

It's time to get rid of the UK's tax anomalies

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I have [posted this video this morning](#). In it, I suggest that the UK tax system is riddled with anomalies and loopholes and that if the UK's political parties are really keen on getting rid of these - as many are - they need to undertake tax spillover assessments.

<https://youtu.be/aX0D6aWA2Hs?si=62zUQVCUtIBS3LCy>

The audio version is here:

https://www.podbean.com/player-v2/?i=nq4e8-16405a0-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=3ab278&font-color=&logo_link=episode_page&btn-skin=c73a3a

The transcript is:

The UK tax system is riddled with anomalies.

They are ridiculous. There are so many of them it's almost impossible to know where to start. But let's take an easy one. Why am I, at the age of 66, not being asked to pay National Insurance on my earnings when somebody who's 65 is?

What was the magic that changed at my age that suddenly means I don't pay tax? It's absurd, of course I should be.

Why, also, don't we charge National Insurance on investment income in the UK when we do on earnings from work? I don't know. It makes no sense. And there is an opportunity to do so. We could call it an investment income surcharge. We used to have one. It could raise £18 billion of tax revenue a year.

Why do we reduce the rate of National Insurance from 8 per cent when you hit £50,000 of earnings from work a year to 2 per cent? I don't know. It makes no sense.

Why do we reduce the rate of child benefit when somebody reaches earnings of £50,000 a year with very complicated rules to determine precisely who and who does not have to return their funds? Why do we do that when we could instead charge the National Insurance on earnings above that sum and remove that anomaly on child benefit and make sure that children get the benefit they're intended to get.

Why do we remove the personal allowance for people earning over £100,000 a year when we could instead simply equalise the rates of income tax and capital gains tax, because most capital gains are paid by people earning over £100,000 a year, and therefore we could net those two sums off and remove another anomaly.

Why is the small company's rate of corporation tax 19 per cent when the basic rate of income tax is 20%? Why do we want to encourage people to incorporate when we know that so many small companies don't pay their tax?

Why do we have all these ridiculous anomalies? Because nobody's stood back and done what is called a tax spillover assessment. And we need tax spillover assessments to be done. They're an idea created, admittedly, by me and my colleague Andrew Baker at the University of Sheffield. And what a tax spillover assessment does is assess those parts of the tax system that undermine another part of the tax system.

For example, by having a low capital gains tax rate, people try to transfer their income into gains and therefore pay a lower overall rate of tax, to no net gain to anyone in society, but which allows some tax planning firms to command a fee from those who don't want to pay so much tax.

Why do we permit this? I don't know.

We did have an Office for Tax Simplification in the UK, but it was a half-hearted affair, and it was a tack-on extra to the Treasury, and nobody took it very seriously.

A tax spillover assessment should be undertaken every year by the UK government to make sure that the tax system which takes, after all up to 40 per cent of total income in the UK, is working for the benefit of everyone and that there aren't such anomalies within it, which undermine the goal of the tax system in delivering what I might call tax justice.

In other words, a fair tax system where there is horizontal tax equity - all income from whatever its source is taxed at the same rate.

And there's vertical tax equity, that where is a progressive tax system, in other words, where as your income rises, you pay more tax.

Oh, and there's one final thing that we need to get rid of, if we're really going to remove one of the biggest and most stupid anomalies in the UK tax system, and that is the student taxation charge, because that blows apart any concept of tax justice altogether, by randomly imposing upon some people extra tax because they went to university. And that creates marginal tax rates for some people on really quite low incomes that are considered unfair for those earning double or even three times the amount that many ex-students pay.

So, look, let's get this right. Let's do tax spillover assessments and let's get rid of the UK's tax anomalies.

The award-winning [*academic paper that backs this up*](#) is here.