



The case for a Skills Tax Break

Briefing Note from CSJ Modelling

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Tackling NEETs with a Skills Tax Rebate

There are currently almost 1 million 16-24 year-olds in the UK who are Not in Education, Employment or Training (NEETs = 946,000 young people). That represents one in seven young people. With the apprenticeship levy not yet living up to its hoped impact there is a need to further stimulate employment growth. The CSJ has constructed a simple model of how government could try to halve the number of NEETs: giving businesses a tax break at a set rate on the average salary of a young person to employ and train them. Over five years we think this has a potential gain to the Treasury of up to £23.1 billion.

Ideally this would sit alongside a greater focus on employability within schools such as by the adoption of Nieper Employability Benchmarks.¹

We have assumed employment rates of 72% full time and 28% part time in line with ONS survey estimates of paid employees, on salaries of £25,400 and £9,100 respectively which are uprates on estimates from the same survey to get national medians for this cohort.^{2,3} With the tax break set at 40% (to account for two days: a day's formal training a week and a second day to account for a less productive employee) we calculate:

1. The initial average basis cost to the Government's Exchequer in taxes foregone would be £10,166 for a full-time employee and £3,651 for a part-time one. These are annualised values.
2. But after five years of employment the average employee would have added a net contribution to the Exchequer of **£59,500** in additional personal taxes and reduction on the welfare bill. The benefits used are Universal Credit allowance and housing element in a middle England location tapered for earnings.
3. If we were able to reduce the number of NEETS by 52% (this would be equivalent taking unemployed numbers to pre-Covid levels) this would represent a total 5-year gain to the Exchequer of **£23.1 billion** across all those NEETs going into full- and part-time paid employment. Around 75 percent of this is made up of social security savings. There is likely to be additional saving to Further Education providers and a large reduction in long term associated scarring of early unemployment, but the level is not clear so we have not included them here.
4. Across a parliament (5 years), for each new employee it would represent a return on investment to HMT of **£4.76** against each £1 forgone on a tax rebate. This is comparable to the return to local government seen by the Greater Manchester Combined Authority on vocational qualifications.⁴

¹ David Nieper Employability Programme

² From FRS data <<https://ukdataservice.ac.uk/>> and <<https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>>

³ OBR Economic and Fiscal Outlook <<https://obr.uk/efo/economic-and-fiscal-outlook-october-2024/>>

⁴ See GMCA link for their Rol: <https://assets.publishing.service.gov.uk/media/5a82ed7440f0b62305b95131/Investment_in_Skills_July_2017_Final.pdf>

Further questions arising

1. **"Isn't this just giving a tax-break for dealing with dead-weight?"** If we asked for a lower tax break and targeted a smaller number of NEETs that would be cherry-picking. However, we are aiming for full-coverage of unemployed NEETs and may even be persuaded of opening-up to some of the inactive population of these, if they can and want to work. There could also be the potential to adjust the level of credit for sectors with more acute skills shortages or postcodes of greater deprivation to get deeper into the inactive workforce.
2. **"What stops NEETs dropping out after a few years and leaving the HMRC with lost tax and DWP with little/less benefit savings?"** The credit would only be paid while the apprentice is still employed and in training. There is then an incentive for the employer to keep them after that.
3. **"What stops foreign nationals in the country for a limited amount of time accessing the scheme instead of the core of UK national NEETs?"** They would need to be a UK passport holder and/or pass a habitual residency test in order to stop abuse of the system.
4. **"Why is this value for money vis-à-vis other public sector skills provision?"** It has the same/similar return on investment as vocational skills provided by public sector skills provision⁵, but has the advantage that it is better targeted at business needs.

⁵ See GMCA link for their Rol: <https://assets.publishing.service.gov.uk/media/5a82ed7440f0b62305b95131/Investment_in_Skills_July_2017_Final.pdf>