

Funding the Future

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There are widespread reports this morning that the Tories are planning at least a one per cent increase in national insurance to fund an increase in spending on the NHS of an equivalent amount. To describe a policy so poorly thought out as ill-conceived is to be overly polite. Let me point out some of the flaws.

First, this increase is not needed. The government can already afford to fund the £10 billion the NHS needs, with ease. [I explained how here](#).

Second, the government does not need to raise any taxes to pay for increased funding for the NHS because the multiplier effect of additional NHS spending is high enough for such spending to pay for itself. Again, [I have explained why](#).

In other words, the government simply does not need to adhere to the logic that an increase in spending must be funded. It did not follow that logic for £37 billion of track and trace funding that it is now admitted had no notable impact on the management of the coronavirus crisis, but which did massively line government cronies' pockets. So why is this tax increase required? The answer is solely about politics. Rishi Sunak wishes that people should be punished for wanting more NHS spending.

That word 'punishment' is deliberately used by me. NIC is a deeply regressive tax. As the government's [own table of rates, allowances and reliefs](#) makes clear, the tax targets those on lower pay. The charge starts on income below the income tax threshold. It is cut drastically on income above £50,268 a year. It is, therefore a deeply unfair tax already.

But worse are the exemptions from the tax. The retired, however well off they might be, do not pay it.

NIC is not paid at all on unearned income, whether from interest, dividends, rents, trusts or other sources.

And those with the means to manipulate their income - as many self-employed people with their own companies have been able to do - can avoid large parts of their NIC liability.

So, this is a tax on those in paid employment above all else.

This means that this is a tax on those most likely to be least able to afford a tax increase in this country.

It will hit those on very low incomes suffering cuts in Universal Credit and facing increased fuel poverty very hard.

And the wealthiest will not pay a penny more. You could not make up a tax outcome this bad however hard you tried.

Of all the tax options the government could have chosen this one is the worst. So why are they doing it? I actually genuinely think it is to punish. The punishment is on those who have not opted out of the NHS with private medicine. The Tory logic is that the wealthy will have done this - so they should not pay. Except, of course, in an emergency no one opts out of the NHS.

So, if this is the wrong tax increase, and assuming there had to be a tax increase (which as I noted above, need not be the case) then what should have been chosen?

I have listed many options for increasing tax on the wealthy, including these:

- * [There is significant room for wealth taxation in the UK](#)
- * [The UK could tax wealth more](#)
- * [The relationship between income, wealth and tax](#)
- * [The TACS approach to wealth taxation](#)
- * [Reforming taxes on wealth by equalising capital gains and income tax rates](#)
- * [The need for an investment income surcharge](#)
- * [Capping total ISA contributions](#)
- * [Abolishing the personal savings tax allowance](#)
- * [Restricting pension tax relief](#)
- * [Abolishing higher rate tax relief on gifts to charity](#)
- * [Reforming council tax](#)

Let me elaborate on just a couple of the more obvious candidates. The first would be taxing capital gains at income tax rates. Notionally [that would bring in over £9 billion in tax](#) and still only bring the average capital gains tax charge to just over 30% when it is only 15% now. Allow for some behavioural change and such a move would easily bring in more than £5 billion a year. Cut the annual capital gains tax allowance - as social justice would demand - and the figure could be very much more.

Then there is an annual investment income surcharge. [Annual investment income declared in the UK in the last year for which data was available was £92.3 billion](#). This does not include pensions. Two thirds of this sum was dividends. If around £40 billion this sum was exempt from any additional charge because it went to those with total income under £30,000 a year and the rest was subject to an investment income surcharge of 15%, equivalent to an approximate NIC charge, then £7.8 billion of additional tax would be due from this group - more than covering Sunak's desired

additional income.

So, with two simple changes I could fund dramatically more than the sum that Sunak is seeking from those with the ability to pay who are currently undertaxed instead of from seeking more from the lowest paid who currently pay much higher rates of tax than do those with investment income.

So why is Sunak proposing what he is? Simply because he holds most of the people of this country in contempt. There is no other explanation. And worse, he is doing that for no good reason at all.

Worse though is this fact: making such a charge on these least able to afford it will increase demand on the NHS. That is how perverse this charge really is.