

A woman in a black top and pink gloves is applying a white facial mask to another woman's face. The woman being treated is wearing a white t-shirt. They are in a beauty salon setting with a desk lamp and framed pictures of babies in the background.

## Taxing beauty

An assessment of the likely impact of minimum wage and employment tax related measures announced in the Autumn 2024 Budget on the beauty industry

**pragmatix**  
advisory

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# Taxing beauty

A report for British Beauty Council

## **Disclaimer**

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## Taxing beauty

**Pragmatix Advisory has been commissioned by British Beauty Council to assess the likely impact of minimum wage and employment tax related measures announced in the Autumn 2024 Budget.**

We have considered the implications of four 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 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)
3. 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)
4. 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)

Our assessment has been based on bespoke stylised spreadsheet modelling of data on wages and the distribution of wages in the industry, and data on the number of enterprises by size in the industry, both from the Office for National Statistics. Our definition of the 'beauty industry' is based on that used by Oxford Economics in their report, The Value of Beauty, and their estimate of total employment of 418,000 in the industry (in 2023) and subsector employment (in 2022).

# Budget to cost beauty industry equivalent of 20,000 jobs

## Budget measures mean beauty industry to face over £400 million (4.6 per cent) annual increase in staff costs, which is the equivalent of almost 20,000 jobs.

The increase in the rate of employers' National Insurance contributions alone will add £60 million to the beauty industry's annual tax bill.

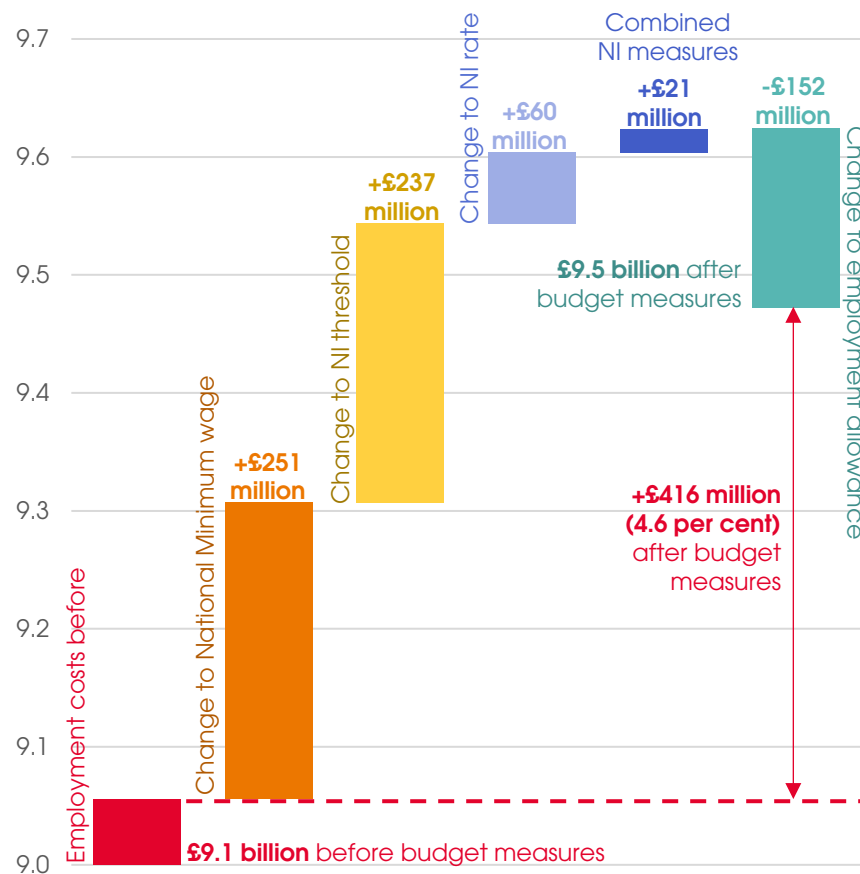
The reduction in the threshold after which employers' National Insurance contributions are payable, if applied by itself, would cost the industry £240 million per annum. But combined with the rate increase, it will cost £260 million.

The increase in the National Minimum Wage would cost the industry £120 million per annum if pay increases were only applied to those currently below the proposed new minimum. In reality, businesses increase other workers' salaries too to retain (partly) pay differentials between employees in different roles and with different skills. Based on a cautious assumption about how employers manage differentials, the increase in the National Minimum Wage will cost the industry £250 million annually. If pay differentials were maintained fully, the cost would be £625 million.

Changes to the Employment Allowance, which will provide businesses with relief on up to the first £10,500 of employers' National Insurance contributions, offset some of the negative impact of other measures. Provided firms enrol, these changes will reduce the beauty industry's tax bill by £150 million annually.

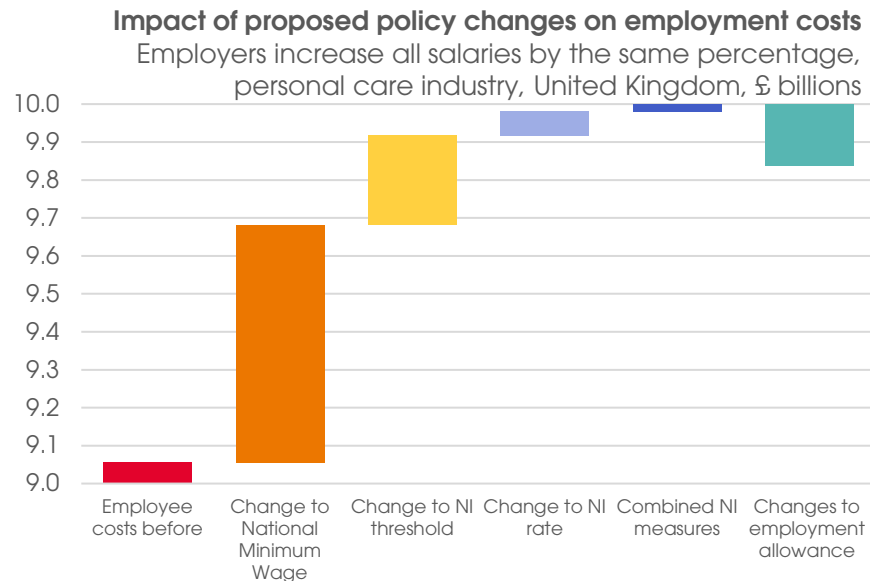
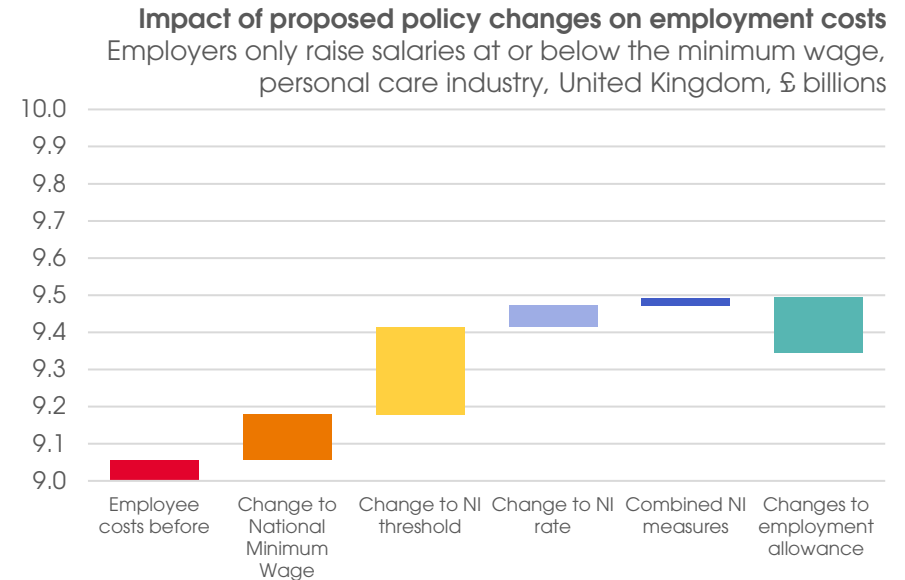
Within the industry, the 'hairdressing and other beauty treatment' sector will see a £190 million per annum increase in staff cost (4.3 per cent), while 'Retail sale of cosmetic and toilet articles in specialised stores' face a £160 million rise (6.1 per cent).

**Impact of proposed policy changes on employment costs**  
Employers apply a tapered increase for those earning below £14.98, personal care industry, United Kingdom, £ billions



## Employers might respond differently to a minimum wage increase, so we've modelled some alternative scenarios.

In addition to our baseline scenario where salary increases are tapered for those earning below the industry median (£14.98 per hour), we've also modelled scenarios where employers only raise the salaries of those at or below the minimum wage and where employers increase all employee salaries by the same percentage.



**If employers choose to increase all salaries by the same percentage, the proposed policy changes could cost the personal care industry up to £784 million.**

Conversely, if employers choose to only raise the salaries of those at or below the minimum wage, then the personal care industry can expect to see an estimated increase in employment costs of roughly £289 million.

# Hairdressing, beauty services and retail will be hit hardest

**Across all of our modelled scenarios, hairdressing and beauty services and the retail subsector are facing the greatest impacts following new budget measures.**

If employers choose to apply a tapered increase for those earning below £14.98, hairdressing and beauty services could see employment costs rise by an estimated £193 million (4.3 per cent). For retail, an estimated £163 million (6.1 per cent) increase is anticipated.

Under our most conservative (and unrealistic) scenario, where employers only increase the salaries of those at or below the minimum wage, employment costs are estimated to rise by £126 million (2.8 per cent) in the hairdressing and beauty services sector and by £119 million (4.4 per cent) in the retail sector.

Employers apply a tapered increase for those earning below £14.98

|                                  | Employee costs BEFORE | Change to National Minimum Wage | Change to NI threshold | Change to NI rate | Combined NI measures | Changes to Employment Allowance | Employee costs AFTER | Difference | Percentage difference | Jobs equivalent impact |
|----------------------------------|-----------------------|---------------------------------|------------------------|-------------------|----------------------|---------------------------------|----------------------|------------|-----------------------|------------------------|
|                                  | £ billion             | £ million                       | £ million              | £ million         | £ million            | £ million                       | £ billion            | £ million  | per cent              | jobs                   |
| Hairdressing and beauty services | 4.5                   | 149                             | 131                    | 28                | 11                   | -126                            | 4.7                  | 193        | 4.3                   | 9,985                  |
| Retail                           | 2.7                   | 74                              | 70                     | 17                | 6                    | -5                              | 2.9                  | 163        | 6.1                   | 7,514                  |
| Rest of industry                 | 1.9                   | 28                              | 36                     | 15                | 3                    | -22                             | 2.0                  | 60         | 3.2                   | 2,050                  |

### Employers only raise salaries at or below the minimum wage

|                                  | Employee costs BEFORE | Change to National Minimum Wage | Change to NI threshold | Change to NI rate | Combined NI measures | Changes to Employment Allowance | Employee costs AFTER | Difference | Percentage difference | Jobs equivalent impact |
|----------------------------------|-----------------------|---------------------------------|------------------------|-------------------|----------------------|---------------------------------|----------------------|------------|-----------------------|------------------------|
|                                  | £ billion             | £ million                       | £ million              | £ million         | £ million            | £ million                       | £ billion            | £ million  | per cent              | jobs                   |
| Hairdressing and beauty services | 4.5                   | 79                              | 131                    | 27                | 11                   | -123                            | 4.6                  | 126        | 2.8                   | 6,520                  |
| Retail                           | 2.7                   | 30                              | 70                     | 17                | 6                    | -4                              | 2.8                  | 119        | 4.4                   | 5,457                  |
| Rest of industry                 | 1.9                   | 13                              | 36                     | 14                | 3                    | -22                             | 1.9                  | 44         | 2.3                   | 1,514                  |

### Employers increase all salaries by the same percentage

|                                  | Employee costs BEFORE | Change to National Minimum Wage | Change to NI threshold | Change to NI rate | Combined NI measures | Changes to Employment Allowance | Employee costs AFTER | Difference | Percentage difference | Jobs equivalent impact |
|----------------------------------|-----------------------|---------------------------------|------------------------|-------------------|----------------------|---------------------------------|----------------------|------------|-----------------------|------------------------|
|                                  | £ billion             | £ million                       | £ million              | £ million         | £ million            | £ million                       | £ billion            | £ million  | per cent              | jobs                   |
| Hairdressing and beauty services | 4.5                   | 331                             | 131                    | 30                | 11                   | -135                            | 4.8                  | 369        | 8.3                   | 19,083                 |
| Retail                           | 2.7                   | 192                             | 70                     | 19                | 6                    | -5                              | 3.0                  | 282        | 10.5                  | 12,969                 |
| Rest of industry                 | 1.9                   | 101                             | 36                     | 15                | 3                    | -22                             | 2.0                  | 133        | 7.0                   | 4,534                  |



## Annex: Breakdown of the beauty industry

| Beauty industry sectors          | SIC code | Description as defined by government statistics                   |
|----------------------------------|----------|---|
| Retail                           | 4775     | Retail sale of cosmetic and toilet articles in specialised stores |
| Hairdressing and beauty services | 9602     | Hairdressing and other beauty treatment                           |
|                                  | 9604     | Physical wellbeing activities                                     |
| Rest of industry                 | 2042     | Manufacture of perfume and toilet preparations                    |
|                                  | 4618     | Agents specialised in in the sale of other particular products    |
|                                  | 4645     | Wholesale of perfume and cosmetics                                |

**Pragmatix Advisory is a leading economics, strategy and policy research consultancy.**

We are a team of experienced economists, strategists, social scientists and policy specialists that deliver tailored, pragmatic and actionable research globally. We were founded in February 2020 to help businesses, trade associations and public bodies around the world overcome their biggest challenges through the intelligent and pragmatic use of research and analysis. We operate an environmentally-friendly fully-virtual office with consultants based across the United Kingdom and associates worldwide.

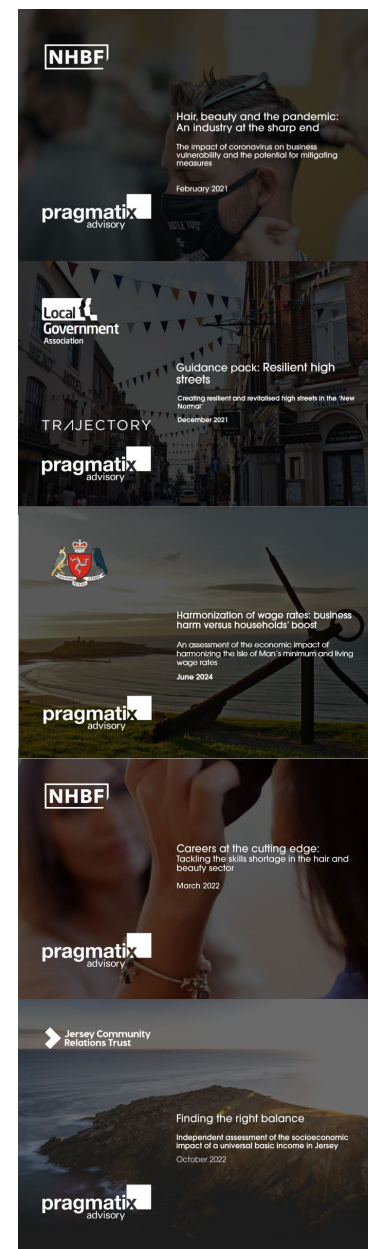
We are uniquely placed to support the British Beauty Council understand the impact of the Autumn Budget 2024. We understand the beauty sector – having conducted three studies for the National Hair and Beauty Federation: on the impact of covid; on the development of apprenticeships; and on the impacts of the VAT regime. The Local Government Association came to us to develop their post-covid guidance to support high streets. We are respected analysts of labour markets – with the government of the Isle of Man asking us to review their minimum wage policy, and a publicly-funded think tank in Jersey using us to assess the pros and cons of universal basic income proposals.

**Mark Pragnell is a respected economics consultant with nearly 30 years’ experience of applying economics and business research techniques to markets, industries and policy.**

Mark is managing director and founder of Pragmatix Advisory. He has previously held leadership roles in respected macroeconomics consultancies, director of strategy and consultancy at Capital Economics and managing director of Centre for Economics and Business Research, as well as policy and campaigning organisations, such as Consumers’ Association. He has covered a wide spectrum of topics from assessing the impact of high-tech manufacturers through pharmaceutical pricing to island economics.

In addition to the portfolio of work at Pragmatix Advisory, he has a depth of experience researching the small business sector from previous roles. For example, he was responsible for the analysis and modelling behind Centre for Policy Studies’ ‘Think Small’ campaign for a consolidated small business tax, ‘The Whole Story’ research into the scale and contribution of the wholesale sector for the Federation of Wholesale and Distribution and establishing Amazon UK’s SME growth tracker survey. He is a regular speaker at conferences and events, and to the media, and is often called upon by clients to support the communication of research to audiences including politicians and civil servants.

**Lorna Preece** is a researcher / analyst at Pragmatix Advisory. She worked with Mark on the modelling of different rates of minimum wage on the Isle of Man economy.



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