Tax cuts for new jobs: Keeping Britain Working

Today, the Conservatives call on the Government to introduce tax cuts to create new jobs, under an innovative scheme which will help firms take on extra employees, boost the economy and reduce the damaging social costs associated with unemployment.

Tax cuts for new jobs will create around 350,000 new jobs over the next year, by giving £2.6 billion of tax breaks to employers.

The scheme uses money that would otherwise be spent on welfare payments to give tax cuts, worth £2,500 per head over a year to employers who hire new workers who have been unemployed for three months or more.

The scheme would be revenue neutral overall for the Government as it would be funded from lower spending on unemployment benefits. Simple safeguards would prevent abuse by ensuring that only genuinely new jobs would be eligible.

Britain's economy is in crisis. Far too many jobs, businesses and livelihoods are at risk, and it is clear that we cannot rely on Gordon Brown to produce the positive policies that will help us cope with recession. Change is desperately needed. We have already announced a comprehensive package of support to help businesses stave off job cuts and help our economy recover from recession. An immediate tax cut for new jobs will provide the economy with even more support-in a fiscally responsible way.

Notes to Editors

1. How it would work

_. Private sector employers, who hire someone who has been claiming unemployment benefits for more than three months (13 weeks) and who has not previously worked for that company in the previous year, would receive a credit against Employers' National Insurance Contributions.

_. The credit would be worth £2,500 for full time jobs of 30 hours a week or more, or half that amount for part time work of 16 hours a week or more. It would be phased out beyond the higher rate tax threshold so that only basic rate taxpayers would be eligible for the full amount.

_. To avoid abuse the payment would only be available to companies that had made no redundancies in the previous three months, or for three months after claiming the credit. This would prevent companies making people redundant in order to replace them and claim the tax cut.

_. In addition, the tax cut would be limited to a maximum of 20 per cent of the workforce of any one company. This would limit the amount given in tax cuts to companies who are already growing rapidly.

_. The credit would be available for one year after the employee starts their new job. The scheme would be suspended when hiring data shows that there has been a sustainable upturn in the rate of new recruitment in the economy.

2. How much would it cost and how many jobs would be created?

This is a fully-funded, fiscally neutral policy. It follows a similar concept to our radical welfare reform proposals which the present Government has begun to adopt. The money given as tax cuts for new jobs comes from money saved from out of work benefits. Instead of the Government paying for people to be unemployed, it can pay for them to be in work.

Evidence from similar large scale programmes, such as the New Jobs Tax Credit in the USA and the Canadian Employment Tax Credit Program, suggests that tax cuts are an effective tool for increasing employment. Evaluations showed that the rate of additionality from these programmes reached around 33 per cent.[1] This means that one out of every three new jobs receiving the tax cut would not have been created without it.
The amount of money per head available as a tax cut is a function of the expected government saving achieved by hiring an unemployed person multiplied by the expected additionality of the policy.

We have robust estimates from David Freud's analysis for the Department of Work and Pensions of the savings from moving a person in unemployment back to work. These are expressed both in terms of direct benefit savings to the Department and also as the wider Exchequer gains net of income tax receipts and credits Freud estimates that the annual saving including Exchequer gains from moving a person in receipt of Job Seekers Allowance back into work is on average £8,100 a year.[2]

In order for the policy to be fully funded, the maximum payable per person employed as a result of this tax cut over the 12 months is therefore 33 per cent of

£8,100, which is £2,670. In order to be cautious the maximum tax cut will be set just below this at £2,500 per full time job per year. A flat rate tax cut means that the incentives for employers are higher as a proportion of total costs for lower wage workers.

At the moment two-thirds of people who claim Job Seekers Allowance find a job within three months,[3] so this policy is focused on those who are experiencing some difficulties in finding a job. Last year 1.1m who had been claiming Job Seekers Allowance for three months or more found a job.

Based on the pattern from the last recession this number could fall as low as 700,000. We estimate that the tax cut for new jobs will increase this number by 50%, creating around **350,000** additional jobs. So one in three of the new jobs eligible for the tax cut will be additional. This will give **£2.6 billion** in tax cuts and save the same amount in unemployment benefits and lost tax revenues.

This assumes that the policy only prevents on average one year of unemployment. The long term savings could be much higher.

This policy should be introduced immediately to reduce the impact of the recession on people's jobs. It should also form part of the permanent range of options for government to manage economic slowdown.

3. Where has this worked before?

- A large scale general programme similar to our proposal was the New Jobs Tax Credit scheme that operated in the USA in 1977-78 to provide an incentive for firms to hire more workers. This was offered for one year and provided a tax credit to employers of 50 per cent of the first $4,200 of a new employee's wages, as long as the firm's total wage bill rose two per cent over the previous year. It was capped at $100,000 per firm. Estimates suggest that this created a very large number of jobs with up to 3.6 million new workers hired with the benefit of the subsidy.[4] The tax credit was estimated to have an additionality effect of 33 per cent or to have been responsible for the creation of one in every three new jobs created during the period of the policy.

- Canada also introduced a large scale general tax credit scheme, the Canadian Employment Tax Credit Program, which offered wage subsidies of up to $2.00 per hour to stimulate "incremental" employment in the private sector. The credit was available for up to 40 hours of work per week for up to 12 months. The estimated incremental employment effect from the programme was estimated at 33 per cent.[5]
- A detailed assessment[6] of several international wage subsidy schemes, all of which were small scale and targeted at groups with varying degree of unemployment disadvantage, focused on the deadweight effects of the schemes. Additionality (excluding schemes with substitution) was approximately 30 per cent across all the schemes.[7]

[1] Bartik, Timothy, 2001, 'Jobs for the Poor: Can labour demand policies help?'
[2] Reducing dependency. Increasing opportunity; options for the future of welfare to work. David Freud 2007
[3] ONS data at September 2008
[4] Hamermesh, Daniel, 1996, Labour Demand, Princeton University Press

[5] An Evaluation of the Canadian Employment Tax Credit Program, Surrendra Gera, Economic Council of Canada
[6] Active Labour Market Programs: a Review of the Evidence from Evaluations. Dar and Tzannatos, January 1999
[7] The effect of substitution also considered in this analysis can be discounted as the Tax cut for New Jobs will only apply to companies who have not made redundancies in the last 3 months and therefore has a substitution effect of zero