

Clegg, tax, and missing the point

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[According to the Guardian](#) (and I hope they'll forgive me for borrowing this summary) Nick Clegg's proposals on tax can be summarised as:

Nick Clegg wants the government to go "further and faster" in raising the personal tax allowance to £10,000. That was the main message in the speech. The government is committed to raising it to £10,000 by 2015, and it was assumed it would do it in stages over the next three years. The Lib Dems say Clegg is not trailing a policy that has already been agreed, but if George Osborne does decide to move faster on this issue, it will look as if he is bowing to pressure from Clegg. If Osborne ignores Clegg's appeal, the Lib Dems will be able to argue that "bad" Tories are thwarting "good" tax-cutting Lib Dems. In that sense it was a safe speech to make.

All this was briefed last night. But today we heard a bit more about where Clegg would like to find the money to fund tax cuts for middle-income families. Here are some points of interest.

- **Clegg said the current tax system was "unfair and out-of-whack".**
- **He seemed to rule out direct income tax increases for high earners.** Citing the OECD, he said increasing marginal tax rates on work would "simply drive many of the rich away to other countries".
- **He said the government should be doing more to tackle tax avoidance.** The Treasury has already published [a report from Graham Aaronson advocating a general anti-abuse rule \(GAAR\) to restrict tax avoidance](#) and Clegg hinted that the government will adopt this proposal. He also said the government needed to be tougher in other areas too, "not least stamp duty avoidance, particularly on higher end property sales and the transferring of assets and income abroad to avoid UK tax".
- **He called for more green taxes.**
- **And he called for higher taxes on "serious, unearned wealth".** He renewed his call for a mansion tax, but his call for the government to be "much more ambitious" in taxing "the eyewateringly lucrative assets so often hoarded at the top" implies that he would consider other wealth taxes like, for example, a tax on land.

Interesting stuff, but there are big problems.

The £10,000 personal allowance will cost well over £10 billion a year to deliver. If restricted to basic rate taxpayers maybe the cost is £11 to £12 billion. It's a useful stimulus - but there's not a shadow of a doubt that a VAT cut to 17.5% would benefit the poorest more and be substantially fairer. It would also reduce inflation, restore the value of earnings and have much higher political impact. So why has he chosen the wrong tax cut? The one he's picked is almost certainly regressive.

Will it give him a benefit? I doubt it: people are worried about pay of course, but I think they're more worried about job security, schools, the NHS, pensions, working till they drop dead, their children's prospects and much more. If people really believe in the cuts agenda (and we're told they do) I think they will wonder why Clegg is now suggesting increasing debt. And candidly, I think they will think they're being bought off. As he's trying to do.

But let's move on from this problem that he's going to make the UK tax system more unfair by pursuing this proposal and look at how he's going to pay for it.

Graham Aaranson's GAAR is very weak - it tackles only the most abusive schemes and few will come in that category. It is a step in the right direction - but it will raise peanuts as drafted and is a gift to the Coalition, but the profession knows it will do little, which is why they have accepted it. So do not expect any real change in behaviour there.

Stamp duty avoidance measures will not raise a billion - and probably less. It's important, but it's no panacea. Tax haven attacks could do much more. I await to see what he proposes. Whatever it is, he's trailing Ed Miliband here now. And that's a gift to Labour, however important it may be as an issue. I could raise that much - but nothing the Coalition would accept will. Clegg is on difficult ground here - but if he wants to call I can tell him how to find the money - no problem at all.

Green taxes are regressive. I'm green and I don't buy green taxes. Green is delivered by grants, legislation and direct market intervention. There is no room for regressive nudges.

And as for taxes on wealth - yes I but that. But is he really going to get a serious inheritance tax in place when Osborne is Chancellor. There's not a hope.

So this is a poorly thought out, regressive tax package that's little more than a bribe that won't boost the economy or relieve the stress of those with profound concerns in the squeezed middle.

Not a good day's work Nick. Sorry, but it's no more than a 2 out of 10.