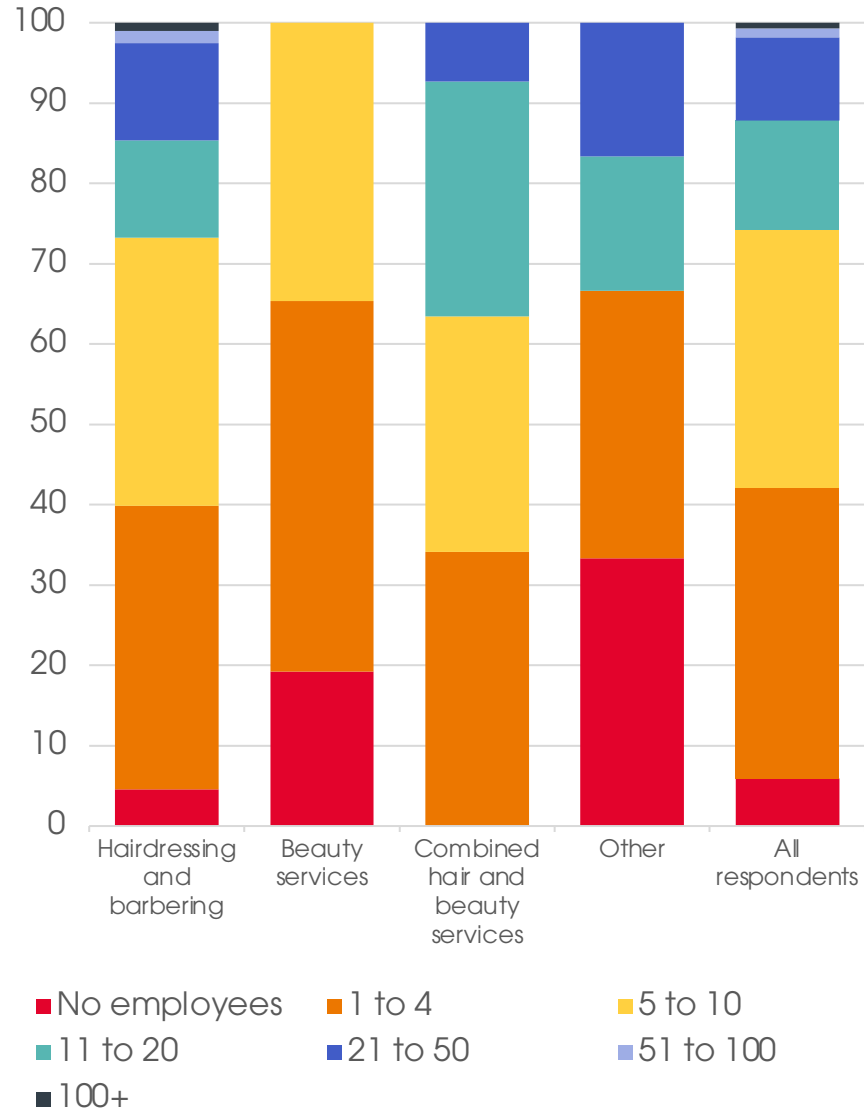
Appendix

- Assumptions for different sized hair and beauty businesses
- Survey results

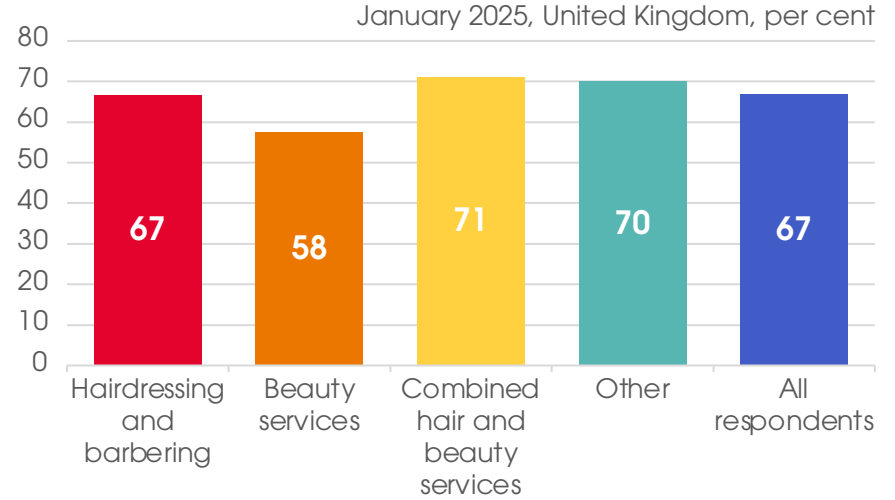
We assessed impacts for different-sized businesses

*Size of business	Assumed rateable value	Number of employees	Apprentice	Entry-level staff	Junior staff	Mid-level staff	Senior staff	Manager / owner
Micro	-	4	-	1	1	1	-	1
Mini	< £12,000	10	1	2	2	2	2	1
Small	£13,163	20	2	2	4	6	4	2
Medium	£22,453	50	5 (16 to 17 years old)	5	10	10	10	5
			5 (18 to 21 years old)					
Large	£76,418	100	10 (16 to 17 years old)	10	20	20	20	10
			10 (18 to 21 years old)					

Survey respondents by business size
January 2025, United Kingdom, per cent



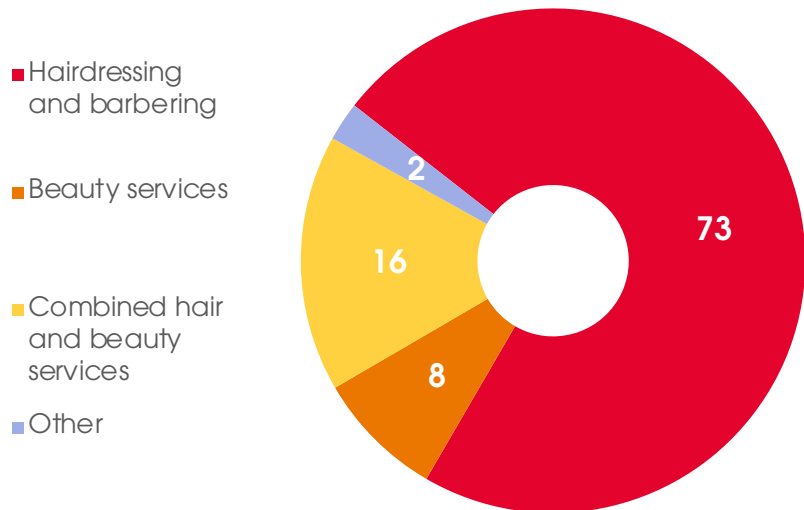
Proportion of survey respondents that are VAT registered



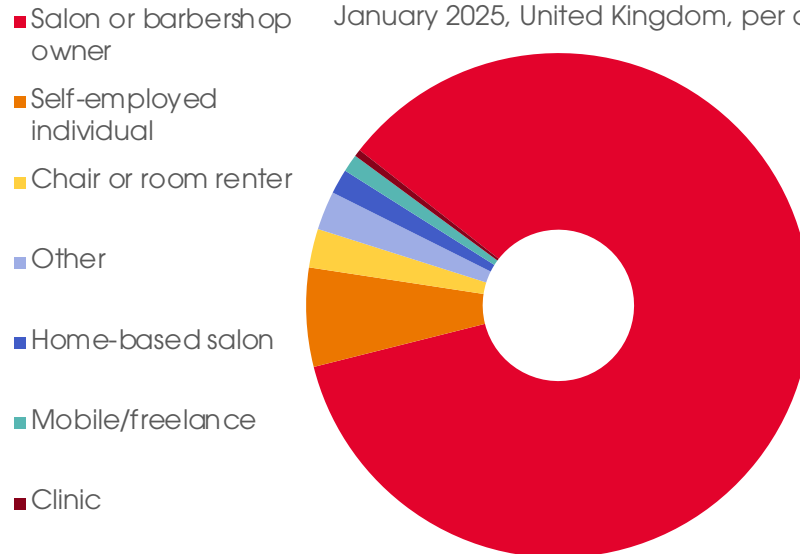
Share of turnover of survey respondents
January 2025, United Kingdom, per cent



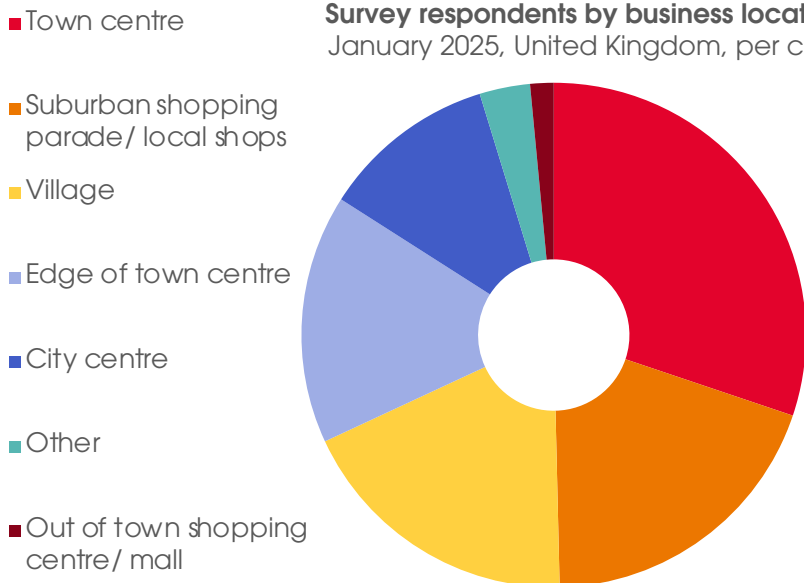
Survey respondents by business type
January 2025, United Kingdom, per cent



Survey respondents by business model
January 2025, United Kingdom, per cent



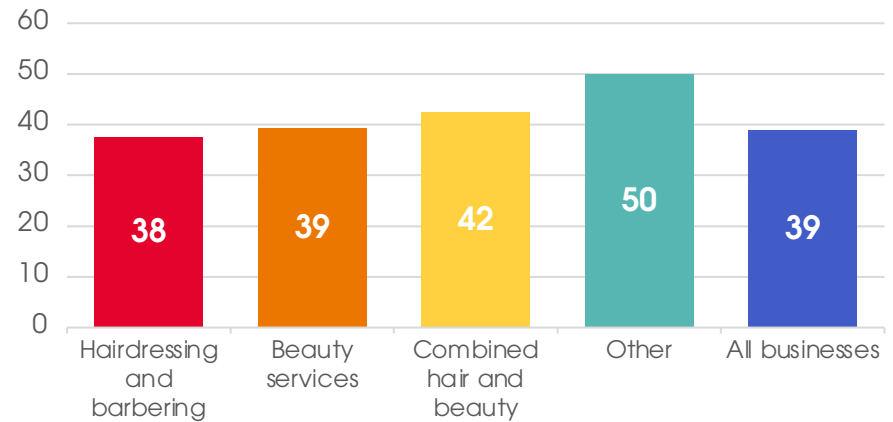
Survey respondents by business location
January 2025, United Kingdom, per cent



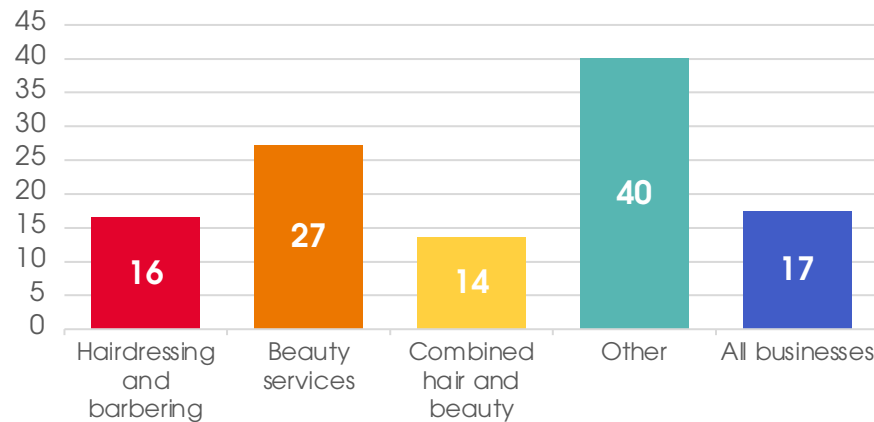
Proportion of survey respondents planning to absorb costs and take lower profits due to changes proposed in budget
January 2025, United Kingdom, per cent



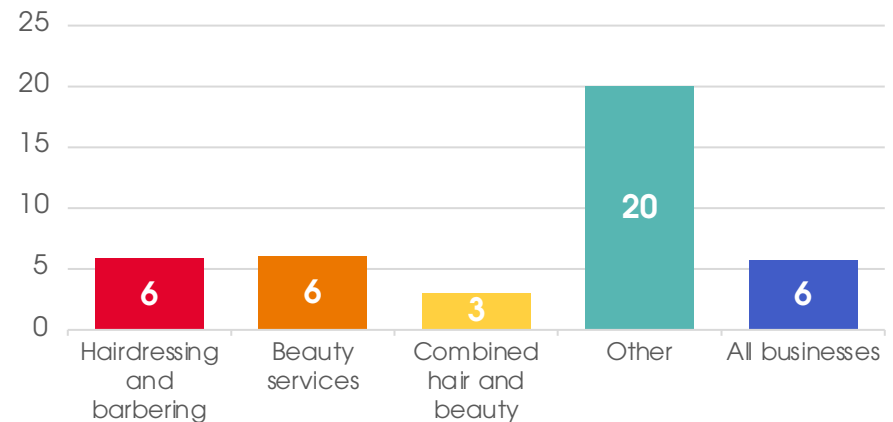
Proportion of survey respondents planning to reduce business investments due to changes proposed in budget
January 2025, United Kingdom, per cent



Proportion of survey respondents planning to downsize their business permanently due to changes proposed in budget
January 2025, United Kingdom, per cent



Proportion of survey respondents planning to close their business permanently due to changes proposed in budget
January 2025, United Kingdom, per cent



Proportion of survey respondents planning reduce the number of premises they operate due to changes proposed in budget
January 2025, United Kingdom, per cent



Proportion of survey respondents planning to increase wages of employees above minimum wage as well as those on minimum wage due to changes proposed in budget
January 2025, United Kingdom, per cent



Proportion of survey respondents who said that there would be no impact on their business due to changes proposed in budget
January 2025, United Kingdom, per cent



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