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Institute for Fiscal Studies

IFS Report R321

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The government's record on tax 2010–24

Economic and Social Research Council
Nuffield Foundation
abrdn Financial Fairness Trust

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Copy-edited by Judith Payne

Published by **The Institute for Fiscal Studies**

ISBN 978-1-80103-191-2

The authors are grateful for funding from abrdn Financial Fairness Trust (grant 202309-GR000090) and the Nuffield Foundation (grant GE /FR-000024370). abrdn Financial Fairness Trust funds research, policy work and campaigning activities to tackle financial problems and improve living standards for people on low-to-middle incomes in the UK. It is an independent charitable trust registered in Scotland (SC040877). Visit www.financialfairness.org.uk. The Nuffield Foundation is an independent charitable trust with a mission to advance social well-being. It funds research that informs social policy, primarily in Education, Welfare and Justice. The Nuffield Foundation is the founder and co-funder of the Nuffield Council on Bioethics, the Ada Lovelace Institute and the Nuffield Family Justice Observatory. The Foundation has funded this project, but the views expressed are those of the authors and not necessarily the Foundation. Visit www.nuffieldfoundation.org.

Executive summary

This report gives a high-level overview of tax policy across the period 2010 to 2024. An appendix summarises the main tax policy changes.

There are some clear distinctions between the governments before 2019 (including the coalition government of 2010–15) and the governments from 2019. Most notably, tax revenue as a share of national income was remarkably stable until 2019 but has increased sharply since and is now higher than at any point since 1948. There were also big swings in the direction of some major policies. The income tax personal allowance was increased for years before 2019 but is now on a declining path. The main rate of corporation tax was cut substantially until 2017 and then increased sharply in 2023. Rates of National Insurance contributions (NICs) continued their long-run upward trend until recently but have now been sharply reduced.

But there are also some common themes across the 14-year period. Overall, there has been a common trend towards increasing direct taxes on high-income individuals, while cutting them on low and middle earners. In fact, remarkably, despite the overall tax burden reaching historical highs, income tax and employee NICs now take a smaller fraction of the earnings of a single full-time median earner with no children than at any time for almost 50 years. Tax policy has been changed such that we are raising less on average earnings but more from higher earners, more from other taxes, and more overall.

Another common theme has been a move towards greater complexity. We have seen more than a dozen new taxes introduced since 2010, and many new rates and reliefs added to existing taxes. The tax code has never been longer. In general, this added complexity has not resulted in a tax system that is fairer or more economically efficient. In fact, despite all of the policy change, none of the major tax policy challenges that existed in 2010 has been substantively addressed. That is not to say that there have been no positive developments in tax design – there have been some welcome improvements in some areas. But these have tended to be small relative to the scale of the underlying challenges. Successive governments have missed opportunities to address poor tax design head on. Many of the tax policy challenges that were known about in 2010, including around how tax will adapt to addressing climate change, are now more urgent.

Key findings

1. Tax revenue as a share of national income was stable (at 33%) from 2010 to 2019 but is now 36% and rising. This is the highest tax burden since 1948. The parliament that started in 2019 saw the biggest rise in the tax take of any parliament in modern history.

2. Relative to 2010, more revenue is now being raised from income tax, VAT, corporation tax and capital taxes. Less is being raised from fuel and tobacco duties and business rates.

3. Big changes in personal tax thresholds have led to the share of adults paying income tax falling from 61% in 2010–11 to 58% in 2019–20 before rising to an expected 66% in 2028–29.

4. The share of over-65s paying income tax has risen rapidly from 48% in 2010–11 to 65% in 2023–24. For the first time ever, the share of over-65s paying income tax is higher than the share of working-age adults paying income tax (63%). This trend is due to the combined effect of relatively strong income growth among pensioners and the phasing-out of the (previously higher) pensioner personal allowance.

5. The number of people paying the higher or additional rate of income tax has more than doubled, from 6% (3.3 million) of the adult population in 2010–11 to 13% (7.4 million) now and is expected to reach 15% (8.7 million) by 2028–29.

6. Income taxes have risen at the top but been cut for most. The share of income tax paid by the top 10% of income tax payers has risen from 54% in 2010–11 to 60% in 2023–24. Income tax and employee National Insurance contributions take a smaller fraction of the earnings of a single full-time median earner with no children than at any time for almost 50 years.

7. There have been big swings in policy direction. Big reversals in the path of the personal allowance and the main corporation tax rate are two examples among many.

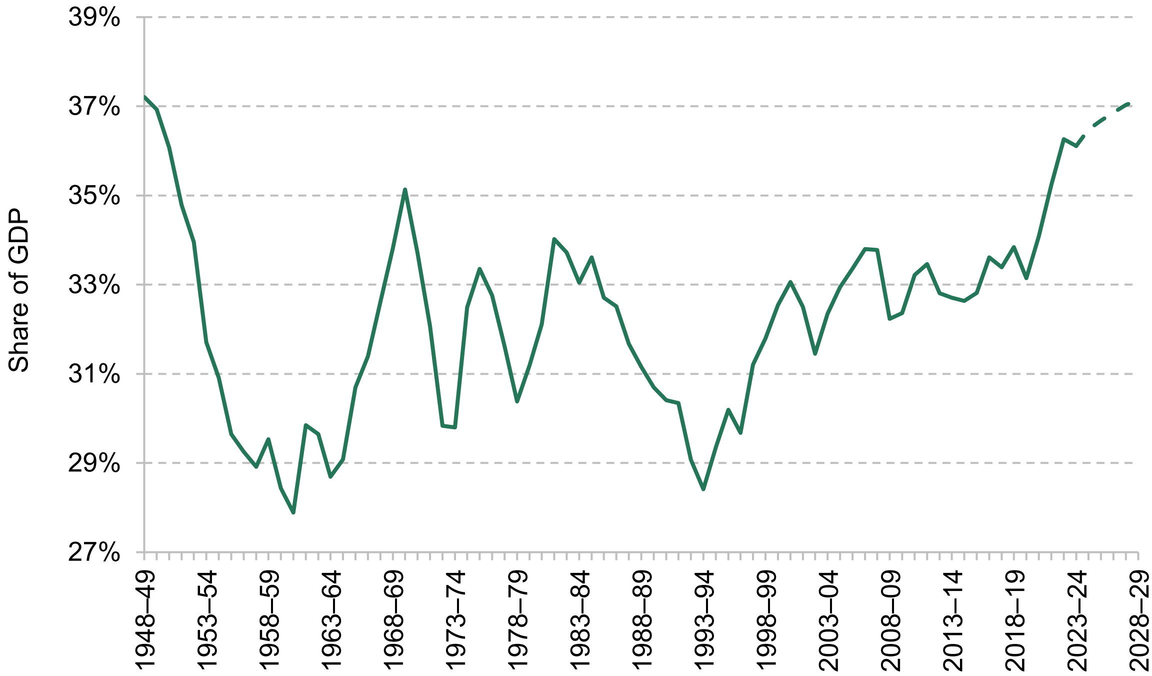
8. The tax system has become more complex. Governments have added new taxes and new differentiated rates, allowances and reliefs to existing taxes.

9. The tax gap – the gap between the tax HMRC actually collects and the amount it thinks theoretically ought to be paid – has been cut substantially. But HMRC's customer service levels have reached an all-time low.

1. Tax revenue nears record high

Total UK tax revenue as a share of national income was around 33% across the 2010s but has increased sharply since 2019–20 (see Figure 1). It is forecast to reach 36.5% of national income in 2024–25 and, on current policy, 37.1% by 2028–29 – within a whisker of its all-time high (37.2% in 1948).[1] It is not, however, high compared with most Western European countries.[2] The rise in tax revenue has come alongside an increase in government spending as a share of national income.[3]

Figure 1. Tax revenue as a share of national income over time

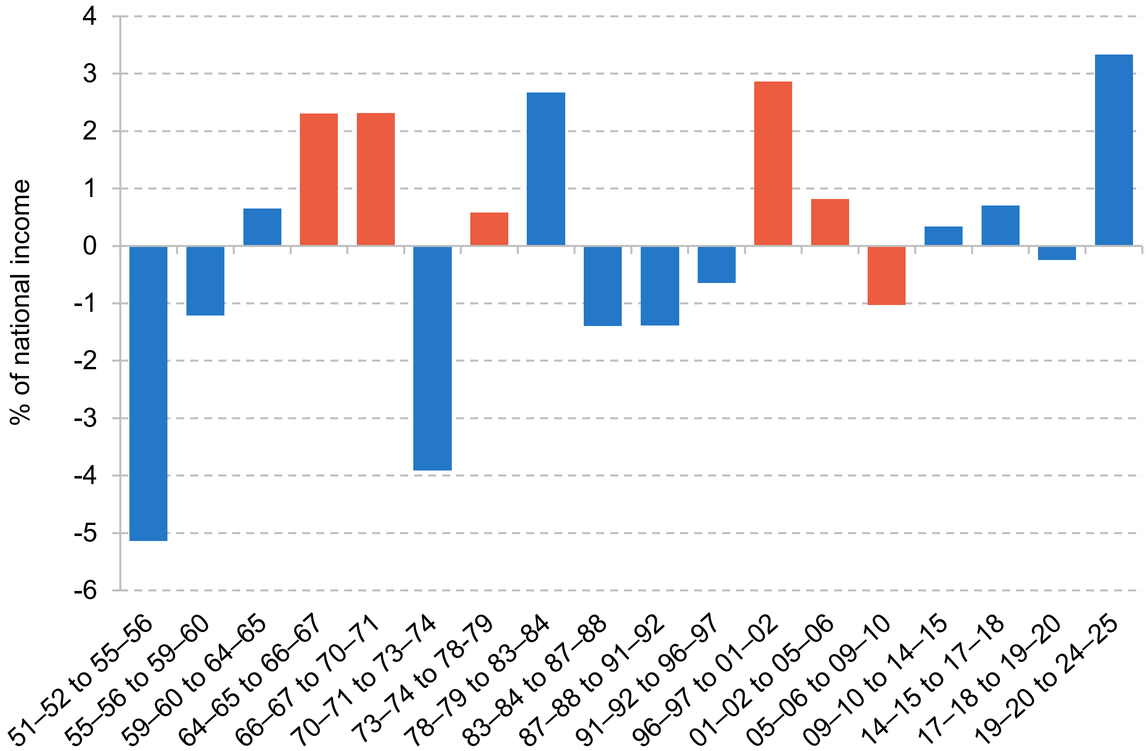


Source: Office for Budget Responsibility, Public finances databank – May 2024, https://obr.uk/data/.

[1] Total revenue, including from non-tax sources, was 37.1% across the 2010s and is due to rise to 41.2% in 2028–29.
[2] https://ifs.org.uk/taxlab/taxlab-key-questions/how-do-uk-tax-revenues-compare-internationally.
[3] https://ifs.org.uk/publications/how-have-size-and-shape-uk-state-changed.

The parliament that started in 2019 saw the biggest rise in the tax take of any parliament on record (see Figure 2). Between 2019–20 and 2024–25, tax revenues are set to increase by 3.3% of national income under the latest official forecasts: tax revenue in 2024–25 will be £93 billion higher than if it had stayed the same percentage of national income as in 2019–20. The next-biggest tax-raising parliament was during Labour's first term under Tony Blair (defined here as 1996–97 to 2001–02), when taxes increased by 2.9% of national income.

Figure 2. Changes in tax revenues as a percentage of national income, by parliament



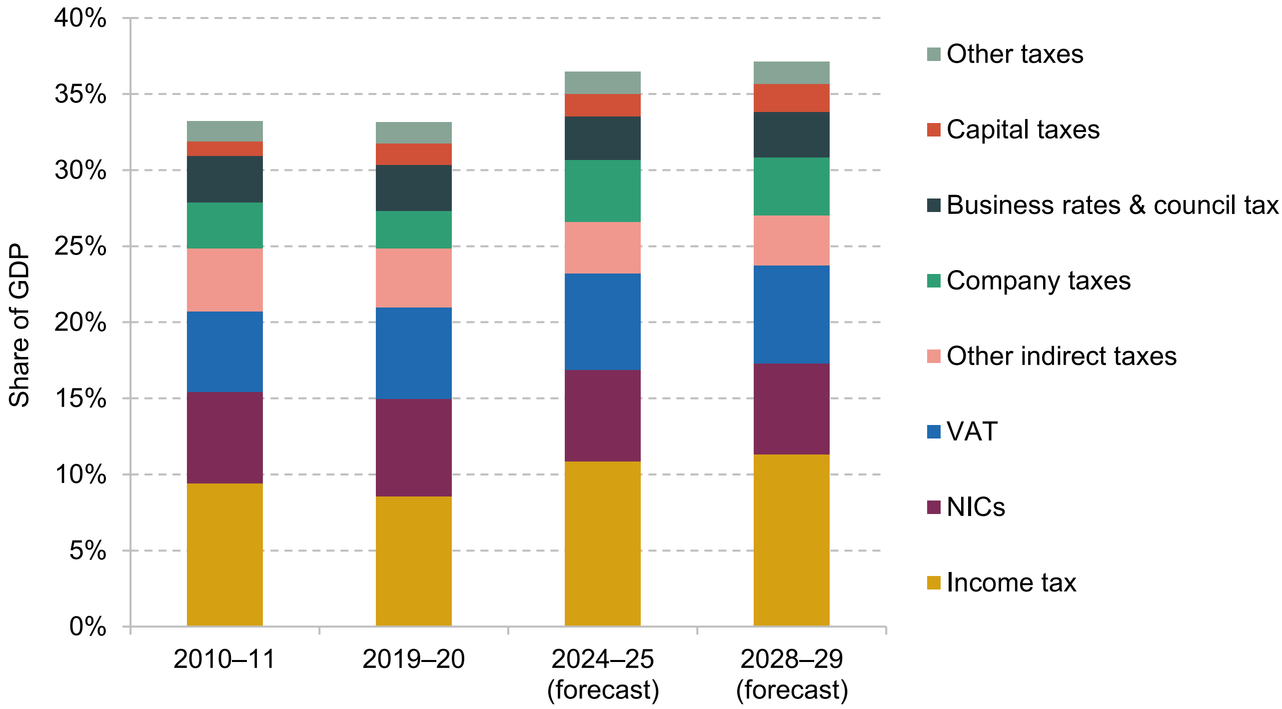
Note: Values denote the change in National Accounts taxes as a percentage of national income (GDP), as per official out-turn data (and the latest forecasts for 2024–25). This is distinct from the change in tax revenues as a result of discretionary policy measures. Start and end financial years have been selected to best reflect the period covered by each parliament. The colour of each bar denotes the party affiliation of the prime minister of each government. The February–October 1974 parliament has been combined with the subsequent parliament running to 1979.

Source: Authors' calculations using Office for Budget Responsibility, Public finances databank – May 2024, https://obr.uk/data/.

2. More revenue coming from income and company taxes

There has been a change in the composition of revenue since 2010 (see Figure 3). Compositional changes in tax revenue have come from both changes to tax policy, such as the freezing of income tax thresholds, and underlying changes to the economy, such as growth in the employment rate.

Figure 3. Changes in the composition of tax revenue since 2010–11



Note: 'Other indirect taxes' refers to fuel duties, tobacco duties, alcohol duties, air passenger duty, insurance premium tax, climate change levy, aggregates levy, betting and gaming duties, customs duties and levies, soft drinks industry levy, plastic packaging tax, vehicle excise duty, landfill tax (including devolved landfill taxes), licence fee receipts and environmental levies. 'Company taxes' refers to corporation tax, petroleum revenue tax, temporary bank payroll tax, bank levy, bank surcharge, digital services tax, energy profits levy, electricity generator levy and revenue from the Emissions Trading Scheme. 'Capital taxes' includes capital gains tax, inheritance tax and stamp duties.

Source: Revenue figures are authors' calculations using OBR, Public finances databank – May 2024, https://obr.uk/data/ and ONS, Public sector finances, UK: April 2024 (statistical bulletin), https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/april2024. For forecasts, see OBR, Economic and fiscal outlook – March 2024, https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/.

It continues to be the case that close to two-thirds of tax revenue comes from income tax, National Insurance contributions (NICs) and VAT; together these taxes raised 62.4% of total tax revenue in 2010–11 and 63.6% in 2024–25. But this masks some important changes. Figure 3 shows that revenues from income tax and VAT have grown as a share of national income since 2010, while NICs have not. The increase in VAT revenue resulted from an increase in the standard rate (from 17.5% to 20% in January 2011). More revenue is also being raised from taxes on company profits and capital taxes. By 2028–29, revenue from capital taxes will have almost doubled since 2010–11. This largely reflects increases in asset prices, alongside policy changes such as the introduction of a higher rate of capital gains tax. Revenue from excise duties has fallen. Most notably, real-terms reductions in fuel duty rates have led to a large fall in fuel duty receipts and revenue from tobacco duty has declined (despite duty rate increases) as the decline in smoking has continued. There has also been a reduction in revenue from business rates, partly because of the introduction of new reliefs.

Considering the period since 2019 specifically, the sharp rise in tax revenue as a share of GDP is accounted for by an increase in revenue from income tax and company taxes. Both are driven by a combination of policy changes (frozen tax thresholds, an increase in the rate of corporation tax and a tax on the windfall profits of oil and gas companies) and changes in the economy (notably, earnings growth at the top of the income distribution and strong profits growth in sectors that pay more corporation tax). The Office for Budget Responsibility discusses this further in paragraph 4.7 of the March 2024 'Economic and fiscal outlook'.[4]

Strangely, the change since 2010 with the biggest long-run impact on tax revenue is a technical one: the shift to using the Consumer Prices Index (CPI) measure of inflation, rather than the discredited Retail Prices Index (RPI), to uprate most cash tax rates and thresholds (though not all: bizarrely, the RPI is still used for indirect taxes – perhaps not coincidentally, almost the only cases where moving to CPI would reduce rather than increase revenue). CPI inflation tends to be lower than RPI inflation, so tax thresholds now increase by less each year than if they were uprated in line with RPI. The difference in tax thresholds – and the resulting increase in revenue – gets bigger every year, so over the long term this change dwarfs everything else.

That aside, the biggest tax-raising measures introduced since 2010 have been:

- the freeze in personal tax thresholds which began in 2021 and is due to continue until 2027–28 inclusive;
- the increase in the main rate of VAT from 17.5% to 20% in 2011;
- the increase in the main rate of corporation tax from 19% to 25% in 2023;
- increases in NICs rates from 2011 to 2022;

4 https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/.

- a stream of anti-avoidance and anti-evasion measures.

While tax changes since 2010 have increased revenue overall, there have nonetheless been many tax-cutting measures as well as tax-raising measures. The biggest tax cuts have been:

- increases in the income tax personal allowance through the 2010s;
- reductions in the main rate of corporation tax through the 2010s, taking it from 28% to 19%;
- reductions in NICs rates since 2022;
- real-terms reductions in fuel duties throughout the period.

It is striking that some of the biggest tax rises are reversing earlier tax cuts (corporation tax rate, income tax personal allowance) and vice versa (NICs rates). This is a theme we return to below.

As well as these headline measures with big revenue effects, there have been many other significant reforms which deserve attention but which for brevity we do not discuss here. An appendix summarises the main tax policy changes.

3. Income taxes increased at the top but cut for most

Income tax and NICs are the UK's two biggest taxes, raising just under half of all tax revenue.

There have been major policy changes to them since 2010–11, the results of which are:

- higher overall revenue (see above);
- more income tax payers, driven entirely by more pensioners paying income tax;
- more higher-rate taxpayers and a greater share of revenue coming from the top;
- tax cuts for low and middle earners.

Personal allowance went up a lot for the under-65s and then down again for all

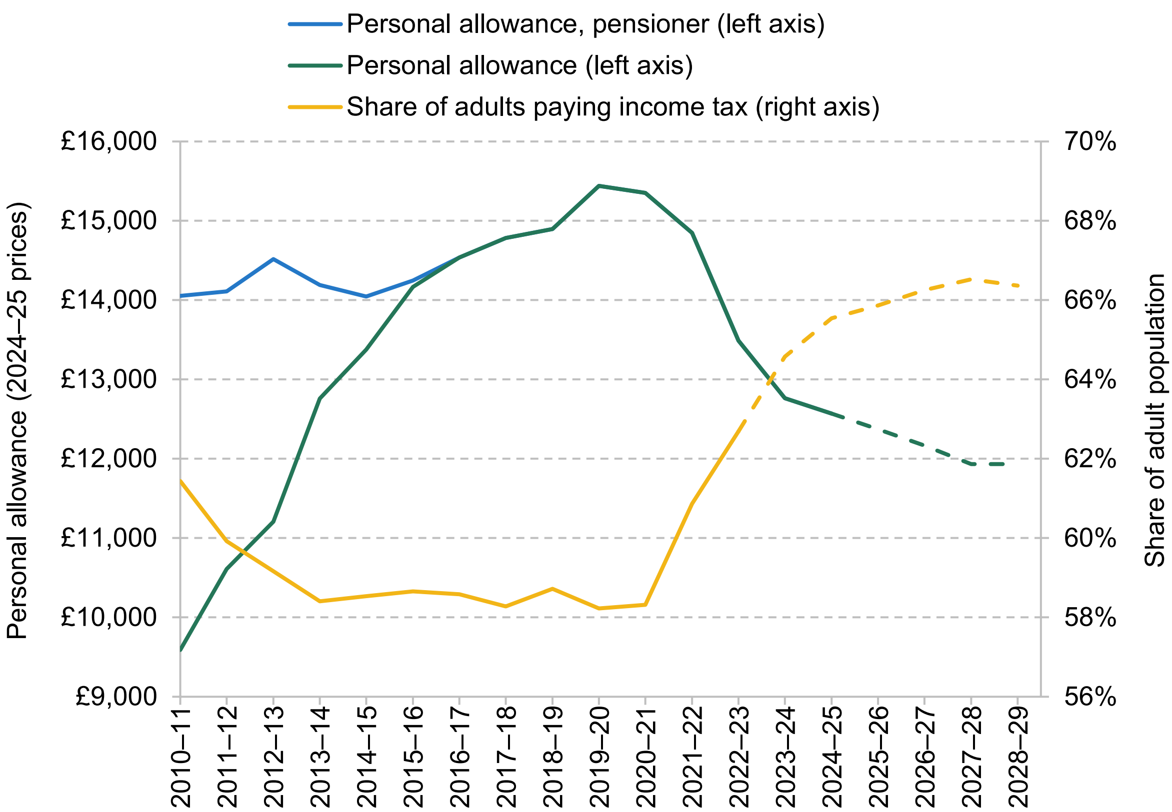
The income tax personal allowance was increased sharply during the 2010s, rising by 61% in real terms between 2010–11 and 2019–20 (mostly in the first half of the decade). The cash freeze in the allowance that has been in place since 2021, while a much bigger real-terms cut than originally intended (because of higher-than-expected inflation), is still on course to reverse only about half of that increase (see Figure 4).

As we might expect, the proportion of adults subject to income tax fell when the personal allowance was being increased, and is rising now the allowance is being cut. However, while the rise in the personal allowance during the 2010s has been only partly reversed, the fall in the number of taxpayers during the 2010s (from 61% of adults in 2010–11 to 58% in 2013–14, where it stayed for the rest of the decade) has been eclipsed by the rise during the 2020s (from 58% to a projected 66%).

There are two main reasons for this.

- First, real income growth. Since incomes tend to grow faster than prices (albeit less so since 2010 than in previous eras[5]), the number of people with incomes above the personal allowance would tend to rise even if the allowance were increased in line with prices (which is the default). The share of the population paying income tax need not therefore be lower than in 2010–11 even though the personal allowance is higher. A rise in the employment rate since 2010–11 has also played a part.

Figure 4. Real-terms personal allowance and share of adults paying income tax



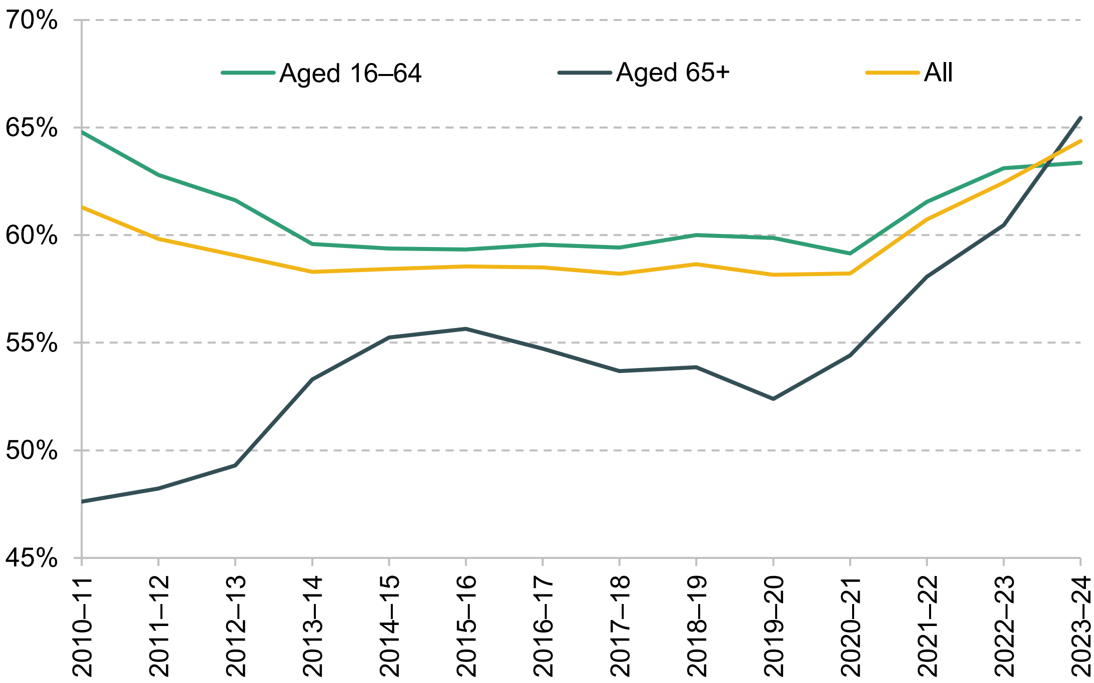
Note: 'Personal allowance, pensioner' refers to the personal allowance for those aged between 65 and 74: until 2015–16, there was a slightly higher personal allowance for those aged 75 or over.

Source: Personal allowances from IFS Fiscal Facts (https://ifs.org.uk/taxlab/taxlab-data-item/ifs-fiscal-facts), adjusted for fiscal-year-average inflation using the CPI from the Office for National Statistics (series D7BT) and forecasts from OBR, Economic and fiscal outlook – March 2024 (https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/). Number of taxpayers from https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age and forecasts from OBR, EFO March 2024. Total adult (age 16+) population from ONS UK population estimates (https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland) and ONS 2021-based principal national population projections (https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea11principalprojectionuksummary).

[5] https://ifs.org.uk/publications/seven-key-facts-about-uk-living-standards.

- Second, pensioners. People aged 65 and over used to benefit from a higher personal allowance than younger people. That allowance was not increased alongside the main personal allowance in the early 2010s, until the two allowances converged (see Figure 4). Pensioners thus saw little real-terms increase in their personal allowance during the 2010s, but are seeing a real-terms reduction now. As a result of that – and the fact that pensioners' incomes have risen faster than the working-age population's, on average[6] – the proportion of people aged 65 or over paying income tax has grown rapidly in both the 2010s *and* the 2020s, rising from 48% in 2010–11 to 65% in 2023–24 (see Figure 5). Indeed, in 2023–24, for the first time ever, people aged 65 or over were more likely to pay income tax than those aged 16 to 64.

Figure 5. Share of adult population paying income tax by age bracket



Source: As for Figure 4.

Table 1 shows how the number of taxpayers has changed, and what would have happened in 2023–24 if the share of people paying tax had remained the same as in 2010–11.

The employee and self-employed (but not employer) NICs thresholds – which are not relevant for pensioners, as those above the state pension age are not liable for NICs – have risen more rapidly and more recently: they were aligned with the income tax personal allowance (outside Scotland) in 2022, having been lower than it in 2010 and not subject to the same rapid increases in the early 2010s.

6 https://ifs.org.uk/publications/seven-key-facts-about-uk-living-standards. See also https://ifs.org.uk/publications/pensions-five-key-decisions-next-government.

Table 1. Number of income tax payers over time, by age group

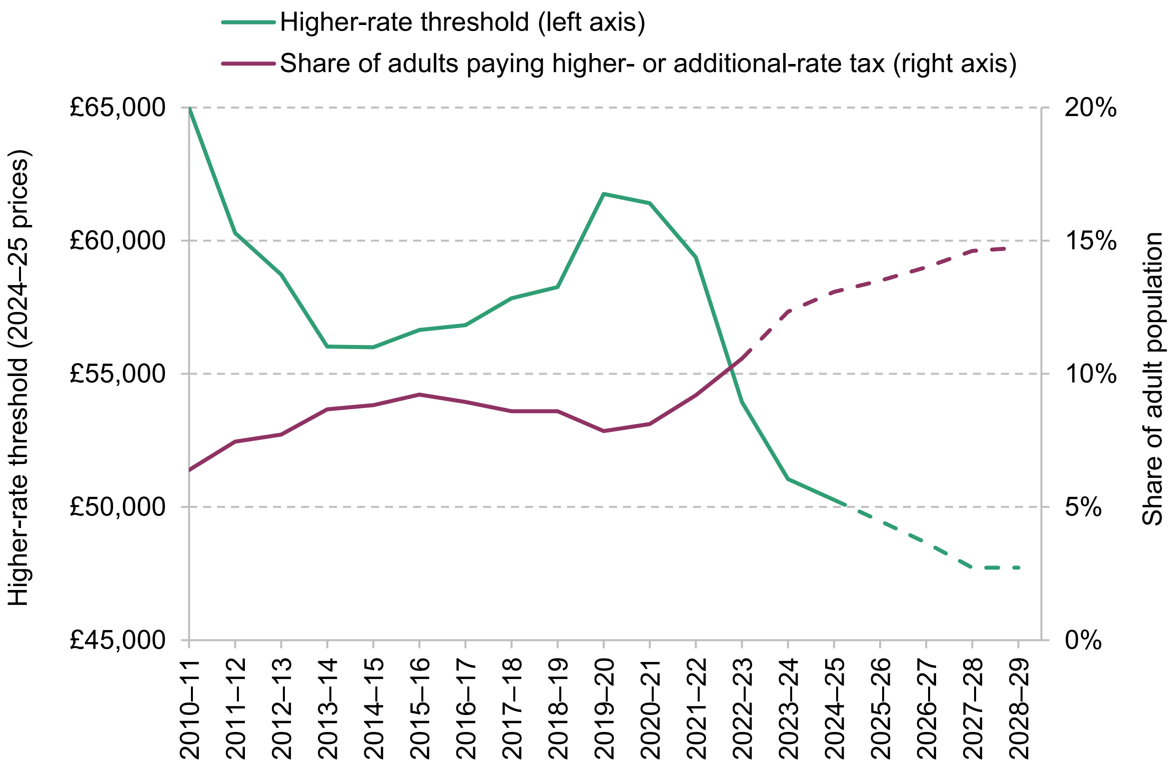
	2010–11	2019–20	2023–24	2023–24 if share had remained at 2010 levels
All adults	31.3m	31.5m	36.2m	35.0m
Aged 16–64	26.4m	25.0m	27.4m	28.3m
Aged 65+	4.9m	6.5m	8.5m	6.3m

Source: As for Figure 4.

Higher-rate threshold reductions mean more higher-rate taxpayers

The higher-rate threshold (the point at which the 40% marginal rate of income tax starts to be paid) was reduced sharply between 2010–11 and 2013–14, increased over the rest of that decade, and reduced again in real terms (frozen in cash terms) since then (see Figure 6). Its current level of £50,270 is 23% below its 2010–11 level in real terms, and the OBR expects that to be 27% by the time the freeze is due to end in 2028–29.

Figure 6. Real-terms higher-rate threshold and share of adults paying higher-rate income tax



Note: Higher-rate threshold shown is that applying in England, Wales and Northern Ireland: it has been lower in Scotland since 2017–18. Scottish taxpayers are classified as higher-rate taxpayers if they have total income above the UK higher-rate threshold or if they have non-savings, non-dividend income above the Scottish higher-rate threshold.

Source: As for Figure 4.

That real-terms cut in the higher-rate threshold, combined with real-terms income growth, means that the number of people paying the higher (or additional) rate of income tax has more than doubled, from 6% (3.3 million) of the adult population in 2010–11 to 13% (7.4 million) now and is expected to reach 15% (8.7 million) by 2028–29 – 3.2 million of whom will have been dragged into higher rates by the freeze in the higher-rate threshold since 2021.[7] If the proportion of people paying either higher or additional rates of income tax had remained at the 2010 levels, there would have been 3.6 million people paying higher rates in 2024–25, rising to 3.8 million in 2028–29.

The NICs upper earnings limit (UEL) and upper profits limit (UPL) have been aligned with the income tax higher-rate threshold throughout this period (except in Scotland, where the higher-rate threshold has been lower than in the rest of the UK since 2017–18). Broadly speaking, this means that the point at which the marginal rate of income tax rises to 40% is also the point at which the marginal rate of employee/self-employed NICs falls to 2%. So the jump in the overall marginal tax rate at that point is not as big as it might appear from looking at income tax alone, and tempers the effect of changing the threshold.

Freezes in thresholds have led to particularly large increases in the numbers of people facing either the additional rate (currently 45%) or the withdrawal of the personal allowance (which creates an effective 60% rate).[8] The £100,000 threshold for withdrawing the personal allowance has been frozen since its introduction, leading to a real-terms reduction in its value of 37% between 2010–11 and 2027–28. The additional-rate threshold was frozen from its introduction (in 2010) and then reduced in cash terms (from £150,000 to £125,140) in 2023–24, leading to a real-terms reduction of 48% between 2010–11 and 2027–28. Last year, IFS researchers estimated that the share of adults facing a marginal income tax rate of 45% or higher had grown from 0.7% in 2010–11 to a projected 2.6% in 2024–25 and 3.1% (1.7 million people) in 2027–28 – only slightly below the proportion who paid the 40% higher rate at the start of the 1990s.[9]

Higher share of revenue coming from the top, tax cuts lower down

The increases in the personal allowance in the 2010s – which have been only partially unwound since – have taken many low-income working-age people out of income tax and given a flat cash tax reduction to everyone above that. This has meant low- and middle-income individuals under 65 have seen their income tax cut. Conversely, the real-terms reductions in higher tax thresholds

[7] See table 3.7 of https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/.
[8] The tax rates are slightly different in Scotland, and were different in 2010–11.
[9] https://ifs.org.uk/publications/deepening-freeze-more-adults-ever-are-paying-higher-rate-tax.

described above are a big income tax rise for higher-income individuals.[10] Income tax payments have therefore been increasingly concentrated on a small group of high-income taxpayers.

The share of income tax paid by the top 10% of income tax payers has risen from 53.5% in 2010–11 to 60.3% in 2023–24. The share paid by the top 1% of income tax payers has risen from 25.0% in 2010–11 to 28.5% in 2023–24.[11] As we showed above, the number of taxpayers (and therefore what it means to be in the top 10% or 1% of taxpayers) has changed over time. There has also been a growing share of income tax revenue coming from the highest-income *adults*. In 2023–24, the top 1% of UK adults (those with incomes above about £160,000) paid about a third of all income tax – up from a quarter 20 years earlier.[12]

The growing share of income tax being paid by the top has been a trend for decades. But there is a difference in the trend since 2007. Before then, the trend was overwhelmingly driven by the distribution of pre-tax income: the growing burden on richer taxpayers mostly reflected their rising share of total income.[13] Since 2007, the trend reflects policy reforms: their incomes are no longer rising faster than others', but they are being required to pay more of the tax.

Employee and self-employed (but not employer) NICs have been cut across the board. The increase in the threshold at which NICs become payable and the reduction in the UEL/UPL both mean that less earnings are subject to the full, main rate; and the recent 4 percentage point cut in that main rate more than reverses earlier increases. So low, middle and high earners all pay less NICs now than in 2010. The top 1%'s share of income tax and NICs (excluding employer NICs) combined is considerably lower than for income tax alone, but has risen similarly.[14]

While taxes have risen substantially for those with the highest incomes, income tax and NICs have been cut overall since 2010 for most people paying them – a result of the higher tax-free allowances and the recent reductions in the main rates of NICs. Indeed, income tax and employee NICs now take a smaller fraction of the earnings of a single full-time median earner

[10] There have also been other income tax rises for high-income individuals since 2010–11 – most notably, big cuts in the limit on tax-deductible pension contributions that can be made each year and the use of income tax to withdraw child benefit from families in which someone has a high income (now £60,000 a year) – and some tax cuts, principally the reduction in the additional rate from 50% to 45%.

[11] https://www.gov.uk/government/statistics/shares-of-total-income-before-and-after-tax-and-income-tax-for-percentile-groups.

[12] 2023–24 figure is authors' calculation using HMRC statistics table 2.5 (https://www.gov.uk/government/statistics/income-tax-liabilities-by-income-range) and a weighted average of ONS mid-2023 and mid-2024 adult (i.e. 16+) population projections (https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea11principalprojectionuksummary); 2003–04 figure is from https://ifs.org.uk/inequality/top-income-inequality-and-tax-policy/.

[13] See figure 1 of https://ifs.org.uk/publications/two-decades-income-inequality-britain-role-wages-household-earnings-and-0.

[14] https://ifs.org.uk/inequality/top-income-inequality-and-tax-policy/.

with no children than at any time for almost 50 years[15] – a startling fact when juxtaposed with the fact that, as discussed above, overall tax revenue as a proportion of national income is at its highest for 75 years.

An exception to this is pensioners, who have not seen a real-terms increase in their personal allowance or benefited from reductions in NICs – though the lack of NICs on their earnings (or their pension income) means they are still taxed more lightly than the rest of us, albeit less so than before.

Waters and Wernham (2024) analyse more fully the distributional effects of these changes, along with changes to indirect taxes and social security benefits, across different types of households.[16]

[15] https://www.gov.uk/government/publications/spring-budget-2024-personal-tax-factsheet/spring-budget-2024-personal-tax-factsheet.

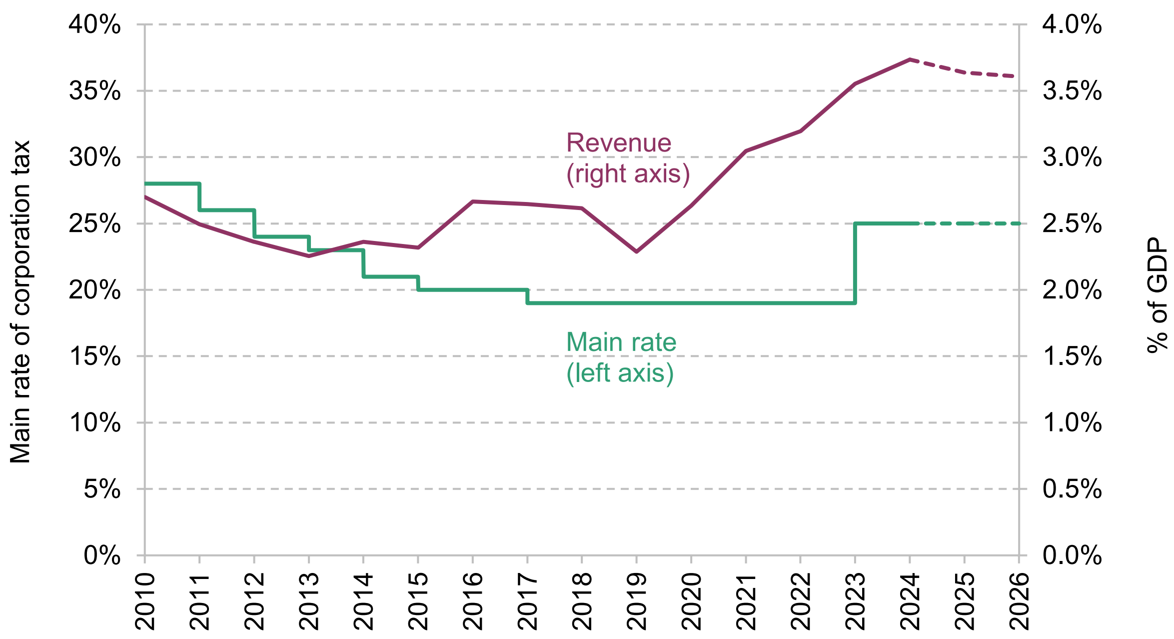
[16] https://ifs.org.uk/publications/distributional-impact-tax-and-benefit-reforms-2010.

4. Big change in direction on corporation tax

In 2010, the incoming coalition government set out a 'corporate tax road map' which was much praised for setting out a clear strategy and direction for reform.[17] Among other things, this included a 'low corporate tax rate with fewer reliefs and allowances'. The rate cutting and base broadening that followed continued a trend that had been seen across many developed countries in prior decades.

The main rate was cut from 28% in 2010 to 19% in 2017 (with a planned cut to 17% in 2020 scrapped before it was to take effect); see Figure 7. In 2013, a new 10% tax rate on profits from patents (the 'patent box') was introduced (having been announced by the previous Labour government). By 2015, the cuts in the main rate had equalised it with the 'small profits rate'. This was a welcome simplification: there is no rationale for a lower small profits rate – the distributional motive for a progressive personal income tax system does not apply to firms.

Figure 7. Corporation tax main rate and revenue over time



Source: Revenue from Office for Budget Responsibility, Public finances databank – May 2024 (https://obr.uk/data/). Rates from IFS Fiscal Facts (https://ifs.org.uk/taxlab/taxlab-data-item/ifs-fiscal-facts).

[17] https://assets.publishing.service.gov.uk/media/5a7acca0e5274a34770e7352/Corporation_tax_road_map.pdf.

A number of tax base reforms in the 2010s led to more income being subject to corporation tax. These included a reduction in the main capital allowances for investment, a restriction on the deductibility of interest payments and a restriction on the offset of losses. In a demonstration of how not to make good tax policy, the annual investment allowance – which allows businesses to immediately deduct 100% of their plant and machinery investment up to a certain annual limit – was changed almost constantly. Frequent change creates uncertainty, which is known to hold back investment plans.

Corporation tax reforms between 2010 and 2019 represented a substantial tax cut.[18] The result of policy choices was that the UK had one of the lowest corporation tax rates in the developed world, but also some of its least generous investment allowances. Broadly speaking, the low rate was well targeted at making the UK an attractive location for highly profitable, internationally mobile investments. But the ungenerous allowances disincentivised domestic investment.

Rishi Sunak, both as Chancellor and as Prime Minister, dramatically changed the direction of corporation tax policy. He first cancelled the planned cut in the main rate from 19% to 17%. Then in April 2023 the rate was increased to 25% (a plan which was cancelled in Kwasi Kwarteng's 'mini-Budget' and then reinstated – see the next section).[19] This was the first increase in the headline rate of corporation tax since Denis Healey's 1974 Budget. At the same time, capital allowances were made substantially more generous under the 'full expensing' policy, which allows companies to immediately deduct 100% of all spending on (qualifying) plant and machinery.[20] Full expensing brings benefits. It simplifies the tax system and removes the corporation tax penalty for equity-financed investment. But, in isolation, the policy has downsides too. Notably, it creates a bias towards investing in the kinds of assets that qualify (i.e. towards investing in plant and machinery rather than other assets), and it increases the large and problematic existing subsidy for most debt-financed investment – it makes even more unprofitable projects viable.

[18] Corporation tax revenue (excluding revenue from the North Sea) did not fall over this period, however. There are several reasons for this, including that underlying corporate profits were recovering in the aftermath of the Great Recession and investment was weak (which boosts receipts in the short run because firms make less use of tax-deductible capital allowances). We discuss this in more detail here: https://election2017.ifs.org.uk/article/what-s-been-happening-to-corporation-tax.

[19] A temporary 'super-deduction' was introduced in 2021, when the rate increase was announced for 2023. This largely had the effect of preventing the preannounced rate increase leading companies to delay investment. For a discussion, see https://ifs.org.uk/taxlab/taxlab-taxes-explained/corporation-tax-explained.

[20] 'Full expensing' was initially put in place for three years but subsequently made permanent. We discuss the policy in detail in chapter 10 of the 2023 IFS Green Budget (https://ifs.org.uk/publications/full-expensing-and-corporation-tax-base).

5. Big swings in tax policy

There have been five Chancellors in the five years since 2019. That is not a recipe for stability. The most obvious policy swings were those around Kwasi Kwarteng's September 2022 'mini-Budget'. Perhaps most notably, a rise in the headline rate of corporation from 19% to 25% from April 2023 was announced by Chancellor Sunak in Spring 2021, then scrapped by Chancellor Kwarteng in the mini-Budget, before being reinstated by Chancellor Hunt the following month. Similarly, Chancellor Kwarteng announced the abolition of the 45% additional rate of income tax in the mini-Budget but U-turned on this just 10 days later. Chancellor Hunt increased the scope of the additional rate by lowering the income threshold at which it starts to be paid.

But beyond these short-term reversals around the mini-Budget, there have been substantial changes in direction in various areas of tax policy over the period since 2010. In many cases, these are not simply moving slightly in one direction and then the other; they are significant moves in one policy direction that have been followed by sharp, dramatic changes of course.

Three policy reversals mark a clear difference of approach by Rishi Sunak and Jeremy Hunt relative to their predecessors: large increases in the personal allowance over the 2010s were replaced by large real-terms cuts; increases in the main rates of NICs (in April 2011 and April 2022) were followed by cuts (in November 2022, January 2024 and April 2024); and years of cuts to the headline corporation tax rate (alongside some base broadening) were replaced by a large rate increase (and a narrowing of the tax base). We discuss these policies above.

There have also been other changes in direction, including:

- The higher-rate threshold in income tax was reduced (2010–11 to 2014–15), increased (2014–15 to 2019–20), then reduced again.
- The annual and lifetime limits on tax-privileged pension saving were tightened (2010 to 2016), then the annual limit was raised and the lifetime limit removed completely (2023).
- The lifetime limit on business asset disposal relief (previously entrepreneurs' relief) in capital gains tax was increased (2010 and 2011), then reduced (2020).
- The bank levy was introduced, increased (2010 to 2015), then reduced (2015 to 2020).
- The supplementary corporation tax charge on North Sea oil and gas profits was increased (2011), then reduced (2015 and 2016), before the energy profits levy ('windfall tax') was introduced on a temporary basis in 2022.
- Council tax has seen real-terms cuts (2010 to 2015), followed by real-terms increases (2015 to 2021), followed by real-terms cuts (2021 onwards). The appendix gives further details.

As well as changes in policy direction, there has been a change of heart on institutions: the Office of Tax Simplification was created in 2010 and abolished in 2023.

6. A more complex tax system

Governments since 2010 have made the tax system more complex. They have introduced a plethora of new taxes:

- apprenticeship levy
- bank levy
- bank surcharge
- carrier bag charge ('plastic bag tax')
- digital services tax
- diverted profits tax
- economic crime levy
- heavy goods vehicle (HGV) road user levy
- immigration health surcharge
- immigration skills charge
- plastic packaging tax
- residential property developer tax
- soft drinks industry levy ('sugary drinks tax')
- (temporary) energy profits levy ('windfall tax') and electricity generator levy

We have also seen new tax-like policies targeted at curbing greenhouse gas emissions: carbon price support and contracts for difference.[21]

Existing taxes have also been made more complex through the introduction of more differentiated rates, allowances and reliefs. Key examples of this include the addition of:

- the marriage allowance, the high-income child benefit charge and the pensions annual allowance taper within income tax;
- the patent box within corporation tax;
- the additional dwellings supplement, the non-resident surcharge and first-time buyers' relief within stamp duty land tax;
- the residence nil-rate band within inheritance tax;
- a different rate of capital gains tax for higher-rate taxpayers, different rates for housing and carried interest (relative to other assets), and various new capital gains tax reliefs such as the

[21] https://ifs.org.uk/books/tax-policies-help-achieve-net-zero-carbon-emissions.

seed enterprise investment scheme, social investment tax relief and employee ownership trusts;

- a series of (temporary or permanent) new business rates reliefs for a variety of properties from retail, hospitality and leisure to local newspapers, film studios, public lavatories, telecoms infrastructure, certain green technologies and property improvements (plus other reliefs that were introduced but have since ended, such as for pubs, nurseries and empty new-build properties);
- new reliefs in NICs, business rates, corporation tax and stamp duty land tax for Freeports and Investment Zones.

Whatever the merits of these new taxes, rates and reliefs individually (our view is that while some look justified, most look dubious), collectively the effect is to make the tax system harder to understand and harder for taxpayers to navigate.

Devolution of more tax-setting powers to the nations of the UK (and, in the case of means-tested council tax reductions, to individual local authorities in England) may also have its merits, but likewise adds to the complexity of the tax system.

There are some exceptions to the trend toward rising complexity. Simplifications include:

- increasing the main income tax personal allowance and aligning it with that for people aged 65 or over;
- aligning the earnings threshold at which employee and self-employed NICs become payable with that for income tax;
- abolishing Class 2 (flat-rate) self-employed NICs;
- introducing full expensing of much investment for corporation tax.

While we have focused here on the high-level structure of taxes and the introduction of new taxes, it is important to note that a lot of complexity in practice is around dealing with the process of change itself, more detailed rules, and the administration of the tax system. It is not clear that there has been any net improvement in these aspects either.

7. Mixed record on tax administration

There has been a series of specific policy measures aimed at reducing (illegal) tax evasion and (legal) tax avoidance, including some related to the taxation of multinational companies following the high-profile 'base erosion and profit shifting' (BEPS) project run by the OECD.

There was also a new general anti-abuse rule (GAAR), which, alongside the disclosure of tax avoidance schemes (DOTAS) rules introduced in 2004, has helped to deter the use of the more extreme types of tax avoidance schemes.

HMRC's latest estimate of the tax gap – the gap between the tax it actually collects and the amount it thinks theoretically ought to be paid – is £35.8 billion in 2021–22, or 4.8% of theoretical liabilities: a significant reduction from 6.2% in 2010–11 and 7.5% in 2005–06.[22] There has been a fall in the tax gap in most taxes, with a particularly large fall in the VAT gap. The exception is the corporation tax gap, which has seen an increase associated with non-compliance among the small business population; the share of the tax gap accounted for by large and mid-size businesses has fallen, while the share accounted for by small businesses has grown. In 2021–22, the overall tax gap was over £10 billion lower than it would have been had it remained at its 2010–11 level (6.2%).

The government has taken some big steps towards modernising tax administration by making it more digitally based, automated and responsive. These include the introduction of online tax accounts and other online services, 'real-time information' reporting of salary payments to HMRC on or before the day they are paid, and the 'Making Tax Digital' programme of reforms to require taxpayers to keep digital records and do more frequent, digital tax filing. Some of these changes have been successful, but Making Tax Digital in particular has proven more challenging than the government expected, with the House of Commons Public Accounts Committee concluding that 'widespread and repeated failures in HMRC's planning, design and delivery of Making Tax Digital have led to increased costs and several delays to the Making Tax Digital programme'.[23] Making Tax Digital for VAT was introduced on time (in 2019) for large businesses but delayed three years (until 2022) for smaller businesses; Making Tax Digital for income tax self-assessment – originally scheduled to start in 2018 – has been delayed several

[22] https://www.gov.uk/government/statistics/measuring-tax-gaps.
[23] https://publications.parliament.uk/pa/cm5803/cmselect/cmpubacc/1333/report.html.

times and is now due to start in 2026 for landlords and businesses with income above £50,000 and 2027 for those with income of £30,000 to £50,000, with no date given for other taxpayers.

The government's wider record on making it easy for people to deal with the tax system is dismal. The Public Accounts Committee recently found that 'the overall level of customer service provided by HM Revenue & Customs (HMRC) has reached an all-time low'.[24]

An example is the 38 million phone calls that taxpayers and their agents make to HMRC each year. In 2023–24, only 67% of callers who selected the option to speak to an HMRC adviser actually got through to one (against a target of 85%), and among those who did manage to speak to someone, the average time they had to wait on the line (after selecting that option) rose from 5 minutes in 2018–19 to nearly 23 minutes in 2023–24. HMRC has closed phone lines altogether for extended periods, to save staff time and increase the number of people who use digital services instead (a plan to make one such closure permanent was swiftly abandoned following a backlash).[25]

[24] https://committees.parliament.uk/work/7881/hmrc-standard-report-202223/news/200074/alltime-low-hmrc-customer-service-deteriorates-amid-taxpayers-exasperation/.

[25] All statistics in this paragraph come from https://www.nao.org.uk/reports/hmrc-customer-service/.

8. Conclusion: big tax challenges are the same as in 2010

In 2011, the IFS-led Mirrlees Review provided a systematic assessment of the entire tax system. It concluded that there were major design flaws in all the main taxes and in how they fitted together to create a system as a whole. Since then, we have seen a lot of tax policy change. But it is striking that the problems identified then are still the same problems with the tax system now.

- **The tax system penalises employment.** The self-employed, company owner-managers and those receiving investment income are often taxed at substantially lower tax rates than employees. At the same time, the design of the **tax base distorts saving and investment decisions**, including by providing a subsidy to much debt-financed investment. The system creates unfairness, inefficiency and complexity.
- **Council tax is** based on **out-of-date** property valuations.
- Current **taxes on carbon create wildly inconsistent carbon prices** and thereby inconsistent incentives to decarbonise.
- There is **no plan for motoring taxes**: how will declining revenue from fuel duties be replaced and how will low-emission driving be taxed?
- There is a **lack of integration between income tax and NICs**.
- Widespread **VAT zero rates and exemptions create distortions** and compliance burdens that hinder economic performance.
- **Business rates discourage the development and use of business property.**
- **Inheritance tax is too easily avoided.**
- **Pensions tax reliefs are overly generous** to those with the biggest pensions, those with high retirement incomes and those receiving big employer pension contributions, but do relatively little to support many of those facing low income in retirement.

Some of these problems have got slightly better (the business rates system now has relief for certain property improvements) while others have got worse (inheritance tax is now even easier to avoid, simply by bequeathing money in a pension pot). But the fundamental problems have not been addressed.

Perhaps most worrying are those issues that are becoming more problematic over time, which already looked pressing in 2010 and now look increasingly urgent.

With petrol and diesel cars due to disappear from the roads in the coming years, fuel duty revenues – already declining – will disappear with them, while congestion on the roads will remain a huge drag on the economy and people's lives. A plan is desperately needed for how low-emission vehicles will be taxed.

Council tax valuations in England and Scotland, already 19 years old in 2010, are now 33 years old and will be 38 years old by the end of the next parliament. It is increasingly farcical – and deeply unfair – to continue to tax people based on the value of their homes from so long ago.

The challenge of getting to net zero greenhouse gas emissions looms ever larger, with many of the easiest ways to reduce emissions now all but exhausted; yet tax and related policies continue to make reducing emissions more costly than it needs to be while providing no incentive at all to reduce emissions from some activities.

Reforming the tax system offers a real opportunity to improve fairness and make us better off. Big opportunities have been missed since 2010. One lesson for the next government, therefore, is to prioritise tax reform. This need not happen as one big bang. The next government could make a series of small policy changes. But any tax policy change should happen as part of a clear plan with a clear end goal.

Tax reform will not be aided by 'tax locks' – promises not to increase the rates of certain taxes. Even if a government does not wish to raise additional revenue overall, there are lots of desirable revenue-neutral tax reforms that would raise revenue from one tax and reduce it from another or raise the headline rate of a tax without increasing that tax overall. We have seen tax locks constrain tax policy in the past 14 years.[26] The next government should avoid shutting down tax reform options before the parliament has even begun.

[26] Some examples are given in https://election2017.ifs.org.uk/uploads/publications/docs/miller_housemag_2017.pdf.

Appendix. Main policy changes

Below is a summary of the main tax policy changes since 2010, apart from the introduction of new taxes listed in Section 6. It is not an exhaustive list of policy changes.[27]

Taxes on income

- There have been major changes to **personal tax thresholds**, including big increases in the income tax personal allowance (for under-65s) in the 2010s; even bigger increases in the employee and self-employed NICs thresholds to bring them into line with the income tax allowance; and cash freezes – big real-terms cuts – in all personal tax thresholds during the 2020s, which are due to continue up to and including 2027–28.
- **NICs rates** were increased between 2010 and 2022; as well as headline rate rises, this included the abolition of contracted-out rebates in 2016 (linked to the introduction of the single-tier state pension and phasing-out of the state second pension). The last of the NICs rate increases, in 2022, was intended as a temporary precursor to the introduction of a 'health and social care levy', but that levy was cancelled before it could come into effect, and the NICs rates fell back to their previous levels. Further cuts to the main rates of employee and self-employed NICs were introduced in January and April 2024, bringing the main rate of employee NICs down from 12% to 8%. The net result is that employee and self-employed NICs rates are now lower than they were in 2010, but employer rates are higher.
- The **additional rate of income tax**, introduced at a rate of 50% a month before the 2010 general election, was reduced to 45% in 2013. The threshold at which it becomes payable – frozen in cash terms by default – was reduced in 2023 from £150,000 to £125,140.
- More powers to set income tax rates and thresholds (but not allowances or the tax base, and not NICs) were **devolved to Scotland and Wales**. Since 2017, the income tax schedule in Scotland (but not Wales) has diverged significantly from that in the rest of the UK.
- The **treatment of the family** for income tax was complicated by the introduction of the marriage allowance in 2015 (which allows non-taxpayers to transfer 10% of their personal allowance to a spouse or civil partner who is a basic-rate taxpayer) and the high-income child benefit charge in 2013 (which in effect uses income tax to withdraw child benefit from families in which someone has an income above £60,000).

[27] The OBR's policy measures database at https://obr.uk/data/ provides such a list.

Taxes on saving, wealth and property

- The amount that can be saved in a tax-free **individual savings account (ISA)** each year has been increased from £10,200 in 2010–11 to £20,000 in 2024–25, a 32% real-terms increase. At the same time, the amount that can be saved in a tax-privileged **pension** each year has been reduced from £255,000 to £60,000, an 84% real-terms reduction. The lifetime limit on accumulated pension savings was also sharply reduced but then removed.
- For savings held outside ISAs and pensions, a new personal savings allowance and dividend allowance introduced in 2016–17 allow people to receive some **interest income** (£1,000 a year for basic-rate taxpayers, £500 for higher-rate taxpayers and zero for additional-rate taxpayers) and **dividend income** (originally £5,000 but now £500) tax-free, while the tax rates on dividends above that were increased.
- In contrast to interest and dividends, the amount of **capital gains** that can be realised tax-free each year has been reduced from £10,100 in 2010–11 to £3,000 in 2024–25, an 80% real-terms reduction. The lifetime limit on business asset disposal relief (previously entrepreneurs' relief) in capital gains tax was increased (from £2 million in 2010–11 to £10 million in 2011–12), then reduced (to £1 million in 2020–21). Other gains were previously taxed at a flat 18% rate but there are now different rates for basic- and higher-rate taxpayers (sensible) and different rates for housing from other assets (not sensible). So some capital gains are taxed more and some less than in 2010–11, but the net effect has been tax-raising.
- The **inheritance tax** threshold has been frozen at £325,000 for the past 15 years (reducing its real value by a third since 2010) and is due to remain frozen up to and including 2027–28. But a new residence nil-rate band, phased in between 2017–18 and 2020–21, allows people to bequeath an additional £175,000 tax-free to their children or grandchildren if it is the value of their main home (or a previously sold main home). So most people can in fact bequeath slightly more in real terms now than in 2010–11 without paying inheritance tax.
- **Stamp duty land tax (SDLT)** has been devolved to Scotland and Wales. Across the nations, it has been changed from a 'slab' structure (where the rate in the relevant band applied to the whole purchase price, so that crossing a threshold led to a jump in liability) to a more sensible 'slice' structure (where successive bands of the purchase price are taxed at increasing rates). The rate structure has been made more progressive (especially in the devolved nations); surcharges have been introduced for foreign owners and people who already own another property, while discounts have been introduced for first-time buyers. The net effect has been to make SDLT a bigger tax, which is unwelcome as it is one of the most economically damaging taxes we have.
- **Landlords** have been targeted by increases in a range of taxes – notably the SDLT surcharge, a higher rate of capital gains tax, and effectively restricting the deductibility of mortgage interest costs to the basic rate of income tax. This acts to increase rates of owner-

occupation but hurts those who continue to rent (in the private sector) as well as their landlords. And these specific measures are particularly distortionary ways to tax landlords.

- **Council tax** in England was reduced in real terms from 2010 to 2015: tight limits were placed on how much English local authorities could increase council tax without a local referendum, and councils were repeatedly offered central government funding to freeze council tax – which most did. As a result, average council tax rates fell in real terms by 8% over that period (1.6% a year, on average). After 2015, those freeze grants ended and the limits were increased (especially to allow councils to raise more to fund social care), so that between 2015–16 and 2021–22 average rates rose by 14% in real terms (2.3% a year, on average – still much less quickly than under the last Labour government). Similar rates of nominal council tax increases since 2021, however, have not been enough to keep pace with inflation.
- In 2013, means-tested **support with council tax** (previously provided through council tax benefit) was devolved to Scotland and Wales (which have largely kept the scheme unchanged) and to individual local authorities in England (which, faced with reduced funding, have mostly reduced the support they provide).
- **Business rates** have been transformed from one of the most stable and predictable taxes to one of the most unstable and unpredictable taxes, with almost annual tweaks to rates and reliefs and changes to the timing of revaluations. A supposedly 'fundamental review' led to a couple of incremental improvements but not fundamental reform.

Corporation tax

- The **headline rate** of corporation tax was reduced from 28% in 2010–11 to 19% in 2017, before increasing to 25% in 2023.
- The **small profits rate** was abolished in 2015. This was a welcome move. It was reintroduced in 2023.
- A new 10% tax rate on profits from patents (the **'patent box'**) was introduced in 2013 (having been announced by the previous Labour government).
- **Capital allowances** for investment changed many times. During the 2010s, there were cuts to the main capital allowances and almost constant changes to the annual investment allowance. Since 2023, however, there has been **full expensing** of companies' investment in qualifying plant and machinery, allowing all such investment to be deducted immediately.
- The tax base has been broadened in some other respects, including more restrictions on the **deductibility of interest payments** and (mostly) tighter restrictions on **offsetting losses**.
- The supplementary charge on **North Sea oil and gas** profits was increased from 20% to 32% in 2011, then reduced to 10% in the mid 2010s before the energy profits levy ('windfall tax') was introduced on a temporary basis in 2022.

Indirect taxes

- The main rate of **VAT** was increased from 17.5% to 20% in 2011 – one of the biggest tax rises introduced since 2010 – but VAT has otherwise seen little change.
- **Fuel duty** rates were cut by 38% in real terms between April 2010 and April 2024. This was done via a series of one-off announcements (mostly cash freezes) rather than via a statement of long-term policy.
- **Tobacco duty** rates were increased by 57% in real terms over the same period.
- There was a welcome (if imperfect) restructuring to **alcohol duties** in 2023, which means they now relate more closely to alcohol content.
- A little-noticed change has been the substantial increase in **insurance premium tax**. The rate of this poorly designed tax has more than doubled and is now unjustifiably high. In 2024–25, insurance premium tax is expected to bring in £8.2 billion – more than inheritance tax, for example.