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Tax locks

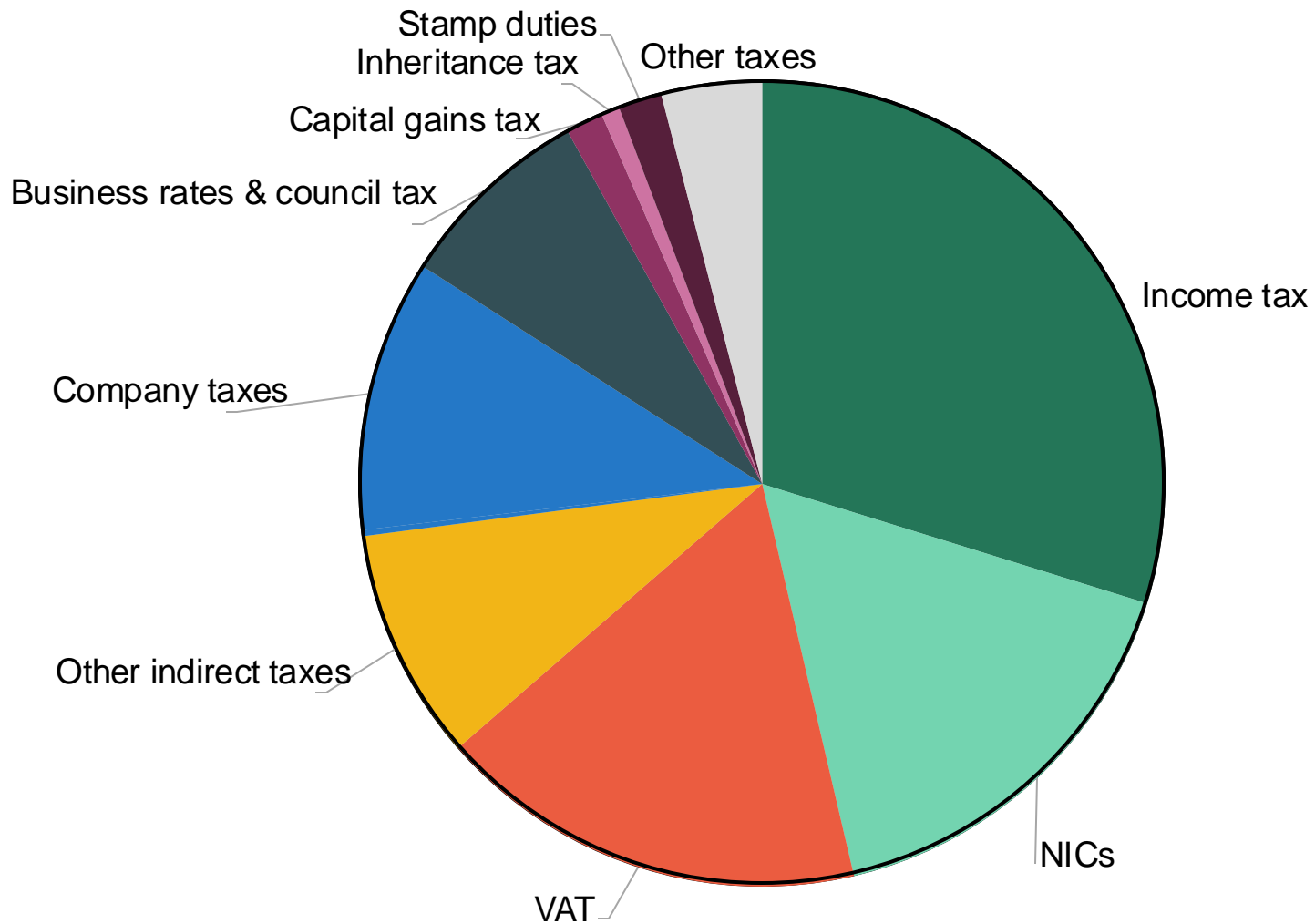


Problems with tax locks

‘Tax locks’ are pledges not to increase specific taxes

- It’s obviously legitimate for a government to not want to raise specific taxes, or tax revenue overall
- But locks on the taxes are problematic. They:
 - narrow tax-raising options and thereby limit the ability to respond to future circumstances
 - limit options for reform and thereby make it harder to achieve other goals (including desire to boost growth)

What's been locked?



Composition of UK tax revenue, 2024–25

What's left on the big three?

Conservatives:

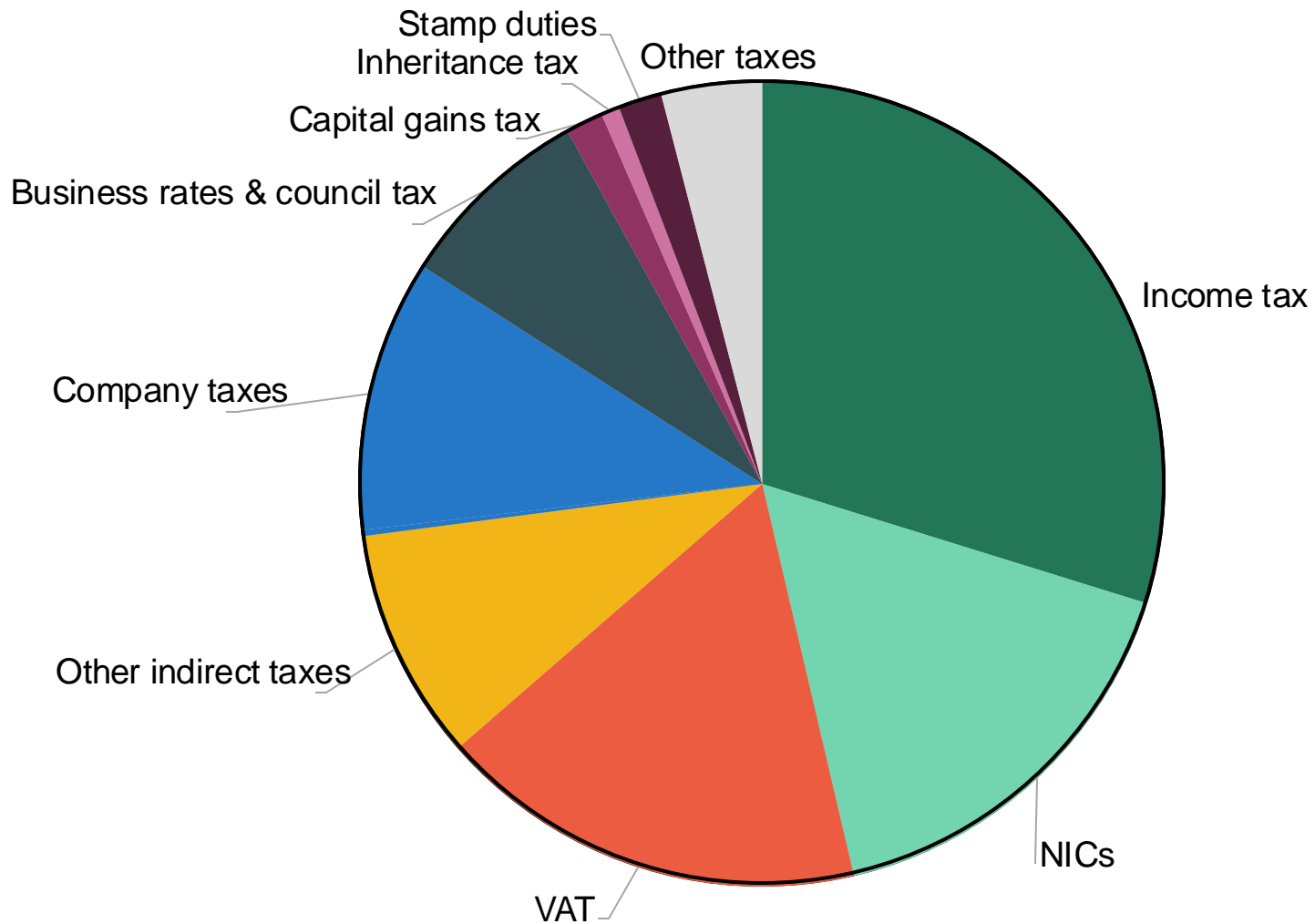
- No rise in income tax rate – leaves thresholds, savings tax
- No lock on NICs – but an ‘ambition to abolish NI’; leaves employer NICs?
- Separately ruling out reducing tax reliefs on pensions
- No rise in VAT rate – leaves the VAT base and threshold

Labour:

- No rise in basic, higher or additional rate of income tax
- No rise in NICs
- No rise in VAT
- No rise for ‘working people’ – no idea what that means

Both have ruled out easy sources of large revenue

What's been locked?



Composition of UK tax revenue, 2024–25

Options left open to both parties

Outside the big 3 taxes, neither party's pledges rule out increases in:

- Fuel, alcohol or tobacco duties
- Insurance premium tax
- Vehicle excise duty
- Air passenger duty
- Bank levy
- Digital services tax
- Apprenticeship levy
- Existing green taxes
- New (non-green) taxes

Might look like a lot of options, but in practice more constrained

Options on capital taxes (for Labour)

Stamp duties – but don't do it!

Inheritance tax

- e.g. remove/cap reliefs for agricultural land, businesses & pensions – do it!

Capital gains tax (except on main homes)

- Raising rates a bit would raise some revenue
 - Higher rates of current tax would discourage investment
- Much better options are available
 - Fix the tax base (indexation & losses); remove reliefs (BADR; uplift at death)
 - Higher rates would then be less damaging and raise more

Tax locks are bad for tax reform

- Conservatives: specifically ruling out lots of reforms
- Labour: tax reform notable by its absence
 - Unspecified change in business rates is the exception
- Better designed taxes would – and should – help to address key challenges, including the need to boost growth & reach net zero
 - Could be ‘revenue neutral’ – but would mean tax rises for some

Context & actual constraints

Taxing 'the rich'

- Ongoing trend towards raising more income tax from the top
 - Income tax & NICs on average earners lower than in 2010
- There's a limit to relying on taxing top incomes more
- Getting lots more from 'the rich' would likely need substantial reform

Taxes on companies

- International mobility is a constraint
- & people still pay these taxes!

Summary

- 2024 election sets a new record for number of tax locks
- If stuck to, tax locks will constrain revenue-raising options
- Both main parties have ruled out increasing many of the easiest sources of large revenue
- Getting more than a few billion from smaller taxes would likely need serious reform
- Tax locks shut down tax reform options
 - Taxes could and should be fairer, more growth-friendly and better able to support the net zero transition – regardless of how much revenue is raised overall

Conservative party tax locks I

No increase in:

- Income tax rate
- VAT rate
- Corporation tax
- Capital gains tax
- Stamp duty land tax

New taxes ruled out:

- New taxes on pensions
- New green levies
- Pay-per-mile road pricing
- Wealth taxes (interview, not manifesto)

Conservative party tax locks II

Keep existing reliefs:

- Pensions tax: 25% tax-free lump sum, income tax relief on contributions at marginal rate, NICs exemption of employer pension contributions
- CGT: exemption of main home, business asset disposal (BAD) relief
- Inheritance tax: agricultural and business reliefs
- Venture capital: enterprise investment scheme (EIS), seed enterprise investment scheme (SEIS), venture capital trusts (VCT)
- Corporation tax: R&D reliefs
- Council tax discounts

Keep council tax referendum cap

No council tax revaluation or new bands

Keep 'all current pensioner benefits, including free bus passes, Winter Fuel Payments, free prescriptions and TV licences'

Labour party tax locks

No increase in:

- ‘taxes on working people’
- Basic, higher or additional rates of income tax
- National Insurance contributions
- VAT
- Main rate of corporation tax

Keep full expensing and annual investment allowance

Also said during the campaign:

No rise in income tax

Keep CGT exemption of main home

No “council tax re-banding”?

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