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@TheIFS

Indirect & capital taxes



Economic
and Social
Research Council

Today's presentation



- 1. Taxes on saving & investment**
- 2. The new 'mansion' tax**
- 3. Indirect & environmental taxation**



Taxes on saving & investment

NICs & pension contributions

	Employee pension contribution	Employer pension contribution
Employee NICs		
Employer NICs		

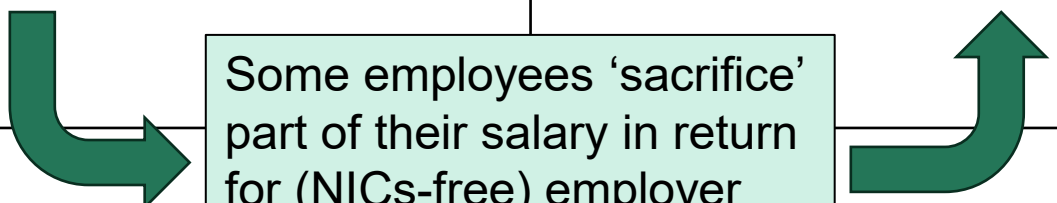
NICs & pension contributions

	Employee pension contribution	Employer pension contribution
Employee NICs	Taxed	
Employer NICs	Taxed	

NICs & pension contributions

	Employee pension contribution	Employer pension contribution
Employee NICs	Taxed	Untaxed
Employer NICs	Taxed	Untaxed

Some employees 'sacrifice' part of their salary in return for (NICs-free) employer pension contributions



Salary sacrifice pensions

- Budget capped salary sacrifice at £2k per year from April 2029
- Raises **£2.6bn** in 2030-31
- The tax rate increases more for those earning below £50,270
- But those affected are disproportionately high earners
 - 32% of affected contributions by those earning above £100k
- How might employees & employers respond?
 - Put less into a pension
 - Shift to 'ordinary' employer contributions
 - Reduce labour supply & demand (it's an increase in NICs!)

Income tax on capital incomes

- 2ppt increase in all income tax rates for interest, dividend & property income (except the additional rate of dividend tax)
- Raises **£2.6bn in 2030-31**
- Will predominantly hit the well-off (although not exclusively)
 - Taxing property income will increase rents
- Aligns tax on capital incomes more closely with labour incomes
 - Although widens other gaps (e.g. with owner-occupiers and with capital gains)
- But increases distortions to saving & investment
 - (And increases complexity)

Some of the rest



- Reduced business investment allowances from 18% to 14% (with new 40% first-year allowance for certain assets)
- Halve CGT relief on shares transferred to EOTs
- Expanded enterprise management incentives to bigger companies
- Stamp duty reserve tax relief for 3 years after listing in the UK
- Cut cash ISA limit



The high value council tax surcharge (HVCTS)

The HVCTS

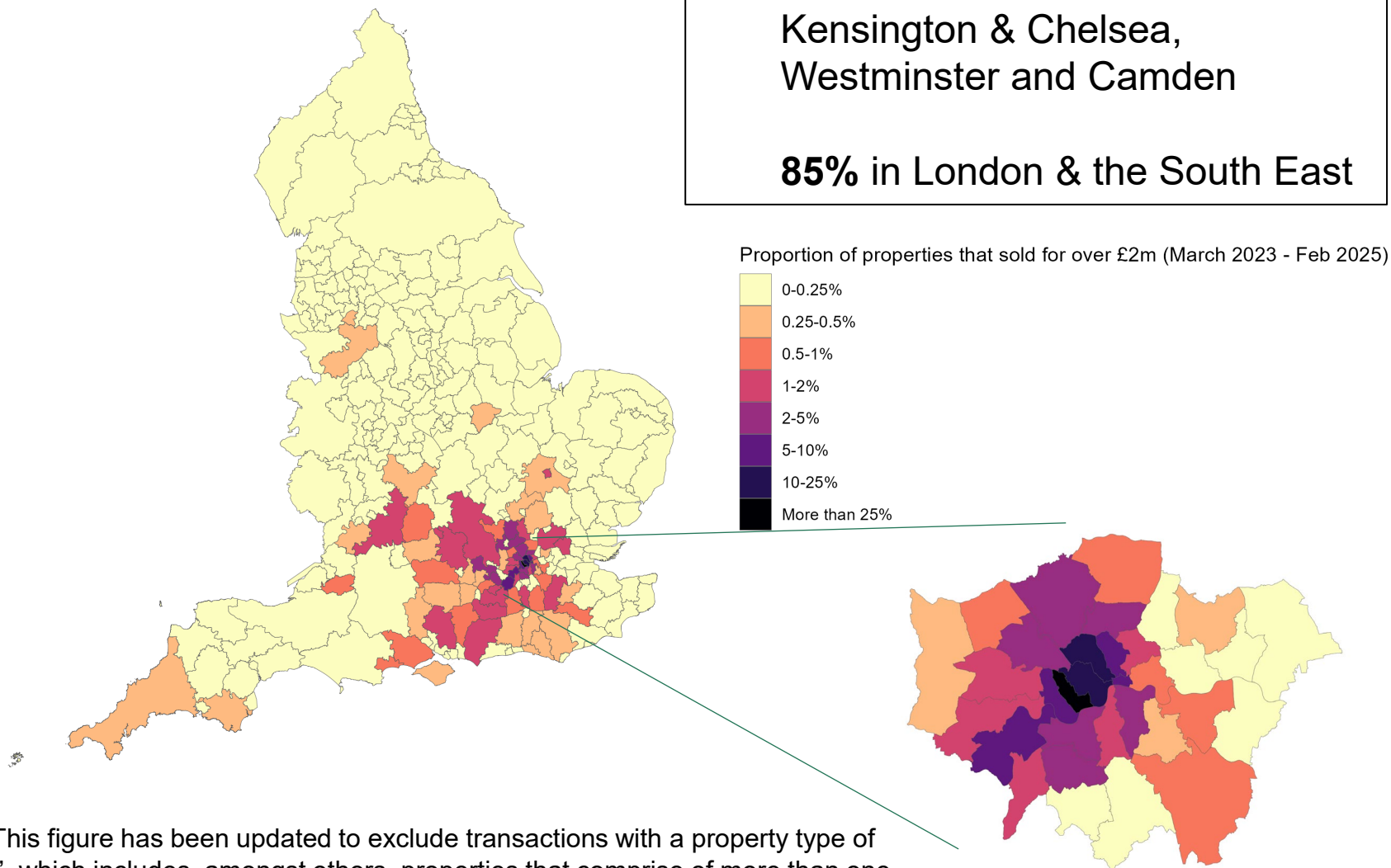


- New tax on properties worth £2 million or more in 2026, levied on homeowners from April 2028
- Four bands, with tax ranging from £2,500 a year on properties worth £2-£2.5 million to £7,500 a year on properties worth over £5 million
- Raises **£0.4bn** from 165,000 properties
- HMRC assumes tax will feed through fully into lower house prices
 - Reducing SDLT & CGT revenues

House sales over £2m

34% of >£2m sales were in Kensington & Chelsea, Westminster and Camden

85% in London & the South East



Note: This figure has been updated to exclude transactions with a property type of “Other”, which includes, amongst others, properties that comprise of more than one parcel of land

The HVCTS



- Council tax (before discounts) is regressive with respect to property values
- Certain logic to increasing tax on high-value properties
- And if you want to tax those with high wealth, taxing property is one of the least damaging ways to do it
- BUT: we are still left with a council tax that is (absurdly) based on 1991 property values
- Revaluing a tiny fraction of properties and bolting this on to an unreformed council tax is not a serious solution

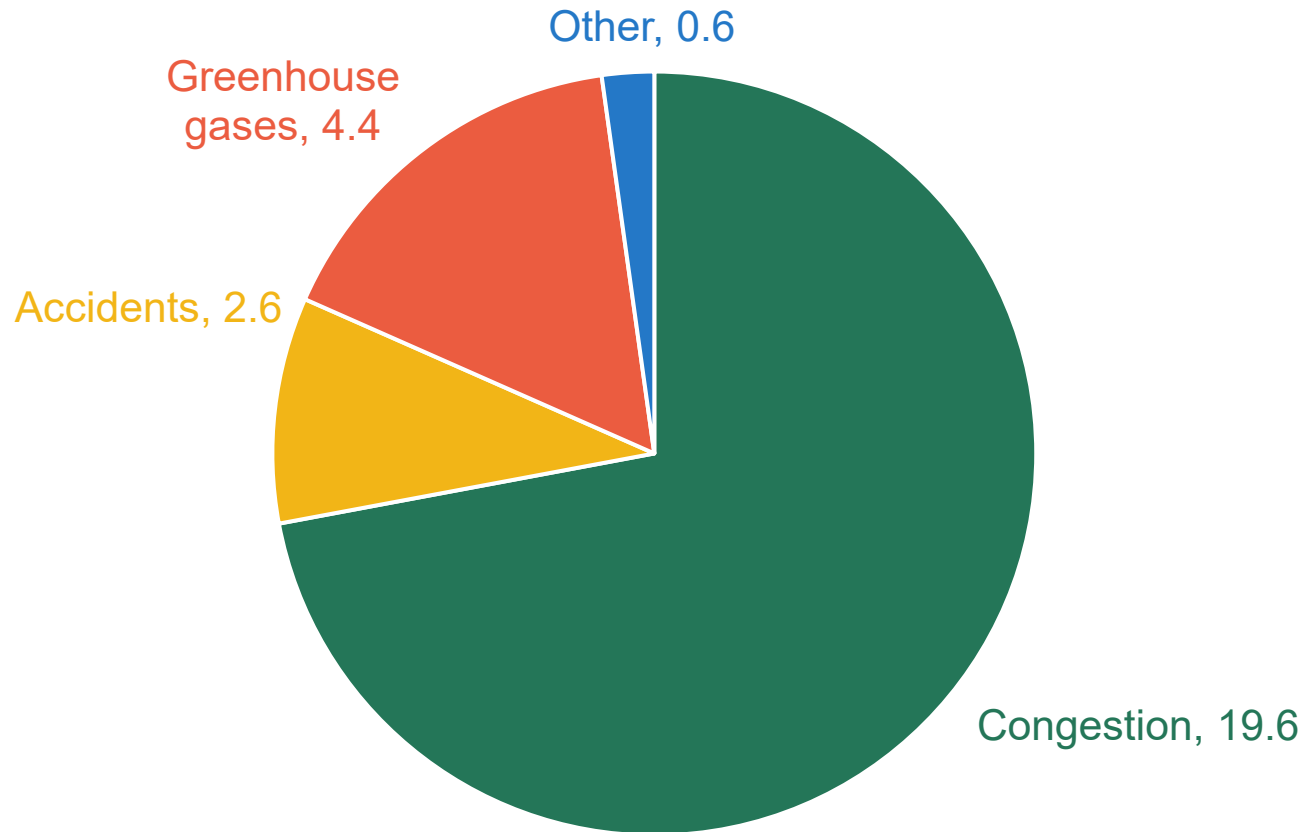


Indirect taxes

Mileage charge for electric cars

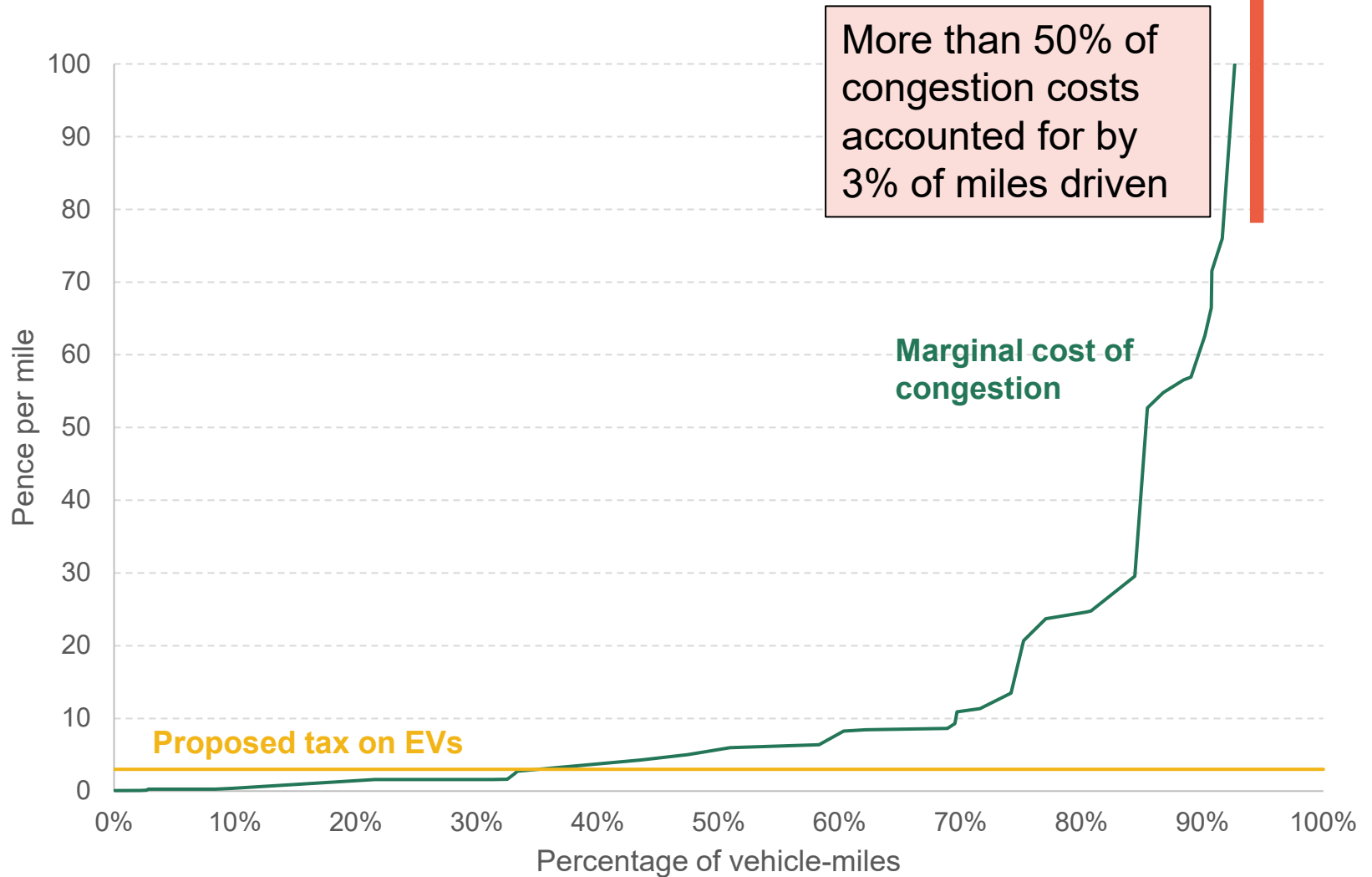
- New 3p per mile tax on electric cars from April 2028
- Raises **£1.9bn** in 2030-31
 - Raises **£7bn** (today's terms) by the time all cars are electric
 - Offsetting some of lost revenue from fuel duty
- Will this reduce take-up of electric cars?
 - ZEV mandate means *share* of electric cars sold can't fall
 - If the new charge reduces demand for electric cars...
 - ...the price of petrol and diesel cars will rise
- Why might we want to tax electric vehicles?

Motoring externalities, p/km, 2024–25



Source: Updated from Adam and Stroud (2019) Table 9.1, based on Department for Transport *WebTAG Databook* May 2025, Table A.5.4.2

Poorly targeting congestion



Source: Updated from Adam and Stroud (2019), based on Department for Transport *WebTAG Databook* May 2025, Table A.5.4.2

Mileage charge for electric cars

- Government deserves credit for taxing electric car driving
 - Current design isn't perfect
 - But easier to do now while take-up is still relatively low
- A congestion-based tax would be better
 - i.e. one that varies by time and place

Energy bills

Permanent (small):

- Energy company obligation discontinued (reduces prices)
- Warm home discount expanded (increases prices)

Temporary (big):

- Renewables obligation levy (currently funded through bills) to be partially funded through general taxation for 3 years

Energy bills

- Combined impact on average annual bills:
 - 2026-27 to 2028-29: £131 (7%) reduction in bills
 - From 2029-30: £39 (2%) reduction in bills
- That will encourage more consumption of domestic electricity
 - But won't increase emissions
 - Because UK emissions trading scheme caps emissions across a group of sectors (including electricity)
 - So if electricity demand increases, prices increase for (and emissions fall from) flights and energy-intensive industries

Other indirect tax changes

- Reduction in VED for electric cars
- Expansion of the electric car grant
- Changes (net increase) in gambling taxes
- Tariffs on low-value imports
- Expansion of tax on sugary drinks
- Increase in landfill tax
- Reduction in tax reliefs for Motability vehicles



Conclusions

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- Across a range of measures, the budget will weaken incentives to save and invest
- There are some glimmers of reform, most notably the welcome decision to tackle the question of how to tax electric cars
- But too often yesterday's budget opted for sticking plasters rather than addressing underlying causes
 - Capital income tax rates increased but without base reform
 - Salary sacrifice tweaked without addressing fundamental boundary between employer/employee contributions treatment
 - A bolted-on council tax surcharge rather than a genuine attempt to get to grips with property taxation
 - Tax on electric cars not targeted at congestion