

In Place of Cuts: Tax reform to build a fairer society

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Compass have published a new report this morning. Entitled [‘In Place of Cuts: Tax reform to build a fairer society’](#), it puts forward a comprehensive analysis of the UK Tax system and offers a straight forward set of proposals which would start to make it fairer. The report was written by George Irvin, Dave Byrne, Richard Murphy, Howard Reed and Sally Ruane.

Polly Toynbee covers the report in this morning’s Guardian, saying:

Today a detailed study by economists and tax experts spells out how tax reform could take the brunt of raising the funds to cut the deficit. Compass, the centre-left pressure group, has again come up with the new thinking that Labour's high command seems to lack. In Place of Cuts — whose authors include Howard Reed, the former chief economist of the Institute for Public Policy Research, and Richard Murphy, of Tax Research UK — offers a plan to rebalance the tax system so that the rich pay a fairer share, and enough cash is raised to avoid frontline cuts.

The tax system has become more regressive in the last 30 years, so that the poorest tenth pay 46% of their earnings in tax while the richest tenth only pay 34%. That tax shift coincided with a widening gap in earnings: the richest fifth of households take 51% of national income while the poorest fifth receive 3%. By raising the top tax rate to 50% for earnings over £100,000 and uncapping the top rate of national insurance, the balance can be reset.

Other necessary reforms would set capital gains tax back where it was under Nigel Lawson, at the same rate as income tax — to stop the rich rebranding much of their income as [capital gains, only taxed at 18%](#). That is a key reason why on average they pay only 34% tax, and not the 40% they should. To help the lowest paid, the 10p tax band would be restored and the basic rate put back to 22%. Non-doms could no longer pretend to live in Monaco while living in the UK for four working days a week. A tax on financial transactions, tougher tax-avoidance measures, and the axing of Trident, ID cards, aircraft carriers and fighter planes, brings total savings to £47bn a year. Apologies for this crude summary: don't post objections until you read the technical

details for yourself to see how this can be done.

The net result is this: these reforms would raise enough over the next four years to pay down as much of the deficit as necessary. At the same time, 90% of taxpayers would be better off, while the top 10% would contribute a fairer share of their incomes. It does hit top-rate taxpayers hard — the cumulative effect of these changes will add 12.6% to their tax bills, most of that paid by the top few per cent.

As importantly Polly asks:

Is that politically feasible? Yes, if the Labour cabinet has the nerve to break with everything it has done so far. New exigencies require new policies, and it's time to break with the past. There are no votes to be lost by this. Few of the top 10% of earners vote Labour — and their complaints would be drowned out by the other 90%.

Politically, boldness such as this would leave Cameron and George Osborne again defending the wealth of the very few against the interests of the many. Would most people prefer cuts in schools, hospitals, Sure Starts, police and just about everything else? Believe not a word the parties say about protecting frontline services: the cuts they plan are deeper than anything before and can't be confined to "bureaucrats" and "quangos". They will hurt everyone, they risk the recovery, and will cause another wave of unemployment.

And Polly has noted what we have said and others have yet to pick up on:

Among the startling figures in this report is the true cost of public sector cuts. Assuming a 10% cut in the 5 million public employees, 500,000 would lose their jobs. The sums here show that the gains are small compared with the cost to the state of added unemployment — and that's without the upfront cost of redundancy pay.

This is the reality of Conservative politics that we are facing.

And as Polly notes — please read the report before commenting. Informed debate is much the best way of getting to answers, which is precisely why I am involved in studies of this sort.

Thanks to Compass, and my co-authors, with whom it has been fun to work.