

## The VAT loophole for the wealthy

<https://www.taxresearch.org.uk/Blog/2025/08/13/the-vat-loophole-for-the-wealthy/>

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Rachel Reeves is said to face a £40-50 billion budget shortfall. One fair, simple solution? VAT on financial services. Right now, banks, wealth managers, pension advisers, and mortgage brokers don't charge VAT – a loophole that overwhelmingly benefits the wealthy. Charging the standard 20% rate could raise £8 billion a year and would hit those most able to pay, not ordinary people.

In this video, I explain this exemption, why it's unjust, how post-Brexit Britain can remove it, and why Labour needs to decide whether it will tax the wealthy or protect the City.

[https://www.youtube.com/watch?v=0hqpk2v\\_IK8?si=iu29HjeyXMD8U5cf](https://www.youtube.com/watch?v=0hqpk2v_IK8?si=iu29HjeyXMD8U5cf)

This is the transcript:

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Rachel Reeves supposedly has a £40 to £50 billion black hole that she's got to fill this autumn.

I've already made some suggestions on how she might be able to address that problem, but let me ask another very simple question.

Could VAT on financial services help plug the gap that Rachel Reeves has?

There is no VAT on financial services at present, and that seems to me to be completely absurd.

This tax would hit the wealthy, and not ordinary people.

Social justice demands that we ask then, why is it not ready being charged?

Let's just clarify what the issue is.

Whether or not Rachel Reeves has a fiscal shortfall of £40 billion is a political question that we don't know the answer to as yet.

We will do, but not now.

But there are options available to her to increase tax if she wishes to, and that's the point I'm making in this video.

I'm talking about one massive area of tax exemption. In other words, a tax base that is not taxed because the government has chosen not to charge it to tax, and that is financial services and the fact that they are exempt from a charge to value added tax, which is charged on most things that you buy at 20%, but not if you're buying the services of banks or investment advisors, or pension advisors, or a mortgage advisor. They don't charge VAT. Now, admittedly, they also can't reclaim the VAT charge to them, but the equation works heavily in their favour, because most of those services do not involve the purchase of many goods.

They are largely labour-based and therefore, the amount of VAT that they would have to pay over if they were subject to that tax would be high, and in fact, [I have estimated that it would be at least £8 billion](#) a year. That will be an additional charge to those who use the services of wealth advisors, pension advisors, mortgage advisors, and banks, and most bank charges are levied on people with significant wealth and not on people with ordinary levels of income.

So when it comes down to it, the people who benefit from this VAT exemption are the wealthy, because they use financial services the most. It's very simple and very obvious because they have the largest volume of savings, investments, and pensions. Therefore, they will be the people who will pick up the tab for these fees.

That's why we need to think about this as an issue of social justice in its own right, and also because charging VAT at 20% on these services would raise £8 billion, and when saying that, I have ignored the consequences for the insurance industry because they already are subject to insurance premium tax, which is very much like VAT and curiously is charged on insurance, which is as much consumed by ordinary people as it is by the wealthy because after all you will be paying car insurance and quite possibly household insurance. So the tax system is already rigged against ordinary people, but I've allowed for that in what I'm saying.

So we need to look at taxing an under-taxed sector, and we can do this post-Brexit. We have the right to charge VAT on financial services, and therefore, Rachel Reeves has no legal impediment to acting.

Let's understand the consequences, for a moment.

This tax would challenge the power of the City of London, and that power needs to be challenged.

This tax would challenge the economic power of those with wealth, and that power needs to be challenged.

And this tax would be morally justified because it is not right that the wealthiest should enjoy an exemption from tax when there are no equivalents for most people in the country.

So what should happen? Quite simply, Rachel Reeves should pass a measure in this budget to introduce a tax at 20% on financial services. It's fair, it's possible, and it's urgently needed, and most of all, it's a test of Labour's priorities.

Will they tax the wealthy, or will they tax ordinary working people?

What do you think?

Should financial services finally pay their fair share?

Will Labour take on the City, or will it protect it?

Or is all of this just a game of smoke mirrors that is being put out now to hide Rachel Reeves when she eventually comes to put tax on you and me.

There's a poll below. Let us know your opinion.

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## Poll

[poll id="178"]

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## Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

**One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.**

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