

## Why can't Labour get things right?

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There was a [great deal of discussion here yesterday](#) about the government's decision to reinstate the winter fuel allowance, with decidedly complicated tax arrangements attached so that those earning more than £35,000 a year would not secure a benefit as a consequence.

If I might summarise the points made, they were:

- \* This creates a new tax threshold at £35,000 a year, where there was not one before.
- \* For those in receipt of this benefit because they are pensioners, but who are not entitled to it because their income exceeds this level, there is now a new 100% tax rate to withdraw it.
- \* To ensure that this tax withdrawal is functioning properly, considerably more people will now be required to submit a tax return than were previously, and all of those additional people will be old age pensioners, potentially with quite complex tax affairs from multiple sources of income, who will as a result either have a significant chance of making errors in their declarations with a risk of penalties arising as a result, or they will need assistance to do so, quite possibly at a greater cost than the £200 that they will have received as the winter fuel allowance.
- \* This whole arrangement is considerably complicated because the payment is made per household, and not to an individual, and that interaction also has to be allowed for within the tax system, and that system is not designed to work in that way.
- \* Whilst in some cases HMRC might be able to adjust for this matter through personal tax codings, this will not be the case if a person has unpredictable sources of income, such as self-employment, rental income, dividends, and maybe arbitrary drawdowns from their pension arrangements that are unpredictable over time.
- \* However, some very obvious sources of income are excluded, creating considerable prejudice within the system. For example, it seems unlikely that capital gains will be taken into account, and it is highly likely that ISA income will be ignored, which makes no sense when interest received will be, and both provide direct contribution to a

taxpayer's well-being in retirement.

All of this is designed to ensure that approximately 3.9 million people will not receive a benefit of, on average, £200 a year. In other words, less than £800 million is involved.

To achieve this goal, substantial effort will be required by HM Revenue & Customs, and very large numbers of people will suffer undue stress with regard to the need to prepare a tax return that they would otherwise not have been required to do.

Because of that risk, there is also a real chance that many who should benefit from this allowance will request that the payment not be made to them, meaning that the purpose of the allowance will be negated because of the onerous nature of the way in which it might be recovered if it is not due.

All of this smacks of a complete and utter mess. The obsession on display is threefold.

First, Rachel Reeves wishes to appear to be prudent, when she is being so at a cost to society at large.

Secondly, the idea that there are deserving and undeserving elderly people is being reinforced. Whether £35,000 is the correct point at which a household moves from being deserving of support to undeserving of it is an interesting point to debate: what is clear is that there is an attempt to divide society around the merits of benefits, which is insidious. Rachael Reeves is explicitly rejecting the idea of universal benefits as a result.

Thirdly, in reality, universal benefits are widely available to the wealthy, and Rachel Reeves appears to have no qualms about this.

Let me take a simple example. This [table shows the costs of ISA tax relief](#), the vast majority of which reliefs do, by definition, go to the wealthiest members of society in the UK, with data on the total number of beneficiaries being misleadingly included to cover all those very small accounts that some people might have, but where the balances are likely to be insignificant:

**5.16 Income Tax and Capital Gains Tax - individual savings accounts**

**Description**

Individuals do not pay tax on any income (i.e. dividends, interest and bonuses) they receive from their ISA savings and investments. Individuals do not pay tax on capital gains arising on their disposals of ISA investments. In 2017 the Lifetime ISA was introduced, which had a government bonus as well as the tax relief.

Objective: to encourage individuals to save over time by removing the tax liability for savings income. The Lifetime ISA aims to both encourage savings and support individuals under 40 to buy their first home or save for later life.

Tax year	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023	2023 to 2024	2024 to 2025
Cost (£ million)	3,900	4,100	4,300	5,100	7,700	9,400*
Cost (% GDP)	0.174%	0.194%	0.182%	0.2%	0.283%	0.334%*
Number of claimants	27,161,000	22,221,000	22,267,000	-	-	-

The cost of this one tax allowance to the wealthy increased by £1.7 billion between 2023/24 and 2024/25. The current slight reduction in interest rates might reduce this cost a little this year, but that is unknown as yet. Capital gains shelter in this way is very unlikely to be reduced, for example. This increase in cost is vastly more than the sum that she is now trying to save on winter fuel allowance payments.

It would seem as if Rachael Reeves is entirely relaxed about this massive subsidy going to those with wealth, and no attempt is made to limit the amount of relief that they get. This is a universal benefit. It is now a well-known fact, often publicised in the press, that there are people who have more than £1 million in ISA accounts, receiving substantial income tax-free as a result, but no action is being taken on this issue at all. The result is that a massive bung is being given to the wealthy, many of whom will also be older, as that is how wealth distribution works.

If Rachael Reeves was really worried about inappropriate tax relief, why doesn't she cap the total amount of income and gains on which ISA protection can be claimed at, say, £5,000 a year? In the current market, and assuming a mix of returns, that might suggest income on around £100,000 of savings might be tax-free. Isn't that sufficient for anyone, when the vast majority of people in the UK have savings that are much less than this in absolute amount?

And, given that almost everyone who might have income in excess of that some will, almost certainly, be submitting a tax return already, the additional cost of this process would be almost nothing.

Meanwhile, everyone in receipt of a winter fuel allowance could have it tax-free, whilst the principle of universality would have been restored, as would that of having a progressive tax system, and almost certainly money would have been raised for the Exchequer, which is Rachael Reeves' obsession.

And the numbers impacted would be very much lower.

Wouldn't this make a lot more sense than the crass arrangements Rachel Reeves has put in place? And wouldn't the result be a lot fairer?

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