

Funding the Future

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I have just posted this video on YouTube:

<https://youtu.be/5YvNLF2f7Bo?si=Snr1UiLKuzchJ-z->

The link is [here](#) in case it is needed.

The transcript is:

Why is there no national insurance on investment income in the UK?

I can't explain that. If you work for a living, and most people watching this video will probably either have worked for a living before they're retired or will be working for a living now, you pay national insurance on your earnings.

Quite a lot of national insurance, in fact. Jeremy Hunt has reduced the rate to 8 per cent for most people at present, but it's still a significant additional to your tax.

However, if you live off rent, or if you live off dividends from companies, or interest on savings, or distributions from trusts that might be made to you by your benevolent great aunt Agatha, or on capital gains that you make on the profit from sale of assets - if you live off any of those things - you won't pay national insurance, because it doesn't apply to investment earnings.

So, as a result, people who have to live off earnings from employment pay a much higher overall rate of tax than do people who live off investment income.

Now, that makes no sense at all. In fact, for decades, we tried to make sure that the reverse was true. Then employment had a more favourable tax rate than income from investment did.

But we've reversed that and in the UK now we have this amazing situation where we have a bias in the tax system towards income from wealth.

We could solve that. It would be incredibly simple. If we charge what is called an investment income surcharge on income from investments, rents, dividends, etc., and we charge it at 15%, which would provide an approximation to both the employer's and the employee's rate of national insurance, which is overall paid on earned income, then we would create a level playing field between earned and unearned income.

And those with unearned income would have to pay a lot more tax.

If it was charged on income from unearned sources in excess of £5,000 a year, excluding pensioners who would be let off this charge, then we could raise £18 billion a year to redistribute inside the UK tax system to relieve poverty or to provide the investment we need in public services.

So why don't we do it? I don't know because it would be fundamentally fair if we did.

And please accept an apology: the last slide should say £18bn and not £10bn. We are still learning how to quality check these videos.

There is more on this in the [Taxing Wealth Report 2024](#), section 6.2.