

Labour and tax: the policy battles begin

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Labour published the following press release late last night. Given how significant tax will be in the next election, and because this represents an opening shot in that debate, I think it fair to publish it in full. I will comment on it later.

Labour will next week publish proposals to tackle tax avoidance and deliver fairness in the business tax system.

This will be one of the four principles which will underpin Labour's approach to business tax reform and supporting growing businesses — the others being promoting long-term investment and competitiveness, supporting enterprise and innovation, and simplifying the system.

Ed Balls MP, Labour's shadow chancellor, and Shabana Mahmood MP, Labour's shadow exchequer secretary to the Treasury, will publish the proposals following wide-ranging consultation with business and other experts.

Labour is also tabling an amendment to the Finance Bill next week urging the government to act to close the eurobonds loophole, which has been estimated to cost up to £500m a year in lost revenues.

Ed Balls MP, Labour's shadow chancellor, said:

"At a time when working people are facing a cost-of-living crisis and the deficit is high, it's vital that everyone pays their fair share and we restore public trust in the tax system.

"High profile cases of tax avoidance have undermined both public trust in company taxation and also hit businesses who play by the rules and pay their fair share.

"The next Labour government will act to tackle tax avoidance including by closing loopholes, increasing transparency and ensuring we have tougher independent scrutiny of the tax system.

“George Osborne is failing to tackle tax avoidance. The most recent figures from HMRC show that the amount of uncollected tax in our economy — the ‘tax gap’ — went up last year. This isn’t good enough, so Labour will make reversing this trend and narrowing the tax gap a priority for HMRC.”

Labour’s approach to tackling tax avoidance will include:

- **Closing loopholes such as the “Quoted Eurobond Exemption”** which is used by some companies to shift profits out of the UK. HMRC themselves have identified the problem, but have failed to act. Those businesses legitimately using the exemption to obtain finance from international bond markets would be able to continue to do so. But those who use it as a loophole to move profits to connected companies in tax havens will be prevented from doing so. Labour is tabling an amendment to the Finance Bill next week urging the government to act on this loophole, which has been estimated to cost up to £500m a year in lost revenues.
- **Increasing transparency in the tax system**, so that it is clear who owns firms and how much they are paying in taxation. As the CBI’s statement of tax principles says, increasing public understanding can build public trust. This must include tax havens. Labour will require those UK Overseas Territories and Crown Dependencies who are dragging their heels to publish the names of beneficial owners of companies.
- **Tackling dormant companies** which can be used to avoid filing Corporate Tax returns and so trade for up to five years without paying tax. Labour will require the annual confirmation of dormancy and explore the possibility of banks automatically informing HMRC when there is activity in supposedly-dormant accounts.
- **Encouraging stronger independent scrutiny of the tax system** and the government’s efforts to tackle tax avoidance by affirming and strengthening the powers of the National Audit Office to scrutinise tax reliefs and, in particular, where they are abused to avoid tax. The Chancellor and the Chief Executive of HMRC should also be expected to give evidence to the Treasury Select Committee each year on the government’s efforts to tackle tax avoidance and evasion and the progress made on reducing the tax gap.
- **Ensuring developing countries are fully involved in international efforts to tackle tax avoidance** such as the OECD’s Base Erosion and Profit Shifting project. Too often, the developing countries that are directly harmed by tax avoidance — such as stripping profits out of countries where natural resources are extracted — do not have a seat at the table when decisions are made on global reforms.
- **Tackling disguised employment in the construction industry** by finalising the proposals Labour was developing in government to deem construction workers as employed for tax purposes if they meet criteria which most people would regard as obvious signs of employment.