BRITISH HAIR CONSORTIUM

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SECURING THE FUTURE OF UK HAIRDRESSING & BEAUTY:

The economic, fiscal & societal case for VAT reform

Powered by:

CBI Economics

Contents

Foreword

The UK Treasury is set to lose billions in tax revenue due to structural flaws in the VAT system applied to the hairdressing and beauty sector.

This is the central finding of this new study by CBI Economics – which shows these flaws have already resulted in an estimated loss of £2.4 billion in VAT receipts alone, with additional billions lost through declining PAYE and National Insurance contributions as employment in the sector collapses. Moreover, the report forecasts that employment in the sector will fall by 93%, meaning that the Government's Worker Rights Bill will have little impact in protecting employees in this industry. Meanwhile, a rising hidden economy will further deprive the Exchequer of vital employment-related tax revenues.

This report also highlights that by 2027, there will be no apprenticeships left in the sector, resulting in a £3.2 billion loss in lifetime productivity benefits, potentially rising to £14.4 billion by 2030.

Taken together, this unfolding scenario directly undermines the Government's mandate to fix the foundations of the economy and deliver meaningful change for working people and businesses.

An urgent case for VAT reform

The British Hair Consortium (BHC) - a coalition of industry organisations - commissioned this study to assess the impact of historic policy decisions, regulatory gaps, and the October 2024 Budget on the sector. The findings are clear: without urgent VAT reform, the Exchequer will continue to lose billions, legitimate businesses will collapse, and thousands of workers will be pushed into insecure self-employment.

VAT is applied evenly across goods and services, but in a labour-intensive industry like hairdressing and beauty - where 60% of costs are wages - the burden is disproportionate. Unlike retail or hospitality, salons cannot reclaim VAT on their primary cost—people. This has created distorted competition between VAT-registered and non-registered businesses, incentivising VAT avoidance tactics such as bunching, disaggregation, and disguised employment.

Split-rate VAT: a fiscally responsible solution

To prevent further tax losses and stabilise the sector, this report calls for a split-rate VAT model, where **Labour-based services are taxed at 10% VAT, recognising the sector's cost structure** and **goods remain taxed at 20% VAT, ensuring revenue neutrality**.

To be clear, this reform is not a tax cut. Instead, it is a necessary correction to ensure continued tax receipts, protect formal employment, and prevent VAT avoidance from becoming the sectoral norm. Without intervention, legitimate high street businesses will close, the employed model will become unviable, and a rising black economy will cost the Treasury far more than reforming the VAT system.

Improving standards and customer protections: mandatory registration

This report also advocates for a mandatory register of all hairdressing professionals. This protects their rights and can assist with compiling the correct data for Government.

Without a register, VAT avoidance and disguised employment will continue unchecked, costing the Treasury billions while putting responsible businesses at a disadvantage.

A call for action

The current Government did not create this crisis, but the October 2024 Budget has accelerated the collapse of formal employment in hairdressing. Without intervention, the consequences will be:

- Mass business closures, harming high streets.
- Billions in lost tax revenue, deepening the fiscal gap.
- The erosion of workers' rights, undermining Labour's economic agenda.

VAT reform is not just an economic necessity but a test of the Government's commitment to fixing the foundations of the economy and delivering real change. This report sets out a clear, fiscally responsible solution to prevent further damage.

As a sector, we call on the Government to act swiftly. A fair VAT model will secure Treasury revenues, protect employment, and sustain a vital industry that supports communities across the UK. On behalf of all those fighting to save high street employers and protect workers, we thank you for taking the time to consider this report and urge you to support VAT reform for the hair and beauty sector.

Gareth Penn

Chief Executive, Hair & Barber Council

Executive summary

The British Hair Consortium (BHC) commissioned CBI Economics to conduct an in-depth review of the UK hairdressing and beauty sector, assessing its current challenges and the potential benefits of VAT reform. Rising labour costs, including increases in the national minimum wage and employer national insurance contributions, are squeezing salon owners.

As a labour-intensive industry with limited VAT recovery options, salon employers face a competitive disadvantage, particularly when compared to other business models. This forces many to adopt measures like 'disguised employment', whereby workers are artificially registered as self-employed to stay below the VAT threshold, to survive. **This creates an unlevel playing field in the sector.**

This analysis is based on a comprehensive survey of 542 salon owners, along with a review of the BHC's prior research, including a post-budget survey with approximately 1,800 responses. This report projects industry trends through to 2030 under two scenarios: a **pre-budget scenario**, which extends historical trends forward, and a **post-budget scenario**, which accounts for the additional cost pressures brought by tax changes announced at the 2024 Autumn Budget.

Our analysis points to some stark trends for the hairdressing and beauty industry:

- **Employment plummets to less than 6,500, a 93% reduction from 2024 –** In 2024, 63% of salon workers were self-employed, projected to rise to 76% by 2030, or 88% under the post-budget scenario. This would **leave very few in employment, creating a sector largely devoid of the employment rights** that come with being an employee.
- **Salon services are disadvantaged under the current tax regime –** Due to their labour intensiveness, **salon services are hit 3x harder by labour taxes and VAT** compared to other high-street operators.
- **Apprenticeships in the sector are in crisis –** Apprenticeship starts are set to reach zero by 2027 under the post-budget scenario and by 2029 under the pre-budget scenario, which **contravenes the Government's objective to reduce inactivity amongst 18- to 21-year-olds**. This could mean that society has foregone approximately £3.2 billion in lifetime productivity benefits (the economic benefit to society generated by individuals achieving these qualifications) so far, which could grow to £14.4 billion by 2030.
- **Damage to the high street could be significant –** Hairdressing and beauty businesses drive persistent year-round demand and are largely immune to the rise of online shopping, making them **essential for maintaining urban vitality and resilient high streets**.

- **Foregone tax revenues are one result from the shift to self-employment and overall sector decline** – Since 2009, overall turnover in the sector across employment models has declined and is significantly below where it would be if it had tracked inflation. This has **cost the Exchequer an estimated £2.4 billion in VAT receipts** while total employment has also **fallen by 69,400 workers**, suggesting **they have either left the profession or entered the hidden economy**. A rising hidden economy will also have cost the Exchequer £billions more in employment-related taxes.
- **VAT reform has the potential to arrest sector decline** – A **split-rate VAT model could be cost-neutral, or even positive with a gain of £0.75bn by 2030 if deregistration is halted. The gain could rise to £1.5bn if registration levels are restored to their historic levels.** Without it, VAT would continue to decline alongside registrations, harming the public finances.

These findings underscore the urgent need for VAT reform to put the sector on a sustainable footing and in a position to contribute to the Government's objectives on training for young people, restoring high streets and kickstarting economic growth.

The BHC is advocating for a split-rate VAT model, proposing a reduced 10% rate on labour costs to curb VAT deregistration. Additionally, lowering the VAT registration threshold could combat disguised employment and ensure a level playing field in the sector.

1. Introduction: The UK's Hairdressing and Beauty Sector

Project Overview

The **British Hair Consortium (BHC)** commissioned CBI Economics to review the sector's current position and assess the benefits of VAT reform for UK salon businesses.

As part of the project, CBI Economics and the BHC surveyed salon owners on their outlook, especially focusing on measures announced at the Autumn Budget and their general operating environment. This survey garnered 542 responses. CBI Economics also reviewed the extensive survey work undertaken by the BHC prior to the project, including their own post-budget survey which received approximately 1,800 responses.

Sectoral context

Salons have faced a multitude of challenges, each varying in how they materially impact businesses and their operating environment.

The **personal care sector is unique because it is inherently labour-intensive**. This means there are **limited opportunities to reclaim VAT on input costs**. This puts it in contrast to other high-street businesses such as retail and hospitality who can claim VAT back on goods they purchase. This also means that VAT-registered salons have a disadvantage against non-registered salons and ultimately creates **perverse incentives to take VAT-avoiding measures**.

Being a labour-intensive business means **employed salon owners are hit harder by increasing labour costs**. Two of the major measures announced at the Autumn Budget – increases to the national minimum wage and employer national insurance contributions – affects the personal care sector especially hard. On average, labour costs account for 60% of a hairdressing and beauty business's overall turnover, whereas for other high street operators, it is much less.[1] [2]

To illustrate the difference in costs between a hairdressing and beauty business versus an independent high-street retail business, we present a detailed comparison between the two business models in Figure 1 overleaf. This shows that when a salon business turns over £1.2 million per annum, it returns around £305,000 to the Exchequer. Whereas as an independent high street retail business, that could be next door to an employed model salon, would return

[1] Margaux Salon (2024) The "Uberisation" of the UK Hair & Beauty Industry: Disguised Employment Practices and Unlawful Competition
[2] Retail Week Prospect (2023) Top 30 most productive retailers in 2021/22

around £103,000. This means that salon businesses are hit around three times as hard by various taxes, particularly those impacting the cost of labour.

Figure 1: Comparison of taxes paid by a salon versus an independent, high street retail business

	Salon Services	Independent, high street retail business
Gross turnover	£1,200,000	£1,200,000
VAT on turnover	£200,000	£200,000
Typical labour %	54.2%[3]	11.6%[4]
Labour cost gross	**£542,000**	**£116,000**
Employment taxes	£145,423	£22,871
Pension paid by company[5]	£16,260	£3,480
Total labour costs	**£599,250**	**£120,000**
Total labour cost (%)	**60%**	**12%**
Cost of Goods Sold	10% / £100,000	50% / £500,000
Gross profit	**£284,490**	**£376,520**
All fixed costs (rent & rates)[6]	£250,000	£250,000
VAT reclaimable	£40,000	£120,000
VAT Given to Treasury	**£160,000**	**£80,000**
Profit / Loss	**£34,490**	**£126,520**
Total contribution to the Treasury	**£305,423**	**£102,871**

For over a decade, **rising labour costs have resulted in different operating models developing in the sector**, including employment, genuine self-employment and 'disguised employment'. **Disguised employment** is where someone fulfils the same role as a permanent employee but is labelled as an independent contractor or freelancer.[7] This can be done to **avoid paying VAT, by staying under the threshold, or employer national insurance**. A disguised employee has much less control over their workload as someone who is genuinely self-employed which is a legitimate employment status.[8]

There are **currently no general licensing requirements in the hairdressing industry**, like there is for pubs and bars, and no statutory requirements for people within the sector to hold specified qualifications. The Hairdressers Registration Act 1964 provides for a UK register of

[3] Margaux Salon (2024) The "Uberisation" of the UK Hair & Beauty Industry: Disguised Employment Practices and Unlawful Competition
[4] Retail Week Prospect (2023) Top 30 most productive retailers in 2021/22
[5] Assumes 3% employer contribution in line with legal minimum contribution
[6] Assumes equal costs regardless of retail type. Estimate provided by BHC.
[7] Deel (Date unknown) Disguised employment
[8] Kingsbridge (Date unknown) IR35: What does HMRC mean by a disguised employee?

qualified hairdressers, but registration is voluntary.[9] This means that **consumers are at risk of being improperly protected by consumer protection laws** or the appropriate insurance.

The BHC's surveys have underlined that the sector is burdened with debt following the Covid-19 pandemic.[10] Businesses, forced to close, found themselves needing to take out large loans to survive. The sector primarily drew on the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS).

An insolvency analysis carried out for the BHC found that **borrowing soared from £120 million in 2021 to £204 million in 2022 - an increase of 70%.** While this reduced slightly to £182 million in 2023, a pay-back rate of approximately 10% per annum would mean it takes at least a decade to repay in full. The analysis also found that the number of **'zombie' companies**, where liabilities are at least £10,000 more than their assets, **now account for 1 in 4 salons**. Nominally, this is 8,754 businesses up from 5,299 in 2022. **Their combined deficit is £266 million.**[11]

This situation risks **businesses collapsing and defaulting on their payments, which would put the financial burden on the Exchequer**. This is further illustrated by anecdotal responses to the BHC's post-Autumn Budget survey, with examples provided below.

To mitigate these impacts and restore economic stability within the sector, the BHC is advocating for a split-rate VAT model, with a reduced 10% rate on labour costs to curb VAT deregistration. Additionally, lowering the VAT registration threshold could combat disguised employment and ensure a level playing field in the sector.

Impact Statement

"We have been in business for 40 years. We have trained many apprentices but have been unable to since the pandemic. We think we have reached the end of the road but have debts due to the pandemic. So due to these debts and the amount of redundancy we will need to pay we need to carry on. Everything is just too much, the vat and tax is crippling as we have such a high % of wages in our industry."

Salon owner, South East

"We still are paying Covid debt and struggling on the high street. I would be better renting a chair and not employing staff, business rates VAT"

Salon owner, North West

[9] House of Commons Library (2022) Regulation of hairdressers
[10] Responses to a survey the BHC carried out following the Autumn Budget (2024).
[11] A report prepared for the British Hair Consortium by Opus Business Advisory Group

2. Trends in sectoral employment

Hairdressing and beauty salons are key cyclical, footfall generators on almost every high street in the UK. Employment conditions therefore have widespread effects right across the UK. The following section describes recent trends in sectoral employment and provides a forecast of their trajectories.

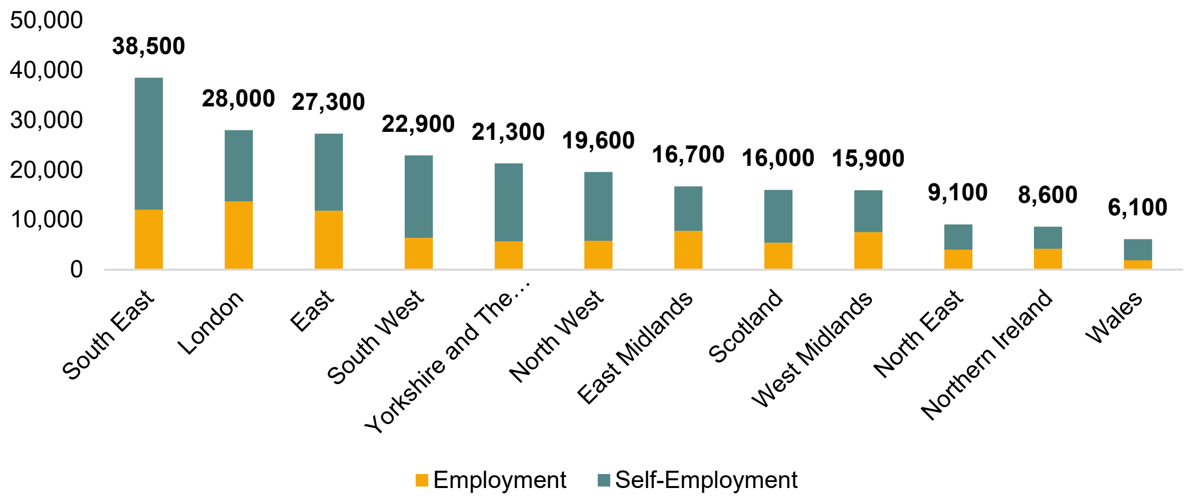
Key findings:

1. Self-employment has grown to be the dominant mode of employment in the hairdressing and beauty sector, accounting for 63% of workers.
2. With this shift, total employment in the sector has decreased by 69,400 in a decade, or 23%. This could point towards a rising hidden economy.

As of 2024, there were 232,700 people employed in hairdressing and beauty salons in the UK.[12] This was comprised of 145,200 self-employed workers, or 63% of the sector, and 86,800 (37%) who were employees. This is a much greater proportion of self-employment than the UK average, which stands at 13%. However, with no central register of those trading, these figures carry a high degree of uncertainty and are likely to be below the true figure.

A regional breakdown is provided in the figure below.

Figure 2: Sector employment by region and employment type (2024)

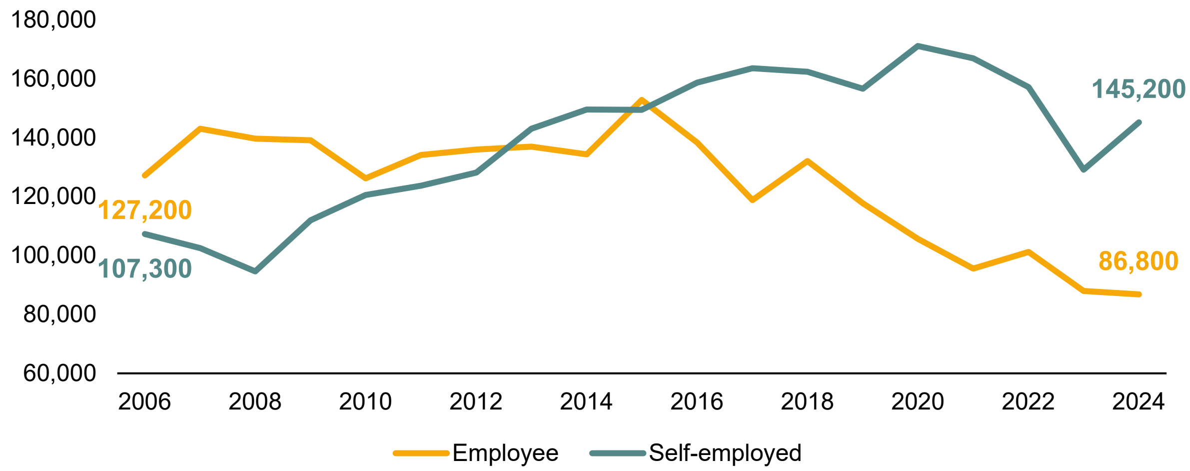


Source: ONS: Annual Population Survey

[12] ONS (2024) Annual Population Survey (Year ending September 2024)

The dominant trend in the sector has been the switch to self-employment. While in 2006, self-employment accounted for only 46% of sector-wide employment, this has steadily risen to 63% in 2024.

Figure 3: Historical trends in employment



Source: CBI Economics analysis of Annual Population Survey

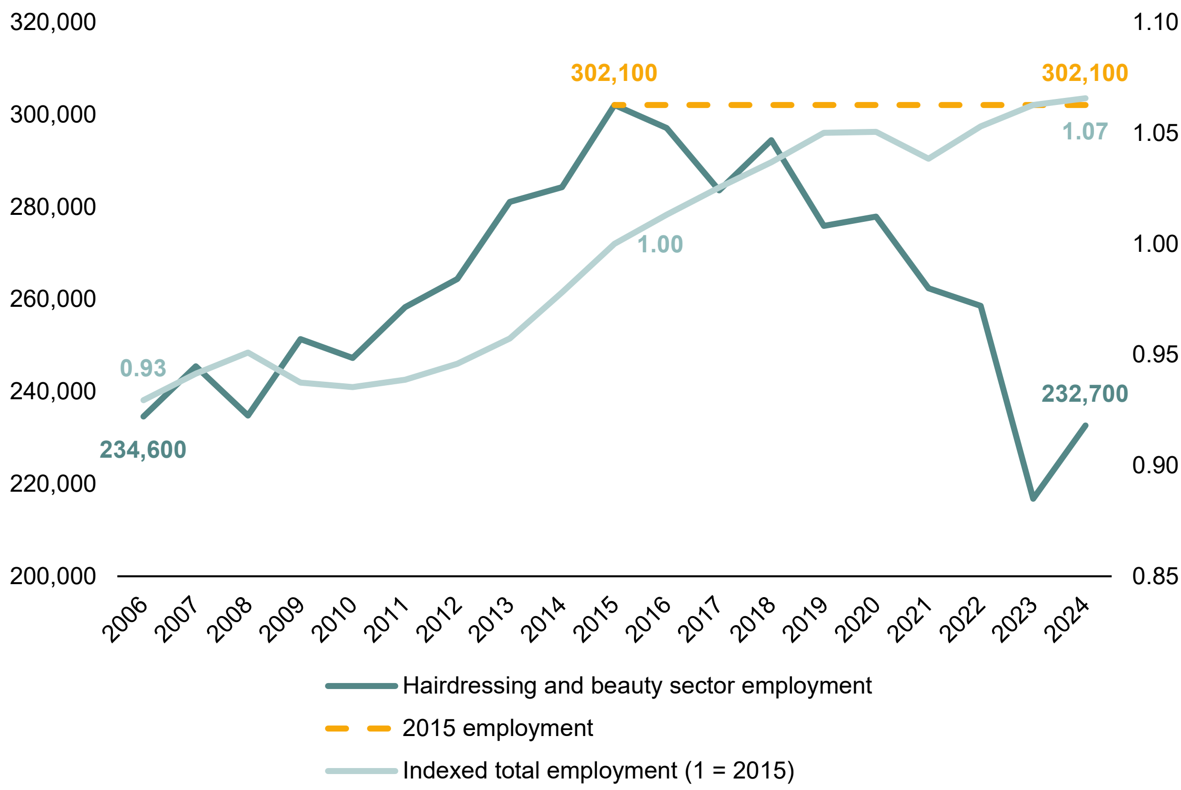
The BHC maintain that self-employment is a perfectly legitimate employment status. It is when workers enter 'disguised employment' that concerns arise. This is often done to avoid VAT registration or paying other labour-related taxes such as employers national insurance contributions. For the worker, it means they are less protected by employment rights such as sick pay. This creates an unlevel playing field between traditional and disguised employers.

The National Audit Office (NAO) have pointed out that service activities, such as hairdressing, are prone to hidden economy activity. The NAO define the hidden economy as when activities in which the entire source of income (not necessarily taxable) has not been declared to HMRC for tax purposes.[13]

For a decade, overall employment in the sector has been gradually declining.[14] In 2015, employment hit a high of over 300,000 but has since reduced to 232,700 representing a fall of approximately 23%. Viewed in the context of mounting concerns about the rise of a hidden economy, this data would suggest that as many as 69,400 workers have either left the profession or entered the hidden economy.[15]

[13] By contrast, tax evasion is characterised as individuals intentionally under-declaring their income for tax purposes, but the source of income is known to HMRC.
[14] The sector is the sum of 1253: Hairdressing and beauty salon managers and proprietors; 6221: Hairdressers and barbers and 6222: Beauticians and related occupations
[15] Hairdressers Journal International (2019) Concerned about the 'black economy' in the hair and beauty industry?

Figure 4: Total sector employment and lost workers, 2006 - 2024



Source: Annual Population Survey

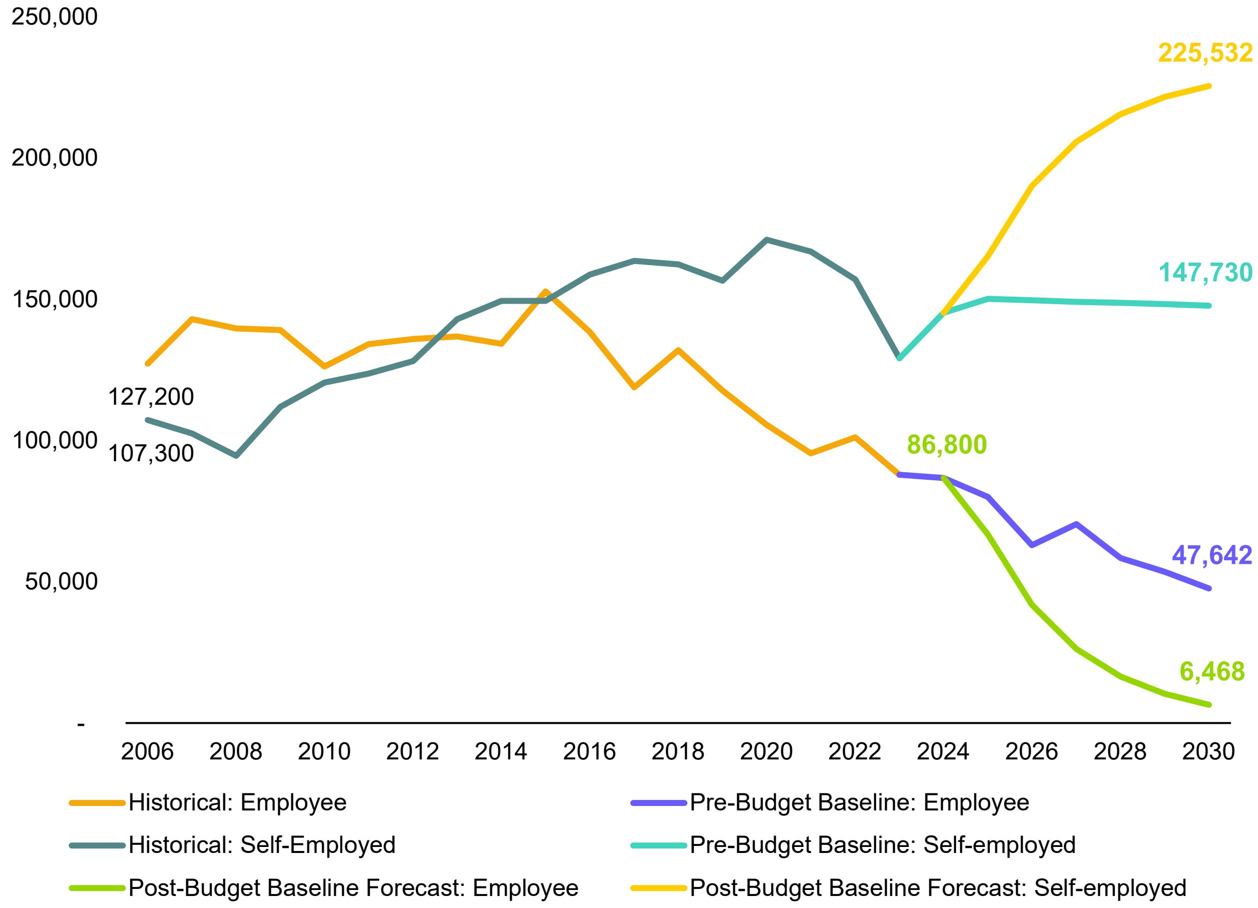
Forecasting

To understand how these changes may affect the UK economy and the Exchequer's tax take, this analysis has forecasted the historical trends, presented above, forward based on two scenarios:

- **A pre-Budget baseline**: This forecasts what will happen if current trends in the sector persist. This demonstrates that, by 2030, over three-quarters (76%) of people will have switched to self-employment leaving less than 48,000 people as employees.
- **A post-Budget baseline**: A survey of salon owners conducted for this project indicated that following the measures announced at the budget, there would be reductions to salon-based employment of 23.1% in the first year and 37.3% thereafter. This forecast assumes that all these workers switch to the self-employed model, however it is quite possible they either leave the profession, sign up for out-of-work financial support or become economically inactive.

Employment is expected to decline in both scenarios. This report will examine the negative implications of this trend for the Exchequer and society and estimate how changing VAT policy could strengthen the sector.

Figure 5: Forecasted employment trends in the hairdressing and beauty sector



Source: CBI Economics analysis, 2025

3. The impact of declining employment for the Exchequer

This chapter will present the fiscal implications of the decline in Salon-based employment, in terms of tax revenue collected by the Exchequer. There are multiple impact channels, including VAT and National Insurance contributions.

Key findings:

1. The Employer model generates £11,681, or 123% more, in tax revenues than the disguised employment model under a like-for-like example
2. A split-rate VAT model for the hairdressing and beauty sector would be at least cost-neutral for the Exchequer and potentially reverse the decline in VAT registrations.

As discussed in the introduction, different operating models have arisen in the sector including employment and 'disguised employment'. The former is majority VAT registered whereas much of the latter is not. This creates an unlevel playing field due to the impact it can have on the operators' respective prices.

The Chief Executive of HMRC affirmed that creating a level playing field for compliant businesses is a very important driver of their activity, in addition to wanting to collect the tax due.[16]

Salon employers, who are VAT registered, were vocal about the impact VAT registration has on their business in a recent BHC survey.

[16] House of Commons (2024) Public Accounts Committee – Oral Evidence: Tax evasion in the retail sector, HC 355. Q6 – Q8.

Impact Statement

"With most businesses having Bounce Back loans still, the added rising costs since then and VAT crippling most businesses, it's not worth running a business when you can't pay yourself minimum wage anymore." *Hairdressing, West Midlands*

"VAT kills us. We pay £15,000 every quarter with nothing to balance it off against as our service is skill-based." *Hairdressing, London*

"I have owned/run my business for 32 years and have never felt so fearful for my staff, myself, and the future of the business." *Hairdressing, South West*

"The VAT has already meant I can't take a wage; this will mean closing." *Hairdressing, South East*

This has a material impact on the revenue collected by the Exchequer. The tax that an example £400,000 turnover business, with five members of staff, would pay to the exchequer is presented in the figure below.

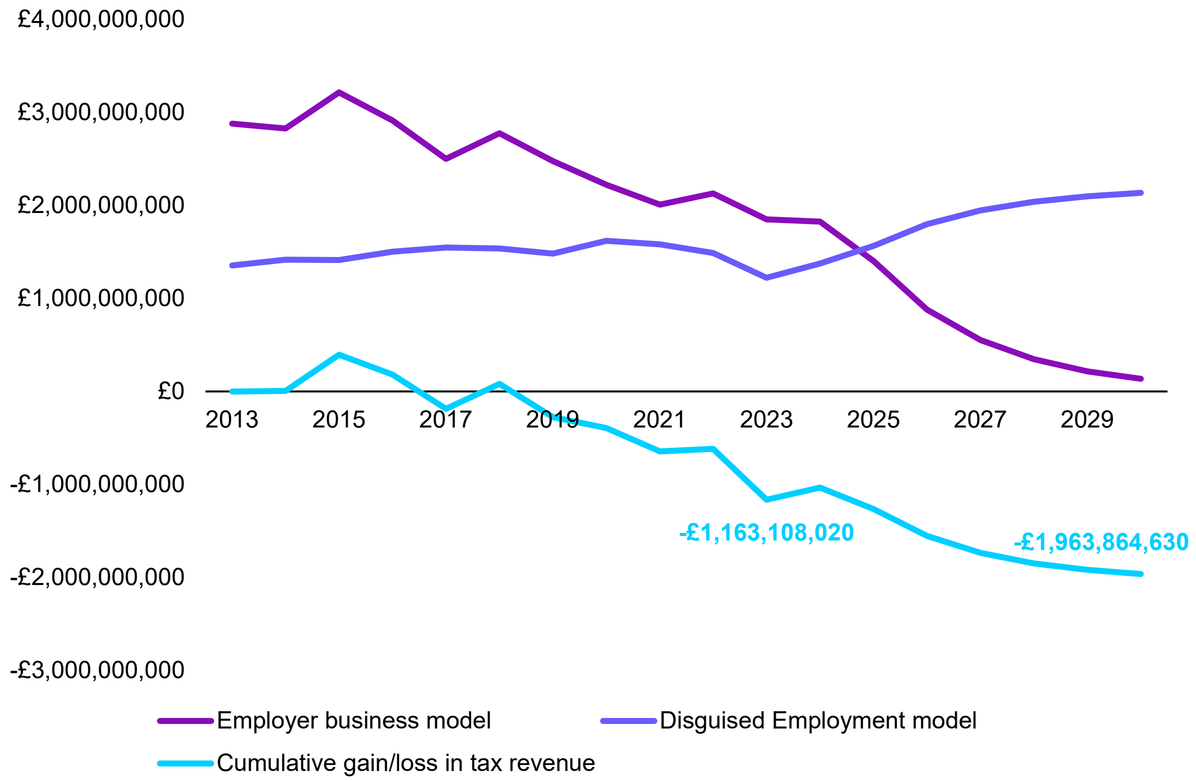
Figure 6: Tax returns to the Exchequer from different employment types (2025/26 onwards)

Employer vs Disguised Employment model		
	Employer business	**Disguised Employment business**
Turnover	£400,000	£400,000
VAT paid	**£66,667**	**£0**
Net income	**£333,333**	**£400,000**
Rent, product costs and other fixed costs (split between disguised employees)	**-**	**£155,000**
Salary	**£160,000**	**£245,000**
Tax and Employees National Insurance payable	**£27,202**	**£47,359**
Take home salary	**£132,798**	**£197,641**
Employers National Insurance	**£9,750**[a]	**£0**
Total salary costs (excluding pension)	**£169,750**	**£169,750**
Remaining for business expenses (Rent & rates, products, other fixed costs)	£163,583	-
Profit	**£8,583**	**£0**
Corporation tax (19%)	**£1,631**	**£0**
Returned to the Exchequer	**£105,250**	**£47,359**

[a] £10,500 deducted for Employment Allowance

Using the representative business model example and under the assumption that the values have stayed constant over the period, presented in **Figure 8**, we can estimate the tax foregone by the Exchequer if we assume that everyone who was in the employment model has switched to the disguised employment model. Applying our tax revenue estimates to the historical trends in employment, infers that between 2013 and 2023, the tax lost amounts to almost **£1.2 billion**. Forecasting this forward to 2030 under the post-Budget baseline scenario sees the tax loss reach almost **£2.0 billion**. This is presented in the figure below.

Figure 7: Cumulative Change in Tax Revenue Since 2006 Based on the Business Model Example



Source: CBI Economics analysis (2025) (NB: Cumulative gain / loss in tax revenue is the sum of total tax revenue across both models)

Bunching and disaggregation

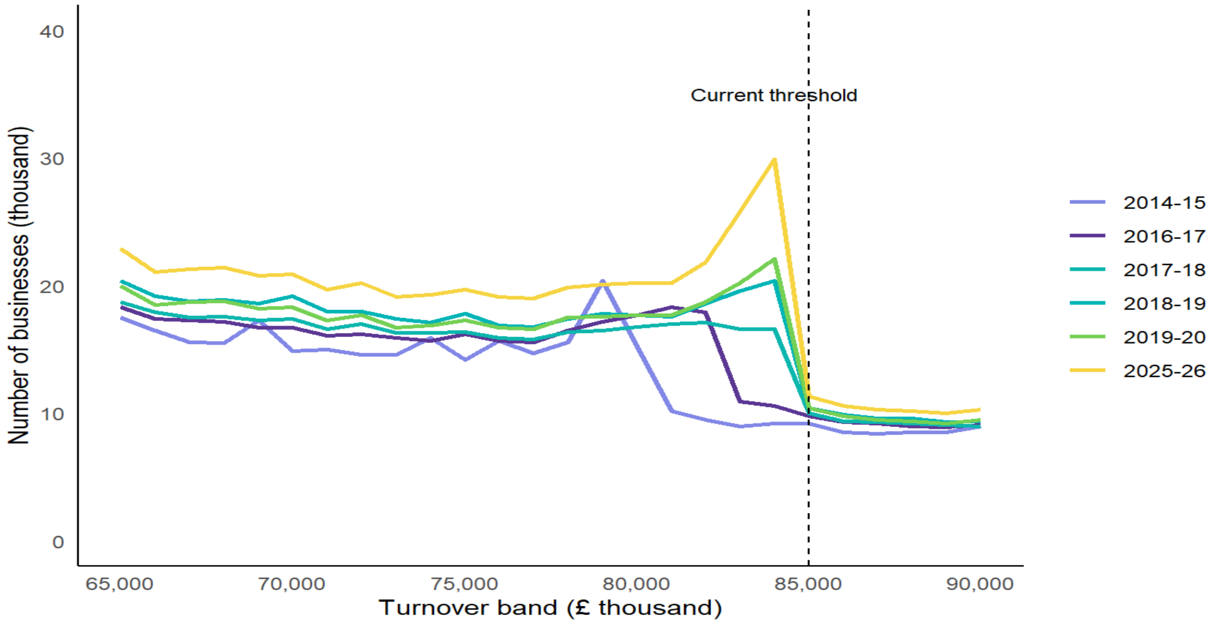
The VAT registration threshold, in its present form, leads to two trends that risk tax avoidance: bunching and disaggregation.

The first, **bunching**, is where firms limit their turnover to avoid needing to register for VAT. The Office for Tax Simplification identify two main actions that a firm that is deliberately bunching may undertake. Either businesses are limiting expansion by not taking on an extra employee, or contract, to keep their turnover below the threshold; or they are deliberately suppressing their recorded taking and then reporting a turnover below the threshold. This latter activity is illegal.[17]

The Office for Budget Responsibility (OBR) have recognised that the administrative burden and pricing consequences of VAT registration creates an incentive for firms to cap their annual turnover just below the threshold. In 2023, they published the figure below to demonstrate this trend.

When the VAT registration threshold was capped at £85,000 in March 2023, the OBR estimated that the number of firms, across all sectors, capping their turnover just below the threshold will increase significantly. Over, 118,000 were expected to cap their turnover in the range of £5,000 below the threshold, while only 62,800 businesses were expected to report turnover £5,000 above the threshold.[18] Relative to a smooth distribution of firms by size, the lost turnover associated with bunching will rise, therefore, from £110 million to £350 million.[19]

Figure 8: Bunching under the VAT registration threshold



[17] The Office for Tax Simplification (2017) Value added tax: routes to simplification
[18] These figures should be treat with caution as the VAT threshold was raised to £90,000 in April 2024.
[19] [The impact of the frozen VAT registration threshold - Office for Budget Responsibility]

Source: Office for Budget Responsibility (2023) recreated by CBI Economics

The VAT registration threshold leads to another trend called **disaggregation**, where business owners seek to avoid charging VAT by splitting their business into different parts to ensure each operates under the VAT registration threshold. HMRC rules are set against any disaggregation or artificial separation of a business.[20] To do this, the business misclassifies their workers as self-employed contractors thereby putting them into 'disguised employment' instead of traditional employees.

Business count, by turnover size band, data indicates that this may be happening in the hairdressing and beauty sector. This is presented in **Figure 6** below. Between 2019 and 2024, the number of businesses with turnover between £0 and £49,000 rose by 91%, while those with turnover between £50,000 and £99,999 rose by 13%. Conversely, there was a 9% drop in those with turnover between £100,000 and £199,999.

Figure 9: Disaggregation in the hairdressing and beauty sector

Year	£0 to £49k	£50 to £99k	£100k to 199k	£200 to £499k	£500 to £999k	£1mil+
2019	4,975	19,570	16,125	1,965	605	250
2020	5,740	20,360	15,945	1,990	585	260
2021	6,970	20,925	15,495	1,975	590	255
2022	9,120	24,510	13,335	1,050	265	150
2023	21,380	15,675	10,155	1,455	445	185
2024	9,505	22,025	14,695	2,200	655	235
Total change	**4,530**	**2,455**	**-1,430**	**235**	**50**	**-15**
% change	**91%**	**13%**	**-9%**	**12%**	**8%**	**-6%**

Source: CBI Economics analysis (2025)

Turnover data from the ONS suggests that these two trends are having a material impact on reported turnover amongst VAT based enterprises.[21] The Bank of England's inflation calculator indicates that inflation has averaged 3.1% per annum between 2009 and 2023 (or, 53% over the period). **Figure 9** below, compares the reported turnover of businesses during this period against the trend that would have been observed if turnover had grown in line with inflation since 2019.

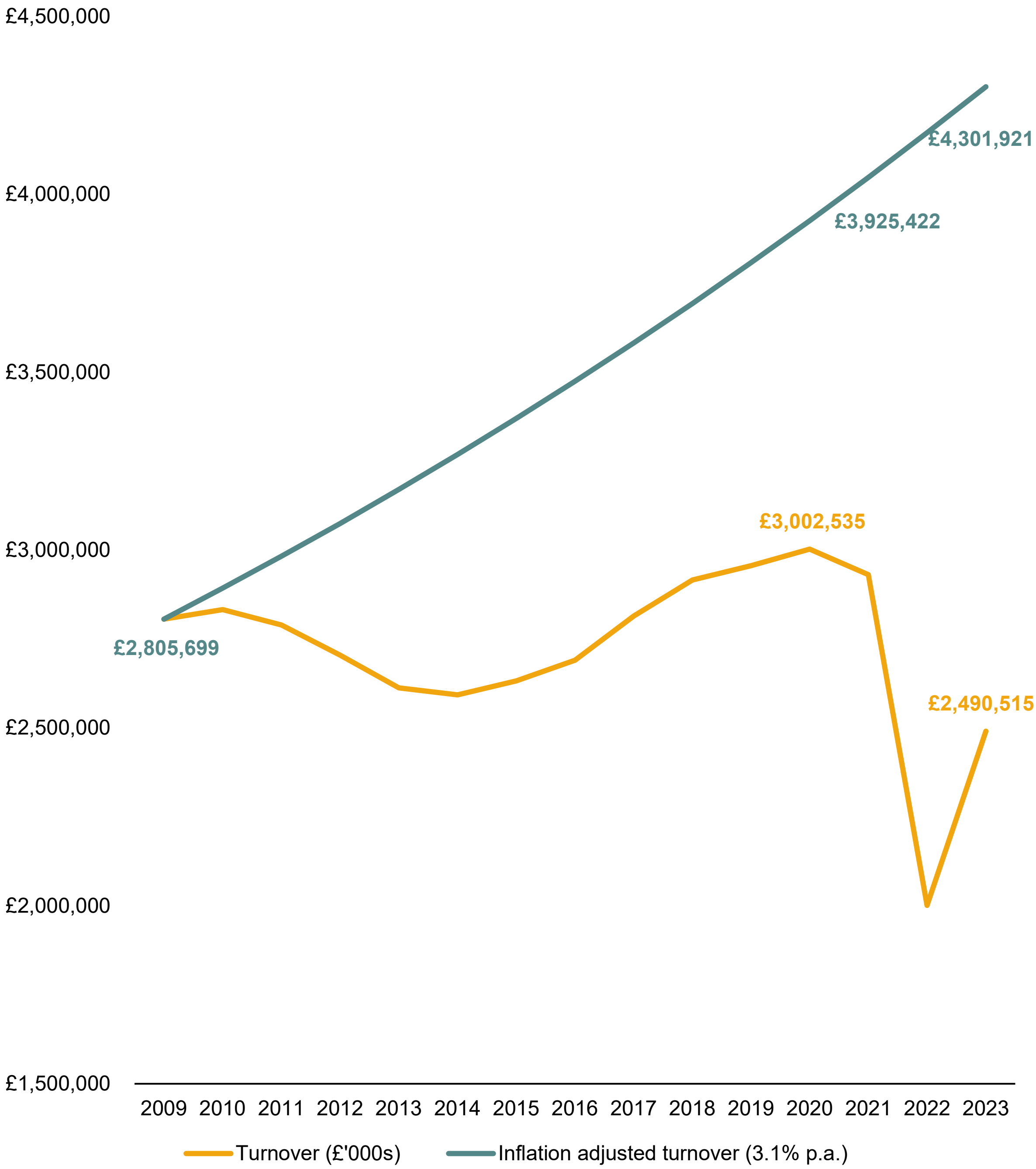
In 2009, turnover amounted to just over £2.8 billion. If this had tracked inflation, we would expect turnover to have risen to around £4.3 billion in 2023. However, sector turnover has in

[20] VAT - What is disaggregation of a business? | Crunch
[21] ONS (2024) Count, employment, employees and turnover of VAT based enterprises in SIC07 96020 Hairdressing and other beauty treatment

fact decreased to just under £2.5 billion and is down from £3.0 billion since 2020. In light of the NAO's research, this could be evidence of a growing hidden economy in the hairdressing and beauty sector.

Taking the difference between the actual and expected inflation-adjusted turnover, year-on-year, it is estimated that there is a gap of around **£11.8 billion** in turnover over the period. At a constant 20% VAT rate, this is the equivalent of approximately **£2.4 billion** for the Exchequer.

Figure 10: Turnover amongst VAT based enterprises for the hairdressing and beauty sector



Source: CBI Economics analysis on ONS Business Size, Activity and Location data (2025)

Modelling a split VAT rate

The BHC is urging the Government to acknowledge the unique challenges faced by the hairdressing and beauty sector. They particularly highlight the need for the VAT system to reflect the industry's labour-intensive nature, where labour constitutes the majority of input costs. This situation places the employers at a disadvantage, as it cannot reclaim VAT on these costs and creates a disincentive to employ staff or register for VAT.

BHC argue a split-rate VAT model would mitigate these challenges and arrest the declining levels of VAT registrations in the sector, potentially even encouraging registration.

A split-rate VAT model would divide the sector's revenue into two parts: services, which would have a reduced VAT rate of 10%, and goods, which would retain a VAT rate of 20%.

Our modelling process applies these assumptions, with calculations provided in Figure 12:

- Assuming the sector contains approximately 50,103 employed full-time equivalent jobs, turnover per FTE job is estimated at £85,860.[22]
- With VAT at 20%, VAT per FTE is estimated to be £14,310, while at 10% it is £7,806.[23] We assume these figures stay constant between 2025 and 2030.[24]
- We assume that a split VAT model would, at least, halt VAT deregistration. [25]

Figure 11 shows the VAT revenue the Exchequer can expect to raise on current trends, without a split rate model. This shows VAT revenue is in decline as deregistration persists in the post-Budget baseline scenario.

However, if VAT deregistration can be arrested by implementing a split rate VAT model, then VAT revenues are stable and come to be greater than what would be collected under a 20% VAT rate (where deregistration continues). This means that a split rate VAT model will be cost neutral, and even positively increase VAT revenue for the Exchequer by around **£0.75 billion** by 2030.

Two additional scenarios were analysed, wherein the split VAT rate results in increased VAT registrations. These scenarios project a return to the registration levels of 2015, where 51% of individuals were employed, and the registration levels of 2008, where 60% of individuals were employed. The anticipated VAT revenue for each scenario is detailed in Table 12.

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[22] BRES indicates that across the sector, there is an employment: full-time equivalent ratio of 0.57.
[23] In 2024, the ONS reported sector turnover at £5,785,698,000. Data provided by Phorest Salon Software, used by over 2,500 salons in the UK, suggests this is split 93:7 Services:Goods.
[24] The VAT per FTE figure has been applied to the forecasted employment trends in Figure 5. Therefore, this assumes that the proportion of part-time and full-time employment remains static.
[25] When a reduced VAT rate was introduced for the hairdressing sector in Ireland in 2011, employment in the sector increased by 25%. Source: Jim Power Economics (2020) Economic Value of Hair & Beauty Market in Ireland

With the appropriate incentives to register for VAT, the Exchequer could increase the tax-take from VAT revenue by **over £1.5 billion** by 2030.

If the Government acts now, then VAT deregistration can be arrested, and revenues can be maintained or even increased. The Government may consider lowering the registration threshold to further induce registration and prevent disaggregation. Raising £hundreds of millions more per annum in VAT receipts and further providing an incentive for growth in those businesses that could be holding back their revenue.

Figure 11: Split VAT revenue modelling

Year	Current scenario (post-Budget modelling)	
	Registered	20% VAT
2025	38,047	£544,462,949
2026	23,855	£341,378,269
2027	14,957	£214,044,175
2028	9,378	£134,205,697
2029	5,880	£84,146,972
2030	3,687	£52,760,152
Revenue raised		**£1,370,998,213**
Split VAT rate model scenario		
Year	**Registered**	**10% VAT**
2025	45,626	£356,135,849
2026	45,626	£356,135,849
2027	45,626	£356,135,849
2028	45,626	£356,135,849
2029	45,626	£356,135,849
2030	45,626	£356,135,849
Revenue Raised		**£2,136,815,094**
Net Revenue from VAT reduction	**£765,816,881**	

Source: CBI Economics analysis (2025)

Figure 12: Further split VAT revenue modelling scenarios

Revenue raised if registration increases to 51% (2015 levels)	£2,635,578,616
Net revenue from VAT reduction	**£1,264,580,403**
Revenue raised if registration increases to 60% (2008 levels)	£2,900,596,866
Net revenue from VAT reduction	**£ 1,529,598,653**

4. Societal impacts

Key findings:

- The hairdressing and beauty sector is a vital contributor to the UK's high streets, offering secure employment straight out of education. Unlike rent-a-chair and self-employment models, salon employers provide not only job security, but also access to employment benefits and worker rights that self-employed individuals do not have.
- The sector, particularly high-street salons, also plays an important role in the delivery of training and apprenticeships, contributing to a steady pipeline of future skills and employment opportunities for young people.
- There is an above average proportion of female (making up 84% of industry employment) and part-time workers in the sector, reinforcing the importance of its protection to enable people to work flexibly.
- However, affordability issues have blighted salons' ability to deliver apprenticeships, threatening the future supply of skills in the industry.

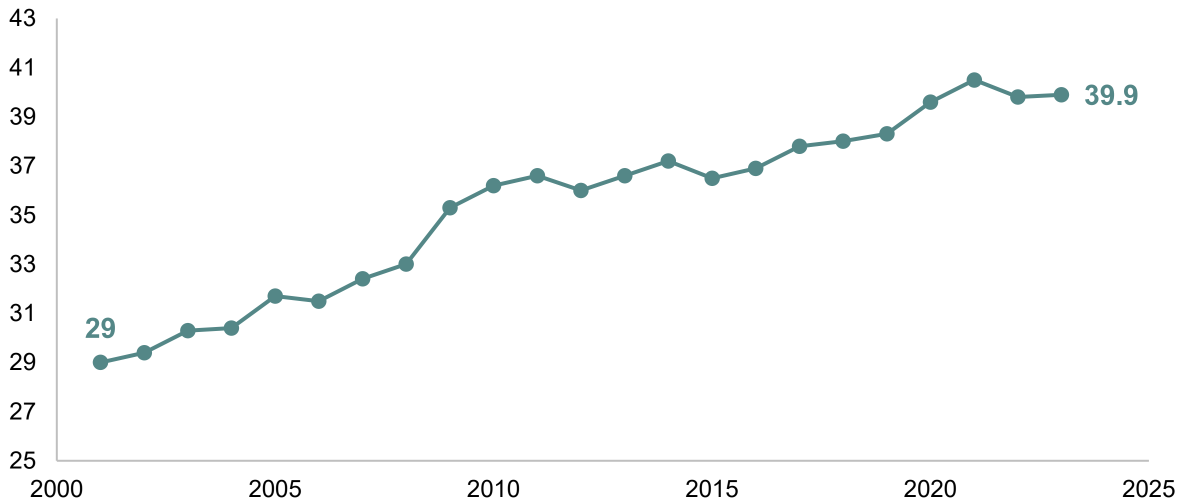
The hairdressing and beauty sector will be crucial to delivering the Government's objectives on helping young people into work

The Social Mobility Commission found that 'apprenticeships can promote social mobility and offer a route into employment for individuals who did not excel in school, as well as upskilling those already in employment'.[26] In the Labour government's election manifesto, they committed to establishing a youth guarantee of access to training, an apprenticeship, or support to find work for all 18- to 21- year olds with the aim of bringing down the number of young people who are not in education, employment or training.[27]

[26] Social Mobility Commission (2020) Apprenticeships and social mobility: Fulfilling potential
[27] The Labour Party (2024) Labour Party Manifesto 2024

This is especially pertinent given the rising rate of economic inactivity amongst 15–24-year-olds. The figure below presents data from the labour force survey which indicates that inactivity in this cohort is as high as it has been since 2001. This underlines the need to ensure young people have appropriate training opportunities in order to help them find stable employment.

Figure 13: Economic inactivity (%) amongst those aged 15-24



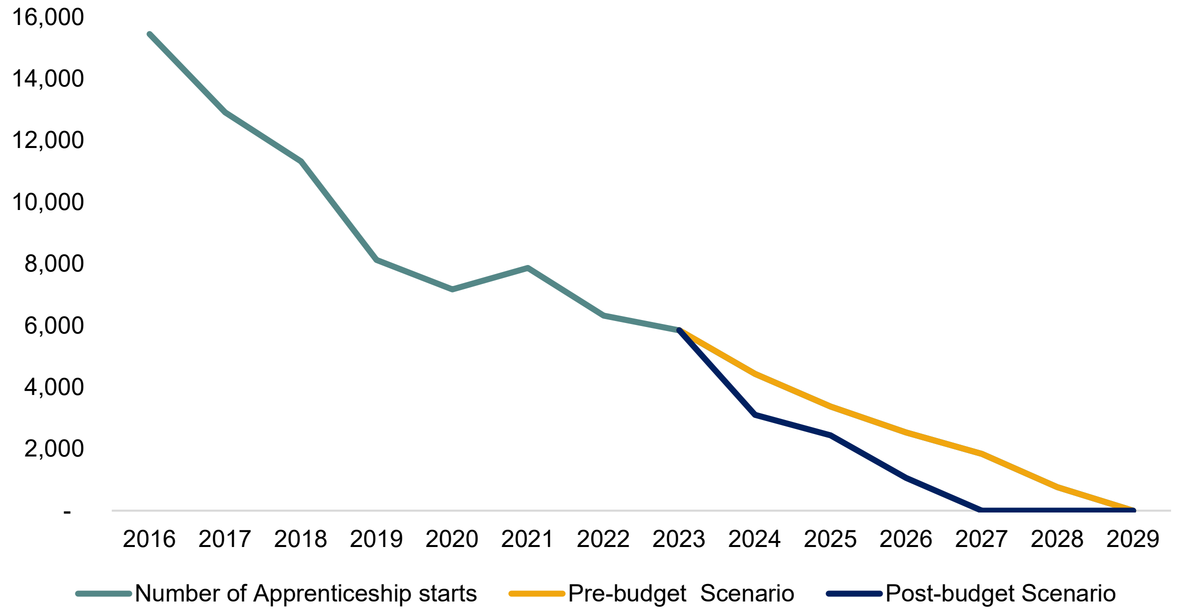
Source: Labour Force Survey, 2024

Apprenticeship data suggests the hairdressing and beauty sector is struggling to deliver training opportunities like it has in the past, an issue compounded by the 2024 Autumn Budget according to the BHC's post-budget survey. An analysis to understand the impact of the tax changes in the Budget on apprenticeship starts is presented below. By utilising historical data on apprenticeship starts from 2016 to 2023, we forecasted future trends under a pre-Budget scenario, predicting the likely trajectory of apprenticeships in this sector.[28] Our projections indicate that, under the pre-Budget scenario, apprenticeship starts in the hairdressing and beauty sector will approach zero by 2029.

In the post-Budget scenario, we surveyed respondents on how they would respond to the Budget in terms of hiring new apprentices. This allowed us to estimate the average reduction in apprenticeship starts over the next 12 months and for each subsequent year. Based on these forecasts, we predict that, under the post-Budget scenario, there will be no new apprenticeship starts by 2027. In simple terms, it has been unaffordable to take on and train apprentices for many years now and the decline shows this trend that can only be reversed by a fundamental change for employing businesses who train the next generation.

[28] Department for Education (2025) Subjects - Starts, Achievements, Enrolments by Age, Sex, Ethnicity, LLDD, SSA, Detailed level, Standard-framework name and code dataset

Figure 14: Historical apprenticeship data and scenario forecast



Source: CBI Economics analysis (2025)

The Department for Education (DfE) have acknowledged that there is a large lifetime productivity benefit from completing level 2 apprenticeships compared to holding at least some lower or equivalent level 2 qualifications.[29] The DfE use this figure to estimate the economic benefit to society generated by individuals achieving these qualifications. The lifetime productivity gains are particularly large for men, at close to £140,000, but are also sizeable for women (£67,000).

Extrapolating the apprenticeship data in the figure below would suggest that society has foregone at least approximately **£3.2 billion** in lifetime productivity benefits by having fewer apprenticeship starts between 2016 and 2023.[30]

In the baseline scenario, the productivity foregone is expected to reach around **£8.6 billion by 2030** while it could climb as high as **£14.4 billion in the worst-case scenario** once the impact of the Budget measures have been taken into account.

Responses from the BHC's Autumn Budget survey indicate that the measures increasing labour costs, particularly national minimum wage increases, will pose a challenge for salons in hiring apprentices. This could jeopardise the sector's labour supply for years to come.

[29] Department for Education (2014) The economic value of key intermediate qualifications: estimating the returns and lifetime productivity gains to GCSEs, A levels and apprenticeships
[30] This estimate assumes that lost apprentices did not take up another Apprenticeship. It has also multiplied the loss by the lower value, £67,000, for all Apprentices and assumed all starts refer to a Level 2 apprenticeship.

Impact Statement

"Apprentices are now unaffordable. The VAT threshold fixed against rising costs will kill us. We can't compete against the 'cash only' salons, we can't compete against salons avoiding VAT through false self-employment" *Hairdressing, South West*

"For 35 years I have invested in training the future - this last year I have decided no more! Last week's budget has reinforced that decision!" *Hair & Beauty, Wales*

"I am the only salon in the area employing and training apprentices…but like so many, I am struggling to compete with the rent-a-chair model" *Hairdressing, North West*

"I will more than likely have to let one of my apprentices go, if not all of them, and will no longer be employing…any apprentices in the future as this just isn't cost-effective" Hairdressing, West Midlands

"I have always employed apprentices until this summer (2024). Unfortunately, the experience over the past few years has been quite detrimental to my business" *Hair & Beauty, South East*

Hairdressers and the high street

The Government has emphasised its intention to develop a plan for small businesses, recognising their importance to urban vitality, particularly on the high street. Further, a recent House of Lords report has emphasised the importance of retail as a vital component of the high street but noted that there is a demand for high streets to become leisure spaces.[31]

Hairdressing and beauty businesses are often among the main drivers of footfall and are somewhat immune to the rise in online shopping. They attract customers and help sustain local retail environments. A recent report by Power to Change found that persistent vacancy rates, which measure the percentage of properties vacant for more than three years, have increased across Britain from 3.7% in 2015 to 5.2% in 2023.[32] The budget appears to have exacerbated these trends for salons, data from Wella reports that December 2024 saw the lowest number of salon openings in the last 2 years. [33] The fourth quarter of 2024 saw an overall loss of 219 salons compared to 44 in the fourth quarter of 2023. These declines are largely ubiquitous across the country, with Wales being the only region to buck the trend with a very marginal increase in salons.

The rise in vacant business premises and a decline in community spaces means that ensuring the survival of businesses such as hair salons is crucial. They enjoy persistent year-round demand that can have a positive spillover impact on the shops and cafes which they neighbour. Active, bustling high streets engenders passive surveillance helping people to feel safer in their local area and supporting the Government's mission for Safer Streets which aims to reduce serious harm and increase public confidence in policing.[34]

[31] Look beyond retail to reverse high street decline, says new Lords report - UK Parliament
[32] Community powered high streets – Power to change (2023)
[33] Local Data Company analysis for Wella (2024)
[34] Gov.uk (2024) Missions and Foundations - Safer Streets

Workers' rights

The UK Government has laid out plans to improve workers' rights and in October 2024, revealed the first details of its Employment Rights Bill. The focus was primarily on strengthening protections for employees and IPSE, the Self-Employment Association, noted that proposals relating to self-employment in the Bill were among the least detailed.[35]

Increasing self-employment in the hairdressing and beauty sector can negatively impact employment rights. Self-employed individuals are often not covered by employment law, meaning they do not receive benefits like sick pay or maternity pay.[36]

The Labour Party has previously noted that there is an ambiguity in the UK's three-tier system for employment status, with people classified as employees, self-employed or 'workers'. They observed that, in extreme cases, the ambiguity has been deliberately used to cut costs, avoid legal responsibilities and contributed to the rise of bogus self-employment.[37] In one such case, a self-employed hairdresser won the right to claim for notice, holiday and redundancy pay at an Employment tribunal as the amount of control over her working practices effectively made her a salon employee.[38]

The Home Secretary has also raised concerns over the extent of illegal working in parts of the beauty sector, highlighting that some employers may be fuelling the trade of criminal gangs by exploiting and facilitating illegal working in the UK.[39]

Overall, the Government's commitment to strengthening workers' rights could provide huge benefits to people working in the hairdressing and beauty sector. The BHC has called for stronger regulation in the sector and to ensure that all workers have access to union representation which can help safeguard vulnerable workers - especially women and those from ethnic minority backgrounds - from exploitation.

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[35] New Employment Rights Bill proves controversial – here's what the… | IPSE
[36] Employment status: Self-employed and contractor - GOV.UK
[37] Labour Party (2024) LABOUR'S PLAN TO MAKE WORK PAY - Delivering A New Deal for Working People
[38] Hairdresser Meghan Gorman wins case over 'false self-employment' - BBC News
[39] Car washes and beauty sector to be targeted over immigration - BBC News

Equality

The hairdressing and beauty sector is a predominantly female sector, being comprised of 84% of females compared to the all-sector average of just 48%. The sector is also much more balanced between full-time and part-time working (46% of the sector) compared to the all-sector average (26%). This is evidenced in Figure 17 below.

Figure 15: Profile of employment in the hairdressing and beauty sector

Hairdressing and beauty sector	Male	Female
Full-time	10%	43%
Part-time	5%	41%

All sectors	Male	Female
Full-time	45%	30%
Part-time	7%	18%

Source: Annual Population Survey (Year ending September 2024)

For this reason, the sector is vulnerable to changes that acutely affect women in work and part-time workers. For example, the Autumn Budget announced a rise in employers national insurance contributions from 13.8% to 15% as well as changes to the national minimum wage. The Institute for Fiscal Studies estimate that this will increase the gross real terms labour cost of a national minimum wage part-time worker by 11%, but 8% for a full-time worker.[40]

The Government Equalities Office found that mothers are more likely than fathers to withdraw from full-time employment after having children and women's progression in the workplace can often be held back by barriers such as a tension between balancing work with care and a shortage of quality part-time work with good wage potential.[41]

Nevertheless, the World Economic Forum found that a fifth of women say that flexible working is helping them stay in their jobs and they also report that a primary benefit of this is feeling less fatigued and burned out. In the same exercise, men also stated they believe flexibility is a key factor in their company's success.[42]

The hairdressing and beauty sector is therefore both unique and vital in offering women opportunities to work part-time which demonstrates the need to protect the employment model to guarantee that flexibility in work.

[40] Institute for Fiscal Studies (2024) Autumn Budget 2024: IFS analysis
[41] Government Equalities Office (2019) Gender equality at work: research on the barriers to women's progression
[42] Despite progress, women are promoted less often than men | World Economic Forum

Conclusion

The findings of this report underscore the critical need for VAT reform in the UK's hairdressing and beauty sector. The sector is a vital contributor to the high streets, providing secure employment and training opportunities, particularly for women and part-time workers. However, the current VAT structure is creating an unlevel playing field for salon owners, exacerbating the challenges posed by rising labour costs and the lingering impacts of the Covid-19 pandemic.

The apparent growth of disguised employment in the sector is likely to be heightening the tax gap in a time of constrained public finances. Disguised employment threatens the financial viability of salon businesses and undermines the quality of employment and training opportunities available to young people entering the workforce.

Their labour-intensiveness means that the current VAT structure places a significant burden on salon owners, particularly those who are VAT-registered, leading to competitive disadvantages and financial strain.

The introduction of a split-rate VAT model, as proposed in this report, offers a viable solution to these challenges. By reducing the VAT rate on labour-costs, the government can alleviate the financial pressures on salon owners, encourage the retention and creation of traditional employment roles, and ultimately enhance the sector's contribution to the economy. This reform would be at least cost-neutral, and almost certainly positive, for the Exchequer and could potentially reverse the decline in VAT registrations, ensuring a more sustainable and equitable future for the UK's hairdressing and beauty industry.

The BHC therefore calls for urgent action to address the affordability issues that have hindered salons' ability to deliver apprenticeships and maintain their workforce. By implementing VAT reform, the government can help ensure the continued viability of high-street salons, protect jobs, and support the future supply of skills in the industry.

Appendix 1: Comparison of taxes paid by a salon versus an independent high-street retail business

	Salon Services	Independent, high-street business
Gross turnover	£1,200,000	£1,200,000
VAT on turnover	£200,000	£200,000
Typical labour salaries %	54.2%	11.6%
Labour cost gross	**£542,000**	**£116,000**
Tax and EE NICS (Wage: £27,301)	**£88,173**	**£18,871**
Tax paid by company ERNI	£57,250	£4,000
Pension paid by company	£16,260	£3,480
Total labour costs	**£599,250**	**£120,000**
Total employment taxes	**£145,423**	**£22,871**
Cost of Goods Sold	**10% / £100,000**	**50% / £500,000**
Gross profit	**£284,490**	**£376,520**
All fixed costs (rent & rates)	£250,000	£250,000
VAT Reclaimable on COGS	£20,000	£100,000
VAT Reclaimable on FIXED Costs (Assuming 40% of fixed costs are applicable)	£20,000	£20,000
VAT Given to Treasury	**£160,000**	**£80,000**
Profit / Loss	**£34,490**	**£126,520**
Profit %	3.45%	12.7%
Total contribution to the Treasury	**£305,423**	**£102,871**

About the British Hair Consortium

The BHC is a working group representing all areas of the UK personal care sector, including:

- The Salon Employers Association which represents 1,900+ VAT registered salons, employing over 20,000 people in the UK;
- Salon Owners United representing 5,700 commercial salon owners across UK;
- The Hair & Barber Council statutory authority who have 5,000+ members;
- The Freelance Hairdressers Association who have 2,000 members;
- The Men's Hairdressing Federation (MH Fed) who have 4,000+ people signed up; and
- The Fellowship for British Hairdressing who have 9,000 subscribers.

About CBI Economics

CBI Economics is the economic consultancy arm of the Confederation of British Industry (CBI). We provide a comprehensive range of services, including independent economic analysis and tailored business surveys. Leveraging our unparalleled policy knowledge, business insights, and economic expertise, we empower our clients to develop compelling and robust evidence. This evidence supports informed decision-making and demonstrates impact on the economy, society, and the environment. Any policy recommendations contained within our independently commissioned reports are not endorsed by the CBI and do not represent the official consensus positions of the CBI's wider membership base.

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