

Funding the Future

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Rachel Reeves will be presenting her Budget on November 26, if the Labour government of which she is a part lasts that long.

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 will be addressed in parts over the next week or so, leading up to Budget Day.

This eighth part addresses a key issue in the UK tax system and economy, which is to bring to an end the absurdity of imposing a tax charge exclusively on income from work, which is what national insurance does, creating considerable tax injustice within the economy as a whole.

Short-term measures are required to address this issue immediately, but what is also needed is a radical overhaul of the tax system to address it for good. Commencing that process of radical overhaul is the issue to which this part of the Budget primarily relates.

Over many years, it has been customary for Chancellors to revel in the opportunity to announce the abolition of a tax on Budget Day. Most have picked on something slightly obscure when doing so. Too often, they have, as a consequence, advantaged the wealthy. That is not my plan. I cannot, however, resist the temptation to announce a review that will, in time, deliver an absolutely essential change to the tax system of this country.

I understand why this country acquired a national insurance system quite early in the 20th century.

I also understand why that system was expanded considerably in the immediate aftermath of the Second World War, when men made up most of the workforce in this

country, many had jobs for life, and fewer were self-employed. The number of companies in existence was low. National insurance, with its supposed contributory principle, might have worked in those circumstances, but it no longer does.

National insurance is now an anachronism. The contributory principle no longer makes sense. We live in a country that accepts its obligations to care for everyone, whatever their past employment record.

That contributory system, however, is not the most significant weakness in the logic of national insurance. There are two other much greater failings.

The first is that we impose a very substantial tax on employment, even though creating employment opportunities for everyone who lives in this country is a primary goal of any government. It makes no sense at all to tax a good thing, and a goal we want to achieve, at a time when we know that there are threats to future employment, not least from AI and other forms of automation. For this reason, national insurance is a bad tax that fails to fulfil the goals of this government.

There is another reason why that is the case. National insurance, in both its employer and employee forms, imposes a burden on wages, suppressing real pay and reducing after-tax earnings. At the same time, there is no equivalent charge of any sort on those who live off unearned income of whatever source. No one can suggest that there is a moral justification for this, or for the massive increase in inequality that has arisen from the compounded effect over many decades. This injustice has to end.

There are two fundamental ways in which I wish to approach this problem.

One, I stress, is an interim but nonetheless essential step. From 6 April next year, we will reintroduce an Investment Income Surcharge into our tax system, which last existed until well into the Thatcher era. This was then, and will be now, an additional income tax rate of 15 per cent chargeable on all forms of investment income, excepting most derived from pensions, at the rate of 15 per cent on income from those sources exceeding £10,000 a year, meaning that this is unlikely to affect those with savings of less than £250,000. All the data to create this charge already exists on tax returns. Estimated yields vary, but could exceed £18 billion a year, paid entirely by those with wealth, making a fair contribution to help us reduce inequality in this country.

Secondly, in the long term, I wish to abolish national insurance and replace it with a financial transaction tax on all flows through UK-based bank accounts. A consultation paper on this proposal will be issued. The idea, however, is simple. Banks, of course, know precisely how much money flows into and out of all the bank accounts of people, companies, partnerships, trusts and others in the UK, and the plan is to levy a small transaction tax on all such flows in the future, with a few exceptions for organisations like charities apart.

This charge will be progressive.

There will be a significant annual exemption, meaning that many people will pay very little or nothing on their personal bank transactions. In contrast, those with wealth might pay considerably more than they do at present in national insurance. To be explicit: that is our goal.

The same logic will apply to businesses, irrespective of whether they employ staff or not. Those with large financial flows will be expected to pay higher rates of tax than those much smaller businesses that tend to generate a significant part of employment in this country, and who, as a result, have suffered an unreasonable expectation with regard to the tax contribution that they must make. We will, of course, be open to representations on the design of this tax, but the intention is clear.

We will no longer tax employment.

We will tax all earnings equally.

We will use the financial system and the data it holds as the basis for calculating these charges, and UK banks, building societies, and other organisations providing banking or savings facilities of a similar sort will have to take part and act as collection agents for the tax in question.

There will, of course, be allowances made for transfers between a person's own accounts and for provisions that might reasonably be made to provide for a family.

Similarly, we will not impose tax on transfers within corporate entities and their groups, but the tax charge will be based on the group's transactions as a whole. Transfers to the owners of a business will, of course, be subject to the charge.

I am not in the business of specifying the rates to be charged by this tax yet, but I can be clear about principles.

Those on lower pay should expect to pay less of this tax than they do now in national insurance.

Most pensioners will pay very little of this tax.

I hope many people will see a reduction in their overall tax bills.

Those on higher pay or with substantial investment income, who have benefited enormously under the national insurance system, will, however, undoubtedly be asked to pay more under this new tax system. That is the purpose of this tax.

Similarly, small businesses are likely to have lower tax bills than their current national employer's national insurance charges as a result of this tax. In contrast, many large

companies will pay more, especially if they have a relatively small number of employees but high turnover, as is, for example, typical in the financial services sector.

And for those who think that this tax will be easy to evade, let me offer an assurance in advance that HM Revenue and Customs will be granted significant powers to compare declared income or turnovers with those likely based on other income in its possession, and to assess additional tax accordingly, including penalties of up to 200 per cent of sums likely to be evaded.

In time, if this tax works as I hope, I would expect it to be used not just to bring national insurance to an end, but also to permit progressive reductions in income tax and VAT rates.

It is time that this country had a tax system fit for the 21st century, and a tax payable on the basis of financial flows through bank accounts, deducted monthly from bank accounts with an annual adjustment to ensure an overall fair rate, will deliver that outcome and should significantly increase the progressivity of the UK tax system across all income streams.

I should add one last point. It is also quite likely that it will permit me to abolish two further taxes in the form of stamp duty on properties and stamp duty on share transactions, with the way in which this will be made possible yet to be decided.

I promised this would be a radical budget: this is a radical tax reform.

Other posts in this series:

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- * [***The Alternative Budget 2025, Part 2: Understanding tax and 'borrowing'***](#)
- * [***The Alternative Budget 2025, Part 3: Creating a new fiscal framework***](#)
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- * [***The Alternative Budget 2025, Part 6: Addressing issues in housing***](#)
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Taking further action

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