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Why we really should cut employers national insurance [1]

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We've talked a lot around here about how the working poor should be lifted up entirely out of the income tax system. Get that personal allowance up to something like the full year, full time, minimum wage. And of course, national insurance would have to start at that point as well.

There's one bit that has been a little contentious though. I've argued that employers' national insurance must only start at that level too. The come back has been that, well, since employers pay that then why should they get a tax reduction when we want to increase the take home incomes of the working poor? Which is to ignore the whole idea of tax incidence. That employers hand over the money isn't in doubt. It's whether the workers' wages fall to account for it which is.

Fortunately we have an interesting paper to shine light on this question [3]:

> The choice between these alternatives hinges upon our views on who actually bears the tax burden. In the case of employer social contributions, they can be borne by firms (reducing their after-tax profits), they can be 'shifted backwards' to employees (reducing net wages of their workforce) or 'shifted forward' to consumers (increasing the price level of their products).

Yes, that is what we want to know. Who really pays these taxes?

> The economic effects of social contributions are sensitive to both moderators representing basic economic institutions (which can be summarised in three 'models?: namely Anglo-Saxon, Continental-Mediterranean and Nordic) and the tax wedge definition ? in particular, the inclusion of indirect taxes. Moreover, the impact of taxes on wages differs in the short as well as the long-term. In our preferred specification, the elasticity of wages to taxes is -0.70 in the default option, i.e. a non-Nordic economy in the long run. Therefore, workers bear 70% of taxes.

So, 70% of employers' national insurance is really paid by the workers in the form of lower wages.

Something which should give those living wage campaigners food for thought. If we now include employers' NI as well as income tax and employees NI then simply raising the personal allowance (to all three) to the full year, full time, minimum wage would give workers a *larger* post tax income than the living wage would.

All of which really makes me wonder why they don't in fact campaign for this. They are, after all, trying to make the working poor better off aren't they?

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