Funding the Future

Labour really does need to work out tax devolution

Published: January 15, 2026, 12:42 pm

The Guardian has reported:

Labour is to consider radical options on devolution that would include giving local authorities some power over VAT and income tax, a shadow minister for communities and local government has said.Steve Reed said there was a clear financial case for faster devolution of powers, including greater local control over taxation.

In a speech to the Local Government Association, Reed said Labour would look at devolution of education, welfare, housing, health, and infrastructure. But, more significantly, the party would examine devolving further fiscal powers, including a "need to look at localising elements of VAT and income tax".

The MP for Croydon North also said the party had to "look too at a land use tax" to encourage owners to use land for socially beneficial purposes and put a stop to speculative land banking.

Let me be clear, I am delighted that Labour is looking at the use of land value taxation. That is overdue by any party.

But proposals to devolve income tax and VAT to localities is a nightmare. I hope, very soon, to publish a technical explanation for my concerns about tax devolution but let me just address these suggestions now.

First, to suggest we have room for regional variation in VAT is absurd. That's partly because VAT is EU law, in essence, and has to work within EU agreed parameters.

Second it is because VAT is thought to be a transactions tax, but actually only works as a system as a whole. The right of a trader to reclaim the VAT charged to them is fundamental to the system. It is already complicated when the UK has got standard, reduced, zero and exempt rates. Add in local variation and the cost to business of administering VAT will sky rocket.

Then there is the issue of tax abuse. We have already seen the Channel Islands used in

the recent past to exploit VAT loopholes. And there are extensive questions about whether Amazon and eBay comply with UK distance selling laws on VAT. Add in local variations and each time goods move into and out of an area as small as a county with its own VAT rate important export considerations might arise. And, as a matter of fact, most tax abuse takes place at boundaries, whether real ones as in goods crossing them, or artificial ones, as in so called distance selling by the likes of Google, or wholly taxation ones created by changing tax rates that give tax abusers the chance to arbitrage tax arrangements. Local VAT would be the perfect way to provide endless opportunity for such abuse. It is a nightmare in the making.

And the local VAT offices that would be required to undertake many more checks to ensure such schemes might work are all being closed. Technically the capacity to deliver such variations is being destroyed by HMRC.

The same nightmares exist with local income taxes. I have reservations about varied income and corporation tax rates in Northern Ireland and Scotland. Introduce that more widely and you deliver, in the first instance, the opportunity for Kensington and Chelsea to seriously reduce the top rate of income tax for some of the wealthiest people in the country.

Second, you again open massive game playing opportunities for tax abusers.

Third there will be complexity beyond imagination.

Fourth, there will be no local resources or expertise to check all this.

And last tax competition will become rampant at potential cost to the very services this is meant to help.

I really do think a lot of politcians should be reading The Joy of Tax so they understand why tax systems have to stand or fall as a whole; second why they aren't even the revenue raising mechanisms most think they are as they are actually really tools of macroeconomic policy and third why, in that case, localisation does, with regard to many taxes, make no sense at all.

And that is, if anything, most especially true of VAT and income tax rates.

If Labour is really thinking about this I have some advice: say the consultation is closed now and they are not going to do it.