The Alternative Budget 2025, Part 10: tax reforms

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Rachel Reeves will be presenting her Budget on November 26.

I will be commenting on that Budget on the day on BBC Radio 2, and elsewhere afterwards, but what is already clear is that whatever Reeves has to say, she will miss the required mark by a very long way. Being aware of that, I thought it appropriate to offer an alternative Budget speech ahead of the time when she offers her own. Given the significance of this issue, it has been addressed in parts published over the period leading up to Budget Day.

This tenth part addresses some fundamental reforms, based in large part on recommendations in my [Taxing Wealth Report](), published in 2024.

I am now approaching the close of this budget presentation, radical as it has been, and, as is customary, I have left most of my tax reforms to the end of my speech to ensure that all of you have remained attentive throughout.

Given what I have already said, I would be surprised if many of you now expect me to change my stance on taxation. I set out the reasons for tax at the start of this speech.

I have also *recently explained why taxing wealth can help control inflation whilst reducing inequality and simultaneously permitting redistribution to those on lower incomes, who are provided with the ability, as a result, to spend more to meet their needs, releasing valuable multiplier effects into the economy as a secondary consequence and delivering economic growth, which is a goal of this government. Having made those points, I am not going to change my mind now when it comes to delivering policy.*

I have a relatively limited number of changes to the tax system that are worth noting in this speech, although some minor ones will be noted in the documentation to be released when I sit down.

Investment income surcharge

I have already explained the reintroduction of an investment income surcharge in this country, raising an estimated £18 billion as a result, and that is the first of my major tax reforms.

Increase in basic personal allowance

The second follows on from our commitment to ensure that no old-age pensioner should have to pay tax on the basic state pension that they receive, and as a result I am increasing the basic personal allowance in this country to £15,000, although I am making no adjustment to the point where higher rates of tax are charged as a consequence, to ensure that this benefit is restricted to those on basic-rate taxation.

Changes that will not be happening

Despite rumours that I will be changing the basic rate of tax, I will be doing no such thing.

In addition, despite suggestions that I will be changing salary sacrifice schemes for pension contributions for those on low pay, I can again confirm that I will be doing no such thing. It is not the job of this government to harm the pension prospects of those on average pay.

I have also been persuaded to leave the tax relief on higher rates of pension contribution in place: the changes already announced in regulation on both ISA savings and the investment of part of all new pension contributions turn these reliefs into ones with. social purpose: in that case, I am persuaded, at last for the time being, that these rates of relief remain appropriate.

The purpose of tax changes

That said, I will make some tax changes. All of these are designed to ensure that those with wealth, or high levels of what have customarily been called unearned income in the past, now make a fair contribution to the tax yield of this country, when that has not been the case in the past.

Capital gains tax rates

As a result, capital gains will now be treated as the top part of a person’s income, having taken allowances for the purposes of that tax and income tax into account, and will be taxed as such. In other words, income tax and capital gains tax rates will be aligned.

My logic is simple. Gains represent income as much as any sum derived from work and, as such, they should be subject to tax in the same way and at the same rates. It is time for the bias toward wealth in our tax system to end. Capital gains yields are always a little difficult to forecast because patterns of behaviour are erratic and depend on market confidence, but I expect this measure will raise around £12 billion a year.

VAT on financial services

I have other changes to make in line with this theme. I have long thought it anomalous that, amongst the exemptions from charges to VAT, financial services are included. I know this is an EU measure, but we are no longer in the EU, and we have the chance to signal to it how change might take place. As a result, VAT will now be charged on supplies of financial services by banks and other institutions, which will, of course, mean that they will also be able to recover the VAT charged to them. However, I suspect this will raise approximately £8 billion of tax revenue a year and that the impact will fall almost entirely on those with significant or high wealth because they are the ultimate consumers of these services, whatever those who will protest will say. The interaction with insurance premium tax will be carefully planned, but the two will not overlap. When the value added by our financial services sector is, too often, hard to identify, or too often falls outside the UK, this tax charge makes complete sense and is part of the process of delivering tax justice.

Corporation tax rates

I also have changes to announce with regard to corporation tax. Firstly, it has never made sense that the small-company rate of corporation tax should be lower than the basic rate of income tax, providing a perverse incentive to incorporate and undermine the income tax system as a consequence.

This is especially true when we now know that 40 per cent of all small companies fail to pay their corporation tax, costing the Exchequer ***almost £15 billion a year*****. The privilege of limited liability that is granted by society is being massively abused as a consequence, and I have two major proposals to make as a result.**

Firstly, corporation tax will increase from 19 per cent to 22 per cent and will then increase by one per cent per year until it is equalised with the main corporation tax rate, which currently stands at 25 per cent. I am not proposing to change that mainstream corporation tax rate at this moment, but it will be under review. This change will raise approximately £3 billion per annum at first, rising to £6 billion (at least) over time.

The purpose of this increase is quite straightforward. As I have noted, limited liability must be paid for. At present, we subsidise it and the abuse that it permits. That will no longer happen, and there is not a single genuine entrepreneur who will be put off creating a business by a 25 per cent tax rate.

Corporation tax abuse

Secondly, the problem of unpaid tax has to be dealt with. The solution to this problem ***has long been known* but has never been acted upon. We will require UK banks and other regulated financial institutions providing banking or deposit facilities to notify HM Revene & Customs once a year which legal entities of all forms, including all types of limited companies, limited liability partnerships and trusts, they provide services to, and what the maximum balance on the accounts of each of those entities in the previous year was, together with the balance at the reporting date, plus total figures for money paid into and out of the account in question in that year. All this data is readily available to our banks and tax reporting systems for this data already exist with regard to overseas entities, and there can, therefore, be no excuse now for not providing it for HM Revenue and Customs to use now. Doing so, it will be able to identify all those entities that have an obligation to file a tax return, check those tax returns, and then use that data to pursue those who fail to supply information.***

Data without sanctions is, however, of little use, and, therefore, I can announce that we will be reforming company law so that the protection of limited liability will be stripped from all directors, company secretaries and shareholders in companies where there is any reasonable suspicion that incorporation has been abused to provide untaxed reward to any of those people from the limited liability entities with which they are associated that has failed to fulfil its obligations to settle tax owing. These people will then be liable to tax on that personal gain, including income tax, national insurance and investment income surcharges at full rates, plus penalties. We will be providing HM Revenue and Customs with significant extra resources to manage this process, and we expect to raise at least £10 billion of additional tax revenue per annum as a result.

Other changes

The withdrawal of Child Benefit

There are other changes that I wish to make. In particular, if we are removing the injustice of the two-child benefit cap, then we should also remove the injustice created when child benefit is effectively removed from parents earning more than £60,000 per annum. If I believe in the principle that all children are equal, then this tax charge is also unjust, and it must go. In the process, I remove a perverse disincentive created by a previous Tory government that made no sense then and has made no sense since. This is a price worth paying.

Change to higher rates of income tax

Having recognised that fact, I am also aware that withdrawing the personal allowance for those with income over £100,000 creates a disincentive that makes no sense. It creates a marginal tax rate of 60% over £25,000 of income above £100,000, and I am aware that this does change the behaviour of some in our economy. It should, therefore, be removed. To compensate, I will raise the start point for the 45% income tax rate to £100,000 and introduce a new 50% tax rate on all income over £200,000. This is what tax justice looks like.

Elsewhere, I have to sound a note of caution regarding tax changes. In a radical budget, it is appropriate to ensure that the aim of increasing well-being, incomes, economic activity, and our social infrastructure has priority over minor tinkering with the tax system, however much people might like that. I am therefore not making any other changes to headline tax rates or most other excise duties, with exceptions noted in publications available when I sit down. This means that higher tax rates will continue to apply to the bands currently in use unless I have indicated otherwise, but I do hope to make changes to this in years to come.

Fuel duties

Let me finally make two other important changes. One is to reintroduce the fuel duty stabiliser, which has been frozen and at an artificially low rate for too long. This will therefore increase by 4% in line with inflation this year. I judge that, given current fuel prices well below their peak, this is a necessary change as we drive towards addressing climate change.

I can confirm that an equivalent charge for electric vehicles, to account for the climate harm they also cause, is under consideration and should be introduced in a year’s time. The detailed work has yet to be completed.

Tax on gambling

Finally, when discussing the role of tax in addressing social harms, it is widely acknowledged that gambling is a cause of social harm in the UK, with the addiction that companies engaged in this sector create through their expenditure of £2 billion a year on the promotion of this activity being particularly pernicious. As such, I am introducing a transformation to gambling taxation that will create a level playing field between online and in-person betting and which is quite deliberately priced to deter engagement in this activity. Simultaneously, Health Ministers are announcing an increased programme of support for those who suffer addiction to gambling activity. This is a problem that we must eliminate, and it can never be viewed as a source of economic growth in this country if we are to hold our heads up high in a world where the elimination of abuse is essential.

Revenue raised

The measures announced raise approximately £55 billion in tax.

The measures I have announced relating to the reform of tax-incentivised savings might release £100 billion per annum for investment.

This is a transformational budget, redefining the boundaries between the wealthy and the rest of us, and the City and the rest of the economy.

I will finally move to explain the consequences of those changes.

Other posts in this series:

* ***The Alternative Budget 2025 – The Background***
* ***The Alternative Budget 2025, Part 2: Understanding tax and 'borrowing'***
* ***The Alternative Budget 2025, Part 3: Creating a new fiscal framework***
* ***The Alternative Budget 2025, Part 4: Renationalisation***
* ***The Alternative Budget 2025, Part 5: Reforming the UK's Savings System***
* ***The Alternative Budget 2025, Part 6: Addressing issues in housing***
* ***The Alternative Budget 2025, Part 7: The politics of care***
* ***The Alternative Budget 2025, Part 8: Abolishing national insurance***
* ***The Alternative Budget 2025, Part 9: Essential economic reforms***

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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