

We need tax increases now - but we need tax cuts that a...

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I just posted this thread on Twitter in response to growing Tory calls for no tax increases now:

Tories are now saying there should be no tax rises this year. Overall, I agree. Right now we don't want overall tax increases taking demand out of a fragile economy. But that doesn't mean no tax increases. It means we need tax increases and tax cuts. Let me explain in a thread.

Tax is not all about raising revenue. Far from it, in fact. We now know that government can spend without taxing: the last year has proved that, for good. But that should mean that we also understand that tax has other important roles too, like tackling inequality.

Inequality has always been significant in the UK. And Covid has made it worse. There has been a dramatic increase in unemployment. Many on furlough are on less than normal pay. And many self employed people have been hit very hard. But others have seen their wealth increase.

We know why some have seen their wealth increase. When a government runs a deficit it's an accounting fact that someone else must run a surplus: the rules of double entry require this. This is, in fact, the only book balancing that is of importance when looking at gov't accounts.

And the government has run a deficit. It might be £400bn this year. To fund this (although the Bank of England denies it) the Bank's bought £290bn of gov't bonds between March and December 2020, pumping that much newly made electronic money into the economy as a result.

By chance the chief economist of the Bank of England has said that he thought savings had increased by at least £250bn during lockdown. There's a good chance he underestimated by £40bn, I'd say. The overall number will match the deficit and the QE that is funding it.

But that's an aggregate sum. In other words, that's the savings of all of us, added

together. But that's not the whole picture. Because some in the country will have saved more than others. And as we also know significant numbers of people will now be borrowing to make ends meet.

Some of the borrowing caused by the Covid crisis will be new loans. Some will represent the running down of savings. Much will be informal. It will also be rent arrears, utility bills unpaid, and credit cards maxed out. The interest rate due on those borrowings is incalculable.

What that means is that the lucky ones have saved more than £290bn. Others are in much more debt to the same amount. Because, again, that's what the accountancy of double entry always, ultimately, means. The Bank of England have underestimated savings by ignoring new borrowing.

Think about it. Overall, the best off will be £400bn richer this year, at least. And at the same time millions of people in this country will be suffering the anxiety of increased debt. And all because of Covid. Never, ever, presume that the world is fair. It isn't.

This is what the Tories want you to ignore when they say no tax increases now. And we shouldn't do that. We need increases in tax now because there is a massive, unearned, Covid gain in our economy that is creating inequality that is going to be corrosive in the long term.

Some of that gain is to be found in companies that have done well out of this crisis, just when other companies have been forced to the brink of oblivion. More is in speculative gains. Some of that will be in the City. And much of this will simply be increased personal savings.

So what do we do to tackle this? First, improve the position of the least well off. Increase universal credit, and not just by £20, which is clearly insufficient.

Then we also need to provide access to cheap loan funds for those in debt distress. It's the least the state can do. It can borrow for nothing, in effect. Why can't it share that benefit with those most in need, instead of saying them penalised by high rates?

And for those who think those idea of state backed loans for those who need them a very strange idea, maybe 80% of UK companies have such loans right now. Why shouldn't ordinary people get the same support when they need it?

After that, reduce taxes (and most especially national insurance) on the earnings of those on low pay, noting that income tax will make little difference for them right now.

There should also be council tax rebates for those on low pay, whilst in general the rates of council tax for the least well off who are likely to live in the lowest value houses should be cut.

Credits for utility bills could also be considered as support for those in need. They would be targeted and effective. People have a right to basic services.

Oh, and we should provide the BBC licence fee free to those on benefits, paid for by the government, and not the BBC.

Those are starters on what might be considered that could help those in need. But what about taxing to reduce inequality at the top of the income and wealth orders in the UK? This, I stress, is something we should do to tackle inequality though, and not because we need the money.

That point is worth repeating: we do not need to feel grateful to the rich for the tax that they pay. We now know that taxes are just part of the government fiscal cycle. Instead, we need to tax the rich more because they are rich.

And before anyone says this is the politics of envy, it isn't. This is about pure, hard nosed economics. Being rich is problematic because the rich earn money from being rich. And most of that money earned from being rich is paid by those who aren't well off.

If you're in doubt that the least well off subsidise the rich, just call the payments from those with least to the who have most interest charges and rent and you'll see exactly what I mean. The fact is that if the gap between rich and poor is too big we create an unequal society.

And we also end up with a poorer society. That's because the rich will control more and more of the income, as they do now. They though will save more and more of that income, and that's a real problem.

The problem with too much saving is easily explained. It arises because the more that is saved in a society the less is spent on generating income. And as a result it ends up poorer as a result. Savings don't generate income. They may redistribute them, but don't create them.

So, societies that have too big a wealth divide don't thrive. Too much saving is one reason. But the wealthy also don't take risks. So they aren't entrepreneurs and don't create new businesses. That's because they're really frightened of losing the wealth and status they've got.

So the simple fact is that tax has to correct for these trends, or failings, if we are to have a thriving, innovative, and wealthy society, which a country socially divided by inequality cannot deliver.

So what to tax more? First, the obvious ones. First, we need to increase corporation tax, which is the tax on company profits. This will only hit the companies that have done well from Covid, of course. Only they will have profits. The rate is 19% now. It could

easily go to 25%.

Then there is capital gains tax. First, make the rate equal to income tax. It is equivalent to income, so why not tax it as such? Second, cut the second tax free annual allowance that this tax gives to the wealthy. Why should they get two allowances when the rest get one?

Next, there's investment income like rents, interest, dividends, income from trusts or whatever else. People who work for a living have to pay national insurance on their earnings but the wealthy don't, but still get all the benefits. So introduce an investment income surcharge.

This investment income surcharge would be at 15% on all investment income over £5,000 a year, but higher for those of pension age. You have to be very wealthy to earn more than £5,000 of investment income a year right now. This is just creating a level playing field.

And then what? Remove the national insurance cap. Why should those on higher rates of pay have a national insurance rate of 2% on those higher earnings when most people pay at 12%? That's just not fair. So that cap has to go.

And another tax with a cap has to be changed too. That's council tax. The top bands, which are capped so that few pay more than £3,000 a year should be replaced by a new tax based on a percentage of property value. It's easy to do: property valuation is really not hard these days.

And while we're talking rates, why does income tax stop at 45%? Wouldn't 50% be fairer on incomes over, say, £300,000?

One or two more ideas. First, stop the tax relief that lets the wealthy claim back more tax on their gifts to charity than basic rate taxpayers can. Why should the rich actually benefit from charity? And the same is true on pensions - why should the rich get more tax relief?

Add all this up and a wealth tax can, to be honest, wait. That will take several years to introduce when some of the above could be happening in April. No wonder the Tories like the talk of wealth taxes - it puts off extra tax for a long time when we need it now.

Just a couple more things. How much will all this raise? Not £290 billion, I can assure you, which is by how much the government has increased private wealth as a result of QE. So the wealthy will still be winning hands down from this crisis. I am really not being unfair.

But how much precisely? I can't tell you, because anyone who is honest knows it is almost impossible to predict tax yields exactly when making changes of these sort. But I stress again, these tax changes are not really all about raising money. They are about

tackling inequality.

Increasing inequality is the pernicious, so far largely unseen, consequence of Covid, and its impact may well last longer and be massively detrimental to millions of people's lives, whilst unfairly enriching many others. But Covid should have taught us we do live in community.

If that's the case then we need tax increases now. But the money raised should not be used to supposedly 'pay for Covid', because QE has already done that and it does not need to be reversed. The money should be used for a positive programme of redistribution.

This is what social justice should look like now. And this is what tax should be doing to deliver that social justice, now. Tax's ability to do this is what I called The Joy of Tax in my book with that title in 2015. It's what we need to discover now.