

## Institute of Directors Employment Comment

### Introduction

We in the IoD have expressed our concern on many occasions about the damaging increase in employment regulations<sup>1</sup> and higher tax burden<sup>2</sup>. But the 6<sup>th</sup> of April 2003 will see a unique combination of new regulations and higher taxes that can only be described as a black day for business. A whole new raft of “family friendly” policies is to be introduced, there are major changes to the tax credits system, and, finally, National Insurance Contribution rates are due to increase.

### Family friendly policies

The changes to family friendly policies are very extensive and comprise a major strand of the Government’s employment and social strategy as evidenced by an active advertising campaign<sup>3</sup>. They fall into four sub-groups.

The first relates to the legal right to apply to work “flexibly” for parents with children under six years, and for parents with disabled children up to the age of 18 years who have worked for the employer for six months. As we have said on many occasions, we support flexible working and, indeed, the British employer is one of the most flexible (not that he/she gets much credit for this). 40% of working women work part-time in the UK compared with an average of just 28% in the EU. But there can be severe limitations on what can be agreed to – especially in small firms with key employees. And we are also concerned about the negative impact on those employees who are not entitled to this “right” – all too often this is underestimated or even totally ignored.

The second concerns the extension of maternity rights. On 6<sup>th</sup> April ordinary maternity leave will have been increased from 18 to 26 weeks and additional (or extended) maternity leave will have been increased to a maximum of a year. In addition, women will be eligible for additional maternity leave after working for only six months for an employer – instead of a year. The basic rate of Statutory Maternity Pay (SMP) will have been increased to £100 a week, to be paid for 26 weeks instead of 18.

The third relates to increased paternity rights and introduces two weeks’ Statutory Paternity Pay (SPP), paid at a rate equivalent to the flat rate of SMP. And, finally, one of the parents of a child placed with them for adoption is entitled to take up to 26 weeks’ paid adoption leave, followed by an equivalent period of unpaid leave.

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# 6<sup>TH</sup> APRIL: A BLACK DAY FOR BUSINESS

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## Changes to tax credits

The 6<sup>th</sup> April was also the date that the Working Families' Tax Credit (WFTC), the Disabled Person's Tax Credit (DPTC) and the Children's Tax Credit were replaced by the new Child Tax Credit (CTC) and the Working Tax Credit (WTC). The new tax credits are intended to provide more generous levels of support for families and those in lower paid work. Many people will be eligible for the tax credits: nine out of ten families will be eligible for the CTC and up to 6 million families will benefit from WTC and CTC.

According to the Inland Revenue<sup>4</sup>, the Child Tax Credit will create a "seamless" system of income-related support for all families whether or not they are working. It will incorporate the child elements of the WFTC, the DPTC and the Children's Tax Credit into one system. From 2004, it will also incorporate elements from Income Support and Jobseeker's Allowance thus bringing all income-related support for children into one "seamless" tax credit system. It will be paid direct to the main carer (along with the childcare element of the WTC), so employers will not be involved.

But employers will be expected to administer the WTC (excluding the childcare element), as this tax credit will generally be paid through the pay packet for employees. (It will be paid direct for the self-employed.) The WTC is intended "to provide a targeted top-up to wages for all those in lower paid jobs, ensuring work pays more than welfare". It will incorporate the adult elements of the WFTC and the DPTC as well as the Employment Credit element of the New Deal for those aged 50 or more. And it will be another costly administrative burden for business.

The WFTC has received a poor business "press" since its introduction in 1999 and there is little reason to think that this will change. It is, without any doubt, very costly for business to administer. It is likely that by April 2003, the total cost to employers of administering the WFTC will have been almost £0.4bn, even on the Government's figures. But there is more to come. As the WTC will go to different people from the WFTC different (and more) employers will be affected. And as the WTC differs from the WFTC in crucial ways (including the assessment period), employers will have to change their payroll systems. All this adds to costs.

After all this cost and hassle it would at least be comforting to know that the WFTC had significantly added to work incentives – but here the evidence is ambiguous. Moreover, the claim that the WTC and WFTC were introduced to "make work pay" is no different in principle from the Family Income Supplement (introduced in 1971) and Family Credit (1988) which were administered by the DSS.

## National Insurance Contributions

Lastly, and the most damagingly, National Insurance Contributions rates for employers, employees and the self-employed all rose by 1% on 6<sup>th</sup> April. The estimated increase in employers' NICs costs is around £4bn a year. We just hope that no further rises will be announced in the Budget.

## Conclusion

We are only too aware that this comment is yet another recital of extra costs, regulations and mind-bogglingly complex changes that undermine competitiveness and damage flexible labour markets. (And we interpret “flexibility” primarily as the ability to make decisions without being encumbered with too much red tape.<sup>5</sup>) This is not, however, the way the Government interprets “flexibility”. The Government’s interpretation seems to be a combination of ever heavier-handed employment legislation (“fairness at work”), on the one hand, and a mixture of “active labour market policies” (such as the working tax credit to encourage employment), flexible working patterns for some employees (see above) and training, on the other. Well maybe. But the result is that the Government’s approach is making it harder and harder for business to function efficiently and create jobs.

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March 2003*

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## References

1. Richard Baron: “The red tape menace” (IoD, 2002).
2. Ruth Lea, Graeme Leach and Derek Brownlee: “Government borrowing: deeper into debt. Budget 2003” (IoD, 2003).
3. The main DTI advertisements for the new laws for working parents read: “a third of mothers do not return to work after maternity leave. Each vacancy costs business an average £3,500 to fill. From the 6<sup>th</sup> April 2003 working laws will change to help parents better balance their home and working life. Mothers will be entitled to 6 months paid maternity leave and another 6 months unpaid if they want it. And parents of children under 6 and parents with disabled children under 18 will now have the legal right to get their employer to consider flexible ways of working. Everyone benefits. Employers get a happier, more motivated and more loyal workforce. And new mothers get to spend more time being Mum.” Frankly, this advertisement is a disgraceful piece of propaganda. It is very unlikely that “everyone” will benefit. Many employers (especially small ones) will find the extra laws difficult and costly to administer. And many employees will find themselves covering for absent colleagues. The assertion that “employers get a happier, more motivated and more loyal workforce” is unproven to say the least.
4. Inland Revenue: “New Tax Credits: Child Tax Credit and Working Tax Credit: fact sheet”.
5. See Ruth Lea: “The Work-Life Balance... and all that. The re-regulation of the labour market” (IoD, April 2001), for a discussion of flexible labour markets.