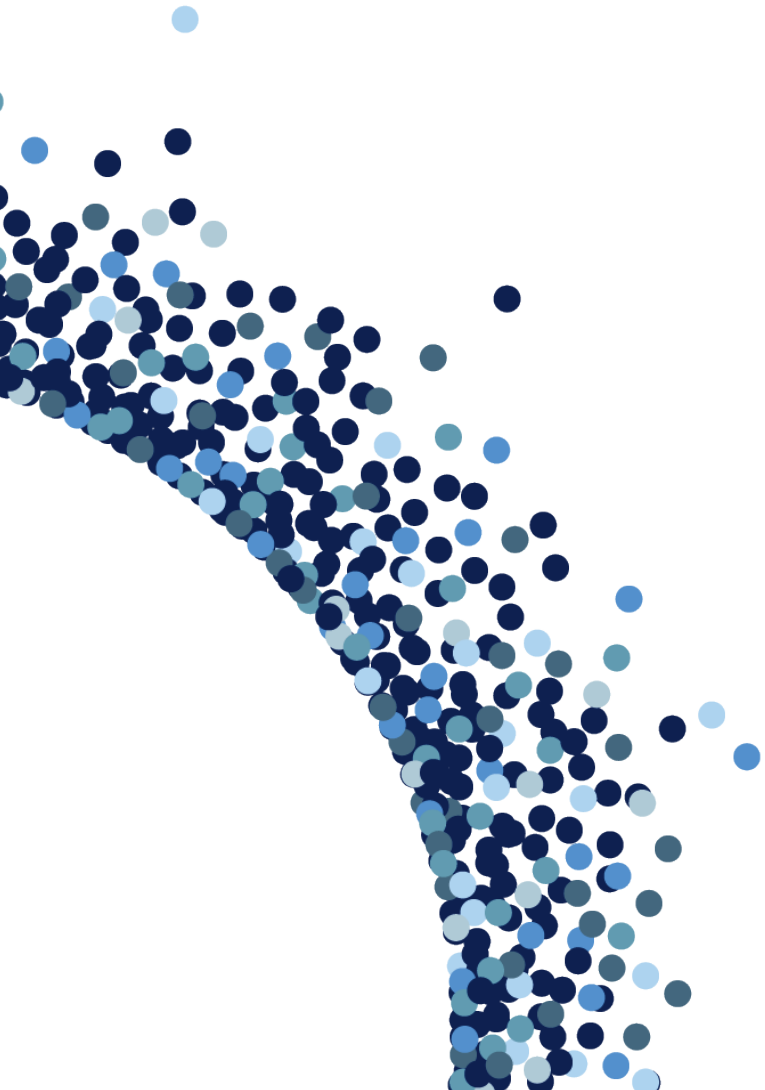
THE MIGRATION OBSERVATORY
AT THE UNIVERSITY OF OXFORD

BRIEFING

The fiscal impact of immigration to the UK



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This briefing provides an overview of research regarding the impact of immigration on government finances in the UK.

Key Points

The impacts of migration on public finances depend on migrants' characteristics, such as their age, skills, and earnings. Some groups, such as people with children, need to earn more to make a net positive fiscal contribution because they incur greater expenditure on health and education.

The precise estimate of migrants' fiscal contribution or cost depends heavily on the methods analysts use. Regardless of the differences in methods, studies typically find that the fiscal impacts of migration represent less than 1% of GDP. Studies also tend to agree that recently arrived migrants have a more positive impact than people who have lived in the UK for longer.

OBR forecasts have generally estimated that higher net migration leads to lower deficits and debt, because migrants tend to be of working age.

The fiscal impact of migration varies by immigration route. For example, official impact assessments in early 2024 projected that restricting skilled work migration would have a negative fiscal impact, while restricting the family members of care worker would have a positive fiscal impact.

Understanding the policy

The UK does not have a single policy or strategy on the fiscal impact of immigration, but there are some policies that explicitly aim to shape migration's impact on public finances.

For example, the No Recourse to Public Funds condition (NRPF) prevents non-EU citizens on work, study, or family visas from accessing most benefits, including Universal Credit or Child Benefit, until the visa holder has been granted indefinite leave to remain (ILR). The government has said that NRPF is designed to prevent fiscal costs resulting from the payment of benefits.

Other policies may also have fiscal impacts or have been justified partly on fiscal logic. These include policies governing work migration, including the minimum salary threshold for skilled workers which increases the likelihood they will make substantial tax contributions. In addition, the Immigration Health Surcharge (IHS), which must be paid by most people applying for work, family, or study visas (some applicants are exempt from the charge, such as applicants for Health and Care visas), effectively operates as an additional tax on temporary visa holders—these workers also contribute to the costs of their use of the NHS in the same way as other UK taxpayers, through the tax system. At the time of writing, in October 2024, IHS stood at £1,035 per year (or £776 per year for students and children). For more information on immigration fees, see our Q&A: Immigration Fees in the UK.

Understanding the policy

The fiscal impact of immigration is estimated by calculating the contributions migrants make to public finances (such as through paying tax) minus their cost to public finances (such as through receiving benefits and healthcare). A positive net fiscal impact indicates that migrants pay more into public finances than they take out (or in other terms, that immigration contributes more to government revenue than it costs in terms of government expenditure).

Contributions to public finances (or 'revenues') include taxes paid directly, such as income tax, National Insurance, and value-added tax (VAT) on purchases, and sometimes shares of taxes paid by UK businesses. Costs to public finances (or 'expenditures') include direct costs such as NHS care; education for migrants' children; cash benefits such as tax credits and pensions; and government spending that is likely to be affected by an increase in population, such as transport and policing. Some studies also attribute to migrants indirect costs, such as a share of the cost of government spending on defence or running central government departments, which are less likely to be affected directly by migration. The studies reviewed in this briefing generally define migrants as those born outside the UK.

Many of the contributions and costs that need to be included in estimates of the net fiscal impact of migration cannot be calculated directly, because the data do not exist or are not publicly available. As a result, researchers estimating fiscal impacts must make many assumptions, which influence the results. For example, four different studies examined in this briefing look at the same groups of migrants during the same period (2001 to 2011) but come to different conclusions because of the assumptions they make about what should be counted as contributions and costs. Rowthorn (2014) provides a useful and accessible discussion of the differences. Nonetheless, all four studies conclude that there is a difference between the contributions made by migrants from the original 14 EU Member States (the EU-15 minus the UK), the newer EU Member States (the EU-8 and EU-2), and non-EU migrants.

A key methodological question is whether to attribute to migrants the cost of educating UK-born children. If the definition of a migrant is an individual born outside the country, then the UK-born children of migrants should be part of the UK-born group. However, these children would not have been in the country if their parents had not migrated in the first place so the cost of educating them results from migration. On the other hand, if migrants' children remain in the UK and later enter the workforce, they will later pay taxes on earnings, and this is not accounted for in the static approaches reviewed in this paper. The treatment of children is complicated further by the existence of children of 'mixed couples', where one parents is UK-born and one foreign-born. Some studies 'split' the children of mixed couples between the two groups.

Another important question when examining the fiscal impact of migration is whether to look at the net cost or contribution of migrants in *absolute* terms—that is, in £ billions—or their net fiscal impact *relative to the UK-born*. In any given year, the relative fiscal contribution of migrants depends in part on the state of public finances (i.e., whether the UK is running a budget surplus or deficit) and government spending decisions. When there is a budget deficit, the average UK resident will present a net fiscal cost. As a result, whether migrants are having an absolute positive or negative fiscal impact does not indicate clearly how they compare to the UK-born. At the same time, relative comparisons at the whole population level are complicated by there being a much higher proportion of retired people among the UK-born. The working-age UK population is in surplus even taking into account government spending on their children.

A key distinction between fiscal impact studies is whether they use analysis that is *static* or *dynamic*. Static approaches compare (1) the contributions migrants make to public finances, against (2) the services and benefits they received, both in a given period of a year or more. The advantage of this approach is that it uses historical data and does not have to make assumptions about the future. The drawback is that it is only a snapshot at one point in time, and so ignores the fact that the fiscal effects of a given migrant group will depend on where they are in their life cycle. For example, young people with no children incur relatively low costs for public services such as health and education, and thus do not need to earn as much as older people to be net fiscal contributors. This means that the estimated fiscal impact of a given group in a given year will depend on factors such as how long migrants have been in the UK and how old they are.

The dynamic approach instead estimates the value of contributions and costs over migrants' entire lifetime. While this approach accounts more fully for migrants' costs over long periods, it requires more assumptions. This includes assumptions about return migration rates, future changes in earnings and employment rates, and future policies on tax and government spending. Dynamic models sometimes fail to capture the costs of educating children of migrants who emigrate before reaching adulthood and who thus never pay UK taxes.

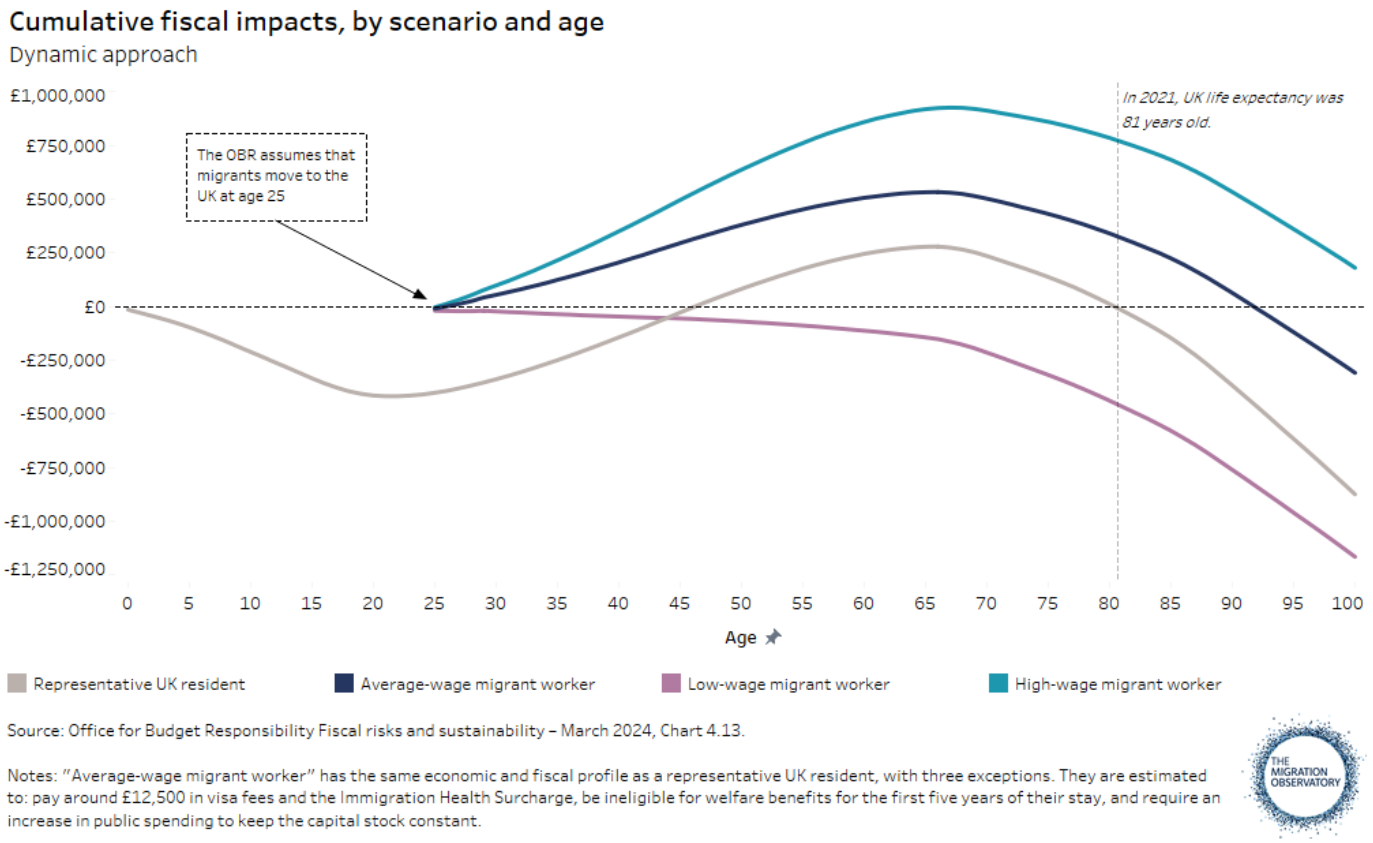
The net fiscal effects of immigration depend on migrants' characteristics

Whether migrants are employed and how much they earn greatly affects their estimated net fiscal contribution. The OECD (2021) compared estimates of net contributions to the tax and benefits system across 25 OECD countries over a 13-year period from 2006 to 2018, and found that the age of migrants (specifically, being of prime working age, i.e., 25-54) was the single most important factor explaining differences in their net fiscal contributions compared to the native-born population. A key reason for this was that migrants in this age group were most likely to be working.

The OECD also found that migrants' skill level was likely to be one of the main determinants of their fiscal impact, because migrants working in high-skilled, highly paid jobs pay more taxes, on average, than migrants in low-wage jobs.

Office for Budget Responsibility (OBR) (2024) projects hypothetical migrants' lifetime fiscal impact, and also finds that earnings are a crucial factor (Figure 1). They find that a migrant arriving at age 25 and earning the UK average earnings has a more positive lifetime fiscal contribution than a UK-born worker on the same salary, because the UK does not pay the cost of education and other public services they received during childhood. However, they found that low-wage workers had a negative lifetime fiscal impact, while high-wage workers had a positive one.

Figure 1



Source: Office for Budget Responsibility Fiscal risks and sustainability – March 2024, Chart 4.13.

Notes: "Average-wage migrant worker" has the same economic and fiscal profile as a representative UK resident, with three exceptions. They are estimated to: pay around £12,500 in visa fees and the Immigration Health Surcharge, be ineligible for welfare benefits for the first five years of their stay, and require an increase in public spending to keep the capital stock constant.

Because children incur higher levels of public spending, migrant households with dependent children need to earn more to make a net positive fiscal contribution. In a series of stylised calculations for different illustrative household types, Oxford Economics (2018) found that a single 20-year old with no children only needed to earn just over £10,000 per year to 'break even' from a fiscal perspective, while a couple with two children—who incur much greater expenditure on health and education—would not become net fiscal contributors until they earned around £45,000.

The overall fiscal impact of migration is relatively small

There is no single 'correct' estimate of migrants' fiscal impact. Different studies make different assumptions, and not everyone will agree on what the best assumptions to make are (see the Understanding the Evidence section, above). 'Dynamic' studies, which consider the fiscal impacts over migrants' entire lifetime in the UK, tend to produce more positive estimates than 'static' studies, which look at the net fiscal contribution over a shorter period. See the 'Understanding the Evidence' section above for more information about these methods.

For example, a study by Oxford Economics (2018) estimated that the average non-EEA migrant in FY 2016-17 presented a net fiscal cost of £1,700, using the static approach. However, it also estimated that the average non-EEA migrant arriving in 2016 would make a small positive net fiscal contribution over the course of their lifetime (of £28,000, net present value), using the dynamic approach. Similarly, dynamic projections from OBR (2024) suggested that a migrant worker who moved to the UK at age 25 and earned the UK average earnings (which is similar to migrants' average earnings) until retirement would contribute £341,000 to public finances if they lived until age 80.

One of the reasons estimated fiscal impacts are more positive under the dynamic approach is that the cost of migrant children's education is expected to be offset by tax on the earnings when they reach adulthood and enter the labour market. Dynamic studies may also assume that a share of migrants leave the UK either during or at the end of their working life, before they incur spending on pensions, benefits, and healthcare in older age.

Table 1 summarises the results of static studies on the net fiscal impact of migrants in the UK. It does not include the (more positive) results of dynamic studies, which are not directly comparable and cover different time periods.

Despite differences in methods, some key points emerge consistently across these studies. First, in all cases the impacts were found to be less than +1% or -1% of GDP. Second, recent migrants made a more positive impact than those who had been in the UK for longer. Third, EEA migrants had a more positive impact than non-EEA migrants before Brexit (when these studies were conducted).

Table 1: Static estimates of the fiscal effects of migrants in the UK (£ billions)

	All migrants and UK born			Recent migrants only	
	EEA	Non-EEA	UK born	EEA	Non-EEA
Oxford Economics (2018)					
FY 2016/17 (1 year)	+£4.7b	-£9.0b	-£41.4b		
Migration Watch (2016)					
FY 2014/15 (1 year)	-£1.1b	-£15.6b	-£87.8b	£0.0	-£6.2b
Dustmann and Frattini (2014)					
1995-2011 (17 years)	+£4.4b (+£259m pa)	-£118b (-£6.9b pa)	-£591b (-£34.8b pa)		
2001-2011 (12 years)			-£617b (-£51.4b pa)	+£20.2b (+£1.68b pa)	+£5.2b (+£0.43b pa)
2001-2011 (A10) (12 years)				+£4.9b (+£0.41b pa)	
2001-2011 (Rest of EEA) (12 years)				+£15.3b (+£1.28b pa)	
Rowthorn (2014)					
2001-2011 (12 years)				-£0.3b (-£25m pa)	-£29.7b (-£2.48b pa)
Migration Watch (2014)					
1995-2011 (17 years)	-£13.6b (-£0.8b pa)	-£134.9b (-£7.94b pa)	-£565b (-£33.2b pa)		
2001-2011 (12 years)	-£13.4b (-£1.12b pa)	-£116.8b (-£9.73b pa)	-£586b (-£48.8b pa)	-£0.25b (-£20.8m pa)	-£27.17b (-£2.26b pa)
Dustmann and Frattini (2013)					
1995-2011 (17 years)	+£8.8b (+£0.52b pa)	-£104.1b (-£6.12b pa)	-£605b (-£50.4b pa)		
2001-2011 (12 years)	+£9.0b (+£748m pa)	-£86.8b (-£7.23b pa)	-£624b (-£52b pa)	+£22.1b (+£1.84b pa)	+£2.9b (+£242m pa)

One of the main reasons non-EEA migrants were consistently found to make a negative net fiscal contribution is because they were more likely to have dependent children, leading to higher spending on education and increased family benefit and tax credit payments. As discussed above, these static estimates do not consider the contribution that children would make to the public finances in the future if they enter the workforce and pay taxes.

The fiscal impact estimates produced by studies are dependent on the time period considered, because the composition of migrant inflows and the way the immigration system is managed changes over time. For example, in recent years the cost of the UK's asylum system has increased substantially as the asylum backlog has risen—a 2023 data release from the Home Office estimated that the cost of housing asylum seekers in hotels stood at around £8 million per day. However, most studies pre-date the backlog and thus do not consider these costs.

Office for Budget Responsibility forecasts typically find that higher net migration reduces government borrowing

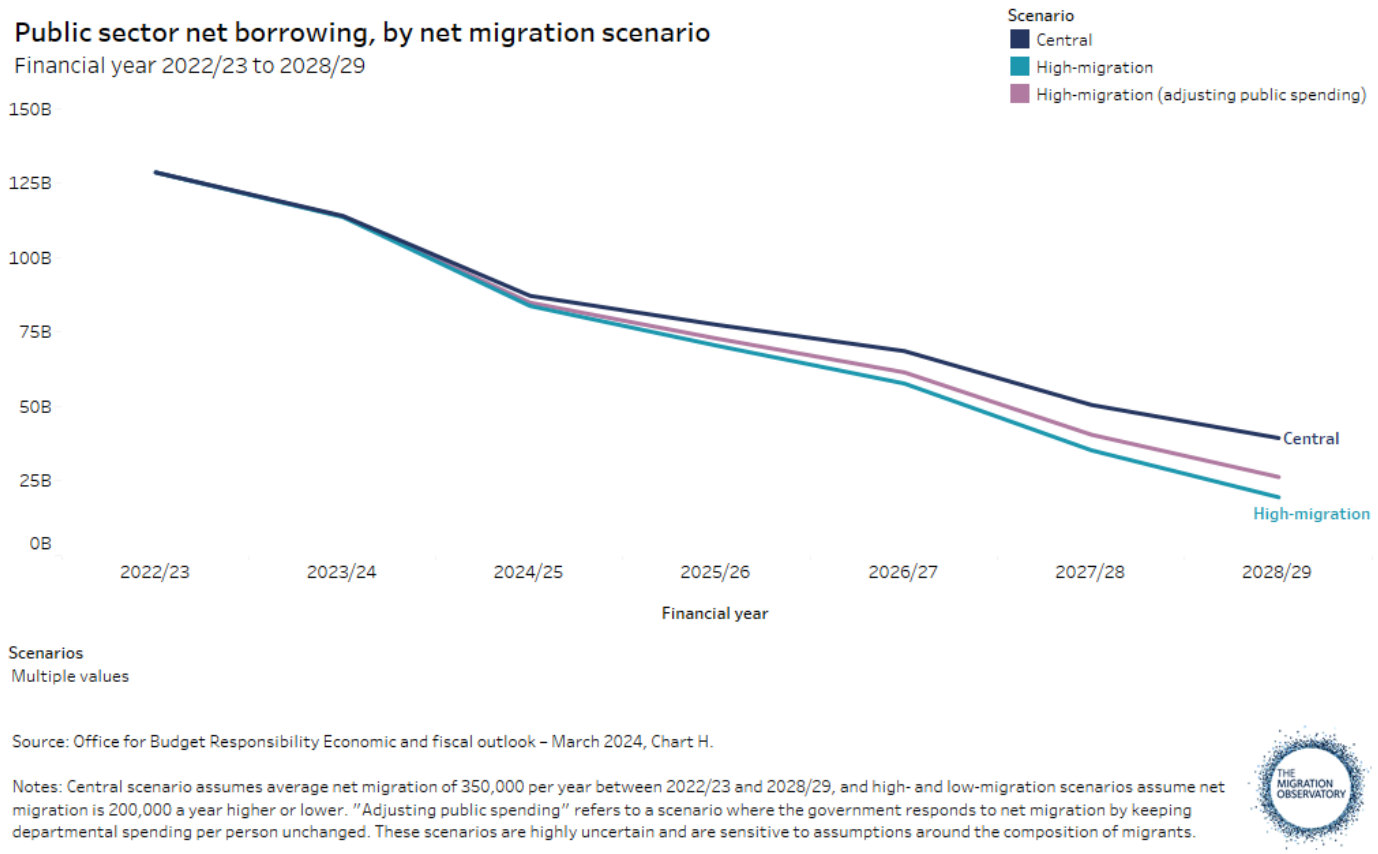
OBR forecasts have generally estimated that higher net migration leads to lower deficits and debt, although not enough to fundamentally change the UK's fiscal outlook. In 2023, for example, it projected that by 2072/73 the primary budget deficit (i.e. excluding interest payments on debt) would be 1.1% of GDP lower in a scenario where annual net migration was 245,000 rather than 129,000. It projected that higher net migration would reduce debt as a share of GDP by 30 percentage points by 2072/73, but would not prevent debt from rising from around 100 to 300 percent of GDP. One of the key drivers behind this result is that incoming migrants are more likely to be of working age than the population in general and therefore are more likely to be working and contributing to public finances.

However, OBR noted in an earlier analysis, from 2013, that over an even longer time horizon these migrants would also retire and add to age-related spending pressures. It concluded that "higher migration could be seen as delaying some of the fiscal challenges of an ageing population rather than a way of resolving them permanently".

The OBR also produces short-term forecasts. In 2024, it forecasted how different scenarios of net migration would affect net government borrowing over a short (5-year) period, between the financial years 2024/25 and 2028/29. The OBR forecasted that higher net migration would lead to a net reduction in borrowing over the five-year period, although some of this reduction resulted from the fact government spending plans did not envisage increasing spending more on public services to reflect the higher population.

The OBR noted that if the government adjusted spending on public services to reflect the size of the population in the high-migration scenario, it would require an additional £6.1 billion of spending in 2028/29. In other words, the higher tax revenues generated by the additional migrants would be partly offset by higher spending on public services.

Figure 2



Source: Office for Budget Responsibility Economic and fiscal outlook – March 2024, Chart H.

Notes: Central scenario assumes average net migration of 350,000 per year between 2022/23 and 2028/29, and high- and low-migration scenarios assume net migration is 200,000 a year higher or lower. "Adjusting public spending" refers to a scenario where the government responds to net migration by keeping departmental spending per person unchanged. These scenarios are highly uncertain and are sensitive to assumptions around the composition of migrants.

The fiscal impact of migration varies by immigration route

Migrants come to the UK for different reasons, including work, study, family and asylum. Migrants coming through different immigration routes have different characteristics, and this will affect their fiscal impacts. For example, people migrating to the UK for work have the highest employment rates, while refugees have lower employment rates and also earn less. Visa categories where workers have higher earnings, come without children, or come for short periods are expected to be more fiscally beneficial, based on the research findings cited above.

Studies on migrants' fiscal impact rarely group people by visa route, even though this analysis would be most relevant to policy decisions. However, official impact assessments (IA) of policy changes sometimes assess the impacts on public finances. These assessments are even more uncertain than the fiscal estimates above and require strong assumptions about how migrants, businesses or families will respond to policy changes.

Table 2 shows the baseline estimates from a range of recent impact assessments. While the Impact Assessments have typically found that policies leading to higher levels of work or study migration have positive net fiscal impacts in the short run, this is not always the case. For example, the decision to restrict visas for care workers' dependants in 2024 was expected to generate an average net fiscal benefit of £3 billion per year over 10 years (in 2024/25 prices). This was on the basis that the children of migrant care workers would be prevented from coming to the UK, leading to lower levels of public spending on education and healthcare.

The fiscal impacts of these immigration routes are small compared to overall public spending, which was estimated at around £1,200 billion in the 2023/24 financial year.

Table 2: Estimated economic impact of migration policy changes, from government impact assessments

Policy change	Fiscal impacts			Wider economic impact
	Benefits	Costs	Net	Net
Introduction of Hong Kong (BNO) visa				
5 years (2020/21 prices)	£6.80 billion (£1.4bn per year)	£4.15 billion (£0.8bn per year)	£2.65 billion (£0.5bn per year)	£2.65 billion (£0.5bn per year)
Introduction of Graduate Route visa				
10 years (2021/22 prices)	£15 billion (£1.5bn per year)	£6.9 billion (£0.69bn per year)	£8.1 billion (0.8bn per year)	£18.6 billion (£1.9bn per year)
Restrict visas for most international students' dependants				
10 years (2024/25 prices)	£22.08 billion (£2.21bn per year)	£17.69 billion (£2.26bn per year)	£4.39 billion (£0.4bn per year)	-£0.55 billion (£55m per year)
Restrict visas for care workers' dependants				
10 years (2024/25 prices)	£59.87 billion (£6.0bn per year)	£30.08 billion (3.0bn per year)	£29.79 billion (£3.0bn per year)	£29.79 billion (£3.0bn per year)
Increase Skilled Worker salary thresholds				
10 years (2024/25 prices)	£15.1 billion (£1.5bn per year)	£1.53 billion (£0.15bn per year)	£13.57 billion (£1.4bn per year)	-£25.51 billion (-£2.6bn per year)

Source: Migration Observatory analysis of Home Office Immigration Impact Assessments.

Notes: Fiscal impacts refer to direct economic costs and benefits for the UK government, including any impacts on tax revenues, public service provision, visa fee income, and visa processing costs. Wider economic impacts refer to the Net Present Social Value, which comprises fiscal impacts and impacts on third parties, such as businesses and universities. Estimates are highly uncertain.

Evidence gaps and limitations

Estimates of the fiscal effects of immigration have many limitations. For example, the data used to estimate migrants' earnings are often limited. The studies reviewed in this briefing often rely on the Labour Force Survey (LFS) to identify the characteristics of migrants, and this dataset has many limitations.

In addition, there is almost no data on migrants' use of public services such as healthcare. As a result, most studies simply assume that the cost of public services for migrants is the same as the cost for a UK-born person of the same age and sex. Yet migrants have different characteristics from UK-born individuals and as such may use public services differently. For instance, migrants may use services such as translation services in schools and hospitals that are not typically used by the native-born population. One difficulty in addressing this point is that there is no systematic collection of the user's migration status at the point of delivery of many public services.

On the other hand, some migrants deliver public services as well as using them. It may be possible to deliver services in the public sector at a lower cost because of the availability of migrant workers. However, it is very difficult to quantify these contributions, as doing so would require strong assumptions about how public services would have been staffed in the absence of migration.

Impact assessment estimates are highly uncertain due to their reliance on several assumptions, and these assumptions do not always come to pass. For example, in 2020 the government calculated that the introduction of the Skilled Worker visa route would have a total fiscal cost of £2.4 billion over its first ten years of implementation. This figure was based on the assumption that fewer EEA migrants would come to the UK, while around 50,000 non-EEA migrants would arrive on Skilled Worker visas annually between 2020 and 2030. However, this substantially undershot actual skilled worker visa grants—201,000 were granted to non-EEA main applicants in 2023 alone. Part of the difference can be explained by policy changes made after the route was introduced, such as making care workers eligible in February 2022.

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The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.

COMPAS

The Migration Observatory is based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford. The mission of COMPAS is to conduct high quality research in order to develop theory and knowledge, inform policy-making and public debate, and engage users of research within the field of migration.
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