

# Funding the Future

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There is [much discussion](#) in the media today about Rachel Reeves and tax rises.

Rumour has it that Reeves has decided that cuts to public spending are not required.

Rumour also has it that the wealthy will not be asked to shoulder their fair share of the tax burden, as has been the case since the Thatcher years.

Instead, the Treasury's kite flying suggests that they are testing the idea that, even now, they might impose a significant extra tax on those on average and lower incomes, which will have an incrementally smaller impact on well-being for those with higher earnings. The hints are of a 2p rise in the basic rate of income tax, to 22p in the pound, but as I wrote nearly a month ago, if [Rachel Reeves must raise taxes, the basic rate of income tax is the worst place to start](#).

As I said then (and as I have reiterated since), if Reeves believes she must raise taxes — and she clearly does — for political and institutional reasons, then the real issue is not whether to raise them, but who should pay.

## First, not all income tax rises are equal

**Adding 2p to the basic rate would penalise millions of people already struggling with stagnating wages, stealth fiscal drag, and collapsing public services. This would be a tax rise on the lowest paid, who already shoulder a disproportionate share of the burden in proportion to their real capacity to pay.**

**But there are alternatives within the income tax system itself. In the [Taxing Wealth Report](#), I showed that almost all the real tax giveaways of recent decades have gone to the top few per cent of the population. That has not been through the headline rate of income tax, but through the myriad ways the wealthy convert income into something that is not taxed like income at all, or through which they can claim disproportionate tax allowances and reliefs. Not all taxes are equal in that case, and a rebalancing is required.**

## Second, tax wealth, not work

If Reeves wishes to make the tax system fairer and raise substantial revenue, she should begin where the money really is, which is in wealth, and not wages. Four straightforward reforms would achieve more than any blanket increase in income tax:

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**An investment income surcharge.** Apply an additional tax rate to income from interest, dividends, and rents, sources overwhelmingly concentrated among the wealthiest households, largely to address the fact that national insurance is not paid on these sources, and Reeves could find much of the tax she is supposedly looking for.

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**Equalise capital gains tax with income tax.** There is no moral or economic justification for favouring returns from ownership over returns from labour. These rates should be the same.

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**Charge VAT on banking and financial services.** These sectors are currently exempt, which favours the wealthy who are the predominant purchasers of their services.

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**Restrict pension tax reliefs for high earners.** The subsidies here are hugely regressive, turning pension contributions into tools of **tax avoidance rather than social insurance**.

**Together, these measures could raise more than £50 billion in my estimate, while improving fairness and efficiency. They would also help to begin closing the yawning gap between earned and unearned income, which is a gap that distorts markets and erodes the legitimacy and social acceptability of the tax system in the eyes of most people, which matters when they are now very angry about that fact and are moving towards Reform as a result.**

### **Third, stop pretending tax rises fund spending**

**Even if Reeves were to adopt all these proposals, the purpose of doing so should not be to plug a hole. Taxes do not fund spending. They serve to reclaim some of the money the government has already injected into the economy through its own expenditure, to manage **inflation**, shape behaviour, and express social priorities. The point of tax is to redistribute both income and power, not to fill imaginary fiscal gaps.**

**The real tragedy is that Labour still speaks as though it is constrained by some kind of household-sized budget. And Reeves insists that every pound of public investment must be fully funded as if she were managing a corner shop rather than steering a sovereign government with direct control over its own monetary operations.**

## What follows

**If Reeves genuinely believes that Britain needs better public services, and she frequently says she does, then she must stop treating taxation as a penalty and start using it as an instrument of fairness.**

**Raise taxes, by all means, but only on those who can easily afford it. And do so for the right reason: not to balance the books in some mistaken way, but to rebalance the economy and restore legitimacy to public finance.**

**Will Reeves listen? I doubt it. The only people she seems to listen to are on the far right. We will all pay the price if she does not, though.**

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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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