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Hiding in plain sight

The Government's record on taxes and the challenges ahead

Adam Corlett
June 2024

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Summary

With the general election campaign in full swing, taxes are a frequent source of debate. So in this briefing note we consider some of the key issues for the campaign and beyond. Has the Conservative government raised people's taxes or lowered them? How different are the parties' stated policy plans? And what is likely to happen in the next parliament?

Taxes are up overall...

The tax-to-GDP ratio has certainly jumped since the 2019 election, having previously been stable between 2010 and 2019. Indeed, the projected rise of 3.3 percentage points between 2019-20 and 2024-25 is set to be the largest increase in the tax-to-GDP ratio of any post-war Parliament, and takes it to its highest level since 1949, at 36.5 per cent. The rise in the tax-to-GDP ratio since 2019-20 is equivalent to over £90 billion of additional taxes – or over £3,000 per household – in 2024-25. But it still leaves the UK's tax-to-GDP ratio below that of almost all western and northern European countries.

But this rise is not just down to active policy choices (such as the Corporation Tax rate rise and multi-year tax threshold freeze): the Office for Budget Responsibility (OBR) estimates that only 36 per cent of the overall tax-to-GDP rise (over a slightly different time period, from 2019-20 to 2028-29) can be explained by policy changes announced during the most recent Parliament. There are more complicated shifts going on too. For example, VAT receipts have reached historic highs – pushed up by the standard rate rise in 2011 (now worth £20 billion a year) but more recently rising by 0.4

per cent of GDP in part due to reductions in the 'tax gap', meaning that HM Revenue and Customs (HMRC) is collecting more of what is owed. And only a fraction of the 1.4 percentage point rise in Corporation Tax revenue over the past five years can be explained by headline policies, with the sectoral mix of profits (for example, banks benefiting from rising net-interest margins) a more important driver.

...but many people's taxes have been cut

Despite the aggregate tax take rise, it is not the case that everyone's taxes are visibly up since 2019 or 2010. Thanks to the Income Tax personal allowance increases of the 2010s and the most recent Parliament's big National Insurance (NI) cuts, personal taxes are now historically low in many ways. The basic ***marginal*** rate for most employees is now 28 per cent, down from 31 per cent in 2010, while the ***effective*** (or average) personal tax rate for a typical employee has fallen to its lowest since at least 1975 (ignoring marriage allowances and mortgage interest relief). If their effective tax rate had remained at its 2010 level, the typical employee would be paying £1,600 more Income Tax and NI this year. For an illustrative case study, this is only partially offset by a higher VAT rate, Council Tax and potentially higher employer NI weighing on wages – while many will also have benefited from lower real-terms Fuel Duty.

Some groups have clearly lost out from tax changes, however. This includes some pensioners, whose headline Income Tax allowance has fallen by up to £1,700 in real terms between 2010-11 and 2024-25 (although this is more than offset by non-tax policy changes). By contrast, those under 65 have seen a real-terms allowance increase of £2,900. More significantly from a fiscal perspective – given that Income Tax receipts are very top-heavy – higher-income individuals have tended to see a rise in effective tax rates over the past fifteen years. This is due to the introduction of the personal allowance withdrawal from £100,000; the additional tax rate, now at 45 per cent; and the significant declines in the value of these thresholds and the higher-rate threshold relative to earnings. This fiscal drag means that, whereas around 1-in-10 taxpayers paid an

Income Tax rate of 40 per cent or more in 2010, the figure in 2023 was 1-in-6, pushing up Income Tax revenues without Chancellors having to announce increases in marginal tax rates.

Looking to the future

This general election campaign has already seen some tax proposals for the next parliament from the two biggest parties, although neither manifesto had been published at the time this note was finalised. Based on what we have heard to date, there are some material differences between the Labour and Conservative tax plans. Both parties' plans rely heavily on an ambition to further close the tax gap to raise £6 billion a year. But, beyond this, Labour has set out to raise perhaps an extra £4 billion a year in revenue from selected tax rises, while the Conservatives have so far proposed a £2 billion tax cut for pensioners, and Child Benefit reforms which will have both spending and tax take implications.

But the tax changes pledged so far by the parties are far smaller than the set of tax rises for the next parliament that have already been announced by the Government. These have received little attention during the campaign so far, but amount to a net tax rise of around £23 billion a year by 2028-29 – or around £800 per household on average – and both the Conservatives and Labour are implicitly committed to these, other than the Conservative Party's pledge to increase pensioners' personal allowances at the same rate as the state pension. The scheduled tax rises include increases in Fuel Duty, Stamp Duty and business rates in Spring 2025, and three more years of major-tax threshold freezes – contributing to a projected further 0.7 percentage point rise in the tax-to-GDP ratio by 2028-29.

While the outlook remains uncertain, there are also grounds to expect even more tax rises in the next parliament. First, today's particular fiscal circumstances look extremely challenging. Borrowing for 2023-24 has turned out to be higher than expected by the OBR (by around £7 billion); current market pricing suggests debt-interest costs have risen (pushing up future borrowing by around £2 billion a year on average); and the level of productivity growth assumed by the OBR – one of the key drivers of its forecast for growth in revenues – looks more likely to be revised down than up (which could plausibly add £17 billion to annual borrowing). Meanwhile, spending on public services would need to be £19 billion a year higher than has been pencilled in if further cuts to unprotected departments are to be avoided. Second, history tells us that taxes rise after elections. On average over the past eight general elections, the first two fiscal events of each parliament have featured new policies that have raised taxes by a net £21 billion.

That is not to say for sure that history will repeat itself, but the sheer scale of tax rises since 2019-20, combined with those already announced for the next parliament, makes for a historically unusual context. This backdrop may make it harder for the next government to undertake further tax rises than has been the case in the past (other than the tax rises pledged by Labour should they win the election). On top of this, both main parties have explicitly committed to not raising the key taxes that governments rely on to bring in serious sums. We will need to wait until after the election to see just how the next government will address these fiscal challenges, but it is unlikely to be a quiet time for tax policy.

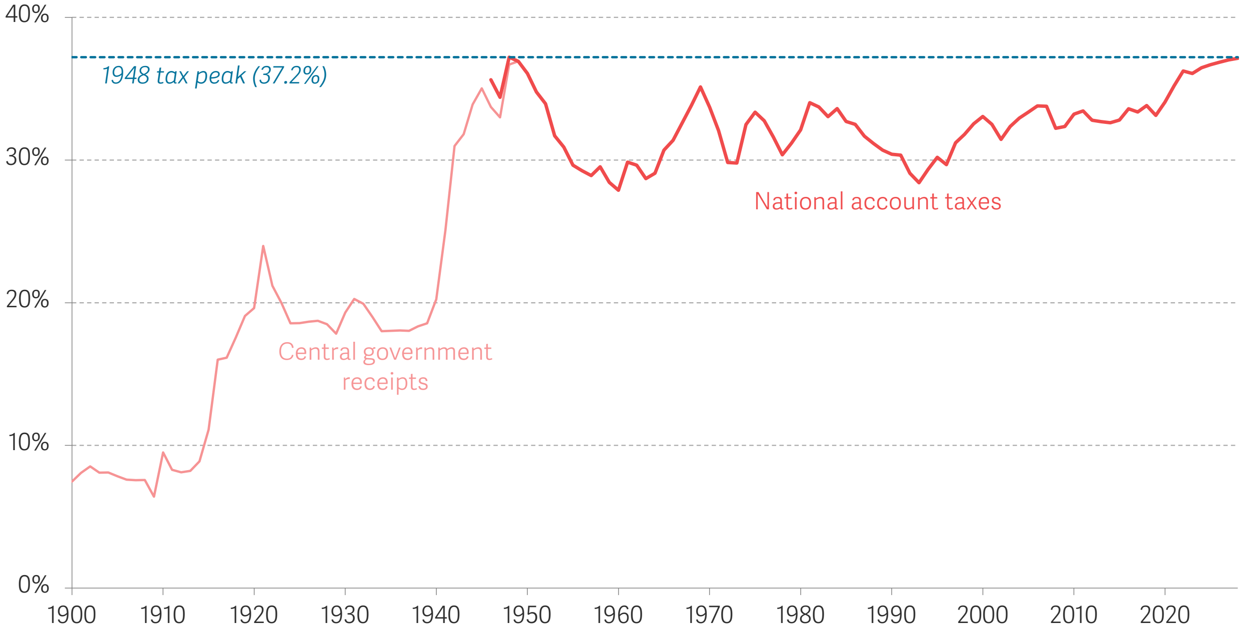
Relative to the size of the economy, tax is now at its highest level since the 1940s, following the biggest rise of any post-war Parliament

The broad tax context for this election is that the most recent Parliament has seen the largest increase in the tax-to-GDP ratio of any since the Second World War, and that the tax-to-GDP ratio in 2024-25 is estimated to be higher than at any point since 1949.

From 1999 through to 2019, the tax-to-GDP ratio hovered around 33 per cent, as seen in Figure 1.[1] But between 2019-20 and 2024-25, tax-to-GDP has risen by 3.3 percentage points, from 33.1 per cent to 36.5 per cent. If this ratio had remained at its 2019 or 2010 levels, taxes would be over £90 billion – or over £3,000 per household – lower this year. The increase is the largest of any post-war Parliament, although short of some other five-year periods (in the 1960s and 1990s).

FIGURE 1: **Tax to GDP has risen sharply since 2019 and is set to near record highs**

Taxes as a proportion of GDP: UK



NOTES: Includes OBR projections. Final data point is 2028-29.
SOURCE: OBR, Economic and Fiscal Outlook, March 2024; OBR, Historical public finances database.

The changes in spending that have necessitated this are explored in another Resolution Foundation report, but a crucial element has been the rise in debt-interest costs – which have grown by 1.5 per cent of GDP since 2019-20 due to higher interest rates and increases in the stock of debt.[2]

1 Our focus here is on 'national account taxes'. 'Public sector current receipts' is a slightly broader measure, including interest and dividends received by the government and the gross operating surplus of public corporations, but the recent trends are similar in both cases.
2 C McCurdy, C Pacitti & J Smith, Debt dramas: Putting the public finances in context ahead of general election 2024, Resolution Foundation, June 2024.

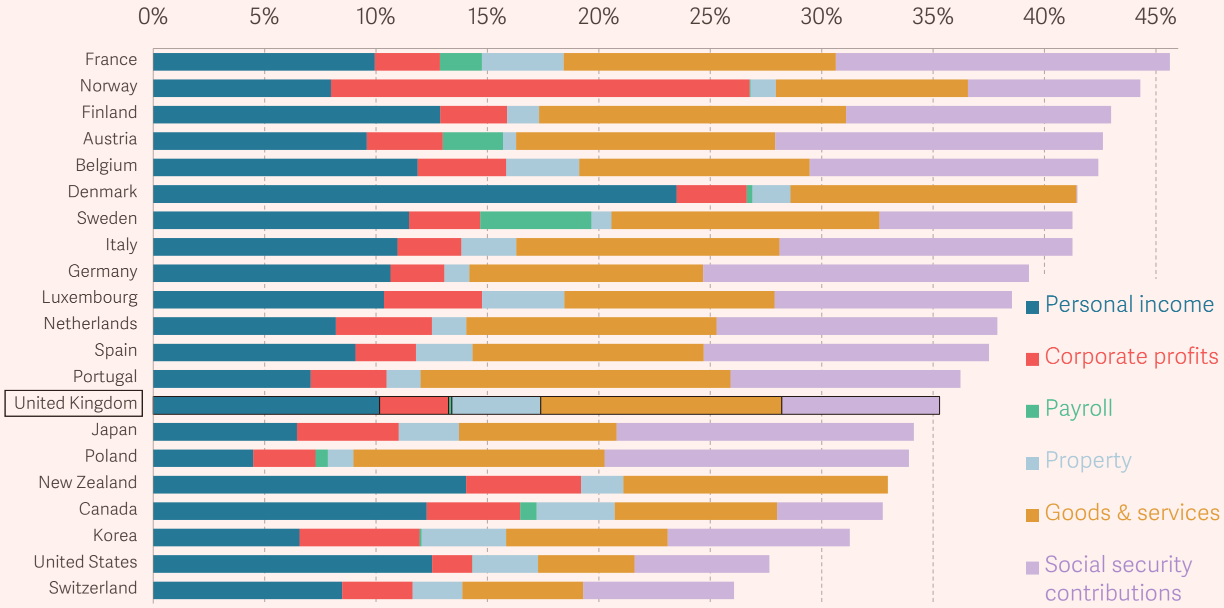
However, as Box 1 explores, even though taxes might be at their highest level since the late 1940s, the proportion of the economy taken in tax is still low compared to our European peers, many of whom were raising their tax takes over the 2010s while the UK did not.

BOX 1: The UK's tax take remains low by European standards

The tax-to-GDP ratio, as set out in Figure 2, is higher in the UK than in other Anglophone countries. For example, it was 2 percentage points above Canada's in 2022. But compared to most Western and Northern European countries, the UK's tax take is not high: tax-to-GDP is 4 percentage points higher in Germany and 11 percentage points higher in France.

FIGURE 2: **The tax take is lower in the UK than in many of our European peers**

Tax revenue as a share of GDP, by tax category, 2022: selected OECD countries



NOTES: Japan social security contributions figure is for 2021.
SOURCE: OECD.

Focusing first on one element of taxation shown in Figure 2, goods and services taxes (in orange) provides another angle on whether taxes are high in the UK. Our goods and services taxes bring in around 11 per cent of GDP – considerably higher than in the US at 4 per cent (where there is no federal sales tax and fuel taxes are notably lower) but very close to the OECD average and lower than many others, including France and New Zealand (12 per cent). The majority of EU countries have a higher VAT rate than the UK, and our VAT base is unusually narrow.[3]

And in the case of taxes on income (including social-security contributions), separate statistics show that the UK has notably low taxes in many ways. We are now estimated to have the lowest tax rate in the G7 for someone on an average salary, for example.[4] And our effective tax rates are lower than in most European countries across the income distribution, though with particularly large differences for low and middle earners – and these statistics do not yet reflect recent NI rate cuts.[5] The gap is particularly driven by employer social contributions.[6] An important caveat is that, while tax rates are low for typical single workers, many other countries have family-related tax allowances that the UK no longer uses to any large extent. UK effective tax rates for a one-earner couple with children, for example, are not as unusually low by international standards – although nor can they be considered high.[7]

One factor that complicates these comparisons is that different countries can have very different approaches to pension saving. Older people in the UK, for example, receive a lot of income from private pensions (similarly to the Netherlands) whereas, in other countries, including France or Finland, the large majority of pension income comes from the state.[8] The OECD tax statistics in Figure 2 only include "compulsory, unrequited payments" (i.e. with some redistributive element) but, in many cases, the level of public pension income one receives will be more strongly linked to the amount of 'tax' paid than is now the case in the UK.

Similarly, graduates may be making student loan repayments, which are not classified as a tax, but feel much the same to those individuals. That said, and with the further caveat that other countries will not necessarily match the UK's projected post-2022 tax rises, the UK's overall tax take does not appear internationally unusual, particularly for a country that wishes to provide universal healthcare and significant (if not extraordinary) state pension incomes.

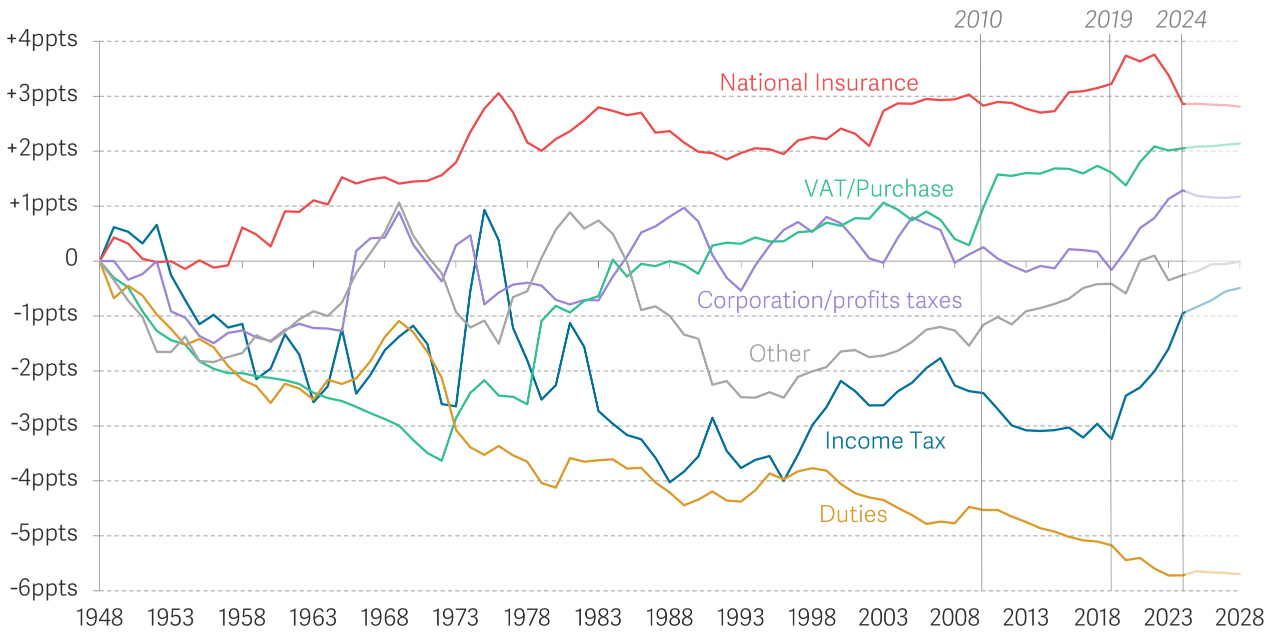
3 A Corlett, The shifting shape of UK tax: Charting the changing size and shape of the UK tax system, Resolution Foundation, November 2019.
4 HM Treasury analysis, January 2024 (prior to the March Budget's further NI cuts), accessed 7 June 2024.
5 A Corlett, F Odamtten & L Try, The Living Standards Audit 2022, Resolution Foundation, July 2022.
6 IFS, How do UK tax revenues compare internationally?, accessed 7 June 2024.
7 OECD, Taxing Wages - the United Kingdom, 2024.
8 R Harker, Pensions: international comparisons, House of Commons Library, March 2022.

But the rise in tax receipts is only partly due to actual changes in policy

Figure 3 breaks down the overall tax-to-GDP ratio into some specific tax groupings to help explore which taxes have gone up since 2010 or 2019, and why. In some cases, changes obviously correspond to well-known tax policy decisions, but a key theme is that the tax take has been buffeted by many other forces.[9]

FIGURE 3: **Income Tax, VAT and Corporation Tax have all risen since 2010**

Changes in tax revenue as a share of GDP, relative to 1948: UK



SOURCE: OBR, Economic and Fiscal Outlook, March 2024; OBR, Historical public finances database.

We now discuss these tax groupings in turn.

First, duties have declined significantly since 2010 (and long before that), in part due to declining levels of smoking and therefore Tobacco Duty, as well as deliberate cuts in the level of Fuel Duty, which has fallen in real-terms by over a third (35 per cent) between 2010-11 and 2024-25. As a proportion of GDP, Fuel Duty has almost halved from 1.7 per cent in 2010-11 to 0.9 per cent in 2024-25.

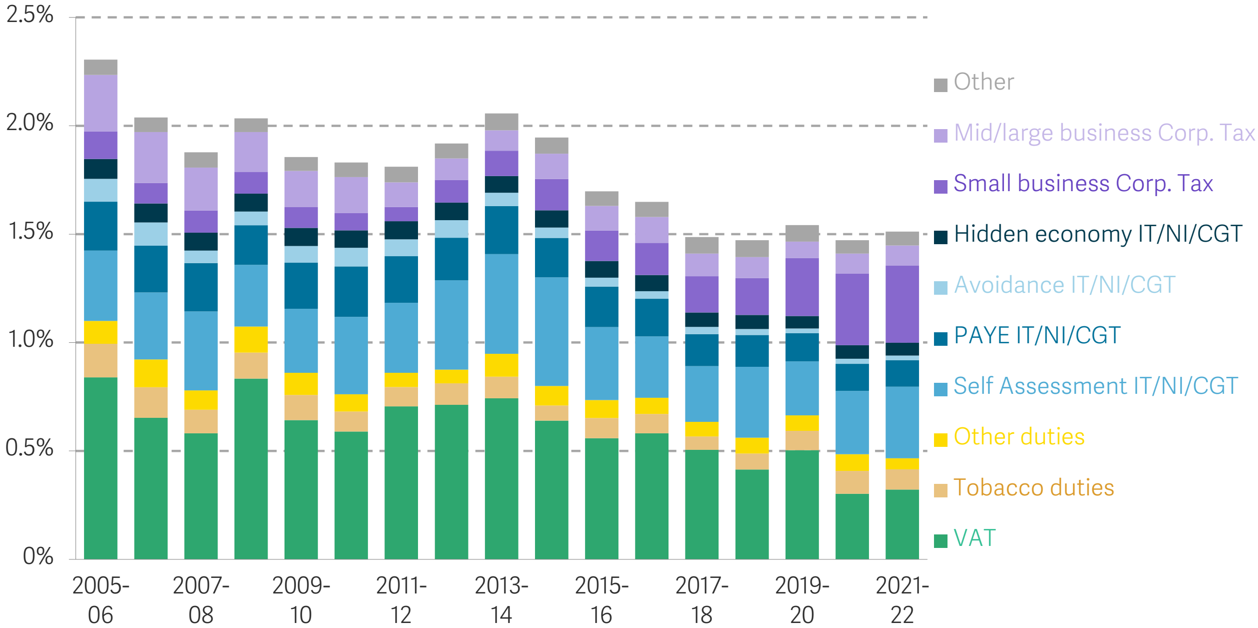
Second, working in the other direction has been a steady increase in the importance of VAT since its introduction in 1973. The impact of increases in the standard VAT rate in 1979, 1991 and 2011 can all be identified in Figure 3, with the Coalition Government's increase (to 20 per cent) worth an estimated £20 billion in 2028-29 – one of the biggest tax changes to happen since 2010. But the VAT take has also risen by 0.4 per cent of

9 It should also be noted that GDP can always be revised and that this will affect tax/GDP estimates. If GDP were revised up by 1 per cent, tax/GDP would fall by 0.4 percentage points (though the opposite is also possible).

GDP since 2019-20, and this is much harder to attribute to any particular policy. One contributor, though, is a fall in the estimated 'tax gap' for VAT, as shown in Figure 4 (the 'tax gap' measures the difference between the amount of tax collected by HMRC compared with a world in which everyone complied perfectly with the law). This alone could have pushed up revenue by 0.2 per cent of GDP since 2019-20 (and 0.5 per cent since 2005-06); and – alongside some deliberate HMRC efforts – this may partly relate to a decline in the use of cash.[10]

FIGURE 4: **The tax gap has fallen – helping to boost the tax take**

Estimated 'tax gap' as a share of GDP: UK



SOURCE: RF analysis of HMRC, Measuring tax gaps 2023 edition; OBR, Economic and Fiscal Outlook, March 2024.

Third, as seen in Figure 3, Corporation Tax is now bringing in more revenue relative to GDP than at any point post war (despite HMRC estimating that there may be a growing problem with the small-business tax gap, as shown in Figure 4).[11] The increase in Corporation Tax revenue since 2019 – 1.4 per cent of GDP – is an important part of the overall tax rise, and is of course helped by the headline rate having jumped from 19 per cent to 25 per cent in 2023. However, OBR numbers imply that the net effect of the two large policy changes – the rate rise and 'full expensing' – will be to boost the tax ratio by only 0.4 percentage points in 2028-29. The rest of the rise in receipts – which implies a remarkable jump in the effective tax rate from 11 per cent in 2019-20 to 18 per cent in 2024-25 – is harder to explain, but the sectoral mix of profits, including banks benefiting

10 E Caswell, Knocked down during lockdown: the return of cash, Bank of England, October 2022.
11 Corporation Tax here includes revenue from the Bank Levy, 'Pillar 2' OECD top-up revenue (from 2026) and the Electricity Generator Levy (£1.6 billion this year).

from rising net interest margins as well as strong profits for some other large non-financial onshore companies, has been an important driver.[12]

Fourth, National Insurance (NI) revenue is anticipated to fall sharply in 2024-25, reflecting the substantial cuts in its main worker tax rates. But, surprisingly, NI revenue as a share of GDP in 2024-25 is expected to be just as high as in 2010-11 (at 6 per cent). This is partly due to the growing importance of employer NI, which now makes up two thirds of total NI revenue; and the end of 'contracting out' (of the now-abolished additional state pension) in 2016 also plays a role.

Finally, Income Tax (the country's most significant revenue raiser) is the biggest driver of higher taxes since 2019-20, rising by 2.3 per cent of GDP – more than reversing the 0.8 percentage point decline between 2010-11 and 2019-20. The long-term perspective is that Income Tax is back to a typical pre-1980s share of national income, at over 10 per cent, despite the basic rate being historically low. This tension is discussed in more detail below but, again, trends will be shaped by structural changes to the economy, such as an increase in the top-heaviness of the tax take through a more unequal distribution of income, and a rise of (taxed) private rental income. And policy changes beyond headline rates and thresholds have also played a role, including the ending of most family-related tax allowances and of homeowner mortgage interest relief. Finally, very recently, higher interest rates have meant more taxable savings income, and facilitated a reduction in (tax-free) defined benefit pension scheme contributions (implying an increase in taxed wages or profits).[13]

Overall, the OBR estimates that only 36 per cent of the overall tax-to-GDP rise (from 2019-20 to 2028-29) can be explained by the policy measures announced in the most recent parliament. Underlying fiscal drag, and some policy changes instigated before the 2019 election, have also contributed, but it is clear that shifts in the 'tax richness' of the economy have been crucial: some of the recent rise in the tax take seems to represent, from the Treasury's point of view, a run of good luck.

Personal taxes are only up for some

Despite the rising tax-to-GDP ratio, the Conservative Government has naturally emphasised particular tax cuts that it has enacted. As we have discussed, some tax rates have been cut since 2019 or 2010, most strikingly the recent falls in NI rates for workers. So below we look at which parts of the population are likely to have seen tax rises, and which have actually seen net tax cuts, with a particular focus on the big direct taxes of Income Tax and NI.

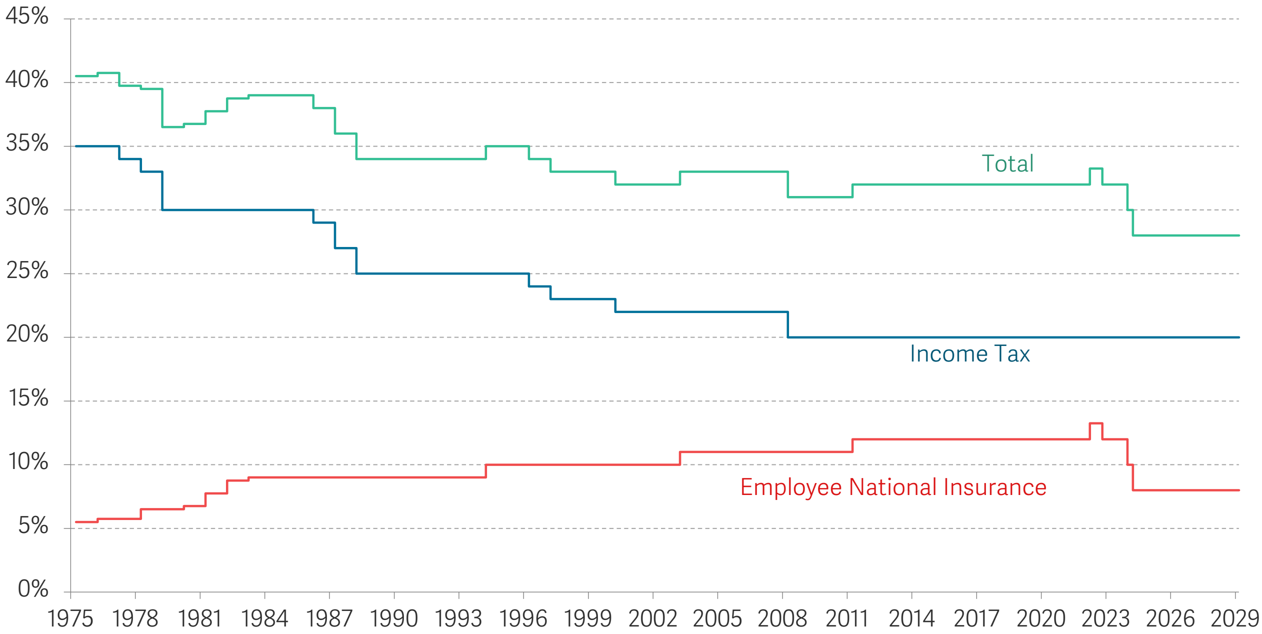
12 See Chart 4.4 in OBR, Economic and Fiscal Outlook, March 2024; and OBR, Forecast evaluation report – January 2023.
13 G Thwaites, The Macroeconomic Policy Outlook Q2 2024, Resolution Foundation, May 2024.

Taxes have actually fallen for many people since 2019 and 2010

Given that the overall tax take is approaching record highs, and that this is driven above all by Income Tax, it is perhaps surprising that direct taxes on salaries are now historically low for a large fraction of the population. As Figure 5 shows, the headline 20 per cent rate of Income Tax has not been changed under this Conservative Government, and remains historically low. Meanwhile, the recent cut in employee NI from 12 per cent to 8 per cent (and from 9 per cent to 6 per cent for the self-employed) takes it back to its lowest since the early 1980s, and leaves the combined rate of Income Tax and NI lower than at any point since at least 1975 (before this point NI was not related to earnings, and comparisons with the Income Tax system before 1973 are not straightforward).[14]

FIGURE 5: **Marginal taxes for basic-rate payers are now at their lowest for at least half a century**

Marginal basic tax rates: UK excluding Scotland



NOTES: Financial years. Assumes a 9 per cent employee rate in 1985-89, when rates varied based on earnings.
SOURCE: RF analysis of IFS, Fiscal Facts.

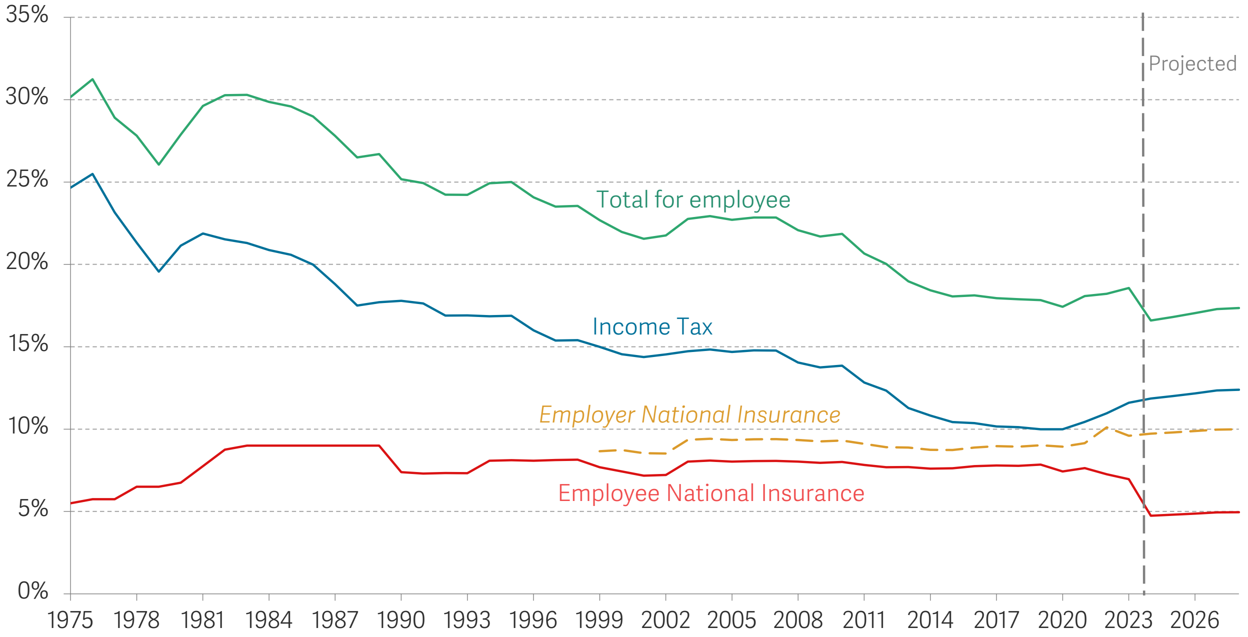
Of course, marginal tax rates are not the whole story. Tax bills also depend on tax thresholds. Factoring those in, so as to look at effective tax rates (the total tax paid divided by pre-tax earnings), underlines the scale of tax reductions for low-and-middle income individuals. As Figure 6 shows, the effective Income Tax rate on a typical salary fell considerably between 2010-11 and 2019-20, thanks to large real-terms increases in the tax-free allowance for working-age people. Since 2019-20, the effective Income Tax rate

14 For long-term comparisons, it should be noted that various Income Tax reliefs have greatly declined in importance, including marriage allowances (and child allowances before 1979) and mortgage interest relief at source. But in any case this does not change the conclusion that taxes have fallen for many since 2010 and 2019.

has been going up – contributing to the aggregate Income Tax rise – due to frozen tax thresholds, but this has only reversed a fraction of earlier tax allowance increases (see Figure 7). Meanwhile, workers have benefited not only from the recent NI rate cuts, but also from a historically-high NI-free allowance. Combining all of this, the total effective tax rate for the typical employee (on a pre-tax salary today of around £31,000) has fallen from 22 per cent in 2010-11 to 17 per cent in 2024-25: a 5 percentage point reduction, worth £1,600 this year. This tax decline is slightly offset by a higher effective rate of employer NI (shown in yellow) – something that, in the long run, should lower pre-tax wages – but is not cancelled out by it.

FIGURE 6: **The effective tax rate for a stylised employee on the median salary is now at historic lows**

Effective tax rates for an employee on the median salary: UK



NOTES: For consistency, tax rates are for unmarried employees under 65 with non-volatile earnings, and ignore mortgage interest and pension tax relief. Scottish tax differences are not included. Based on financial years. 2022 and 2023 use the tax parameters that applied in October of those years. Employer NI figures only calculated from 1999 onwards, and non-structural employer NI tax reliefs not included.
SOURCE: RF analysis using median earnings figures from ASHE/NESPD and tax history from HMRC and IFS. Earnings projected using OBR, Economic and Fiscal Outlook, March 2024.

And this conclusion holds up if we look at other personal-sector taxes. For example, Council Tax has risen in importance – to its highest sustained level on record relative to GDP – but this is still small compared to personal tax changes, with a rise of around 0.1 per cent of earnings since 2010-11 for someone on a typical salary living alone in a Band D property.[15] And while the 2.5 percentage point VAT rate rise in 2011 reduced people's spending power, a simple case study would suggest this was a loss of around £300 for

15 T Bell, Happy new tax year!, Resolution Foundation, March 2024.

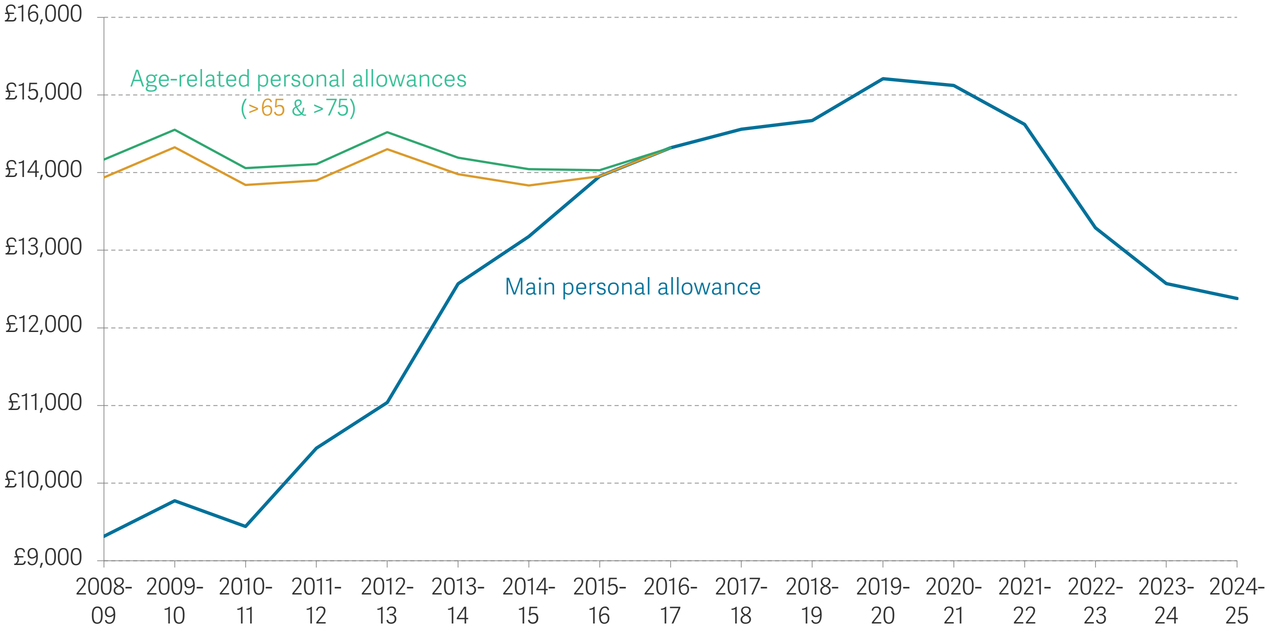
someone on a typical salary:[16] again, not enough to outweigh the falls in Income Tax and employee NI.

There have been tax losses for some pensioners

One group that has been more likely to lose out from tax changes, however, has been pensioners. Since 2021, they have been affected by Income Tax threshold freezes, but without the benefit of this year's NI cuts (as pensioners do not pay NI). And comparing 2024-25 to 2010-11, while the main tax-free allowance has increased by over £2,900 in real-terms – as shown in Figure 7 – many of those over the age of 65 have lost out due to the abolition of age-related tax allowances, leaving their tax-free allowance around £1,500 or (beyond age 75) £1,700 lower. It should be noted though that these extra allowances were only of benefit to those with an income high enough to be otherwise eligible for tax but not so high as to have the allowance tapered away (around £30,000). In any case, this is not to say that pensioners have been left worse off overall from policy changes – particularly given the impact of real State Pension increases – nor that a more age-neutral tax system is a bad thing, but the recent tax trends for workers and pensioners have clearly differed.[17]

FIGURE 7: **While the personal allowance is still higher than in 2010-11 in real terms, that is not the case for those pensioners who were eligible for age-related allowances**

Real value of Income Tax personal allowances: UK



NOTES: CPI adjusted to 2023-24 terms.
SOURCE: RF analysis with 2024-25 projection based on OBR, Economic and Fiscal Outlook, March 2024.

16 Based on simple assumptions that all disposable income (after Income Tax, NI and Council Tax) is spent, and that half of this goes on standard-rated goods and services.
17 M Brewer, A Clegg & L Try, Pensioner progress: The impact of personal tax and benefit changes since 2010 on pensioner families, Resolution Foundation, March 2024.

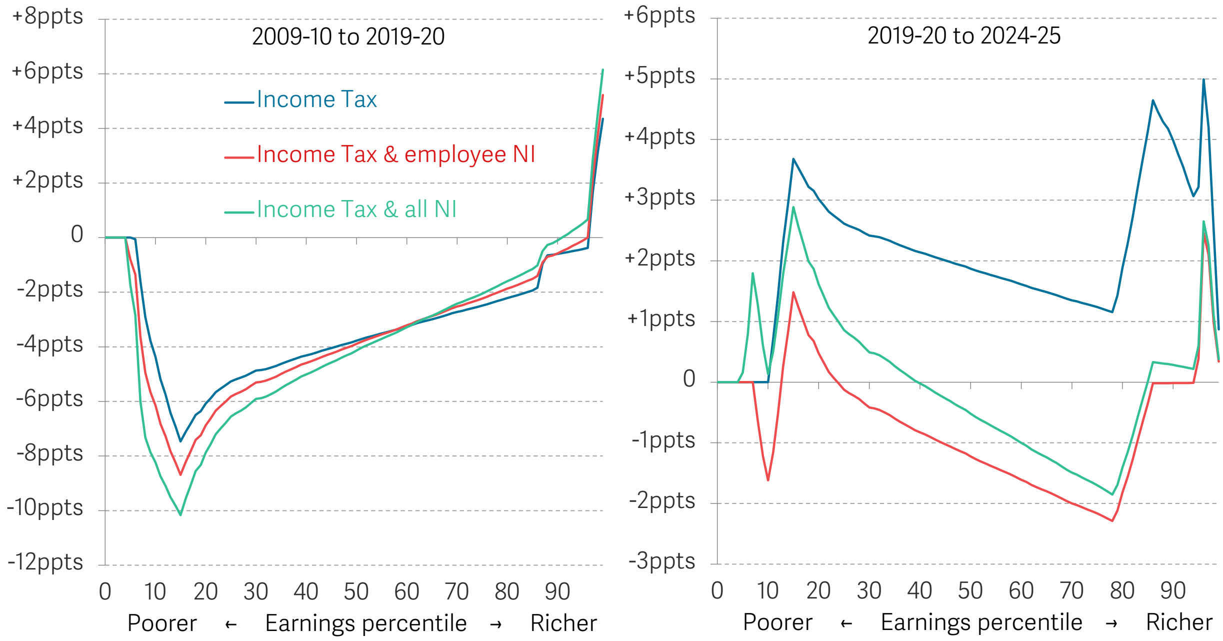
There have been large tax rises at the top, particularly for (some) unearned income

Finally, it is very important to note that while effective tax rates have fallen for the median employee, for example, there is a different story at the top of the income distribution.

Figure 8 looks in detail at the change in effective tax rates between 2009-10 and 2019-20, and between 2019-20 and now (2024-25), across the earnings distribution. In keeping with Figure 6, tax rates fell over the 2010s at the median and indeed for most of the distribution. But this was not the case at the top, given the introduction in 2010 of the personal allowance taper and the additional rate of tax (albeit with this being cut from 50 to 45 per cent in 2013).

FIGURE 8: **Those on top incomes have seen tax increases in both the 2010s and 2020s so far, while most low and middle earners have seen net tax cuts**

Changes in modelled effective tax rate between 2009-10 and 2019-20 (left panel) and 2019-20 and 2024-25 (right panel), by percentile of the earnings distribution: UK



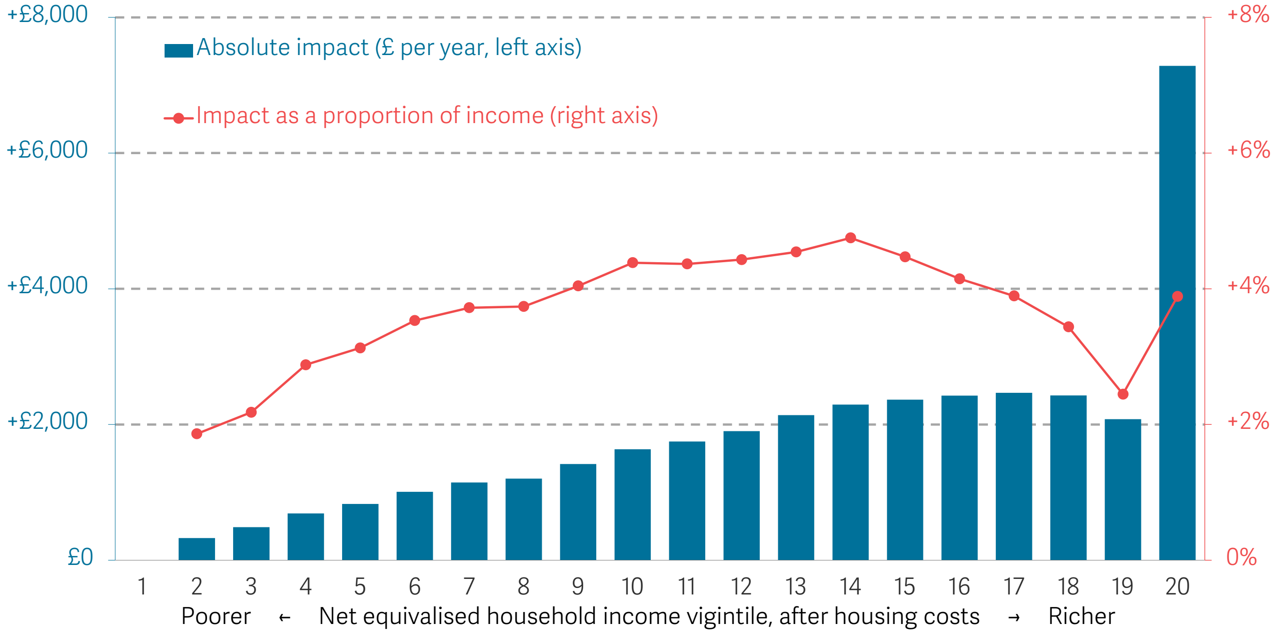
NOTES: Simplified model of the tax system for unmarried non-pensioner employees. Earnings distribution based on DWP, Households Below Average Income and the IPPR tax-benefit model and projected backwards from 2024-25 in line with average earnings (such that the relative distribution does not change).
SOURCE: RF analysis including use of DWP, Households Below Average Income and the IPPR tax-benefit model.

The story since 2019-20 has been more complicated, with the median employee again seeing a decline in tax rates, but lower earners seeing a rise. This is because the freezing of the personal allowance outweighs the cut in NI rates (although this only partially offsets the tax cuts of the 2010s). And higher earners have also seen increases. For non-wage income that does not attract NI, the pattern since 2019-20 is more straightforwardly one of tax rate rises (and other tax changes not included here, such as to dividend taxes and mortgage relief for higher-rate paying landlords would only add to that picture). Overall, the modelled changes in effective tax rates in these illustrative charts add up to a fall of 6 percentage points for a low earner (around the 20th percentile) and a rise of 7 percentage points for the top one per cent of earners. This is significant because Income Tax in particular is now very top-heavy in terms of absolute revenue contributions, so how changes affect the top has a weighty influence on receipts.

It should be noted though that the left panel of Figure 8 is making a comparison with 2009-10, prior to the April 2010 introduction of the additional rate of tax and the personal allowance taper. This gives a broader historical perspective by including the impact of these tax features, which did not exist in the 2000s but which have been maintained under this last Government. But we can also more strictly assess the Government's record relative to the tax system it inherited in 2010. Figure 9 (which is on a household basis) makes this comparison and again shows net direct tax cuts across the distribution but now including those with the highest incomes, who benefited from a cut in the additional rate from 50p to 45p in 2013.[18]

FIGURE 9: **Compared to default policies, direct tax choices since 2010 have been a net tax cut across the distribution**

Impact of Income Tax and personal National Insurance policy changes since May 2010 on household disposable incomes: UK, 2024-25



NOTES: We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group. The UK tax system has been applied to Scotland in this analysis. Policies include personal allowance increases and freezes, the abolition of age-related allowances, savings and dividend tax changes, NI threshold increases and rate cuts, the lowering of the additional rate to 45 per cent, the cut in the additional rate threshold, higher rate threshold freezes, the marriage tax allowance and more. The switch from RPI to CPI default indexing is not included.
SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

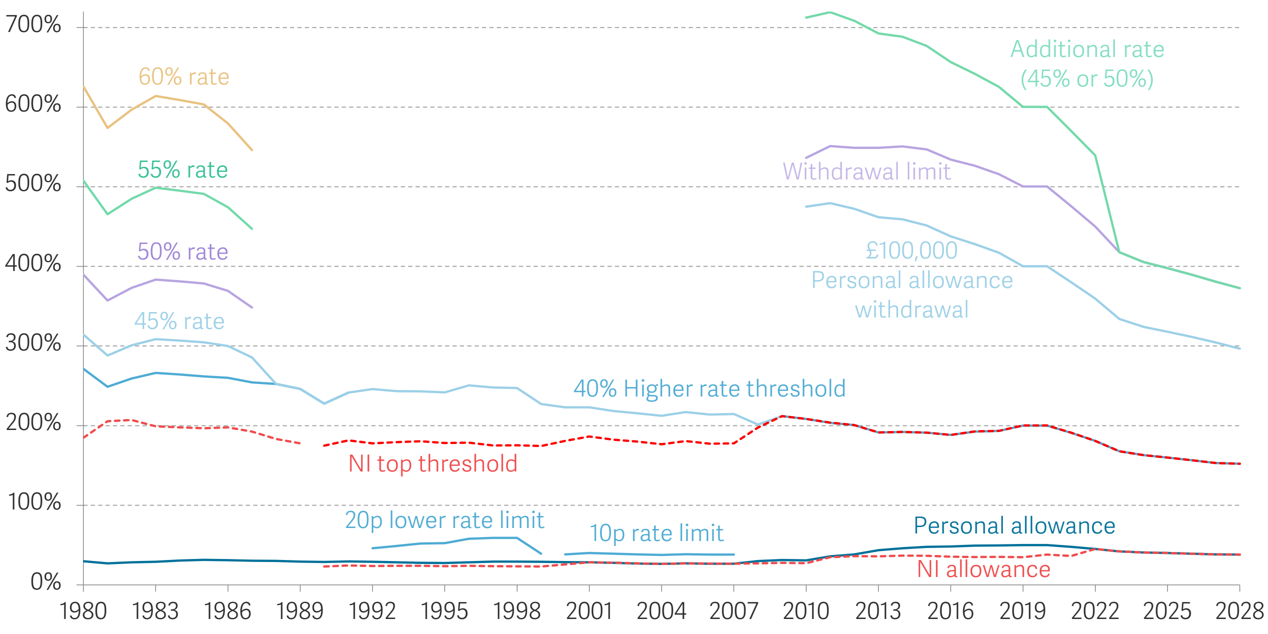
18 This modelling doesn't include any behavioural effects and will overestimate the implied revenue loss from the additional rate cut.

The drivers of higher effective tax rates at the top since 2009-10 are not only about the introduction of new rates beyond £100,000. Fiscal drag has also been important, with the thresholds for those rates having fallen significantly relative to earnings due to being permanently frozen by default (and this is not included as a policy change in Figure 9) and, in the case of the additional-rate threshold, reduced in 2023.

What's more, while the personal allowance remains at a historically healthy level relative to typical earnings, the threshold for higher-rate tax has declined significantly relative to earnings since 2010 (from around 2.1 times the median salary to around 1.6 times). As a result, whereas around 1-in-10 Income Tax payers faced a marginal Income Tax rate of 40 per cent or more in 2010, the figure in 2023 was 1-in-6, pushing up Income Tax revenues without Chancellors having to announce increases in marginal tax rates.[19]

FIGURE 10: **The position of top tax thresholds has plummeted relative to earnings since 2010, alongside a long-term decline in the higher-rate threshold**

Income Tax and employee National Insurance thresholds relative to median employee earnings: UK



NOTES: The number of thresholds has varied over time. Projected from 2024. Scottish tax differences are not included. Based on financial years.
SOURCE: RF analysis using median earnings figures from ASHE/NESPD and tax history from HMRC and IFS. Earnings projected using OBR, Economic and Fiscal Outlook, March 2024.

19 RF analysis of HMRC, Income Tax statistics and distributions, June 2023.

The parties are setting out different stalls on tax

In advance of publishing their manifestos, both main parties have been setting out their stalls on the future of tax, with some material differences emerging, alongside some important areas of agreement.

The Conservatives have proposed some tax cuts, with a (resurrected) higher personal allowance for pensioners costing around £2 billion by the end of the next parliament, as well as fundamental reform of the High Income Child Benefit Charge, costing around £1 billion (although in strict terms this is partly a spending increase rather than entirely a tax cut).

Labour has, in contrast, proposed a small number of tax rises, to fund specific spending promises. These revenue raisers relate to private school VAT and business rates; the CGT treatment of carried interest; amendments to 'non-dom' tax reforms; the energy windfall tax; and a small non-resident Stamp Duty Land Tax rise; and they have previously suggested the reinstatement of the pension lifetime allowance. Excluding the latter, these could raise around £4 billion a year based on costings previously reported elsewhere (but this is only a rough estimate and these figures may change as more detail becomes available).

But both major parties share a proposal to raise £6 billion a year through reducing the tax gap. In the case of Labour, this would be helped by a £1 billion a year investment in HMRC. As shown in Figure 4, the 'tax gap' was estimated to be £36 billion in 2021-22 and progress has been made already, but making further gains would not be trivial, and it should be recognised that the problem is more one of tackling widespread non-compliance (e.g. the majority of self-assessment taxpayers in construction, transport and hospitality) than of closing a few aggressive tax avoidance schemes.[20]

Both parties have also demonstrated a shared willingness to rule out a wide range of tax rises. Labour have said that they will not raise the headline rate of Corporation Tax beyond its current 25 per cent, and that they will "not raise income tax, national insurance or VAT", (although this may only refer to headline rates).[21] (One implication of this is that 2024's NI cuts are likely here to stay.) Similarly, the Conservatives are committed to not increasing the rates of Income Tax, NI or VAT,[22] and have additionally pledged not to introduce CGT on primary residences; nor reform (outdated and unfair) Council Tax; nor raise Stamp Duty – although it is not clear whether this includes the Stamp Duty cut scheduled for next year, as explored further below.

20 See Figure 4, as well as A Advani, Who does and doesn't pay taxes?, July 2020.
21 labour.org.uk, Labour Party tax policy: How we will make the tax system fairer, May 2024.
22 KPMG, Tax statements from the main political parties, June 2024.

Despite this emphasis on ruling out some tax rises, both parties are implicitly committed to some significant planned tax rises in the next parliament, and we now turn to these.

Whoever wins the election, the next parliament is set to bring scheduled tax rises and, if history is a guide, likely new ones too

But we should not be led to think that the only tax changes coming in the next parliament are those featured in manifestos. There are very good reasons to expect further tax rises over the next few years. Indeed, a majority of people think that taxes are more likely to rise after the election, whether the next government is Conservative or Labour.[23]

Significant tax rises are already scheduled

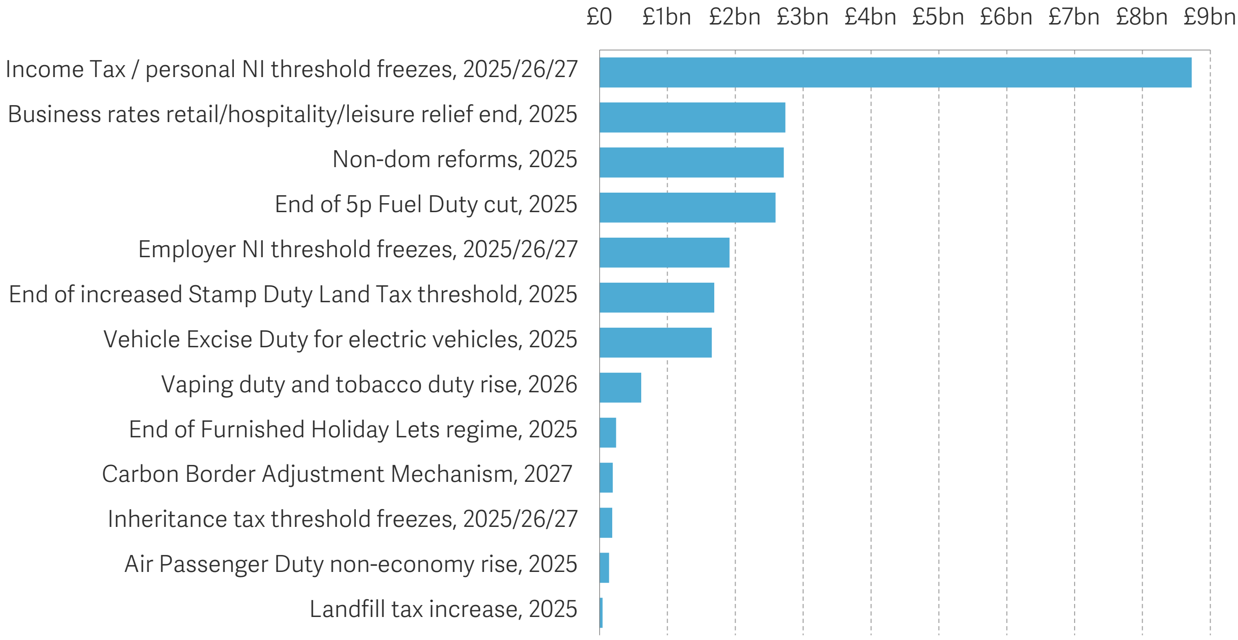
The clearest reason to think that taxes are going to go up after the election is that this is already Government policy. The scale of the tax changes that have so far been proposed by the biggest parties are dwarfed by the scale of the tax rises that already been announced by this Government and which are due to come into effect in the next parliament. By committing themselves to the current Government's plans, the Labour Party is also effectively signing up to these if they form the next government.

The sizes of the individual tax rises scheduled to kick in at varying points after the general election are shown in Figure 11. In total, they add up to £23 billion a year of scheduled tax rises – or around £800 per household in 2028-29 – with some of the biggest including another three years of freezes for the main Income Tax thresholds and the employer NI threshold. In Spring 2025, there will also be – on current plans – a 5p rise in Fuel Duty,[24] a cut in the starting point for Stamp Duty Land Tax, and the expiry of the Retail, Hospitality and Leisure Business Rates Relief Scheme. Thus far, the only promise to slightly deviate from any of these plans is the Conservative Party's pensioner tax allowance policy, which would end the Income Tax threshold freeze for that group and increase the allowances at the same rate as the State Pension.

23 Ipsos, Voters resigned to tax rises, despite Labour and Conservative pledges, June 2024.
24 The OBR's forecasts also assume that Fuel Duty will rise with RPI each year, although there have been no increases since 2011. We do not count this in the £23 billion, along with other nominal tax rises and cuts that happen each year as part of the usual indexation for inflation.

FIGURE 11: **£23 billion a year of tax rises are already planned for after the election**

Estimated annual impact of tax rises already scheduled for the next parliament: UK



NOTES: All costings in 2028-29. Policies are included if they are a deviation from the default uprating for that tax. Does not include compliance measures, nor anticipated Council Tax increases. The exact impact of freezes will depend on future inflation.
SOURCE: RF analysis of DWP Family Resources Survey using the IPPR tax-benefit model; OBR, Policy measures database, March 2024; HMT, Spring Budget 2024.

We have previously painted these tax rises as the last element in a 'tax sandwich': taxes were raised in 2023, cut in this election year, and then will be raised further post-election.[25] These further tax rises are the main reason why the tax-to-GDP ratio is projected to rise by a further 0.7 per cent of GDP by 2028-29. That is equivalent to an £18 billion tax rise still to come, in 2024-25 terms, on top of the most recent Parliament's rise of over £90 billion.

New tax rises are also likely

In addition to the tax rises that have already been announced and are part of the fiscal outlook, there are grounds for expecting the next government – whatever the results of the election – to have to announce further, new, tax rises.

First, the outlook for the public finances is a difficult one. As discussed in previous work, the current Government's plans imply that there will be around £19 billion of cuts to unprotected departments' day-to-day spending, as well as a £17 billion fall in real investment, with a further £4 billion needed to meet the parties' defence spending goal, and still more for new compensation schemes and asylum-cost overruns.[26] Furthermore,

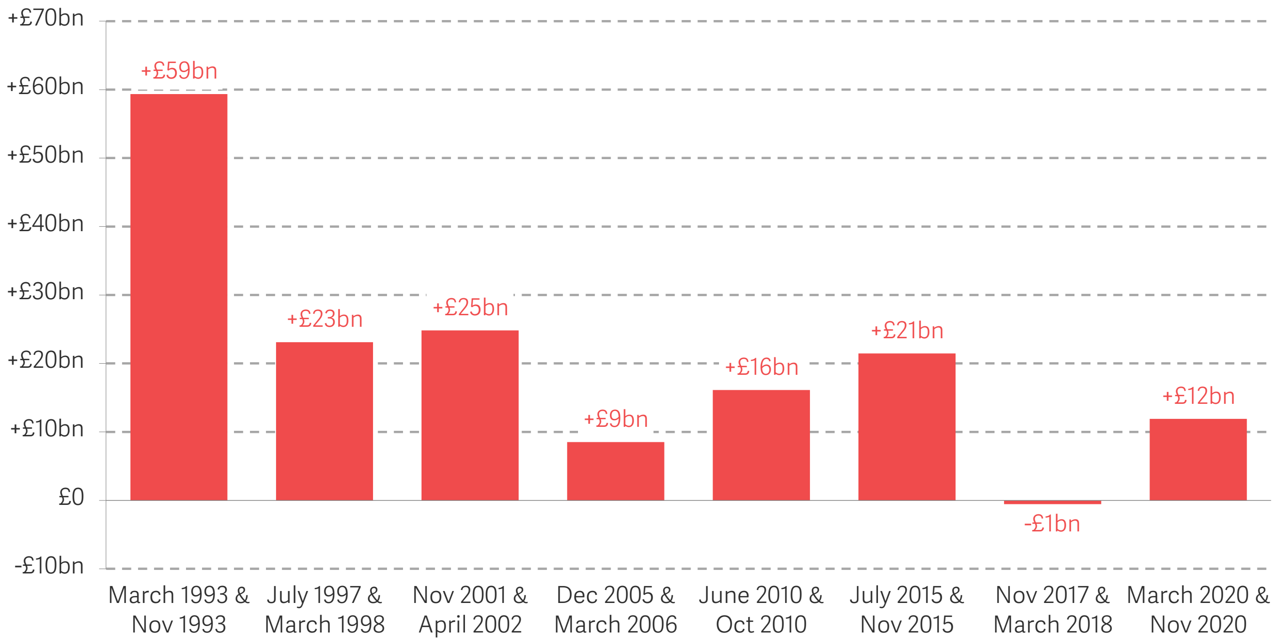
25 Resolution Foundation, Back for more? Putting the 2024 Spring Budget in context, March 2024.
26 C McCurdy, C Pacitti & J Smith, Debt dramas: Putting the public finances in context ahead of general election 2024, Resolution Foundation, June 2024.

while the outlook is uncertain, the underlying fiscal news since the March Budget seems likely to exacerbate these problems. Increases in market interest rates could push up future borrowing by around £2 billion a year on average over the five years of the OBR forecast; while PAYE Income Tax and NI receipts for 2023-24 have come in £5 billion lower than expected by the OBR (contributing to borrowing being £7 billion above the forecast).[27] And, although the economic outlook can easily shift in either direction, there are reasons to think the OBR's productivity assumptions are too optimistic based on recent trends, where even a small downgrade in growth assumptions would add another £17 billion a year to borrowing.[28]

Second, tax rises have been a consistent norm after elections. Over the previous eight general elections, net tax rises have followed elections in all cases except for 2017 (when a minority government was returned): see Figure 12, which looks at the net annual tax rise delivered by the two fiscal events following each election. The average has been a net tax rise of £21 billion a year (0.6 per cent of GDP), with little difference in averages between Conservative-led and Labour Governments.

FIGURE 12: **Post-election tax rises have been the norm, averaging £21 billion over the first two Budgets or fiscal statements**

Net long-term annual impact of tax policy announcements at the two fiscal events after general elections: UK



NOTES: Historic values grown to 2028-29 in line with nominal GDP. Based on forecasts from the time of each fiscal event (actual impacts on tax revenue may have differed).
SOURCE: RF analysis of OBR, Policy measures database, March 2024.

27 OBR, Commentary on the Public Sector Finances: April 2024, May 2024.
28 This would be the impact of closing half of the gap between the OBR's current assumption for longer-term productivity growth (1.1 per cent) and the post-financial-crisis (2013 to 2019) average (0.7 per cent). The most recent data point, up to Q1 2024, was growth of 0.1 per cent.

Of course, the sheer scale of tax rises since 2019-20 combined with those already announced for the next parliament makes for a historically unusual context, and this backdrop may make it harder than has been the case in the past for the next government to undertake further tax rises (other than the tax rises pledged by Labour should they win the election). It is also the case that both main parties have explicitly committed to not raising the key taxes that governments rely on to bring in serious sums. So we will need to wait until the first post-election fiscal event and beyond to see where taxes really go next.

Our own suggestions for what tax rises and tax cuts should be prioritised are set out in previous work.[29]

29 M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023; and Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

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