

Please not another increase in the personal allowance

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I have been asked to explain why I oppose the Lib Dem policy of increasing the personal allowance to £12,500 a year from its current level of £10,500 per annum, so I will.

There are numerous reasons for objecting to this policy. This first is that it's simply misguided, mislabelled, or both. The Lib Dems insist that it is their intention to take people out of tax. They do nothing of the sort by increasing the personal allowance. Income tax is, for the record, about 27% of all tax paid in the UK. For those on lower income it is a much smaller part of their overall tax bill than that. To say that removing a person's income tax bill takes them out of tax is just plain straightforwardly wrong or deliberately and blatantly misleading. It does nothing of the sort, most particularly when the National Insurance threshold which will affect many of the people involved kicks in at £7,956 a year. Since NI at 12% is in the income bands we're talking about a bigger liability overall for many than income tax the suggestion made is even more inaccurate. This reveals this policy move for what it is - which is gesture politics.

Now I am not unaware of the appeal of gesture politics. Symbolism is important. But this is a very poor symbol: when it is so obviously not true anyone can see that this is not a gesture but is instead a lie then symbolism definitely fails.

But is this good tax policy anyway? Clearly not if the aim is to take the lowest paid out of tax. The benefit of this change does in theory go right across the range of taxable income. This is why the Institute for Fiscal Studies has, I gather, suggested it may cost £12.2 billion a year. This is not the result of rocket science on their part. This is a saving of £400 a person (the £2,000 band increase at 20%) for 30.5 million taxpayers. That figure is not quite right of course. Those earning over 100,000 do not have the benefit of a personal allowance (although I think they should, but at basic rate only) and there will also be those with taxable income between £10,500 and £12,500, (who numerically are likely to [exceed fivefold](#) those earning over £100,000 a year), who will not get the benefit of the full 400. What that makes clear are two things. The first, is that this change is only of marginal benefit to those it is supposedly most intended to help, who are on low pay, and secondly, it helps many others a lot more. This is a scatter gun

approach to tax policy at a time when money is supposed to be scarce. That makes it an extraordinarily poor policy instrument.

Third, if the intention is to restrict the benefit of this change to those who are on basic rate tax then, inevitably, the threshold at which higher rates of tax must come into play has to be reduced so that more of the population then pays tax at 40%. This is politically unpopular, and as a consequence much of the gain that the policy supposedly delivers is lost.

But, most important of all, this policy will have no impact at all upon the approximate 10% of the population who earn less than £10,500 a year, and only marginal impact upon the further approximate 10% of the population who earn between £10,500 and £12,500 a year. The 20% of the population who are, therefore, supposedly most intended to benefit from it, simply do not, or only do so to limited degree. What this then means is that this policy will, inevitably, not help those on the lowest income at all, but will help those on higher incomes, and that can only increase inequality in this country. That makes this an absurd tax policy at this time.

Is there a better and more useful way to spend approximately £12 billion of money in that case? The obvious answer to that is yes. First of all, this sum could prevent all further cuts in social security spending. It could also, at present, help alleviate some of the most egregious changes to existing policies in this area, such as the bedroom tax and the wholly unnecessary delays in paying benefit plus the policy of sanctioning far too many people who are making benefit applications which are entirely unreasonably withheld from them.

If the Lib Dems want to help those on low incomes they should design policies targeted at this group. What they are instead doing is saying that they are helping the low paid when they are in fact doing nothing of the sort and the benefit of this cut will go to those on higher levels of income. That may be their aim, but it is not what they are saying, and it is that lack of transparency about the policy that I find particularly offensive.