

The UK tax system is a mess but it could be sorted

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Paul Johnson of the Institute for Fiscal Studies has written an article for the FT this morning that says the [UK tax system is a mess](#). For once I have to agree he's right. But there is a problem with this analysis. It lacks ambition.

He suggests that the tax system is a mess because it does not tax capital, and housing wealth in particular, sufficiently. And, he argues, pensions and ISAs now create perverse tax incentives that are deeply unjust intergenerationally.

It is hard to dispute this, but Johnson makes no real prescription for change. Nor does he look beyond this very particular issue. So let me go where he has not gone and say what needs to be done to make the UK tax system work.

First, it needs to be funded. HMRC needs to have the resources to collect tax from all who owe it. A level playing field where everyone who owes tax pays it is the prerequisite of social justice, fair trading and economic success. As Turkey is showing, the latter is especially important. No country can have macroeconomic success without collecting the tax due to it, and the UK can't be bothered to do that right now. This is especially disastrous for honest small business who are undermined by this policy. And do not doubt it is a policy. Investing in fair and appropriate tax collection is the most pro-business tax policy a government can run.

Second, we need more progressive income tax rates. This can be created, in part, by removing the absurd lower rates on higher incomes in the national insurance system, because NIC is just another income tax,

Third, the fact that NIC is only a tax on labour has to be corrected. When capital is undertaxed in every way this is absurd. So, anyone with investment income of more than £5,000 a year should be subject to an additional tax rate of 15% on the excess to level the playing field. Pensioners should have a higher allowance, but not be exempt above UK average earnings. Botched up measures, such as the dividend tax, should go as a result.

Fourth, council tax must be reformed. A revaluation would be a start. So would more higher rate bands help. Lower rates on lesser valued housing must be introduced. Land value tax should follow. Those mainly living on benefits should not pay.

Capital gains should be taxed as income. A small annual allowance should be used to avoid admin complexity, but that is it.

Capital gains should apply to houses on last disposal without reinvestment. This will usually be on the second death in a relationship that has owned property. Rules to cover earlier disposal will prevent abuse.

Inheritance tax needs radical reform. Many reliefs need to go. Most are abused. Bands should be progressive.

Many income tax reliefs also need to go. Pension and charitable tax giving reliefs need to be at basic rate only. The idea that we subsidise savings has to be consigned to history. Savings serve little macroeconomic purpose and providing tax breaks for the wealthy is socially unjust.

Corporation tax needs to be reformed. Small companies should have their rate aligned with the basic income tax rate. Dividends should be subject to an investment income tax, as noted above.

Large companies should pay a corporation tax premium over small business as they enjoy massive market advantages that they need to compensate for.

Large business should be taxed on an apportioned part of their worldwide profits to stop the artificial game playing with tax haven arrangements.

Payments by businesses to tax havens where economic justification cannot be proven by them should not be subject to tax relief in the UK until an apportioned tax base is introduced. The burden of proof must be on the companies.

In tax avoidance, a general anti-avoidance provision should be introduced and the burden of proof should be on the taxpayer to show that their arrangements had a commercial and not a tax avoidance motive when what appear to be artificial structures are used.

VAT exemptions on activities that appear to most attract spending by those with wealth, such as private education and healthcare, should be ended.

The banking industry needs to be subject to a financial transaction tax on all flows to compensate for the lack of VAT paid by it. This would be progressive, and at very low rates for most UK households, but should rise in rate as flows increased. This tax should be charged to businesses and replace business rates. It would as a result charge large monopolies the most. It would level the playing field with online companies. Those

companies and individuals seeking to move accounts out of the UK would be assessed to an additional UK income tax instead at an overall higher rate.

Additional revenues raised should be used to lower tax rates, most especially for those with lower income. This is not a plan to increase tax rates: it is a plan for a better tax system. All should gain from it. This means that in a nutshell this is a plan for tax reform that could really make the UK tax system, and its economy as well as its social structures work better.

It's time the IFS was saying things like this. Most certainly it could be elaborated. And tweaked. but the principles on which change should be based are clear. It's time for them to be heard across the spectrum.