

DEMOS

SOLVING THE TAX PUZZLE

EIGHT POPULAR,
PRAGMATIC, PRO-GROWTH
TAX REFORMS TO PLUG
THE FISCAL HOLE

DAN GOSS

SEPTEMBER 2025

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ACKNOWLEDGEMENTS

We would like to thank the project's advisory group, for their guidance, criticism and constructive feedback on policy design and public attitudes:

- Arun Advani, Director at Centre for Analysis of Taxation (CenTax)
- Emma Chamberlain, Barrister at Pump Court Tax Chambers
- James Howat, Chief Economist at Labour Together
- Steve Webb, Former Minister for Pensions, now partner at Lane Clark and Peacock

The group membership does not in any way mean endorsement of the policies.

We also thank the team at CenTax for their technical advice on interpreting and applying their previously published research, which we use to provide estimates of the revenue and distributional effects of several of the reforms that we recommend in this report. Their contribution does not imply endorsement of our analysis.

Special thanks to Mubin Haq who helped conceive this stream of work and earlier contributions to Demos's Inheritance Tax research. He has been a brilliant support to this work at Demos. Special thanks also to Vivienne Jackson and Karen Barker at abrdn Financial Fairness Trust for their great support.

We would also like to thank many of our colleagues at Demos for their support. In particular, thanks to Anna Garrod, Chloe Burke, Lottie Skeggs, Lucy Bush, Nicola Stokes and Polly Curtis, and former colleagues Andrew O'Brien and Ben Glover.

This work was funded last year by abrdn Financial Fairness Trust.

Any errors remain the author's responsibility.

Dan Goss

September 2025

ABOUT THIS REPORT

The government is in a seemingly impossible financial spot. In the autumn budget it must find a way to either cut spending or raise taxes to meet its fiscal rules. Its tax decisions have so far cost it precious political capital and it is under pressure from the right to avoid any further tax rises. At the same time it must meet its commitments to improve public services, increase growth and achieve net zero. These are proving stubbornly hard without more investment, and they are under pressure to accelerate progress. It is an unenviable set of challenges.

At Demos, we understand there are no easy choices. We see that the only way through these predicaments is to have open and frank conversations with the public about the choices facing us. Our work on building a **Citizen Economy** focuses on ambitious and impactful ways to align the interests of citizens with those of the economy, the growth agenda, employers and the government's fiscal policies. In this context, this report set out to thread the needle to find popular, pragmatic and pro-growth options to raise tax, by asking the public what choices they would make and what messaging would convince them. We hope it helps expand the Overton window and open up opportunities for an optimistic path forward.

This report focuses on reforms beyond raising the headline rates of the big three taxes: income tax, national insurance and VAT. Our upcoming next work will look at the public appetite for more substantial changes to affect those broad-based taxes. Future work under the Citizen Economy pillar will look at some of the other areas that most affect the fortunes of citizens: the private rental market, lived experience of poverty, work, social mobility and the contribution businesses can make to this agenda.

EXECUTIVE SUMMARY

The UK is walking a precarious fiscal tightrope. After a series of blows to public finances since the OBR's last official forecast, the government will almost certainly need more money to meet its fiscal rules. At the same time, it faces imperatives to drive economic growth, improve public services and rebuild public trust. Tough decisions are needed. The choices the government makes now will shape our country's future for years to come.

Reversals on winter fuel payment cuts and disability benefit reforms mean at least £6.6 billion is likely needed to restore the fiscal headroom.¹ But if growth prospects are downgraded by just 0.1 percentage point, this gap would jump to £16 billion. Larger downgrades could drive the gap to over £20 billion. On top of this, with public investment levels currently set to drop from 2028/29 onwards, further investment - and therefore revenue - will be needed later this parliament to drive growth and public service renewal.²

What are the government's options? With the fiscal rules unlikely to change, tax rises or spending cuts remain on the cards. Yet, time and time again, we have seen spending cuts create more harm than good for public services, economic growth, and public trust. A decade of austerity made our public services weaker and less productive - and Demos has demonstrated that public service renewal instead requires short-term investment in preventative and innovative services.³ Knee-jerk cuts to welfare spending - be it disability benefits or winter fuel payments - have driven public anger and mistrust. Cuts to public investment - as governments have instead often leant on - have harmed growth and public trust in the state, deepening the crisis of democracy that Demos has highlighted.^{4,5} If the Chancellor relies on spending cuts this Budget, the same fates likely await.

Given concern about spending cuts, Demos has been working throughout 2025 to understand how tax rises can offer a better route out of the fiscal hole. This means tax rises that improve tax efficiency and boost productivity but, critically, also align most closely with public priorities. From the 'pasty tax' to inheritance tax on farmers, we have seen tax reforms can shake public confidence in the government. To begin rebuilding trust, tax rises must be designed to best support the public's wants and needs for the economy.

Having promised not to raise income tax, national insurance contributions (NICs), VAT or

1 Conway E. Yet another fiscal 'black hole'? Here's why this one matters. Sky News. 3 July 2025. <https://news.sky.com/story/fiscal-rules-are-silly-but-important-as-reeves-has-banged-on-about-them-and-markets-care-13392031>

2 Boileau B, Warner M, and Zaranko B. Four big decisions for the 2025 Spending Review. Institute for Fiscal Studies. 1 June 2025. <https://ifs.org.uk/articles/four-big-decisions-2025-spending-review>

3 Glover B. The Reform Dividend: A Roadmap to Liberate Public Services. Demos. 4 December 2024. https://demos.co.uk/wp-content/uploads/2024/12/The-Reform-Dividend-Final-Report_Dec-2024.pdf

4 OECD data explorer. Annual investment by asset and institutional sector. <https://data-explorer.oecd.org/>

5 Dibb G and Jung Carsten. Rock bottom: Low investment in the UK economy. Institute for Public Policy Research. 18 June 2024. https://ippr-org.files.svcdn.com/production/Downloads/Rock_bottom_June24_2024-06-18-081624_arvs.pdf?dm=1718698584

corporation tax - the broad-based taxes which collectively account for three-quarters of public revenue - three key questions need to be answered:

1. Can the government plug the fiscal hole in a fair, efficient and publicly supported way without raising broad-based taxes? If so, how?
2. Should the government break their promise and raise broad-based taxes?
3. How can the government tell a compelling story about their tax decisions to maintain public trust?

This paper answers the first question. It finds that the government could raise around £21.3 billion in 2026/27 through eight reforms that are pragmatic, popular and pro-growth, without raising headline rates for income tax, NICs or VAT.⁶ The reforms involve tackling tax advantages for landlords, partners and investors relative to employees, ensuring high-value properties pay a fair share, and properly taxing the social harms of gambling. When testing a mock-up announcement of the package of tax rises, the public generally feel positive about the news across various frames. Under the most effective frame, the public even feel more favourable towards the government.

The evidence suggests that, through strategic reforms and a compelling story, the Chancellor could plug the fiscal hole, deliver a fairer and more efficient tax system, and crucially build public confidence in the government at the same time. First, however, we explore where the public are currently at on fiscal policy.

THE PUBLIC STANCE ON FISCAL POLICY

To effectively bring the public along while plugging the fiscal hole, we must better understand their priorities. How does the public feel about recent fiscal reforms? How should fiscal policy shift in the future? What, and who, should be taxed? Based on original Demos polling and polling from YouGov, we find that generally the public:

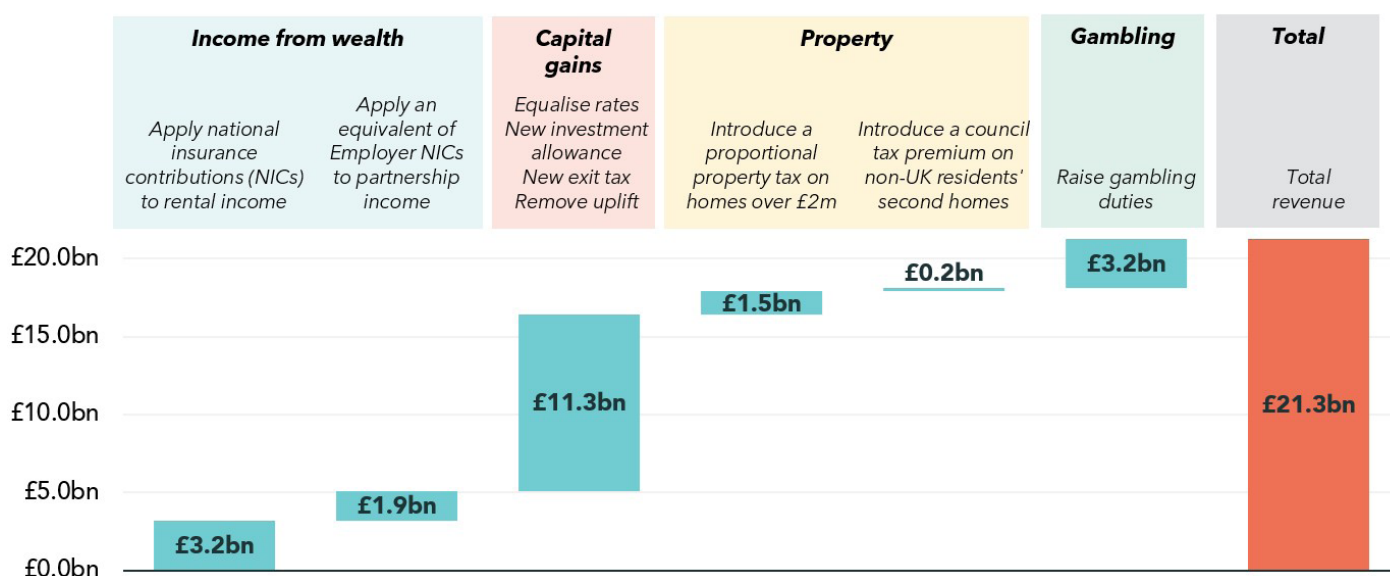
1. Has significantly overestimated the size of spending cuts by the current government.
2. Felt (in polling conducted before recent reversals on welfare) that the current government's cuts were more unfair than those under the 2010-15 government.
3. Are more concerned about future spending cuts than future tax rises.
4. Wants the tax burden shifted onto income from wealth rather than from work.
5. Prefers taxes on the wealthy, businesses and investors.

The findings indicate that the government should prioritise tax rises over spending cuts, and that they have a license to be bold. Based on the public's interests, our recommendations have also prioritised taxes on income from wealth, particularly people with substantial wealth, second home-owners, investors, landlords, and businesses.

TAX REFORMS TO PLUG THE FISCAL HOLE

Based on an analysis of which tax rises could (1) help plug the fiscal hole, (2) align with the public's priorities for fiscal policy, (3) improve efficiency and fairness in the tax system, (4) contribute to growth and (5) avoid increases in the headline rates of broad-based taxes, we recommend that the government deliver the reforms outlined below.

⁶ The revenue figure should be considered an upper bound, as behavioural responses will reduce revenues.

FIGURE 1**The recommended package of tax reforms could raise up to £21.3 billion***Estimate of annual revenue gain, by tax base and tax reform*

Source: Demos analysis, drawing on CenTax analysis for estimates on NICs on rental income, partnership contributions, and capital gains tax

Notes: Estimates are static (not accounting for behavioural responses) for NICs of rental income, a proportional property tax on homes over £2m, a council tax premium on non-UK residents' second homes, and higher gambling duties. Estimates for an equivalent of Employer NICs on partnership income and capital gains tax reforms are dynamic. Capital gains tax (CGT) reforms involve: (1) Matching CGT rates with income tax rates and introduce an allowance for some returns on investments (2) Introducing an 'exit tax' on the capital gains of people taking investments out the UK and (3) Ending the 'uplift' in capital gains on inherited assets, which currently means that, when someone dies, all capital gains accrued on their assets are forgiven for tax purposes.

We recognise that the tax system is in need of more radical reform. Some of our recommended tax rises point directly to the case for broader structural changes in the system. While we recommend broadening the NICs base, a more wholesale base- broadening could be justified with the same reasoning. While our reforms aim to make property taxation more progressive, a re-evaluation of council tax would do this more effectively. Yet, despite economic consensus for a fairer, modernised tax system, we recognise the political challenges associated with such reforms at this time. We instead propose changes which take us towards those longer-term goals, but which are more politically feasible for the upcoming Budget. Our recommendations should also not be seen as mutually exclusive to broad-based tax rises, which we will discuss in a subsequent paper.

PUBLIC ATTITUDES TO RECOMMENDED REFORMS

Much commentary on expected tax rises has focussed on how the government can limit political damage. Yet we find that, if reading an announcement of our recommended package of tax rises with an effective narrative, the public generally feels positive about the announcement and more favourable towards the government. When presented with a mock-up BBC article announcing the package of tax rises post-Budget, with the headline "Chancellor announces

large tax rises in Budget in plan to ‘slash loopholes and rebalance the tax system’”, the public expresses:

- Net positivity about the announcement (a higher percentage feels positive than negative) of 10 percentage points (pp).
- A 6pp boost in favourability towards the government.
- High levels of engagement, with 61% saying they would probably or definitely click on the article to read more (higher than the average across our frames).

When testing individual tax recommendations, we find widespread support. Given that the public response to specific policy reforms is largely shaped by subsequent political and media debate and the information they engage with, we tested the public’s response in a range of iterative scenarios in both surveys and focus groups. Public support is consistent whether they engage with a one-line summary, contextual information, or arguments for and against. We considered the sample groups for both the polling and focus groups and opted for nationally representative samples in line with our Diversity, Inclusion, Equity and Justice policy. In this context, a national representative sample was critical to capture the diversity of voters in the country.

SCENARIO	INFORMATION PROVIDED	SUMMARY FINDINGS
Low-engagement	One-line summary of policy	There is net support for all recommended tax reforms, such as: • 56pp for a council tax levy on second homes owned by non-UK residents • 48pp for a council tax levy on homes over £2 million (reflecting the proportional property tax) • 42pp for an exit tax
Contextual-engagement	Details on what the reform changes, the revenue raised, and key contextual information	Support for the tax reforms in this scenario is much higher than alternative fiscal policies tested, including: 1. Spending cuts - with net support ranging from -30pp for infrastructure investment cuts to -60pp for NHS spending 2. Broad-based tax rises - net support from -35pp for the basic rate or income tax to -37pp for employee NICs Net support for recommended reforms increases from the low-engagement to contextual-engagement scenario, for example: • Rising from 13pp to 39pp for NICs on rental income • Rising from 10pp to 41pp for partnership contributions
High-engagement	Arguments for and against the policy	There is net support for all reforms tested in a high-engagement scenario: • 27pp for an exit tax • 16pp for NICs on rental income • 12pp for partnership contributions

THIS REPORT

The executive summary and following summary of tax recommendations are designed to be read in isolation, with the full report giving further details of the evidence and recommendations. In Section 1, we explore the public's general priorities for tax reform. Section 2 then outlines the recommended reforms, identified through extensive engagement with the public, experts and organisations affected by the changes. In Section 3, the reforms are analysed in terms of: (1) the potential revenue gain (drawing on previously published research by CenTax, the Centre for the Analysis of Taxation, for some of the recommended reforms), (2) wider economic effects, (3) public attitudes (drawing on original surveys run with the pollster Opinium), (4) public attitudes within focus groups, and (5) lessons for policymakers about the design and communication of the reforms.

The evidence laid out demonstrates that a set of popular, pragmatic and pro-growth tax reforms could enable the Chancellor not just to plug the fiscal hole, improve the tax system and avoid raising the headline rates of broad-based taxes. They could also boost public confidence in government at the same time. We understand there are no easy answers, but this research suggests that there are opportunities to effectively balance the needs of citizens, the state and the economy, should they be communicated effectively. Facing the most imminent and consequential choices at the Autumn budget, we hope the chancellor will take note, and that all political parties use this evidence to consider a wider set of options for the future.

Beyond this, subsequent papers will look at (1) the question of broad-based tax reform and the surrounding public attitudes, (2) the story to tell about tax rises, including novel analysis of framing and narrative devices, and (3) the attitudes of small-and-medium businesses - a key group of political and economic concern - towards tax reforms.

THE DEMOS TAX RECOMMENDATIONS SUMMARY

In this section, we summarise each of the recommended tax reforms, the revenue raised, economic and social benefits, attitudes within surveys across low, contextual and high engagement groups of the public, and key insights from focus groups on how to design and communicate each reform. In the appendix, we also outline our evidence on reform to pension taxation. We did not include these in our core recommendations but nevertheless feel it is useful evidence for the government to consider.

The revenue figures for NICs on rental income, for partnership contributions, and for CGT are based on previously published estimates made by the expert team at CenTax. The figures for the proportional property tax and council tax premium on non-UK residents' second homes are based on Demos analysis. The figure for raising gambling duties is based on estimates from the Institute for Public Policy Research (IPPR). This is laid out in more detail in the appendix.

Survey data in the low-engagement and contextual-engagement scenarios was gathered through a nationally and politically-representative survey of 2,050 members of the public from 14 - 16th May 2025. Data in the high-engagement scenario was gathered through a nationally and politically-representative survey of 2,050 members of the public from 30th July - 1st August 2025. Focus groups insights were gathered primarily through a series of focus groups in April 2025, with some insights in the high-engagement scenario gathered through groups in June 2025.

PROPOSAL ONE

APPLY NICS TO RENTAL INCOME

Current approach: People earning rental income generally do not need to pay NICs because rent is not 'trading income'.

Recommendation: To match the rates of tax paid on income from employment, the government should create a new class of NICs for rental income, with a basic rate of 20% and a rate above £50,270 of 8%. To meet the pro-growth test and encourage investment in housing, an investment allowance should be introduced, removing tax on any 'normal' returns (those that simply compensate investors for investing their money, and thereby forgoing the opportunity to spend that money in the present).

ANNUAL GAIN ▲

£3.2 BILLION

(static 2026/27 revenue estimate)

WIDER BENEFITS

Fairness: Would help equalise taxation on employment income and rental income.

Economic efficiency: (1) Broadens neutrality in the tax system (i.e. more closely aligns the tax treatment of different form of income), which can have benefits for growth by reducing the incentive to direct economic activity towards what is most tax advantaged and raising the relative incentive to direct activity towards what is most productive, (2) doesn't discourage investment in productive assets, and (3) an investment allowance removes the disincentive that currently exists for landlords to invest.

PUBLIC SURVEY

Low-engagement:
36% support vs 23% oppose

Contextual-engagement:
53% support vs 14% oppose

High-engagement:
40% support vs 24% oppose

FOCUS GROUP INSIGHTS

When learning of the tax gap between rental income and employment income, people see this as unfair, and some see it as a loophole. Policymakers should strongly emphasise the current tax gap, and that this reform makes the system fairer.

People see landlords as being able to pay more tax, but want to protect smaller landlords. Policymakers should highlight the many NICs and income tax allowances that landlords benefit from in the same way that employees do.

While most people do not immediately worry about the impact on rents, the risk of higher rents does concern them once mentioned. Policymakers should emphasise that landlords can generally only charge rent at the going market rate, and the investment allowance means many landlords will also be getting a tax cut.

PROPOSAL TWO

INTRODUCE 'PARTNERSHIP CONTRIBUTIONS' (EMPLOYER NICS-EQUIVALENT)

Current approach: While businesses pay Employer NICs for all employees, businesses set up as 'partnerships' – a legal business structure - do not pay Employer NICs for partners.

Recommendation: The government should add an additional category of Employer NICs to ensure partnership businesses pay the same rate of Employer NICs for their partners as businesses do for their employees.

ANNUAL GAIN ▲

£1.9 BILLION

(static 2026/27 revenue estimate)

WIDER BENEFITS

Fairness: Would help equalise taxation on employment income (which pays higher rates of NICs) and partnership income.

Fiscal and economic efficiency: Extends neutrality in the tax system (by more closely aligning the tax treatment of employees with partners), which can have benefits for growth.

PUBLIC SURVEY

Low-engagement:
26% support vs 16% oppose

Contextual-engagement: 52% support vs 11% oppose

High-engagement:
36% support vs 24% oppose

FOCUS GROUP INSIGHTS

When learning about the tax advantage for partners relative to employees, most people see it as unfair, and some as a loophole. Some are concerned about the impact on smaller partnership businesses, and on employees' wages. Policymakers should emphasise that the employment allowance (a tax allowance for Employer NICs) will protect smaller partnerships, and the revenue could be invested to boost wages. Policymakers should also continually emphasise that the reform is fundamentally about ensuring tax fairness between employees and partners.

When people engage with arguments that GP services may be disrupted by the reform, this becomes a key concern. Potentially directing some of the revenue to support GP pay or GP services could mitigate these concerns.

PROPOSAL THREE

MATCH CGT RATES WITH INCOME TAX AND INTRODUCE AN ALLOWANCE FOR INVESTMENT

Current approach: Capital Gains Tax is charged at lower rates than income tax.

Recommendation: The government should equalise rates of capital gains tax with income tax rates - meaning a 20% marginal rate for basic rate taxpayers, a 40% rate for higher rate taxpayers, and 45% for additional rate taxpayers, with business asset disposal relief and investors' relief both removed. To remove tax on 'normal gains' (which disincentivises investment relative to present consumption), the government should introduce an investment allowance which removes tax on all 'normal gains'.

ANNUAL GAIN ▲

£11.2 BILLION

*(static 2019/20
revenue)*

£11.3 BILLION

*(dynamic 2026/27
revenue if introduced
with exit tax and
removal of uplift)*

WIDER BENEFITS

Fairness: Removes the tax advantage for people receiving capital gains (including people shifting income into capital gains for tax purposes) over those people receiving earned income.

Economic efficiency: Ends the drag on productivity from people shifting employment income into capital gains. The investment allowance also removes the disincentive that currently exists to invest.

PUBLIC SURVEY

Low-engagement:
36% support vs 23%
oppose

**Contextual-
engagement:** 40%
support vs 18%
oppose

FOCUS GROUP INSIGHTS

When CGT is associated with stocks and shares, second homes or rental properties, people generally feel it's a fair tax. Policymakers should highlight that CGT primarily affects these assets.

People feel the gap in CGT and income tax rates should be addressed, and policymakers should emphasise that this policy does so, and stops people shifting income for tax reasons.

People tend to initially support an investment allowance, but are concerned that it advantages larger businesses over smaller businesses. Policymakers should continually emphasise that the rationale for the allowance is to encourage investment and boost jobs and wages.

PROPOSAL FOUR

INTRODUCE AN 'EXIT TAX' ON PEOPLE TAKING INVESTMENTS OUT THE UK

Current approach: If a UK resident leaves the country, their assets are only liable for UK CGT if sold within the following five years. Equally, if an individual becomes resident in the UK, all their assets become liable to CGT (although there is a policy of 'rebasings' for foreign assets).

Recommendation: The government should rebase capital gains when individuals become residents in the UK, meaning only gains made from that point count towards CGT. At the same time, they should introduce an 'exit tax', so that when an individual leaves the UK to become resident elsewhere, all gains acquired while they were a UK resident are taxed (whether realised or not). Individuals would therefore get taxed for all, and only, those capital gains that occurred while they were resident in the UK.

ANNUAL GAIN ▲

£3.8 BILLION

(static 2019/20 revenue if delivered with equalised CGT rates, investment allowance and removal of the CGT uplift)

WIDER BENEFITS

Fairness: Would reduce the ability for the internationally mobile to avoid CGT.

Fiscal and economic benefits: Would reduce tendency for high-net worth individuals to emigrate in response to tax changes.

Economic efficiency: Would remove the distortionary incentive to hold onto assets with gains until after leaving the UK.

International alignment: Would bring the UK in line with many international competitors.

PUBLIC SURVEY

Low-engagement:

56% support vs
14% oppose

Contextual-

engagement: 60%
support vs 10%
oppose

High-engagement:

46% support vs
19% oppose

FOCUS GROUP INSIGHTS

While there was widespread enthusiasm about an exit tax, there were concerns that it would be very easy to avoid, though these were mitigated when it was highlighted that many peer countries already have exit taxes. Policymakers should repeatedly highlight the many peer countries of the UK who have exit taxes and run successful economies.

There are principle-based concerns that: (1) it's unfair to tax assets which were bought before the owner came to the UK and sold after they left, or (2) that it is wrong to tax people who no longer live in the UK, or (3) people should have the freedom to move to different countries to reduce tax. Policymakers should emphasise that (1) the profit that individuals accrue while living in the UK should be taxed

in the UK, and the new policy of rebasing capital gains means gains before arriving are never taxed, (2) people are effectively taxed when they exit rather than after they leave, and (3) people moving their wealth to another country means they avoid a tax that others have to pay, and it is only fair that they pay that tax.

There is some concern about the impact on families who, for example, retire to another country in later years. Policymakers should emphasise that the exit tax will not apply to UK property, and they should consider introducing a threshold of £1 million.

PROPOSAL FIVE

END THE 'UPLIFT' IN CAPITAL GAINS ON INHERITED ASSETS

Current approach: Capital gains are currently rebased at death for tax purposes. This means that, if an asset is passed on in inheritance, the capital gains accrued up to that point do not count towards capital gains tax when the asset is sold. This is called the 'uplift' in capital gains at death.

Recommendation: The government should end the uplift. When an inherited asset is sold, capital gains tax would apply to all gains since the asset was purchased, including those before the asset was passed on in inheritance.

ANNUAL GAIN ▲

£0.7 BILLION

(static 2019/20 revenue if delivered with equalised CGT rates, investment allowance and exit tax)

WIDER BENEFITS

Fairness: Removes the situation whereby someone may sell an asset and pay significant CGT while someone else can sell the same asset with the same capital gains, but pay no CGT because they recently inherited the asset.

Economic efficiency: Removes the distortive incentive that currently exists for people to hold onto assets until they die.

PUBLIC SURVEY

Contextual-engagement: 30% support vs 25% oppose

High-engagement: 46% support vs 19% oppose

FOCUS GROUP INSIGHTS

There are concerns that removing the uplift would add to the problem of double taxation that inheritance tax already creates. Policymakers should emphasise that tax is not paid on inheritance, but a tax on the profits when people sell assets - and that this change would make the system fairer by ending tax advantages for people who inherited their assets

Public concern about this policy is reduced when hearing how capital gains are primarily skewed towards certain assets and wealthy individuals. Policymakers should emphasise that CGT does not apply to main homes, pensions and savings.

PROPOSAL SIX

INTRODUCE A PROPORTIONAL PROPERTY TAX ON HIGH VALUE PROPERTIES

Current approach: The UK's only recurrent property tax is council tax, which is based on house values from 1991, is highly regressive (such that a £1 million house pays just three times more than a £100,000 house on average), and affects renters (who generally have no housing wealth) as much as homeowners.

Recommendation: The government should introduce a new tax which is proportional to property prices, charged at 1% on the value of property wealth between £2 million and £3 million and 2% above £3 million.

ANNUAL GAIN ▲

£1.5 BILLION

(static 2026/27 revenue estimate)

WIDER BENEFITS

Fairness: Makes property taxation in the UK less regressive, which currently disadvantages those in less valuable houses and in certain regions

Economic efficiency: Reduced regressivity in property taxation reduces the incentives from council tax regressiveness for developers to build more high-value properties, mitigating distortions in the market

Expands use of efficient taxes: Expands taxation on housing property, which is widely seen as one of the most efficient forms of taxation because (1) behavioural responses are low, (2) it creates little disincentive to work or save and (3) it partly function as taxing the recipient of positive externalities from local public services, (reducing distortions from public spending). It is also a step towards a more comprehensive proportional property tax, which would be much more efficient.

PUBLIC SURVEY

Low-engagement:

60% support vs
12% oppose

FOCUS GROUP INSIGHTS

Most people are supportive of this policy on the basis that it clearly would not apply to them, and those with homes over £2 million are able to pay. Policymakers should spotlight the thresholds of this tax. Linking the threshold to rising property prices would quell concerns that people may get pulled into the tax by house price inflation

There are some concerns about the ability of people in particular circumstances to pay this tax (e.g. inheritors or asset-rich cash-poor). Policymakers could ensure safeguards for people who may struggle to pay the tax due to low access to cash (e.g. allow basic rate taxpayers to pay when the house is sold or inherited).

PROPOSAL SEVEN

APPLY A 200% COUNCIL TAX PREMIUM FOR SECOND HOMES OWNED BY NON-UK RESIDENTS

Current approach: The second homes premium allows English councils to charge a council tax premium of up to 100% on second homes (up to 200% of the normal bill). The empty homes premium goes higher than that, adding between 100% and 400% to council tax bills.

Recommendation: To match treatment of empty homes, the government should apply an additional 200% premium to second homes owned by non-UK residents, on top of the existing second home premium. This would mean bills on second homes worth 400% of the usual bill. For empty homes owned by non-UK residents, bills would be up to 600% of the usual bill.

ANNUAL GAIN ▲

OVER
£200 MILLION

WIDER BENEFITS

Potential reduction in house prices: Discourages purchase of investment properties, which can contribute to higher house prices. Taxes in Vancouver and Toronto on property owned by non-residents were associated with short-term falls in house prices

SURVEY RESPONSE

Low-engagement:
65% support vs 9% oppose

FOCUS GROUP INSIGHTS

There is broad support for the reform, particularly because it could reduce house prices. Policymakers should emphasise how similar policies in Canada have been associated with reduced house prices and an increased number of new houses.

PROPOSAL EIGHT

RAISE GAMBLING DUTIES

Current approach: Gambling faces specific gambling duties (which vary for different types of gambling) which are intended to account for the fact that no VAT is applied to gambling, for the external health and social costs, and in the case of remote gambling, for the low corporate tax which is often charged. However, the current duties are inadequate for serving all of these roles.

Recommendation: The government should increase General Betting Duty (from 15% to 25%, excluding horse race bets), Remote Gaming Duty (from 21% to 50%), and Machine Games Duty on all cash-prize paying slot machines (from 20% to 50%).

ANNUAL GAIN ▲

£3.2 BILLION

*(static 2026/27
revenue estimate)*

WIDER BENEFITS

Health and social benefits: Would discourage gambling, reducing associated health problems, social issues, and crime.

Fiscal benefits: Would reduce the fiscal costs of gambling due to poor health, crime and welfare, which are estimated at between £1.4 billion and £7.2 billion annually.⁷

Opportunity mission: Particularly reduces health and social costs in deprived areas, where gambling harms are highest.

SURVEY RESPONSE

When asked to select tax policies the government should prioritise, three quarters put duty on gambling firms in their top three - higher than duties on alcohol, tobacco or fuel. 52% also support increasing tax on online gambling.

⁷ Noyes J, Bhattacharya A, and Salutin G. Fiscally Responsible: The case for reforming Remote Gaming Duty. Social Market Foundation. October 2024. <https://www.smf.co.uk/wp-content/uploads/2024/10/Fiscally-Responsible-Oct-2024.pdf>

SECTION 1

THE PUBLIC STANCE ON FISCAL POLICY

Fiscal policy should aim to drive social, economic and administrative efficiency, but also shift the tax and spending system to deliver on other public priorities. A reformed tax system, for example, would deliver fair levels of tax, a balance of tax between different economic activities, and safeguards for certain groups who were facing particular vulnerabilities or unable to pay. We have seen that the public cares deeply about these issues - with previous Demos research highlighting public concern about how some farmers may struggle to pay inheritance tax.⁸ To design fiscal policy that is more effective in bringing the public along, we must better understand their priorities.

In this section, we explore the public's feelings and priorities on fiscal policy in general. How does the public feel about recent fiscal reforms? How should fiscal policy shift in the future? What, and who, should be taxed? These questions are discussed in Section 1.1, which informed our analysis of which tax reforms would be more suitable for the upcoming Budget.

Based on original Demos polling and polling from YouGov, we found that generally the public:

1. Has significantly overestimated the size of spending cuts by the current government.
2. Felt that the current government's cuts were (before recent reversals) more unfair than those under the 2010-15 government.
3. Are more concerned about future spending cuts than future tax rises.
4. Wants the tax burden shifted onto income from wealth rather than from work.
5. Prefers taxes on the wealthy, businesses and investors.

⁸ Goss D. Plugging the black hole: Reforming inheritance tax to unlock revenue and build public support. 29 Oct 2024. <https://demos.co.uk/research/plugging-the-black-hole-reforming-inheritance-tax-to-unlock-revenue-and-build-public-support/>

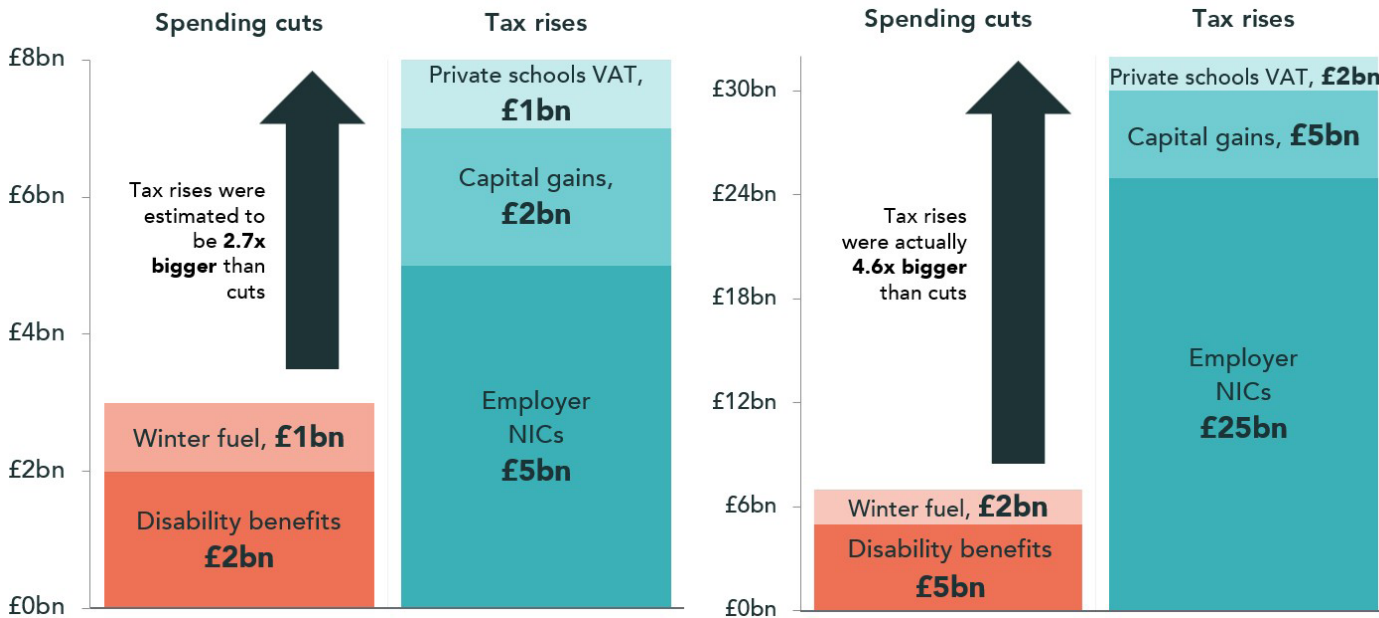
1. Heading into the upcoming Budget, the public significantly overestimates the relative value of Labour’s spending cuts since they formed the government in 2024.

The Labour government is facing tough fiscal decisions. Yet, given the spate of recent political controversies (on winter fuel, disability benefits, and inheritance tax on farmers), it has clearly struggled to effectively communicate its fiscal policies to the public. We can see this in how their fiscal policy has been so widely misunderstood by the public. In April 2025, a YouGov poll found 30% of Britons thought the current government’s spending cuts had been larger than spending cuts under the 2010-15 coalition government, while 16% said they had been similar in size. Just 15% judged them to be smaller.⁹ This view is particularly stark among 2024 Conservative and Reform voters.

This is significantly off the mark. While cuts under the 2010-15 government have been estimated at £49 billion annually in 2015 prices (about £65 billion in 2024 prices), the current Labour government’s cuts - at the time the survey was done - were much smaller.¹⁰ When the survey went to the field, the government’s main cuts were to winter fuel payments (around £2 billion), disability benefits (£5 billion), and cuts to foreign aid (£4 billion - although these savings were channelled directly into defence spending).¹¹ This £11 billion is far lower than the value of cuts under the 2010-15 government.

Demos’s polling demonstrated this point from a different angle. When asked to estimate the value of tax rises and spending cuts under the current government, around half responded that they don’t know. Among those who did respond, we found that the public typically estimated the tax rises to raise 2.7x as much as the spending cuts. In fact, the tax rises were worth 4.6x as much as the spending cuts. The public therefore overestimates the value of spending cuts relative to tax rises.

FIGURE 2
The public overestimates the value of spending cuts relative to tax rises
Public estimates of the value of policies Actual value of policies



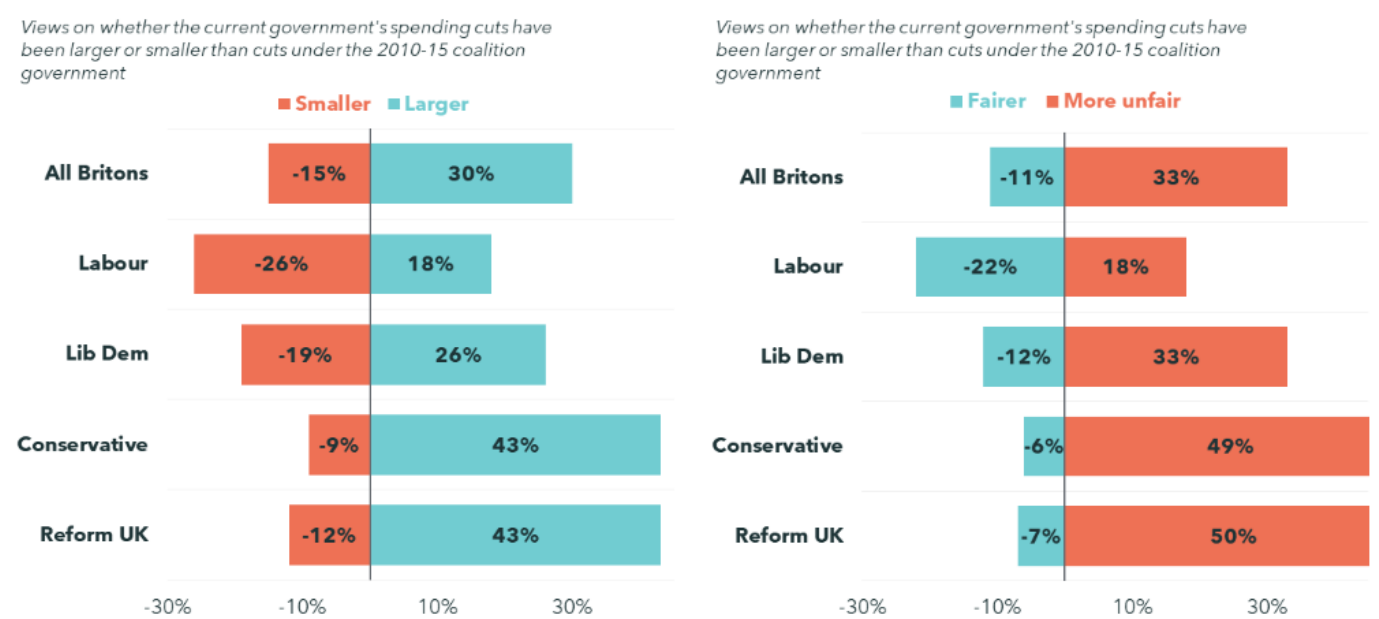
Source: Demos survey, Opinium, April 2025

9 Smith M. How do Britons think Labour’s cuts compare to those of the coalition? YouGov. 9 April 2025. <https://yougov.co.uk/politics/articles/51976-how-do-britons-think-labours-cuts-compare-to-those-of-the-coalition>
10 Reed H. The impact of planned cuts to public spending over the 2015-20 Parliament. Landman Economics. March 2016. <https://www.tuc.org.uk/sites/default/files/Spending-cuts-Report.pdf>
11 <https://obr.uk/efo/economic-and-fiscal-outlook-march-2025/>

2. The public does not just think the current government’s cuts are larger than those under the 2010-15 government, they also often think they were more unfair.

One in three said cuts under this Labour government have been more unfair than those from 2010-15, compared to just 18% who said they were similar in fairness and just 11% who said they were less unfair.¹² Again, this view is particularly stark among 2024 Conservative and Reform voters.

FIGURE 3
The public are most likely to think the current government’s cuts have been larger and more unfair than cuts under the 2010-15 coalition government



Source: Smith M. How do Britons think Labour’s cuts compare to those of the coalition? YouGov. 9 April 2025. <https://yougov.co.uk/politics/articles/51976-how-do-britons-think-labours-cuts-compare-to-those-of-the-coalition>

3. The public are more concerned about future spending cuts than future tax rises

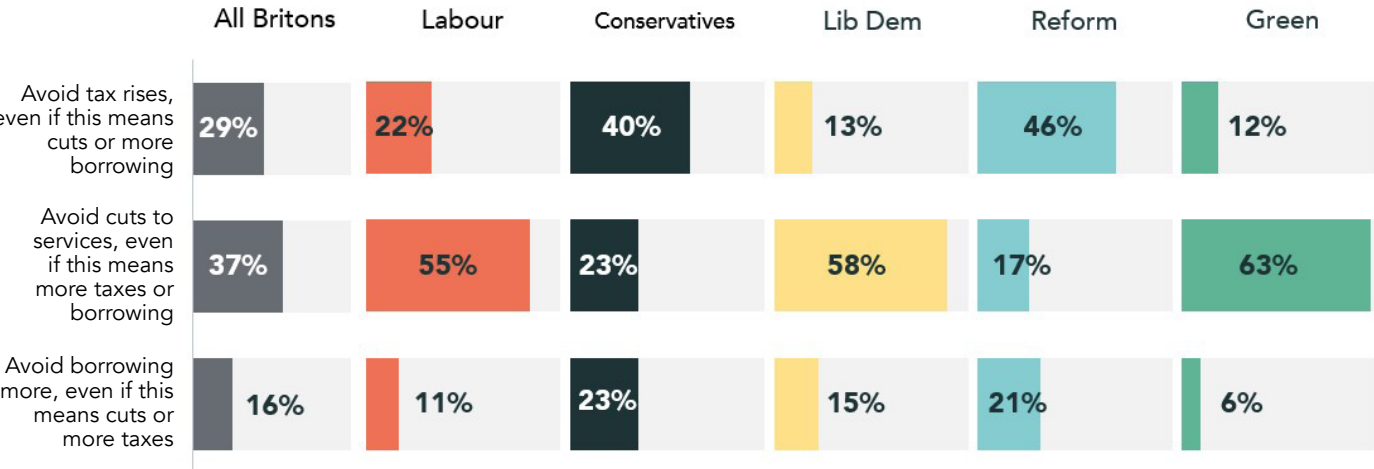
Beyond just reflecting on the tax and spend policies implemented in the past, what does the public want from tax and spend in the future? YouGov data find that more of the public think the government should prioritise avoiding public spending cuts than avoiding tax rises or borrowing.¹³ This is particularly the case for 2024 Labour voters, with 55% prioritising spending cuts being avoided, compared to 22% prioritising tax rises being avoided.

12 Smith M. How do Britons think Labour’s cuts compare to those of the coalition? YouGov. 9 April 2025. <https://yougov.co.uk/politics/articles/51976-how-do-britons-think-labours-cuts-compare-to-those-of-the-coalition>
13 Difford D. Where do Britons stand on tax and spending ahead of the 2025 Spending Review?. YouGov. 10 June 2025. <https://yougov.co.uk/politics/articles/52312-where-do-britons-stand-on-tax-and-spending-ahead-of-the-2025-spending-review>

FIGURE 4

The public are more concerned about future spending cuts than tax rises

This month, the Government will announce their plans on spending. When it comes to balancing their budget, which of the following do you think should be their priority? %



Source: Difford D. Where do Britons stand on tax and spending ahead of the 2025 Spending Review?. YouGov. 10 June 2025. <https://yougov.co.uk/politics/articles/52312-where-do-britons-stand-on-tax-and-spending-ahead-of-the-2025-spending-review>

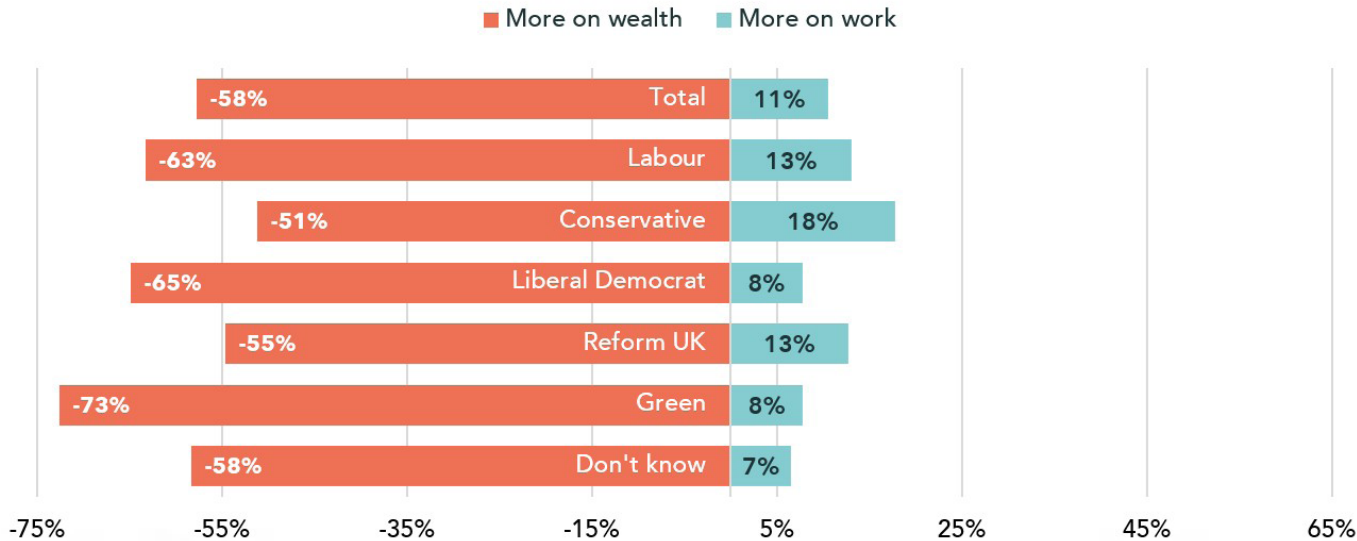
4. The public wants to see the tax burden shifted onto wealth rather than work

If voters tend to want tax rises, the question then becomes, which tax rises? Our research found that all voters want to see the tax burden shifted onto income from wealth rather than work: 58% of the public would rather see the tax burden be shifted towards income from wealth, while just 11% would rather see it shifted towards income from work. This finding was consistent across supporters of all political parties, including people intending to vote Conservative (58% vs 18% respectively) and Reform (55% vs 13%).

FIGURE 5

All voters want to see the tax burden shifted onto wealth rather than work

Should the tax burden be shifted more towards income from wealth or income from work? By



Source: Demos survey, Opinium, April 2025

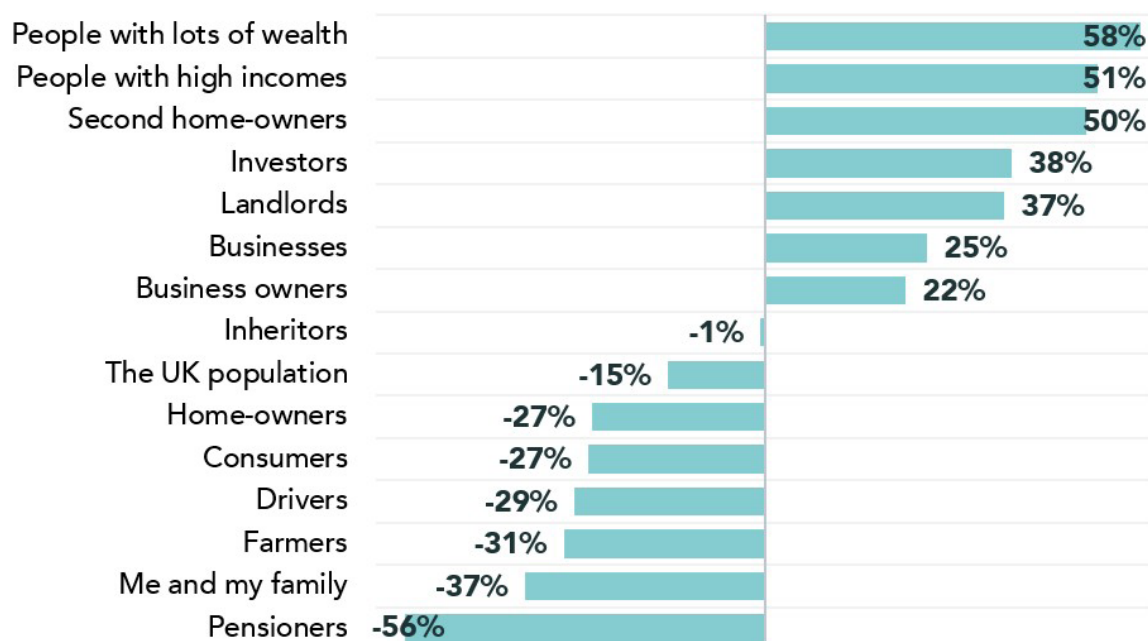
5. The public wants to see more tax on high earners, the wealthy and businesses

Digging into who exactly the public thinks it would be fair to tax, we find preferences for tax on high earners, the wealthy and businesses. When asked whether it would be fair or unfair to tax different groups if the government needed revenue, the public generally felt it was fair to tax people with substantial wealth, people with high incomes, second-home owners, investors, landlords, businesses, and business owners. In contrast, they felt it was particularly unfair to tax pensioners, 'me and my family', farmers, drivers, consumers, and home-owners.

FIGURE 6

The public prefers tax on high earners, the wealthy and business

If the government needed to raise revenue, would it be fair or unfair to ask the following groups to pay more tax? (net fair minus net unfair)



Source: Demos survey, *Opinium*, April 2025.

Coming in at the bottom, the public feels it is more unfair to tax pensioners than even to tax them and their family - and by quite a way. This sentiment was echoed in our focus groups, where proposals to increase tax on pensions attracted the most visceral negative reaction, much more than proposals to increase income tax, for example. There was a sense that pensioners are particularly vulnerable, have been treated particularly unfairly, and that taxing pensions is double taxation. We discuss this further in the appendix.

It is notable that the public thinks it is fairer to tax the UK population than many specific groups, including drivers (who could see their taxes rise if the freeze on fuel duty ends) and farmers (who have seen higher taxes due to last Autumn's inheritance tax reforms). It indicates that broad-based taxes could receive more support than taxes which are seen to target particular concentrated groups. We discuss this further in Section 3.

Based on this understanding of the public attitudes environment, we have prioritised taxes on income from wealth, particularly people with substantial wealth, second home-owners, investors, landlords, and businesses. We have, of course, only proposed those which are deemed to take us towards a more efficient tax system.

SECTION 2

TAX REFORMS TO PLUG THE FISCAL HOLE

In this section, we outline the tax reforms identified as most effectively balancing administrative, economic, and political benefits. We outline the revenue raised, and public attitudes to the package of reforms as a whole. In the appendix, we discuss reforms to taxation on pensions, which we did not include in our main package but we think nevertheless are deserving of attention.

RECOMMENDED TAX REFORMS

Building on our understanding of what the public want from fiscal policy - including prioritising tax rises over spending cuts, taxes on income from wealth from than income from work, and taxes on people with substantial wealth, second home-owners, investors, landlords, and businesses - we engaged with a series of experts to understand options for reforming tax to raise revenue, their costs, benefits, risks and opportunities.

Tax reforms were evaluated based on how they balanced: (1) raising substantial revenue (with consideration of dynamic effects), (2) alignment with the public's priorities for the tax system, (3) a fair distribution of costs, (4) protection of vulnerable groups, (5) benefits to productivity, growth and other economic objectives, and (5) administrative simplicity. We identified eight reforms that optimally balance these priorities. On this basis, we recommend that the government raise taxes on:

- **INCOME FROM WEALTH**

- Apply NICs to rental income (£3.2 billion)
- Apply “partnership contributions” (equivalent to employer NICs) to partnership income (£1.9 billion)

- **CAPITAL GAINS (£11.3 billion)**

- Increase the rate of tax on capital gains to match income tax, while adding an ‘investment’ allowance and removing BAD relief
- Apply an exit tax on gains and rebasing on arrival
- Remove the CGT uplift at death

- **PROPERTIES**

- Introduce a proportional property tax on high value properties (£1.5 billion)
- Apply council tax premium for second homes owned by non-UK residents (over £0.2 billion)

- **GAMBLING**

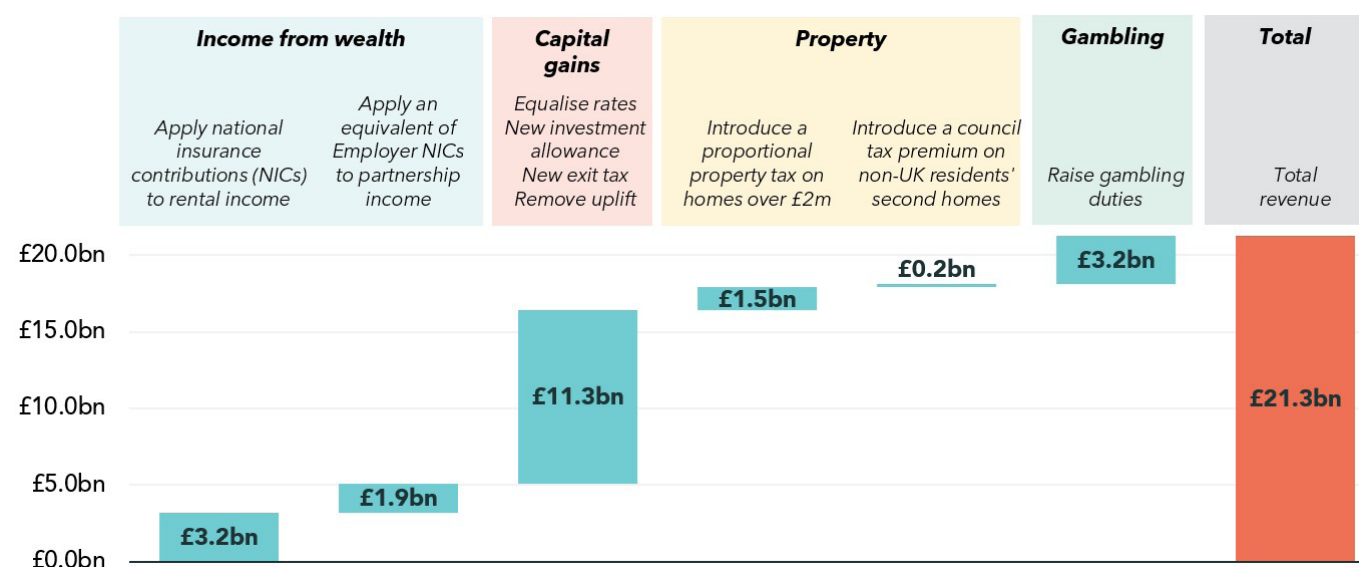
- Raise gambling duties (General Betting Duty, Gaming Duty, Remote Gaming Duty, and Machine Games Duty) (£3.2 billion)

Based on static estimates, this package would collectively raise around £21.3 billion in 2026/27.¹⁴ This includes £5.1 billion from NICs on income from wealth, £11.3 billion from CGT (including the new exit tax), £1.7 billion on properties (£1.5 billion from the new property tax and £0.2 billion from council tax) and £3.2 billion from gambling duties.

FIGURE 7

The recommended package of tax reforms could raise up to £21.3 billion

Estimate of annual revenue gain, by tax base and tax reform



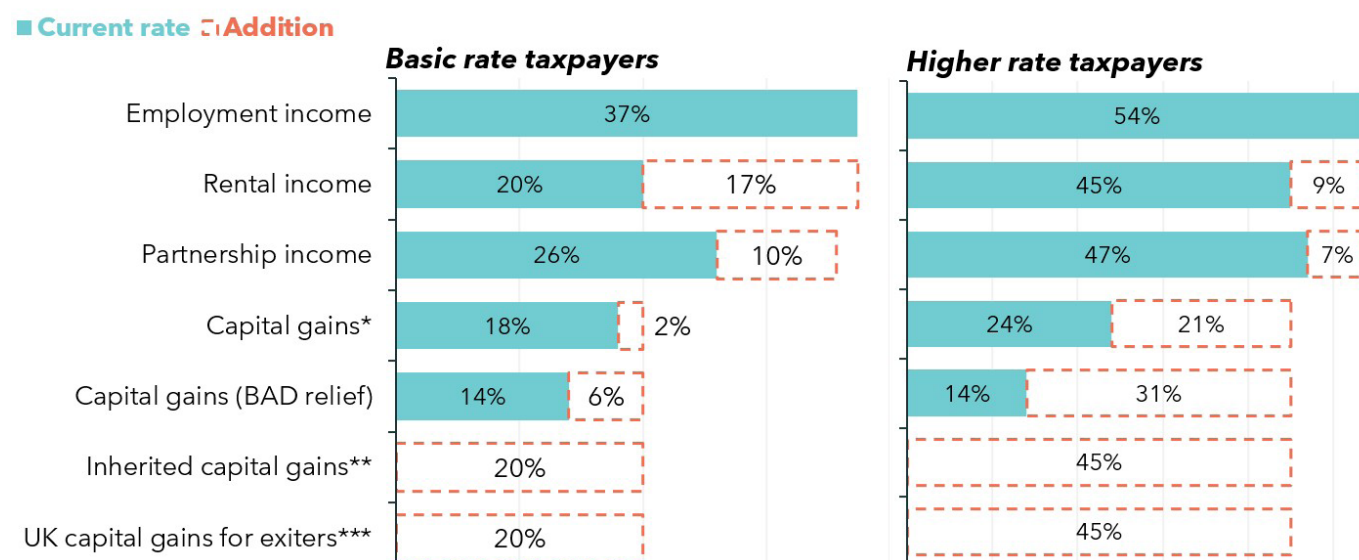
Source: Demos analysis, drawing on CenTax analysis for estimates on NICs on rental income, partnership contributions, and CGT, and IPPR analysis for estimates on raising gambling duties

¹⁴ This should be considered an upper bound, as behavioural responses will reduce revenues.

The recommended tax reforms would bring marginal rates for various different forms of income closer to the rates on employment income. The reforms would equalise rates on rental income with those on employment income for both basic rate and top rate taxpayers. They would raise the rate on partnership income closer to the rate for employees. For capital gains tax, particularly for top rate taxpayers, they would bring the rates closer to rates for other forms of income. There would be particular increases for inherited capital gains (accrued on an asset before it was passed on in inheritance) and UK capital gains for exiters (accrued by someone while they were resident in the UK but which were realised after the individual left to a country without CGT (as long as they do not become a UK resident again within six years)) - both of which currently would not be charged CGT.

FIGURE 8

Demos proposals would bring marginal rates for different income closer together
Impact of recommended tax reforms on marginal rates for income from different forms, by taxpayer band



NOTES: Tax on employment and partnership income includes 15% Employer NICs taken before income tax and Employee NICs.

*Capital gains on shares or residential property (not carried interest). Does not account for corporation tax.

**Capital gains accrued on an asset before it was passed on in inheritance

***Capital gains accrued by someone while they were resident in the UK but realised after leaving to a country without CGT (as long as they do not become a UK resident again within six years). If introducing a £1 million allowance for the exit tax, it would not be paid by basic rate taxpayers. The rate for basic rate taxpayers would remain at 0%.

PUBLIC ATTITUDES TO THE PACKAGE OF REFORMS

Much commentary on expected tax rises has focused on how the government can limit political damage. Yet, polling on our package of tax rises actually finds that the public would, given effective framing, tend to feel positively about its announcement, and even feel more favourably towards the government. When presented with a mock-up BBC article announcing the package of tax rises post-Budget, with the headline *Chancellor announces large tax rises in Budget in plan to 'slash loopholes and rebalance the tax system'*, the public expresses:

- Net positivity of 10 percentage points (pp) about the announcement.
- A 6pp boost in favourability towards the government.
- High levels of engagement, with 61% saying they would probably or definitely click on the article to read more (higher than the average across our frames)

This evidence suggests that, if telling a compelling story, the Chancellor could plug the fiscal hole in a way that simultaneously helps rebuild public trust in the government.

PUBLIC ATTITUDES TO INDIVIDUAL REFORMS

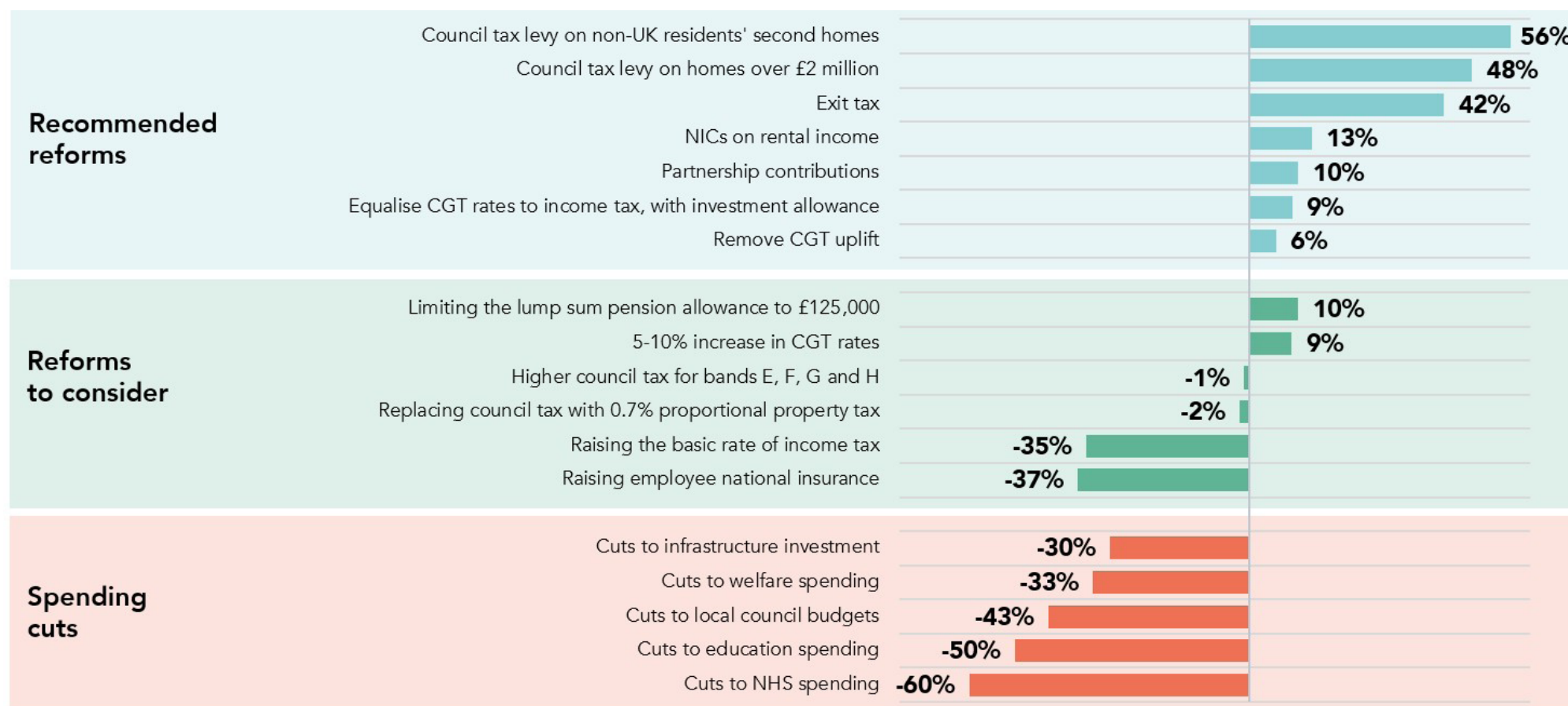
Given that the public response to specific policy reforms is largely shaped by subsequent political and media debate and the information they engage with, we tested the public's response in a range of scenarios in both surveys and focus groups:

1. **Low-engagement scenarios** - where the policy is not very salient in the political and media debate, meaning the public has briefly heard about it, but has not engaged with the surrounding details or debate.
2. **Contextual-engagement scenarios** - where the policy is relatively salient and the government has effectively communicated the context to the reform (e.g. what it actually changes, the revenue raised), but the public has not engaged with the wider debate.
3. **High-engagement scenarios** - where the policy is highly salient, so the public has engaged with both details about the reforms and key arguments for and against.

To test these various scenarios in the survey, we initially tested participants' reactions to one-line summaries of the proposals, before later testing responses after participants were given more detail on the meaning of the reform, the revenue raised, and other selected key details. For some policies where particularly salient counterarguments are expected, we also tested responses to these in the survey.

Similarly, in the focus groups, we tested participants' reactions to a mock headline announcing the reform, then later their response after more detail was provided, and then their response to key arguments about the reforms. For each reform, we report on the responses across these different stages. Note, this data is not available for some reforms where the public attitudes were less salient or the reform was brought into the package later in the research.

In the low-engagement scenario, there is net support (meaning a higher percentage of the public support than oppose) for all of our recommended tax reforms. This ranges from 6pp for ending capital gains tax relief on inherited assets - i.e. removing the capital gains uplift - up to 56pp for a council tax levy on second homes owned by non-UK residents. The public also prefers all of our proposed tax reforms to selected cuts to public spending, including to infrastructure, welfare, local council budgets, education, or NHS spending.

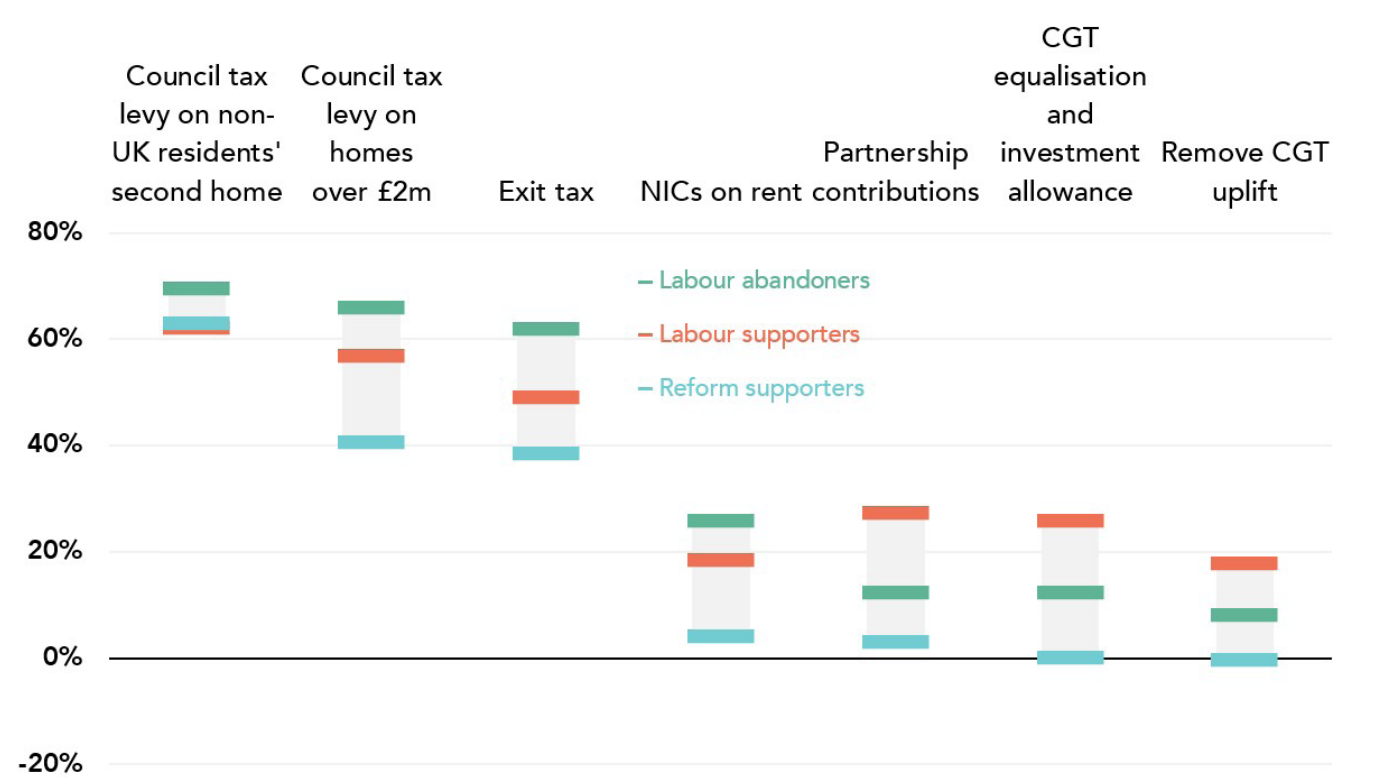
FIGURE 9**The public prefers our recommended tax rises to spending cuts***To what extent would you support or oppose the following policy changes? (net support minus net oppose)*

Source: Demos survey, Opinium, April 2025.

Almost all of the tax reforms which we have not included in our core package but which the government should nevertheless consider are also preferred to spending cuts. This includes limiting lump-sum pension relief to £500,000 of pension wealth, raising CGT by 5-10%, higher council tax for bands E to H, and replacing council tax with a 0.7% proportional property tax. The only exception to this are increases in the broad-based taxes: income tax and NICs.

When looking at levels of support among key electoral target groups - specifically people who (1) voted Labour but no longer intend to (referred to as 'Labour abandoners'), (2) intend to vote Labour, and (3) intend to vote Reform - we found no net opposition to our recommended reforms, and often high levels of support. A council tax premium on non-UK residents received extremely high levels of net support, at 70pp for Labour abandoners and 63pp for Reform supporters and Labour supporters. Support among Labour Abandoners was also at 66pp for a council tax levy on homes over £2m and 62pp for an exit tax, while support among Reform supporters was at 41pp for a council tax levy on homes over £2m and 62pp for an exit tax, while support among Reform supporters was at 41pp and 39pp for these policies respectively. The lowest net support we found was for CGT equalisation with an investment allowance and removal of the CGT uplift, both of which Reform supporters had 0pp net support for.

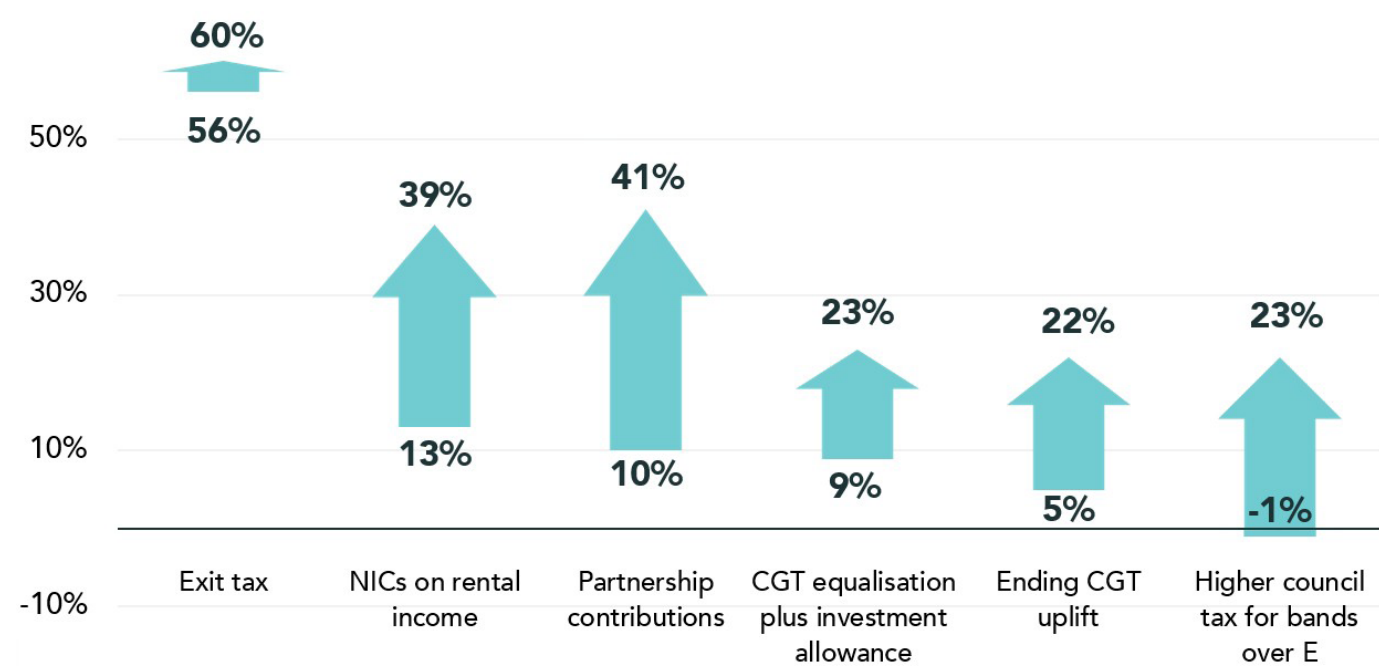
FIGURE 10
There is no net opposition to our recommended reforms among key electoral target groups
Net support for recommended policies among people who (1) voted Labour but no longer intend to (2) intend to vote Labour, and (3) intend to vote Reform



Source: Demos survey, Opinium, April 2025.

Across our selected tax reforms, we find levels of net support increasing significantly between the low-engagement scenario and contextual-engagement scenario.¹⁵ This is particularly the case for NICs on rental income, partnership contributions, and higher council tax for bands E and above. The increase is smallest for an exit tax, which received extremely high net support in the low-engagement scenario.

FIGURE 11
Support for selected tax reforms consistently increases once the public are provided with contextual details
Net support for tax policies, before (bottom of arrow) and after (top of arrow) contextual details are provided about the reforms



Source: Demos survey, Opinium, April 2025.

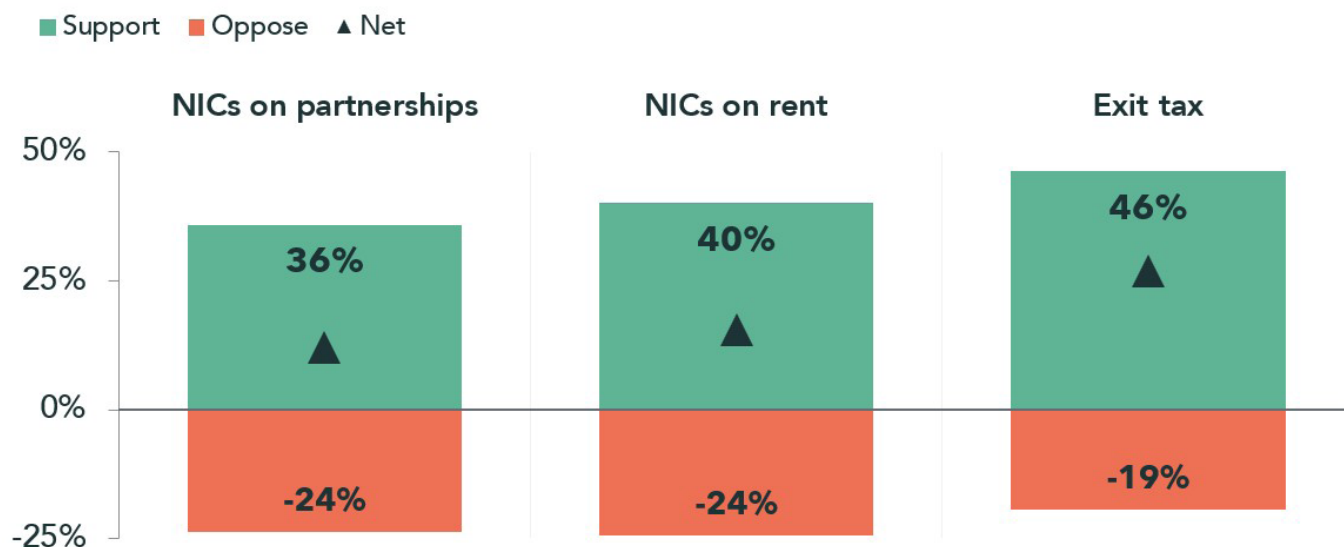
Even when participants are asked to engage with debates surrounding key policies - reading the most pertinent criticism of the reforms and a corresponding defence - net support remains. We found net support for all reforms we tested in a high-engagement scenario: 27pp for an exit tax, 16pp for NICs on rental income, and 12pp for partnership contributions.

15 This does not include some of our recommendation reforms, which were not tested.

FIGURE 12

The public tend to support selected tax rises even after engaging with surrounding debates

Support, opposition and net support (support minus opposition) for key policies, after reading surrounding debates*



Source: Demos survey, Opinium, June 2025.

The evidence outlined in this section demonstrates that public support for our recommended tax policies is consistent whether they engage with a one-line summary, contextual information, or arguments for and against. It should give confidence to policymakers that the reforms could plug the fiscal hole in a way that helps rebuild public trust in government at the same time.

SECTION 3

TAX REFORMS

IN-DEPTH

In this section, we explore the reforms within our core package in depth. We outline each reform in detail, discussing the tax design, revenue and distributional impacts, the public attitudes in surveys, attitudes in focus groups, and business attitudes.

3.1 APPLY NICS TO RENTAL INCOME

SUMMARY

Currently, people earning rental income generally do not need to pay NICS because rent is not 'trading income'. This means landlords benefit from tax advantages by receiving income from rent rather than from employment, which can be unfair and unproductive. To match the rates of tax paid on income from employment, the government should create a new class of NICS for rental income, with a basic rate of 20 per cent and a rate above £50,270 of 8 per cent. To encourage investment in housing, an investment allowance should be introduced, meaning 'normal' returns (or 'normal' levels of return relative to the investment) are not taxed.

ECONOMIC BENEFITS

Annual gain	Wider benefits
£3.2 billion (static 2026/27 revenue estimate)	Fairness: Would help equalise taxation on employment income and rental income Economic efficiency: Broadens neutrality in the tax system, which can have benefits for growth. Given that housing is not a productive asset, tax on rental income also doesn't discourage investment in productive assets, like tax on other investments risks doing. The introduction of an investment allowance also removes the disincentive that currently exists for landlords to invest because income tax currently applies to 'normal returns' on property, i.e. those which compensate landlords for forgoing the opportunity to spend their capital in the present.

SURVEY RESPONSES			
Low-engagement	Contextual-engagement	High-engagement	SME attitudes
36% support	53% support	40% support	34% think the existing approach is fair while 40% think it's unfair
25% neither support nor oppose	21% neither support nor oppose	25% neither support nor oppose	
23% oppose	14% oppose	24% oppose	
KEY LESSONS FROM FOCUS GROUPS			
Insights		Recommended response	
Very few people are aware that landlords do not pay NICs. When learning this, most people see this as unfair, and some as a loophole.		Policymakers should strongly emphasise the current tax gap between income from work and rental income to make people aware – and emphasise that this reform makes the system fairer.	
Most people see landlords as being able to pay more tax, but some want to protect smaller landlords.		Policymakers should emphasise that landlords only pay tax on rent over the NICs personal allowance and employment allowance, and will benefit from income tax allowances.	
While most people do not immediately think about the impact on rents, the risk of higher rents does concern them once highlighted.		Policymakers should emphasise that landlords can only charge rent at the going market rate, and so much of the additional tax will have to be borne by them – and that landlords will benefit from the new investment allowance, meaning some will actually pay less tax.	

Design

Some rental income is currently subject to Class 4 NICs (NICs for self-employed people), including rental income for properties that people actively participate in running as a business (like hotels). Most residential landlords, however, do not pay Class 4 NICs. The government should begin applying NICs to rental income, splitting Class 4 NICs into A and B. Given the significant increase in rates, the government may want to introduce the increase gradually, for example over a period of three or five years.

In the vast majority of cases, applying NICs to rental income would not impact landlords' state pension entitlement, because most landlords either receive separate income which is likely to be charged NICs, or they can pay voluntary NICs. The majority of landlords, 87%, receive over £5,000 in income from sources other than from property.¹⁶ Whether this income comes from employment or self-employment, the landlord would likely be treated as having paid NICs (as people are treated as having paid NICs if employment income is over £542 per month (approx £6,504 per year) or self-employment profits are over £6,725). Others can pay voluntary NICs of £3.50 per week (approx £182 per year) to receive their entitlement to the state pension.

¹⁶ Ministry of Housing, Communities and Local Government. English Private Landlord Survey 2024: main report. 5 December 2024. <https://www.gov.uk/government/statistics/english-private-landlord-survey-2024-main-report>

An increase in the net tax rate on rental income should, however, come with a recognition that rental income is different to employment income, because it involves the investment of capital. Landlords who invest their money in property for long-term gains cannot then use that money in other ways in the short-term. In doing so, they take on the cost of the 'time-value' of money, whereby having money in the future is less valuable than having the same amount of money today (because money today comes with opportunities to use it in various ways now - like consumption - which aren't available if the money is received in the future). Part of the returns on investments should be seen as compensating the investor for this cost. These returns are referred to as 'normal returns'. If the normal returns on an investment are taxed, landlords would be disincentivised from taking on the investment, and instead face an incentive to use their money for present consumption.

To address this, the increase in tax on rental income should be introduced alongside a form of 'investment allowance' - meaning that the investor is not taxed on their normal returns. Such a policy is seen with Individual Savings Accounts (ISAs), for example, where returns on savings are tax-free. By applying the same principle to rental income, people who choose to invest their wealth in property (who get taxed on the returns) are not disadvantaged to those who spend their wealth in the present, or who save their wealth in ISAs (neither of whom face that additional tax).

There are two ways an investment allowance could be implemented:

1. An allowance for the tax on rental income. Imagine you could receive returns of 4% each year by saving your wealth. If a landlord bought a property for £100,000 (i.e. they invested £100,000), they would have £4,000 of rental income exempt from income tax and national insurance each year.
2. An allowance for the tax on capital gains. Rather than applying the allowance to the annual rental income, it could be applied to the capital gains tax charge when the property is sold. Imagine again that the £100,000 house would get £4,000 exempt each year. In this model, when the house is sold, the £4,000 exemption would be applied for every year the asset was owned. So if the £100,000 house was owned for 10 years before being sold, £40,000 of gains are exempt from capital gains tax.

To determine the rate at which the investment allowance is set, the approach recommended in the Mirrlees Review - the most comprehensive analysis of the UK tax system to date - is to use the rate of return on government bonds. This rate is seen as representative of the 'risk-free' rate of return, as it is presumed that the UK government will not default on its debt. The 'risk-free' rate of return is, in turn, seen as a proxy for the time-value of money. Removing tax on these therefore removes tax on the time-value of money, and removes the associated disincentive to invest.

Landlords can currently benefit from a 20% tax credit on their mortgage interest payments. This is a carry-over from a previous system which allowed full tax relief on interest payments - aiming to remove disincentives for landlords to invest (which was partially rolled back due to other problematic incentives it created). However, if an investment allowance was introduced, tax credit on mortgage interest payments would no longer be appropriate, as the investment allowance would fill the role of removing disincentives for landlords to invest.

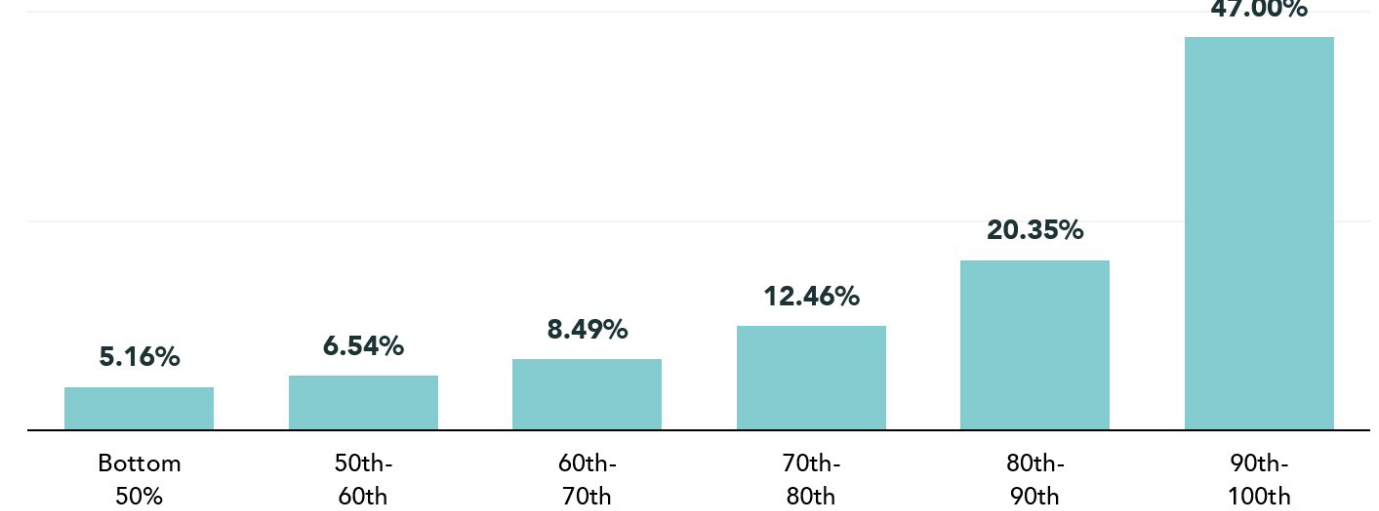
As discussed further in Section 2.4 on CGT, an investment allowance is particularly beneficial for property investors (compared to other investors), as gains on property are more likely to represent normal gains. Taking individuals for whom residential property accounts for the largest share of their gains, the investment allowance would - even when raising CGT rates - mean 90% would pay the same or less CGT.¹⁷

17 Advani A, Lonsdale A, Summers A. Reforming Capital Gains Tax: Revenue and Distributional Effects. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

Revenue and distribution

The application of NICs to rental income would raise £3.2bn in 2026/27, and £3.6bn by 2029/30, assuming no behavioural response. In 2026/27, almost half the tax (47%) would be paid by the top 10% on the income distribution. The bottom half of the income distribution would pay just 5% of the tax.

FIGURE 13
Almost half of the revenue from applying NICs to rent will come from the top 10% on the income distribution
Percentage of additional NICs paid due to the application of NICs to rental income, by percentile on income distribution (CenTax estimates)



Source: CenTax analysis

Many of these landlords will have income. Private landlords in England typically earned £52,000 in 2024 - compared to £37,430 across the UK population.^{18,19} This does not include the capital gains that landlords will also receive on properties.

Economic impacts

When increasing tax on rental income while introducing an investment allowance, it is important to consider two key impacts: (1) on the supply of housing and (2) on the price of housing, particularly rent. First, the reforms are unlikely to have a significant impact on the supply of housing, which is generally considered to be ‘inelastic’ (not greatly responsive to changes in costs).²⁰ The IFS estimates that a 10% rise in the price of housing approximately leads to a 1% growth in housing stock after 25 years, as supply is more constrained by factors such as the planning system.²¹

To the small extent that the reform would affect the supply of housing, the direction is unclear. On the one hand, rising rates will reduce the level of post-tax returns on investing in housing.

18 Ministry of Housing, Communities and Local Government. English Private Landlord Survey 2024: main report. 5 December 2024. <https://www.gov.uk/government/statistics/english-private-landlord-survey-2024-main-report>
19 ONS. Employee earnings in the UK: 2024. 29 October 2024. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2024>
20 Rana K. Why are London house prices falling?. ONS. 23 May 2018. <https://blog.ons.gov.uk/2018/05/23/why-are-london-house-prices-falling/>
21 Adam S. Taxing rented and owner-occupied housing. Institute for Fiscal Studies. 16 January 2024. <https://ifs.org.uk/sites/default/files/2024-01/DLUHC%20housing%20tax%201.pdf>

On the other hand, the investment allowance means people will no longer be taxed on their normal returns, incentivising greater investment. Moreover, to the extent that there is a risk of reduced investment in housing, this poses less risk to economic growth than taxation on other forms of investment income, because housing is not a productive asset. While applying NICs to dividend income could, for example, dampen investment in productive businesses and diminish production as a result, this is not the case for housing.

Second, the impact on rent has to be considered in the context of the implementation of an investment allowance, as outlined above. As the investment allowance means any returns on investment below the 'risk-free' rate of return are untaxed, the impact of this policy change will depend on how landlords predict the returns on their investment will differ from the 'risk free' rate of return. If the rate of return is expected to be similar to the 'risk free' rate of return, then much of their rent will benefit from the investment allowance and become untaxed. For some, this reduction in tax could offset the increase in tax due to higher rates. This will particularly be the case where landlords receive a lower rate of rent relative to their investment - i.e. where renters have more power to push down market rents. In contrast, landlords who charge very high rates of rent relative to their investment - i.e. where landlords have more power to raise market rents because of housing shortages or rapidly rising demand in the private rented sector - will face higher tax.

Apart from the direct impact on housing, this reform could also bring wider benefits to growth by broadening the base of NICs. Currently, having a lower marginal rate on rent than on employment incentivises individuals to shift economic activity away from work and into renting property. Reducing this gap increases neutrality between these economic activities. This reduces the incentive to shift economic activity based on tax benefits, and raises the relative incentive to direct economic activity towards what is most productive.

We recognise arguments made that this reform would, however, simultaneously add to tax disadvantages for rented property relative to owner-occupied property (which already benefits from more generous income tax, capital gains tax, stamp duty and inheritance tax). While some gap between rented property and owner-occupied property is likely justified on the basis that most people want to become owner-occupiers, the current advantages to the latter may be too large.

Another impact to consider is on how landlords manage their business. The application of NICs to rental income would not apply to incorporated landlords, meaning the reform increases the incentive for landlords to incorporate. Many landlords are now incorporated, particularly as this allows them to keep getting tax deductions for mortgage interest, which is only partially available to individuals. However, incorporated landlords have to pay corporation tax on profits in addition to income tax on any income. A positive for the Treasury is that individuals who incorporate, and thus transfer their property from their individual ownership to a company, will have to pay capital gains tax on the property and stamp duty. This would provide an additional boost to government revenue on top of the revenue figure provided.

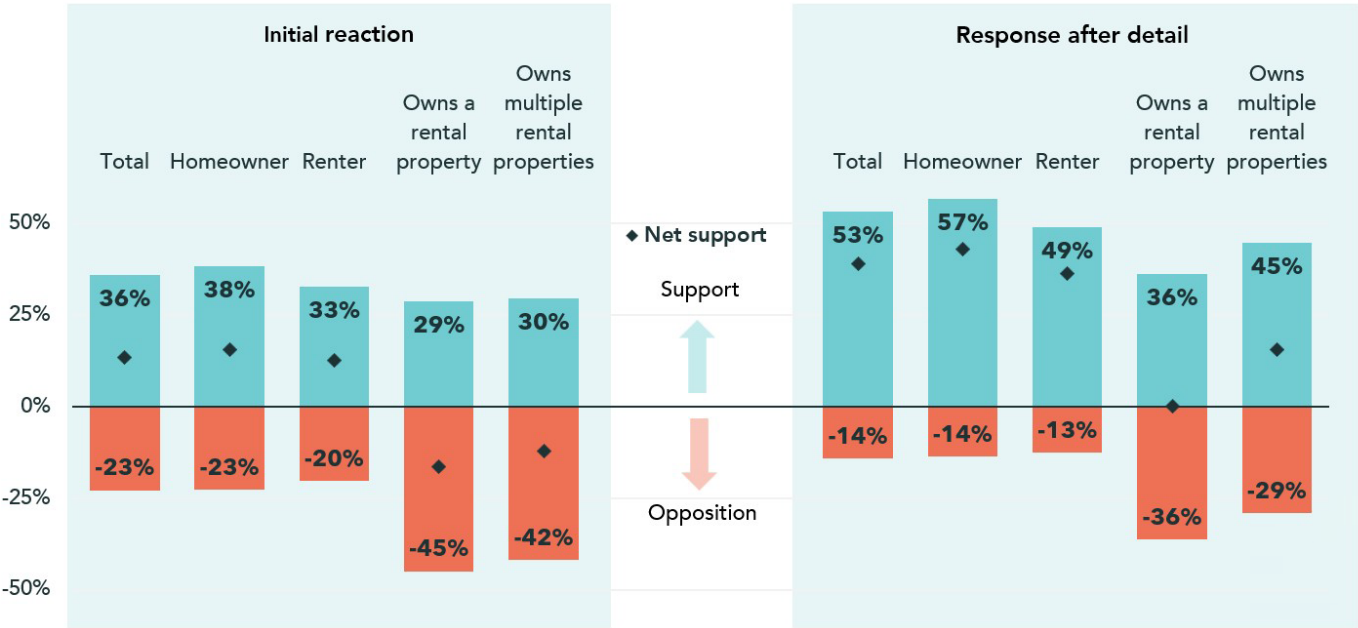
Public attitudes (survey)

The public are supportive of this reform in the low-engagement scenario (before any details are provided). When asked about levels of support for 'applying national insurance to rental income', 36% expressed support, while 23% expressed opposition. This support is consistent across both renters and homeowners. There was, however, opposition among those who own a single rental property (29% support vs 45% opposition) and those owning multiple rental properties (30% support and 42% opposition) - although this group makes up around just one in every 21 people.²²

22 Bano N. The end of landlords: the surprisingly simple solution to the UK housing crisis. The Guardian. 19 March 2024. <https://www.theguardian.com/lifeandstyle/2024/mar/19/end-of-landlords-surprisingly-simple-solution-to-uk-housing-crisis>

In the contextual-engagement scenario (after reading details about the current system, the tax reform, and revenue raised) the public is much more supportive. Overall net support rises from 13pp to 39pp. Even those owning a rental property became, on balance, neutral about the reform, and net support among those owning multiple rental properties rose to 16pp.

FIGURE 14
Even landlords tend to support NICs on rental income after reading about the detail
Attitudes to applying NICs to rental income, before and after reading details about the current regime and revenue raised, by homeownership status



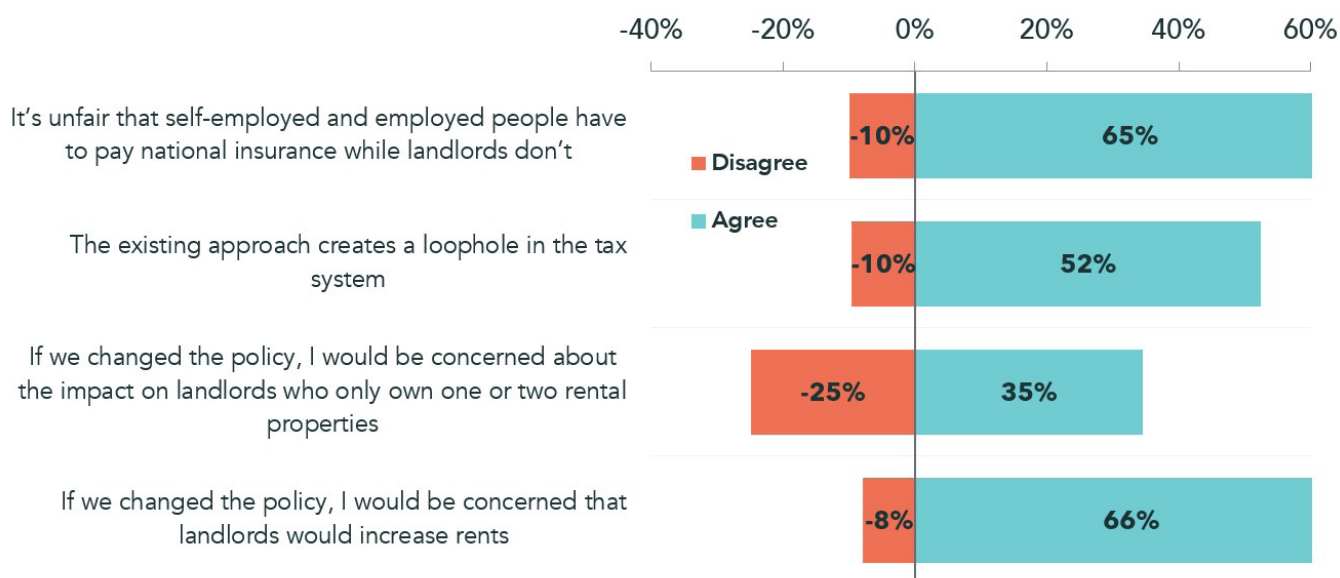
Source: Demos survey, Opinium, April 2025.

Digging into particular opinions about the reforms, we found widespread agreement that it’s unfair that self-employed people have to pay NICs while landlords don’t, and that the existing approach creates a loophole in the tax system. While there is some concern about the impact on landlords who only own one or two rental properties, there is significant concern about the impact on rent levels.

FIGURE 15

The public think the current approach is unfair and creates a loophole, but are concerned about the impact of changes on renters

Percentage agreeing/disagreeing with statements about national insurance and rental income



Source: Demos survey, Opinium, April 2025.

We also tested the application of NICs to rental income in a high-engagement scenario - whereby respondents read arguments for and against the reforms, reflecting responses after the public has engaged with the surrounding media debate. This included statements that landlords may increase rent as a result of the changes, alongside statements that the change ensures landlords pay the same tax as workers, that the investment allowance should mitigate impacts on rents, and that funds will be invested in social housing.²³ We find 24% of the public opposing this reform, but 40% supporting, meaning net support of 16pp. There is no net opposition among supporters of all most major parties, with net support of 38pp among Labour supporters, while Reform supporters are neutral (net support at 0pp).

Public attitudes (focus groups)

Echoing the survey results, in the low-engagement scenario in focus groups, people were generally supportive of applying NICs to rental income. Most participants felt that landlords have enough money and so can pay more tax.

I'd be happy with that because already there is a crisis in the country where first time buyers are being pushed out of the market... and then you've got landlords who have got more than one home... So why should they not have to pay more taxes?

– Millennial, graduate, West Midlands, homeowner

23 Full text: Now imagine the budget has happened, and you read about each of the following policy changes, and the arguments made by supporters and opponents of the changes: Policy change: Landlords will have to start paying national insurance on their rental income to match employment income, meaning a 20% increase at the basic rate and 8% increase at the higher rate. They will also benefit from a new tax allowance on their investments

- Opponents say: "This tax hike will, coming alongside pressures from high interest rates and increased regulation, may mean landlords have to increase rents"

- Supporters say: "All workers have to pay national insurance on their income, and it's only fair that landlords should as well. With the tax relief we will provide for landlords' investment, there should not be a significant impact on rents. To mitigate concerns, we will also invest additional funds into social housing, and are also taking action to protect renters through the Renters' Rights Bill".

After reading what supporters and opponents say, to what extent would you support or oppose the policy change?

I've come from working in the NHS, and I do feel it needs investment, and I feel that we need to get the money from somewhere... It would be nice if we could prevent the person on the street having to pay. I think this is a viable option.

- Gen X, post-grad, North West, homeowner

There was concern among some about small landlords who just own one or two properties and are not that well off, but others felt that owning one or two properties means people are in fact well off.

If they keep putting that up, you're going to be hurting the little man like me who just had one. You need to do the higher taxes on the ones that have like the six, the seven, the eight.

- Millennial, intermediate education, West Midlands, homeowner

There was some concern about the impact on increasing rents. One or two participants in each group mentioned the impact on rents, but it was not the most salient factor. In particular the reform was not treated in any way as equivalent to a tax on renters; participants still framed the tax as applying mainly to landlords.

If [landlords'] taxes are going up 20% then they'll hike the rent by 20% to offset the loss of income on the taxes.

- Gen Z, graduate, London, privately renting

In the contextual-engagement scenario - after engagement with detail about the current system and the reform - there was surprise and frustration that landlords do not pay national insurance. For some, there was a sense that this tax policy was a loophole benefiting the wealthy.

I think [the reform] sounds right and fair. It's obviously something that's been missed for a while, and I think it's almost like a ghost income for people to avoid that tax, and I haven't seen that. Now I'm quite pleased to see it's coming in.

- Millennial, low education level, North East, homeowner

I didn't know [about this tax gap]. I think it's terrible. So you could have these landlords that got all these properties and they're not paying any national insurance?!

- Boomer, intermediate education, North West, homeowner

In the high-engagement scenario - engaging with arguments for and against - the risk of increasing rents became the key concern. Participants often felt this was the most significant drawback of the policy - emphasising, for example, 'that is the danger' - and worried about struggling renters. Yet, the concern generally did not negate support for the policy, as many participants instead considered ways to mitigate the issue, for example by only applying the tax to the wealthiest landlords or introducing rent controls. On the other hand, some felt that if landlords could increase rents more, they would have done it already.

[Landlords] can put the rent up as high as they like, but if they put it up beyond a certain point, then tenants are just not going to be able to pay it.... they're getting as much money as they can get from certain tenants... the sky isn't the limit.

- Boomer, intermediate education, London, social renter

When prompted, there was some feeling that landlords have taken a risk by investing in properties so should not face the same level of tax, but this did not hold up when comparing landlords to self-employed people, who were also seen as taking risks.

[Landlords have] got something to fall back on, whereas the people who are self employed or just running a small business typically don't have as much to fall back on. So I feel like they're taking more of a risk by not working a full time job.
– **Millennial, post-grad, Yorkshire and the Humber, privately renting**

When presented with arguments about the impact on smaller landlords, this strengthened concern among some participants, with a sense that the tax should mainly target bigger, corporate landlords. Multiple participants proposed implementing a progressive rate in order to address this, whereby landlords with more rental income pay higher rates. This is, of course, already the case with the progressive income tax schedule. If implementing this policy, this progressive feature of taxation of rental income should be emphasised

When presented with the argument that landlords are having a hard time with high taxes, costs, and regulations, participants showed little sympathy. There was a broad sense that everyone was having a hard time and we should not have particular sympathy for landlords. We were also surprised to see very little mention of impacts on accessing the state pension. One might assume that, given there is some link between national insurance contributions and state pension entitlement, the public would closely associate the two and express concern about the reform on this basis. However, this did not appear to be a salient issue within the conversation.

3.2 INTRODUCE 'PARTNERSHIP CONTRIBUTIONS' (EMPLOYER NICS-EQUIVALENT)

SUMMARY	
While businesses pay Employer NICs for all employees, businesses set up as 'partnerships' – a legal business structure - do not pay Employer NICs for partners. Partners therefore gain tax advantages over employees, which is unfair and may harm productivity. The government should add an additional category of Employer NICs to ensure partnership businesses pay the same rate of Employer NICs for their partners as businesses do for their employees.	
ECONOMIC BENEFITS	
Annual gain	Wider benefits
£1.9 billion (dynamic 2026/27 revenue estimate)	Fairness: Would help equalise taxation on employment income (which pays higher rates of NICs) and partnership income. Fiscal and economic efficiency: Broadens the base of NICs, making it close to income tax. This extends neutrality in the tax system, which can have benefits for growth.

SURVEY RESPONSES			
Low-engagement	Contextual-engagement	High-engagement	SME attitudes
26% support	52% support	36% support	35% think the existing approach is fair vs 41% think it's unfair
31% neither support nor oppose	22% neither support nor oppose	28% neither support nor oppose	
16% oppose	11% oppose	24% oppose	
KEY LESSONS FROM FOCUS GROUPS			
Insights		Recommended response	
When learning about this tax advantage, many people see this as unfair, and some as a loophole. Some are concerned about the impact on smaller partnership businesses, and on the employees in partnership businesses who may see wage cuts.		Policymakers should emphasise that the employment allowance (a tax allowance for Employer NICs) will protect smaller partnerships, and the revenue will be invested to boost business productivity and wages. Policymakers should also continually emphasise that the reform is fundamentally about ensuring employees are not disadvantaged in the tax system relative to partners, to improve fairness in the system.	
When people engage with arguments that GP services may be disrupted by the reform, this becomes a key concern.		Potentially directing some of the revenue to support GP pay or GP services could mitigate these concerns. Again, emphasising the argument around fairness is also likely to lessen concerns.	

Design

Partners in partnership firms are treated as self-employed for tax purposes. To be classed as such, the business must be registered as a partnership with HMRC, and various criteria must be met. For a Limited Liability Partnership (LLP), for example, a worker can be a partner if:

1. At least 20% of their remuneration varies with the partnerships' profits.
2. They have significant influence over the affairs of the partnership.
3. They contribute at least 25% of their fixed remuneration as capital to the partnership.

In being treated as self-employed, partners benefit from tax advantages. Compared to the employed, the self-employed pay lower rates of NICs (6% rather than 8%), and Employer NICs are not charged to the business (usually charged at 15% of the wage bill after allowances). The reason for this disparity in tax treatment is unclear, with the IFS noting that "the government has not stated clearly why it thinks the tax advantage for self-employment should exist."²⁴

²⁴ Institute for Fiscal Studies. Are preferential tax rates for the self-employed justified?. No date. <https://ifs.org.uk/taxlab/taxlab-key-questions/are-preferential-tax-rates-self-employed-justified>

In regard to whether the disparity should exist, there is also no persuasive reason. As the IFS find:²⁵

Levying lower taxes on the self-employed cannot be justified by differences in publicly funded benefits (the differences in benefits are far smaller than the tax advantages) or by differences in employment rights (which make employment more attractive to workers but less attractive to potential employers)... The current tax system discourages risk-taking and some forms of investment. But lower headline tax rates are not the best way to stop this. Nor are they well targeted at boosting entrepreneurship.

In contrast, there are reasons not to provide a tax advantage to the self-employed - notably that it creates incentives to shift economic activity away from employment and into self-employment, reducing neutrality in the tax system. In other words, it creates incentives to allocate economic activity based on reducing tax bills rather than maximising productivity. Reducing this tax advantage could therefore raise the relative incentive to direct economic activity towards what is most economically productive.

Reducing the tax advantages enjoyed by people considered self-employed for tax purposes, relative to the employed, would be a positive step for the tax system and growth. Ensuring partnership businesses pay the same rate of employer NICs for their partners as businesses do for their employees would be a step towards this.

We recognise that this reform would, however, create a new gap in the tax system between partners and sole traders. While we accept that this gap should also be addressed in the long-term with a fairer balance in NICs between the employed and self-employed in general, we recognise the political challenges in doing this all at once (the fact it has not happened despite consistent consensus among economists is testament to that).

We also think addressing the gap for partners is a higher priority, given that partners often appear more like employees than sole traders. In particular, if greater financial risk among the self-employed is the most compelling reason for their tax advantage, partners will generally face fewer financial risks than sole traders by virtue of the fact that the business is shared between multiple partners, and thus falls in profits or rising liabilities are shared. Partners at LLPs may only have 20% of their remuneration varying with the partnerships' profits, reducing risks to that remuneration.

To ensure partnership businesses pay the same effective rate of NICs for partners as businesses do for employees, a new category of Class 1 NICs should apply specifically to partnerships, charged to the business at 15% of the remuneration paid out to partners. This is equivalent to 13.04% of the pre-tax remuneration which would otherwise be paid to partners (given that the tax itself reduces the remuneration paid out to partners).²⁶ Once we account for the reduction in income tax and self-employee NICs due, the reform increases the effective tax rate on partners by 7-10pp, depending on their marginal tax rate and the application of the partnership allowance. This would apply to all partnerships, including general partnerships, limited partnerships, and limited liability partnerships.

The additional taxation would come with an additional allowance. Employer NICs come with the 'employment allowance', meaning it does not apply to the first £10,500 of Employer NICs due by the business. With Employer NICs charged at a rate of 15% of the wage bill, it is only

²⁵ Ibid

²⁶ While Employer NICs are paid on top of the wages a business pays out to employees (and so come out of its profit), partnership contributions will apply to the business's profits itself (because partners are remunerated with the business's profits). This means that, unlike with Employer NICs, partnership contributions reduce the remuneration paid out to partners. This means we can understand the rate as either affecting the remuneration actually paid out to partners, or the remuneration which would have been paid to partners had the tax not applied. The effective rate on partners' remuneration had the tax not been applied is $15\% / (100\% + 15\%)$, which is equivalent to 13.04%.

charged on a business's wage bill over £70,000. On top of this, there is an additional allowance, whereby the first £5,000 of each employee's wages are also exempt from Employer NICs. This means that, for a business with one employee, Employer NICs is only charged on the wage bill over £75,000. An equivalent employment allowance would also be applied to partnership contributions (with the 13.04% rate applied). For a partnership with a minimum size of two partners the new tax would only apply to the wage bill over £90,521 (equivalent to around £45,250 for each partner, or 21% higher than the median earnings for a full-time employee in 2024).²⁷

Revenue and distributional impacts

The introduction of partnership contributions would - according to CenTax estimates - raise £1.9 billion after accounting for behavioural responses and interactions with other taxes.²⁸ This assumes a reduction in income tax and Class 4 NICs due to the reforms, and a behavioural response reducing revenues by 20%. The additional tax would be paid almost entirely by the very highest earners. 98% of the revenue would come from individuals in the 10% of the income distribution. In fact, even most partners (66%) would pay no additional tax due to the tax allowances available.

The revenue would be heavily concentrated in certain regions and certain occupations. Regionally, over a quarter of UK partnership income went to taxpayers in just 12 constituencies, 11 of which are in London.²⁹ Partnership income in Kensington, for example, was 1,200 times higher than in Liverpool Walton. Meanwhile, the following occupations collectively made up 57% of all partnership income in 2020:³⁰

- Solicitors - 20% of all partnership income, averaging £316,000 per partner
- Other activities auxiliary to financial services - 18%, £675,000
- General medical practice activities - 10%, £118,000 per partner
- Accounting and auditing activities - 9%, £246,000

Economic benefits

By reducing the tax advantages for partnerships businesses over companies, the reforms expand neutrality in the tax system, with multiple benefits for the economy.³¹ First, investment is more costly in partnership businesses than companies, because reinvestment from partners must be made from post-tax income, while companies can reinvest profits before income tax is paid. Incentivising partnership businesses through tax advantages could then discourage investment. Secondly, tax advantages for partnership businesses drive higher pay for partners - and sectors where they are common - encouraging more workers into those businesses than companies, even if less productive. Thirdly, the tax advantages may help partnership businesses survive in the market, potentially ahead of more productive businesses, which can reduce productivity in the economy. By removing the tax advantages for partnership businesses, partnership contributions will have multiple economic benefits.

27 ONS. Employee earnings in the UK: 2024. 29 October 2024. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2024>

28 Advani et al. Equalising National Insurance on Partnership Income: Revenue and Distributional Effects. Centre for the Analysis of Taxation. September 2025. https://centax.org.uk/wp-content/uploads/2025/09/AdvaniGazmuribarkerLonsdaleSummers2025_PartnershipNICs.pdf

29 Advani et al. Equalising National Insurance on Partnership Income: Revenue and Distributional Effects. Centre for the Analysis of Taxation. September 2025. https://centax.org.uk/wp-content/uploads/2025/09/AdvaniGazmuribarkerLonsdaleSummers2025_PartnershipNICs.pdf

30 Ibid.

31 Ibid.

Public attitudes - survey

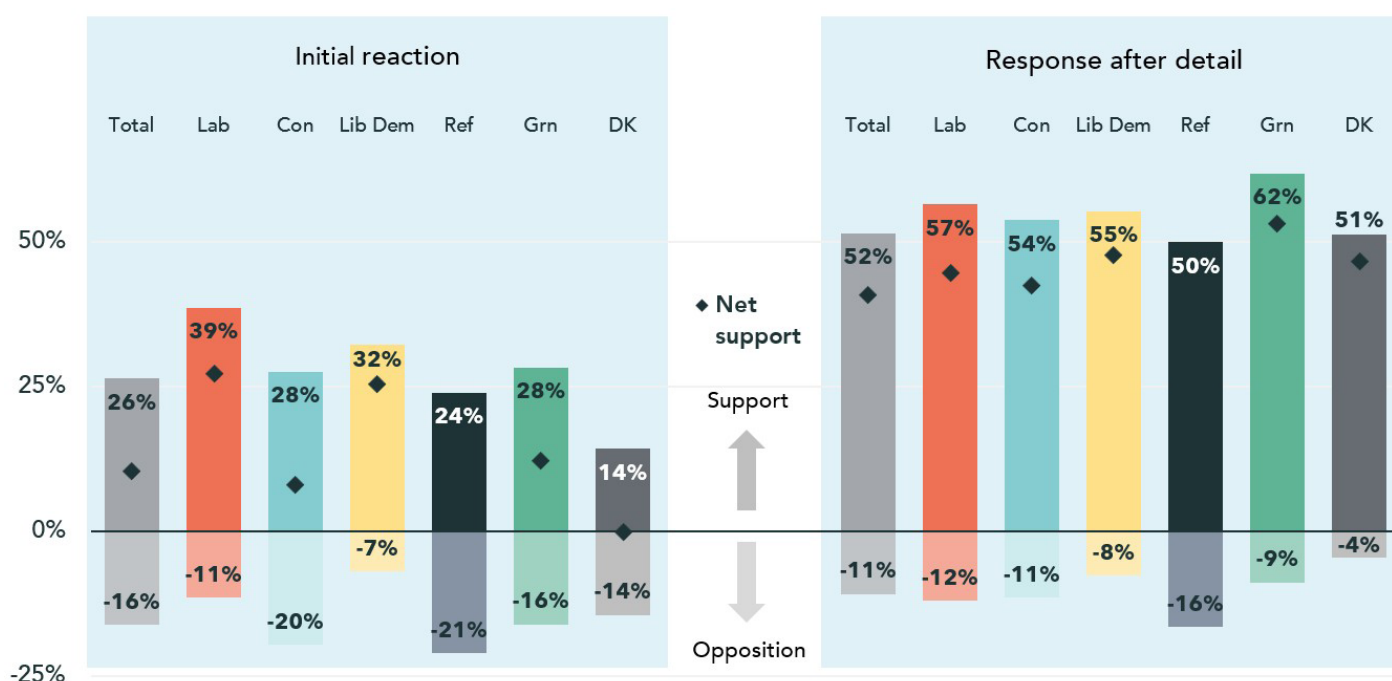
In the low-engagement scenario, the public are broadly supportive of the idea of “applying employers’ national insurance to ‘partners’ in partnership businesses”: 26% support the proposal, while 16% oppose it. Support is found among people intending to vote for all major parties, while those saying they don’t know who they’ll vote for were split on the proposal.

In the contextual-engagement scenario - after reading details about what the proposal meant and how much it would raise - support increases massively. Over half of the population (52%) support the proposal after reading the details, while just 11% oppose it. This is broadly consistent among people intending to vote for any major party, while 51% of people who don’t know who they would vote for support the proposal, and 50% of people who intend to vote Reform also do - with levels of opposition much lower.

FIGURE 16

All voter groups support ‘partnership contributions’

Attitudes to charging partnership business with NICs for each ‘partner’, before and after reading details about partnerships, NICs, and the revenue raised, by voting intention



Source: Demos survey, *Opinium*, April 2025.

Support is even found among people who work as ‘partners’ in partnership businesses. In the low-engagement scenario, 30% of this group support the reform while 30% oppose it. Yet, in the contextual-engagement scenario 56% support the proposal while 18% oppose it.

In terms of specific feelings about the proposal, we find broad agreement that it is unfair that businesses have to pay national insurance for employees but not for partners, and that this approach creates a loophole in the tax system. The public were split, however, on whether they were concerned about the impact on partners in partnership firms.

FIGURE 17

The public think the current approach is unfair and creates a loophole, and are not generally concerned about the impact on 'partnership' firms

Percentage agreeing/disagreeing with statements about national insurance and rental income



Source: Demos survey, Opinium, April 2025.

We tested this policy in a high-engagement scenario, whereby respondents read statements from opponents that the change could “lead to fewer GPs or GP services, potentially causing longer delays for patients... [and] could deter investment in the UK... [and] could also harm smaller partnership businesses”, alongside statements from supporters saying that the change ensures partnership businesses pay the same tax as other businesses, that additional funds will be invested into GP services to avoid issues for patients, and that a tax allowance will protect smaller businesses.³² We find 24% of the public opposing this reform, but 36% supporting it, meaning net support of 12pp.

Public attitudes - focus groups

In the low-engagement scenario in focus groups, there was widespread confusion about what 'partnership'-style businesses are. There was some awareness of law firms and financial firms acting as partnerships, and some awareness of small businesses like GPs acting as partnerships. John Lewis was mentioned, although John Lewis is in fact a public limited company. There was some concern that partnerships tend to be smaller businesses. However, it is not true that partnerships tend to be smaller than other businesses: 89% of partnership businesses have less

³² Full text: Now imagine the budget has happened, and you read about each of the following policy changes, and the arguments made by supporters and opponents of the changes: Policy change: Landlords will have to start paying national insurance on their rental income to match employment income, meaning a 20% increase at the basic rate and 8% increase at the higher rate. They will also benefit from a new tax allowance on their investments

Opponents say: “This tax hike will, coming alongside pressures from high interest rates and increased regulation, may mean landlords have to increase rents”

Supporters say: “All workers have to pay national insurance on their income, and it's only fair that landlords should as well. With the tax relief we will provide for landlords' investment, there should not be a significant impact on rents. To mitigate concerns, we will also invest additional funds into social housing, and are also taking action to protect renters through the Renters' Rights Bill”. After reading what supporters and opponents say, to what extent would you support or oppose the policy change?

than 10 employees, compared to 88% of companies.³³

My gut feeling is that the majority of businesses are publicly traded, rather than being partnerships. So partnerships are typically smaller right, apart from a few big ones like John Lewis? So it seems like it's kind of focusing on smaller businesses than the really big ones which probably could pay more in tax.

– Millennial, post-grad, Yorkshire and the Humber, privately renting

Moving into the contextual-engagement scenario, many people were shocked that this tax gap existed. Some described it as a loophole, and some expressed anger that this disparity existed.

This is one I wasn't aware of. And if this is Labour looking at this, they've clearly found a few loopholes that have existed for too long. I would totally agree that they should change this.

– Millennial, low education level, North East, homeowner

I think disturbing is probably the best one. You've got some people who are pensioners and they're having their pension taxed, yet you've got these really affluent people not paying NI.

– Boomer, intermediate education, North West, homeowner

Some participants felt concerned about the impact on small businesses. Various participants called for a threshold, so that smaller businesses would be protected. There was particularly a sense of defeatism that larger businesses will manage to avoid the tax, and only smaller businesses will pay more. Again, this sentiment is not true - for example, small businesses tend to avoid a much larger percentage of their corporation tax than mid-sized businesses.³⁴

Knowing that it could be like a huge law firm and everyone is a partner, that's mind blowing if they wouldn't pay national insurance [but] somehow those huge companies and those those landlords and all of them, they will manage to figure it out, and the small businesses will have to suffer.

– Millennial, graduate, London, privately renting

Other participants were concerned not about the impact on the business directly, but the impact on either consumers or workers in the business. For example, there was concern that partnerships would lower pay for employees in the business, thus passing on the tax rise.

I just think it always ends up coming back on us... the cost of, say, the nail varnish goes up.

– Millennial, intermediate education, West Midlands, homeowner

[Higher tax on partnerships] would just trickle down into the business, and there would be less wage increases, less annual reviews and wage increases for the staff.

– Gen X, post-grad, North West, homeowner

33 ONS. UK business: activity, size and location. 25 September 2024. <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation>

34 <https://taxpolicy.org.uk/2025/06/19/the-small-business-tax-crisis-40-of-tax-due-isnt-paid/>

In the high-engagement scenario, some concerns about small businesses were mitigated by discussion of the employment allowance. Responding to calls for a threshold, we explained that there would be a threshold in terms of the application of the employment allowance, and that only wage bills over at least £80,000 would be affected. Some felt that this was fair, and some noted it could be even lower. However some argued that the allowance was too low, as it wouldn't fully protect small businesses. Following this, however, some participants discussed the fact that all partnerships (including those with wage bills over the allowance) would benefit from the allowance. When understanding this, some participants were more sympathetic.

[The allowance is] reassuring. But 80k is not much, right? Like, that's four people on £20k for example....maybe that should be increased slightly... while still having a progressive income scale.

– Millennial, post-grad, Yorkshire and the Humber, privately renting

I don't mind having this... They are paying only above £80,000 so if they're earning £100,000 ,they're paying only on the £20,000... So overall it works on a lot less than 15%.

– Gen X, graduate, East of England, homeowner

Some participants felt that measures should be put in place to ease the impact, including gradually increasing the tax rate over time, or introducing a sliding scale, with larger businesses paying higher rates.

That's quite a significant hike, because a lot of these partners are going to be high earners anyway.... That's a significant impact on the business. So I hate to go back to it, but I prefer a sliding scale introduced over a couple of years.

– Gen Z, graduate, London, privately renting

When presented with the statement "Partners in firms are similar to employees so they should face the same tax", there was a broad sense that employees also face risks with their earnings, so it's not that different if partners do too. When presented with the statement "This would be another increase in employer's national insurance, which could hurt the economy", there was some sympathy with this argument, but also a low awareness of or concern for the impact of the 2024 increase in Employer's NICs on the economy.

Barely noticed it in the context of all the other cuts and stuff, to be honest.

– Millennial, post-grad, Yorkshire and the Humber, privately renting

When prompted on arguments around harming GP services, people immediately engaged with the argument and were concerned about it. Some agreed the tax would drive GPs out of their jobs.

[GPs is the one] that stuck out to me. When we're already losing droves of good people, why would we do that?

– Millennial, graduate, London, homeowner

Some people felt that GPs should, however, pay more tax. Some participants noted that, if the reform was simply making the tax fair between GPs and employees, then that was the right thing to do, with some describing GPs tax advantage as a loophole that should be tackled. One felt that some GPs running poor services are more deserving of higher tax.

I agree with the GP and dentists; I think if everybody else is paying the tax, why aren't they okay?

– Gen X, low education level, South East, homeowner

I think there's good GPs and bad GPs. The ones that are really efficient and that see the patient shouldn't be suffering the tax, but the ones that don't and aren't running good practices should.

– Gen X, post-graduate, North West, homeowner

3.3 MATCH CGT RATES WITH INCOME TAX AND INTRODUCE AN ALLOWANCE FOR INVESTMENT

SUMMARY

Capital Gains Tax is charged at lower rates than income tax - providing unfair and inefficient advantages to those receiving capital gains rather than income. The government should equalise rates of capital gains tax with income tax rates - meaning a 20% marginal rate for basic rate taxpayers, a 40% rate for higher rate taxpayers, and 45% for additional rate taxpayers, with business asset disposal relief and investors' relief both removed.

To ensure 'normal gains' are not taxed (which disincentivises investment), the government should introduce an investment allowance which ensures all 'normal gains' (those that compensate investors for forgoing the opportunity to spend that money in the present) are untaxed.

ECONOMIC BENEFITS

Annual gain	Wider benefits
£11.3 billion (dynamic 2026/27 revenue estimate if introduced with exit tax and removal of uplift)	Fairness: Removes the tax advantage for people receiving capital gains over those people receiving earned income. In particular, it reduces the difference in tax between someone who receives income through earnings, and someone who does the same work, but shifts their income into capital gains by setting up a personal services company. Economic efficiency: Ends the drag on productivity from people shifting employment income into capital gains. The investment allowance also removes the disincentive that currently exists to invest, because 'normal gains' are taxed, i.e. those which compensate investors for forgoing the opportunity to spend their capital in the present.

SURVEY RESPONSES		
Low-engagement	Contextual-engagement	SME attitudes
36% support	40% support	46% support
25% neither support nor oppose	21% neither support nor oppose	25% neither support nor oppose
23% oppose	18% oppose	15% oppose
KEY LESSONS FROM FOCUS GROUPS		
Insights		Recommended response
People are generally not aware of the details around CGT. Yet, when it is associated with stocks and shares, second homes or rental properties, they generally feel it's a fair tax to raise as these assets signal wealth and ability to pay.		Policymakers should emphasise that CGT primarily affects assets like stocks and shares, second homes or rental properties.
When the gap in CGT and income tax rates is highlighted, people feel that this is a problem that needs to be addressed. However, it may simultaneously drive calls for the higher and additional income tax rates to be reduced.		Policymakers should emphasise that the problem they are trying to address is that people can exploit the gap in rates by shifting their business activities around. Participants we spoke with unanimously agree this is a problem.
People tend to initially support an investment allowance, but are concerned that it advantages larger businesses over smaller businesses. At the same time, some people have little sympathy with the idea that large investors should benefit from tax relief because they are taking risks, feeling that there is little risk of actual hardship.		Policymakers should continually emphasise that the rationale for the allowance is to encourage investment and boost jobs and wages.

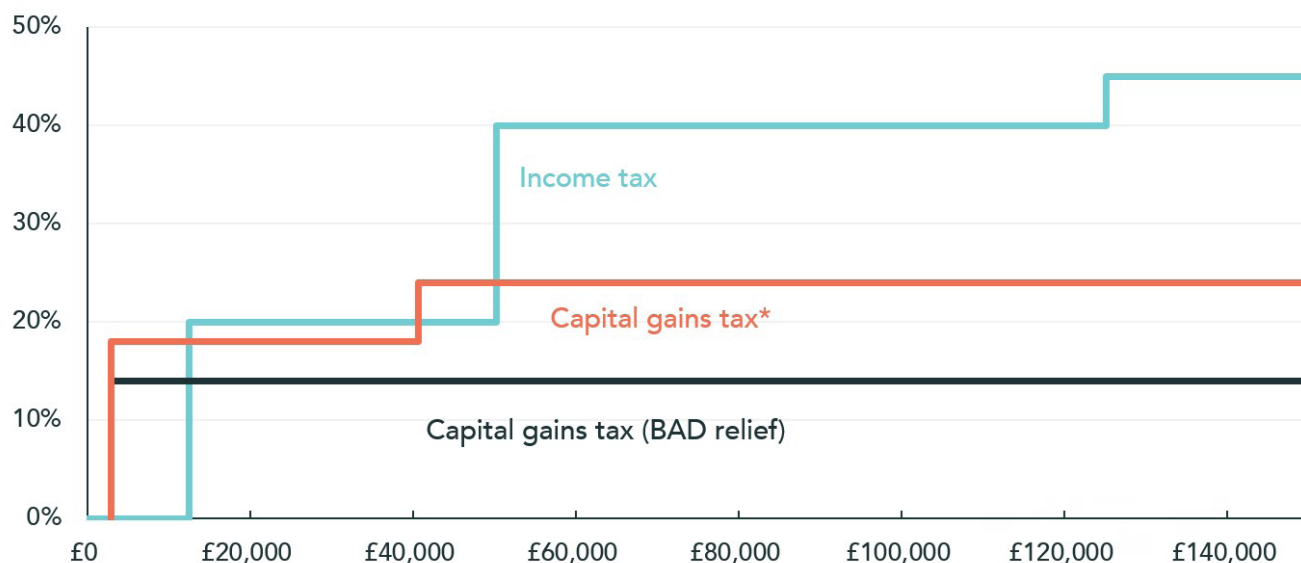
Capital gains tax is a tax on the profits people make when selling assets. Main homes, pension savings, and other savings are exempt from the tax, so it mainly applies to business assets, financial assets like stocks and shares, and second homes or rental properties.

Capital gains are currently taxed at lower rates than income. The higher rate of income tax (charged from £50,271 to £125,140 of income) is 40%, compared to just 24% for capital gains tax (and capital gains also benefit from an additional £3,000 annual allowance). The additional rate of income tax (charged over £125,140) increases to 45%, while capital gains tax maxes out at 24% (unless applying to carried interest for investment fund managers, in which case it maxes out at 32%). If the capital gains are on assets benefitting from Business Asset Disposal (BAD) Relief (i.e. if they are going to a sole trader or partner in a business who owned the business assets for at least two years), they are charged just 14%, regardless of the value.

This creates a problem of fairness. Someone earning £150,000 in income will pay £48,674.80 in income tax (plus NICs on top), while someone earning exactly the same amount in capital gains will only pay £33,018 in tax (around two thirds the amount). Meanwhile, someone earning that same amount in capital gains benefitting from BAD relief will only pay £20,580 - less than half the amount.

FIGURE 18**Capital gains are subject to significantly lower tax rates than income**

Marginal tax rates on capital gain on non-carried interest assets and assets benefiting from Business Asset Disposal Relief, and income, by amount received



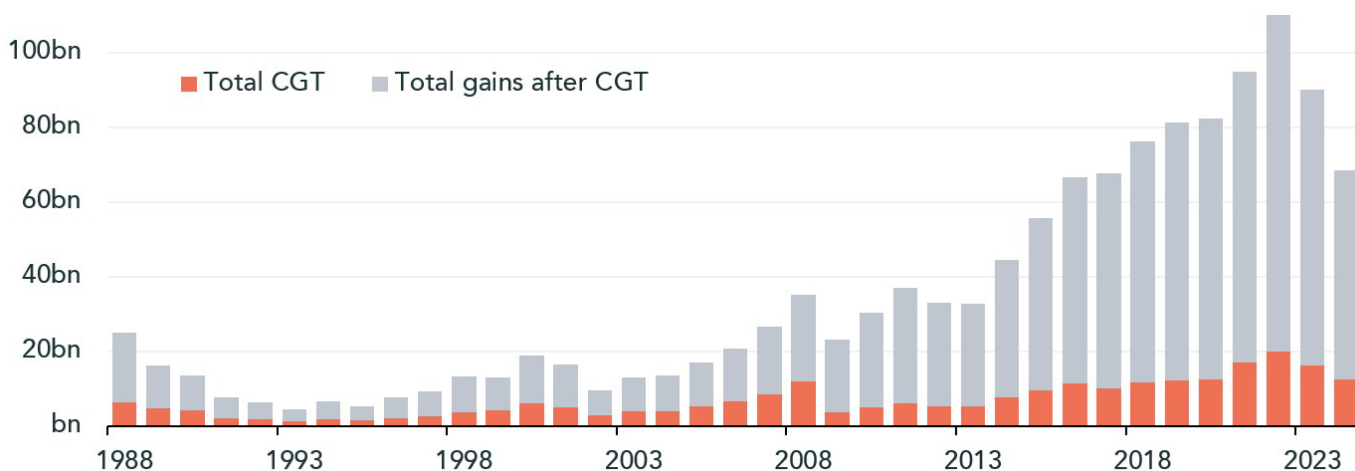
*Excluding capital gains on carried interest (a type of gain for investment fund managers).

Source: Demos analysis.

The gap between income tax and CGT rates has become a bigger problem over time, as capital gains have become much more prevalent in our economy. A peak of £111 billion of capital gains were received in 2022 (in 2024/25 prices), almost 24 times the value in real terms of the £5.2 billion received three decades earlier in 1993.³⁵ At the same time, the proportion of capital gains paid in tax has decreased. In 1993, 28% of gains were paid in tax. This increased in the 2000s, peaking at 34% in 2008. Yet, it has since declined significantly, dropping to 15% by the final years of the last decade, and picking up to just 18% in the last financial year.

FIGURE 19**While 30% of taxable gains were paid in tax twenty years ago, just 18% are now**

Capital gains received and tax paid over time (2024/25 prices)



Source: <https://www.gov.uk/government/statistics/capital-gains-tax-statistics>

35 HM Revenue & Customs. Capital Gains Tax statistics. 24 July 2025. <https://www.gov.uk/government/statistics/capital-gains-tax-statistics>

This is a particular concern for fairness given that capital gains are primarily enjoyed by the extremely wealthy. In 2023/23, 36% of all taxable capital gains received by individuals (£23 billion) were enjoyed by around just 2,000 people (0.004% of the UK adult population), each gaining around £11.4 million on average.³⁶ Capital gains also amplify regional inequalities, with half (49%) of all taxable gains coming from London and the South East of England.

While capital gains experience relatively low tax rates, all gains over the tax-free allowances are taxed, including normal gains or inflationary gains (gains that would be wiped out after accounting for inflation). This was not always the case. Up until 1998, capital gains tax was 'indexed' to inflation, meaning only real-terms gains were taxed.³⁷ In 1998, chancellor Gordon Brown removed the indexation and replaced it with 'tapering', which simply decreased the tax the longer the asset was held. He argued that 'in a low inflation environment, a complex system of indexation is no longer necessary'.³⁸ Taper relief was then abolished in 2008, and replaced with a lower flat rate of capital gains tax which does not usually vary with the length of time an asset is owned. Given higher inflation in recent years, the logic that capital gains tax rates should not account for inflation may no longer hold.

The government should address both the undertaxing of capital gains and the overtaxing of normal or inflationary gains simultaneously. Equalising capital gains tax rates with income tax rates, while introducing an investment allowance (as outlined in the Section 2.1 on NICs and rental income) would enable that. When the asset is sold, the owner would need to report all capital that was invested in the asset, and the period of time it was invested for, and HMRC would then calculate the value of the tax allowance.

The reform should also come with reforms to the treatment of losses. There are currently restrictions on using capital losses to offset other gains - primarily to prevent avoidance opportunities - meaning people do not receive the full benefit of gains but take on the full cost of losses. This asymmetry can discourage risk-taking investments. A better balance should be found between allowing some offsetting of losses, and preventing avoidance.

Revenue and distributional impacts

Combined with an exit tax and removal of the CGT uplift - and after accounting for behavioural responses - an increase in CGT rates with a rate of return allowance would raise £11.3 billion in 2026/27, according to Centax estimates.³⁹ We can also look at the revenue of an increase in CGT rates with a rate of return allowance on its own. Assuming no behavioural response, this change would have raised 11.2 billion in 2019/20. Given the extremely uneven distribution of capital gains, the additional tax paid due to the reform would primarily land on the top 0.1% of the population.

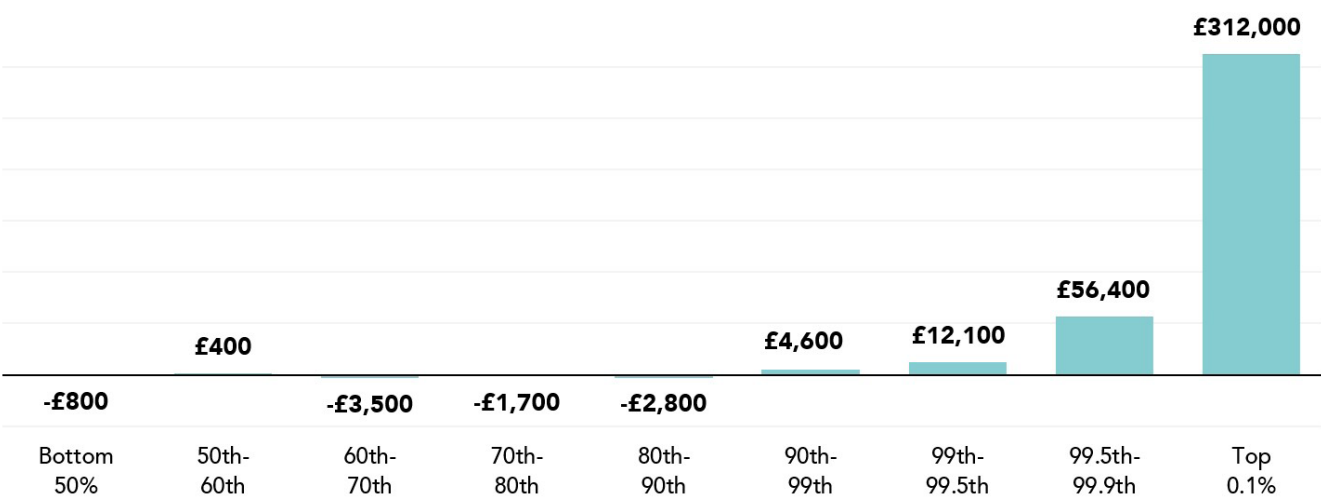
36 Taxable capital gains does not include gains on main homes, pension, or investment in ISAs, for example.

37 Thornley H. The downs and ups of capital gains tax. AccountingWEB. 16 February 2024. <https://www.accountingweb.co.uk/tax/personaltax/the-downs-and-ups-of-capital-gains-tax>

38 Steely A. Capital gains tax : background history. House of Commons Library. 2 June 2010. <https://researchbriefings.files.parliament.uk/documents/SN00860/SN00860.pdf>

39 Advani A, Lonsdale A, Summers A. Reforming Capital Gains Tax: Revenue and Distributional Effects. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

FIGURE 20
Matching CGT rates with income tax, with an investment allowance, would have little to no impact on individuals outside the top 1%
Average additional CGT per taxpayer due to equalising rates plus rate of return allowance, by percentile on the distribution of total income and gains, 2020 (CenTax estimates)



Source: Advani A, Lonsdale A, Summers A. *Reforming Capital Gains Tax: Revenue and Distributional Effects*. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

With the introduction of an investment allowance, many taxpayers - particularly those who have made larger investments and largely received normal gains - would actually be better off following the reforms.⁴⁰ Taking the equalisation of rates, an exit tax, and the removal of the CGT uplift collectively (with the latter policies discussed in following sub-sections), CenTax analysis of 2020 data suggests that 51% of CGT payers would actually be better off, and a further 7% would face similar charges. This includes 40% of all CGT payers who would in fact face no CGT post-reform. Of individuals who mainly receive gains from residential property, 90% would pay the same or less CGT.

Economic impacts

Matching CGT rates with income tax while adding an investment allowance would have two key economic benefits:⁴¹

1. It removes the incentive to shift employment income into capital gains.
2. It removes the incentive to consume in the present rather than invest in the future.

On the incentive to shift employment income into capital gains, this creates an inefficient use of labour, dragging on productivity. Rather than allocating their labour to the most productive use (which may be as an employee), individuals are incentivised to set up personal service companies for themselves and put their labour into this (as their income can then come through gains in the company rather than wages). However, as CenTax highlights, these personal service companies “are typically not designed to ever grow” and contribute “to the regularly diagnosed

40 Advani A, Lonsdale A, Summers A. *Reforming Capital Gains Tax: Revenue and Distributional Effects*. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf
41 Adam et al. *Capital gains tax reform*. Institute for Fiscal Studies. 6 October 2024. <https://ifs.org.uk/publications/capital-gains-tax-reform>

‘long tail’ of unproductive firms in the UK”.⁴²

This situation accounts for a sizable portion of capital gains received in the UK. Analysis by CenTax finds that half of gains come from private business assets which, on average, at least double in value each year.⁴³ This is an extremely high rate of return, and it is highly unlikely that all these gains represent just returns on investments. Instead, it suggests that the returns are on labour rather than capital. Looking at capital gains over £5 million, over 30% were made on assets acquired for less than £500. Again, this suggests the gains are returns on labour rather than capital, indicating that people are shifting their income around to reduce tax bills, rather than gearing economic activity to what is most productive.

On the incentive to consume in the present rather than invest in the future, taxing all capital gains means people who invest may be taxed even on their normal gains (as outlined in more depth in Section 2.1 on rental income). This feature creates a disincentive to invest, which is removed by the investment allowance.

Importantly, the investment allowance only benefits those who have capital to invest. For a new business that invests little capital, they will see little benefit from the investment allowance. This makes economic sense: capital gains should only receive tax deductions relative to income from work to the extent that capital has been put at risk. If no capital has been put at risk, and instead it is just labour that has been committed to the business, the returns should be taxed in the same way that returns from self-employment are, for example. However, concern remains about how higher CGT rates may deter entrepreneurship - i.e. individuals founding and growing start-up businesses. Particular concern surrounds the removal of BAD relief - which offers reduced CGT rates of 14% when someone receives gains from a business that they have owned for at least two years, acting as a sole trader or business partner. Those who are set to benefit from this relief would see larger increases in rates.

Concerns about reducing the incentives for founders to start a new business should not be overblown. When starting a new business, founders are focused much more on making the business successful and profitable rather than on the sale of that business - with variability in the returns on their business being much more consequential than variability in capital gains tax. A report commissioned by HMRC found that, of individuals who had claimed Entrepreneur’s Relief (the previous name of BAD relief) in the last five years, only 16% were aware of it at the time of investment.⁴⁴ Only 8% said it influenced their business decisions at the point of initial investment.

Nevertheless, there are concerns around deterring investment by venture capital firms, talent, and entrepreneurialism among high productivity founders with high levels of knowledge. On venture capital, a study of a reform in the US that fully exempted certain small business shares from federal CGT, for example, found that it increased external investment in start-ups by about 12%.⁴⁵ On talent, startups often pay employees in stock options, which are taxed as capital gains.⁴⁶ Raising CGT rates may therefore detract international talent, or may detract talent in the UK from joining start-ups. Lastly, while very few business founders are influenced by BAD relief upon investment, it may be that those who are influenced by it are the most productive. This could be significant, because given variability in the productivity of start-ups, a few highly productive start-ups can dramatically pull up average productivity. Again, there may be

42 Advani A et al. The productivity cost of low Capital Gains Tax rates. Centre for the Analysis of Taxation. October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniHughsonInkleyLonsdaleSummers2024_ProductivityCostOfLowCapitalGainsTaxRates.pdf

43 Advani A et al. The productivity cost of low Capital Gains Tax rates. Centre for the Analysis of Taxation. October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniHughsonInkleyLonsdaleSummers2024_ProductivityCostOfLowCapitalGainsTaxRates.pdf

44 IFF Research. Capital Gains Tax Entrepreneurs’ Relief: Behaviours and Motivations. HMRC Research Report MAY 2017. https://assets.publishing.service.gov.uk/media/5a81dadf40fb6230269985d/HMRC_Report_456_CGT_ER.pdf

45 Edwards, A. and M. Todtenhaupt. Capital gains taxation and funding for start-ups. Journal of Financial Economics. 2020. <https://doi.org/10.1016/j.jfineco.2020.06.009>

46 Dumitriu S. Should Capital Gains Tax Change?. The Entrepreneurs Network. 7 January 2021. <https://www.tenentrepreneurs.org/blog/should-capital-gains-tax-change>

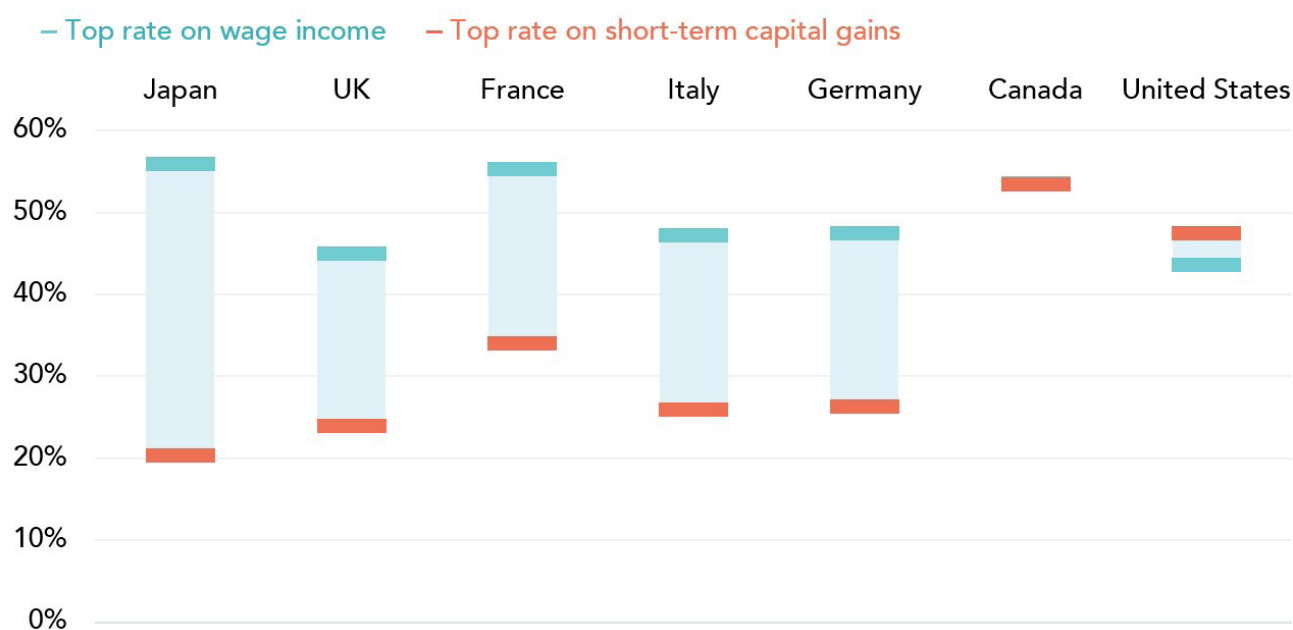
international competition on tax rates, as research by the Entrepreneurs Network found that 49% of the UK's fastest-growing startups have at least one foreign-born co-founder.⁴⁷ Raising rates could deter this inward migration.

The impact of CGT rates on migration, however, should also not be overblown. Even after the increase in rates from 20% to 24% in last Autumn's Budget, the UK still has the second lowest top tax rate on short-term capital gains in the G7, behind only Japan.⁴⁸ If we increased this to reach our top rate of income tax (45%), our rate would still be lower than Canada and the United States - two international competitors who could attract international talent. While Canada only taxes 50% of capital gains, the investment allowance in the UK would similarly exempt a significant proportion of capital gains.

FIGURE 21

The UK has the second lowest capital gains tax rates in the G7

Top rate of tax on wage income vs capital gains in G7 countries



Source: Demos analysis and OECD. Taxing capital gains. 26 February 2025. https://www.oecd.org/en/publications/taxing-capital-gains_9e33bd2b-en.html

Notes: Canada applies a 50% base reduction for capital gains, so the effective rate maxes out at around 27%

It would be surprising, however, if low CGT rates had no impact on investment, given that it offers a financial benefit to investors. The question is about the scale of benefits relative to the direct costs and the opportunity costs. First, lower CGT rates are highly costly to public revenues. Secondly, lower CGT rates are poorly targeted. While they offer tax advantages for entrepreneurs, they also offer advantages for people stockpiling properties as investments, people setting up personal service companies to benefit from lower tax rates, and people who generally get their income from investment rather than work. Lastly, the opportunity cost has to be considered, and funds from CGT reform could be used to drive entrepreneurship through other means, including the introduction of an investment allowance on CGT or other uses. Modelling by Smith and Miller works to assess this. They find that "reforms to the tax base that remove the disincentive to inject equity are better targeted at investment than lower rates. In

47 Dumitriu S. Should Capital Gains Tax Change?. The Entrepreneurs Network. 7 January 2021. <https://www.tenentrepreneurs.org/blog/should-capital-gains-tax-change>

48 OECD. Taxing capital gains. 26 February 2025. https://www.oecd.org/en/publications/taxing-capital-gains_9e33bd2b-en.html

the UK setting, tax base reform combined with removing preferential CGT rates leads to higher tax revenue and investment.”⁴⁹ This suggests that, overall, the increase in rates and introduction of an investment allowance would have positive economic effects.

Public attitudes - survey

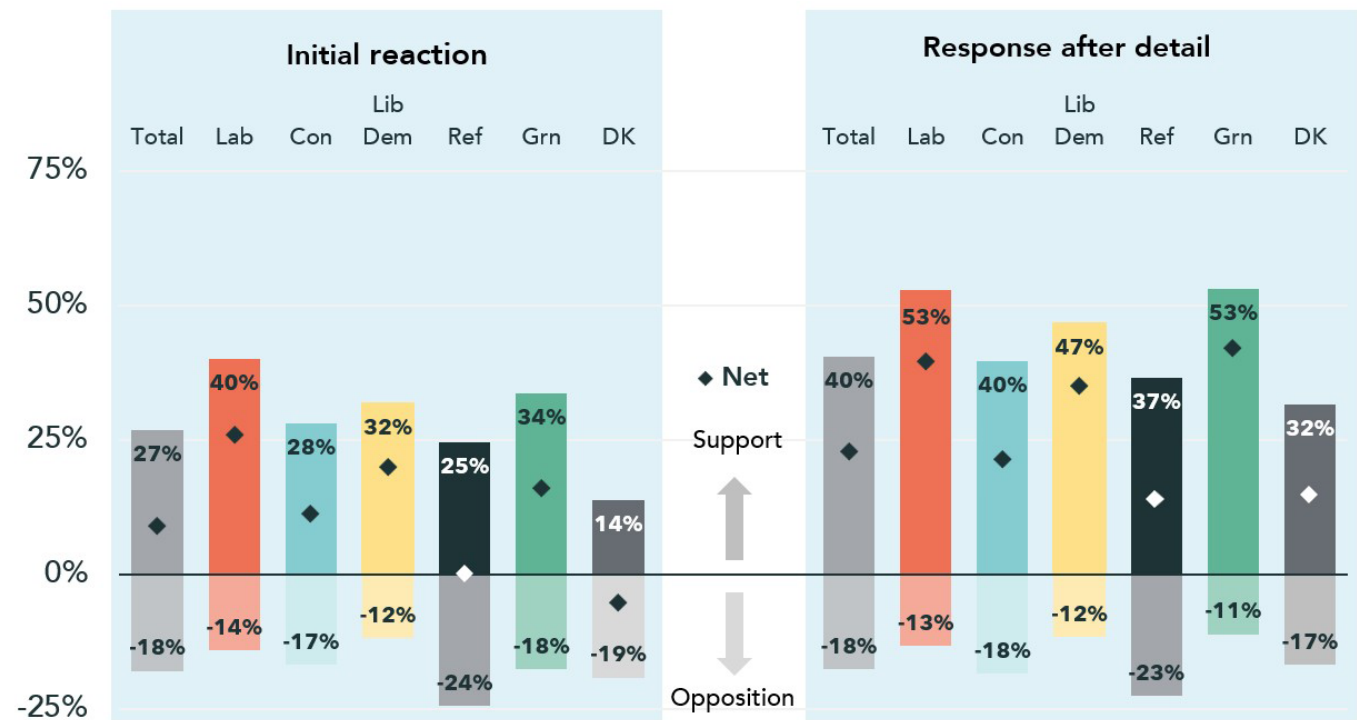
In the low-engagement scenario, the public are broadly supportive of the idea of ‘increasing the rate of capital gains tax to be equal to those of income tax, while introducing greater tax relief for investments’: 27% support the proposal, while 18% oppose it. Support is high across people intending to vote for all major parties other than Reform, where equal numbers support and oppose.

In the contextual-engagement scenario - after reading details about what the proposal meant and how much it would raise - support increases substantially. We see high levels of net support among people intending to vote for any major party, including Reform (net support of 14pp).

FIGURE 22

The public tends to support matching CGT with income tax rates alongside an investment allowance, particularly after reading detail about it

Attitudes to raising CGT to income tax rates and introducing investment allowance, before and after reading details



Source: Demos survey, Opinium, April 2025

One argument levelled against these kinds of policies is that they will receive particular opposition amongst investors (and potentially deter investment) or aspiring investors (and potentially deter entrepreneurship). Yet, even in the low-engagement scenario, we find net support of:

49 Smith K and Miller H. It's all about the base: Taxing business owner-managers. August 2023. <https://katesmith.me/wp-content/uploads/2023/08/extensivemarginpaper.pdf>

- 19pp among those with over £3,000 invested in financial assets like stocks and shares, cryptocurrency or bonds, and 13pp of those who aspire to have this
- 26pp among those with a second home, and 23pp among those who aspire to
- 9pp among those own a rental property, and 7pp among those who aspire to

High levels of support among these groups remains in the contextual-engagement scenario, with some decreases at 23pp, 13pp, 3pp respectively.

Public attitudes - focus groups

In the low-engagement scenarios, most people are confused and ambivalent about CGT reform. We tested two low-engagement scenarios. First, we tested responses to the headline, "Government announces increase in capital gains tax", and found there was low understanding of what capital gains tax is, and so general ambivalence to the policy. Some did associate it with investments, and felt it was fair to tax investments. We then tested responses to the headline, "Government announces higher tax on profits from people selling assets like stocks and shares". Here we found wider support. Some participants felt that people with stocks and shares were fair to tax while others, realising it wouldn't affect them, felt indifferent about it.

I think that would be fair. Stocks and shares are there to actually make the profit anyway... whatever we are gaining, then we should be paying tax.

– Gen X, intermediate education, South East, homeowner

It's probably a headline that I would overlook because it doesn't affect me, and I would probably zone out a little bit if I'd seen this headline.

– Gen X, low education level, North East, homeowner

Moving into a contextual-engagement scenario, the explanation that CGT applied to second homes and rental homes (among other assets) attracted attention. Multiple participants picked up on this as something that would be fair to tax. These additional homes were seen as a good proxy for the ability to pay more tax.

Think it's a good idea, because if you can afford to have a second home or a rental home, then you can afford to pay more tax.

– Boomer, intermediate education, North West, homeowner

After then outlining the rates of CGT - and the difference with income tax rates - we found broad frustration. Many participants had a sense that this was an unfair and potentially dodgy part of the tax system that benefited the wealthy. Others felt that equalising the rates seems a reasonable response, with some emphasising that people have not worked for capital gains, or have got lucky to receive them. There was, however, corresponding concern about the high jump in income tax from 20% to 40%.

It's a bit of a tax dodge for higher earners, for someone dealing stocks and shares.

– Gen X, low education level, Yorkshire and the Humber, homeowner

If you're getting paid 80 grand, you've worked for that, that's your wage. With the capital gains, you've not really worked for.

– Gen Z, graduate, London, privately renting

In the high-engagement scenario, we presented participants with criticism about how the reforms would raise tax for people with less wealth, and many participants were sympathetic. This generated an expression of defeatism about tax in general - that the wealthy avoid these taxes while working people have to pay them. There was some concern about discouraging investors and small businesses, and that taking risks should mean lower tax rates. Others felt less sympathetic. They argued that, because investors are generally wealthy, they will not be greatly harmed and are unlikely to invest less due to small tax changes.

I suppose the argument is it's a bloody risky way of making 100 grand a year, like I sort of go fair play, because that person could lose 100 grand in the year as well.

– Millennial, post-grad, London, homeowner

It's just another variant of the old argument that we get that unless you allow people at the top to cream off increasingly outrageous amounts that you take away their aspiration. I don't necessarily buy that. I don't think these little movements are going to change anything fundamentally for people who are making large sums of money.

– Boomer, intermediate education, London, social renter

With that amount of money to invest, I'm not exactly losing sleep over you at night.

– Gen Z, graduate, London, privately renting

When presenting participants with arguments that individuals may use low capital gains rates to game the system by setting up personal service companies, this deeply frustrated many participants. For many, it reinforced why equalising CGT rates is a good idea.

It's actually annoying. It makes me feel like "Oh my God". It makes me feel like a loser. Why don't I do it?

– Millennial, graduate, London, privately renting

I think this actually just reinforces why the previous policy is a good idea. Because if you increase the capital gains tax up to match with the income tax, then there's no benefit.

– Millennial, low education level, Scotland, privately renting

An explanation of the investment allowance eased some concerns. As participants raised concern about inflationary gains being taxed, we presented arguments about how the investment allowance shields low gains and encourages investment. This mitigated worries. However, many were confused by the allowance, and saw it as a way that people could potentially avoid the tax. One participant noted that it would not benefit those without much capital.

It sounds very complicated. I expect there to be lots of loopholes.

– Gen X, low education level, Yorkshire and the Humber, homeowner

You're just going to miss out on the allowance unless you've got this big amount of money... I feel like at the start that would put people off.

– Millennial, intermediate education, West Midlands, homeowner

3.4 INTRODUCE AN ‘EXIT TAX’ ON PEOPLE TAKING INVESTMENTS OUT THE UK

SUMMARY

If a UK resident leaves the country, their assets are only liable for UK CGT if sold within the following five years. Equally, if an individual becomes resident in the UK, all their assets become liable to CGT (although there is a policy of ‘rebasings’ for foreign assets).

The government should rebase capital gains when individuals become residents in the UK, meaning only gains made from that point count towards CGT. At the same time, they should introduce an ‘exit tax’, so that when an individual leaves the UK to become resident elsewhere, all gains acquired while they were a UK resident are taxed (whether realised or not). Individuals would therefore get taxed for all, and only, those capital gains that occurred while they were resident in the UK.

ECONOMIC BENEFITS

Annual gain	Wider benefits
£3.8 billion (static 2019/20 revenue estimate if delivered alongside other recommended CGT reforms) ⁵⁰	Fairness: Would reduce the ability for the internationally mobile to avoid capital gains tax while others cannot. Fiscal and economic benefits: Would reduce tendency for high-net-worth individuals to emigrate in response to tax changes, shielding tax revenues and investment. Economic efficiency: Would remove the distortionary incentive to hold onto assets with gains until after leaving the UK, which may be longer than is economically productive. International alignment: Would bring the UK in line with many international competitors such as Canada, Australia and the US.

SURVEY RESPONSES

Low-engagement	Contextual-engagement	High-engagement	SME attitudes
56% support 18% neither support nor oppose 14% oppose	60% support 18% neither support nor oppose 10% oppose	46% support 24% neither support nor oppose 19% oppose	52% think an exit tax would be fairer than the existing approach while 18% think it would be less fair

KEY LESSONS FROM FOCUS GROUPS

Insights	Recommended response
While there was a widespread sense that an exit tax sounded fair - with some people highly enthusiastic - there were also widespread concerns that it would be very easy to avoid, especially if individuals were asked to pay the tax after leaving. Concerns about implementability were significantly reduced when it was highlighted that other peer countries already have exit taxes.	Policymakers should repeatedly highlight the many peer countries of the UK who have exit taxes and run successful economies.

50 Advani A, Lonsdale A, Summers A. Reforming Capital Gains Tax: Revenue and Distributional Effects. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

SURVEY RESPONSES

Some principle-based concerns included that: (1) it's unfair to tax assets which were bought before the owner came to the UK and sold after they left, or (2) that it is wrong to tax people who no longer live in the UK, or (3) people should have the freedom to move to different countries to reduce tax.	Policymakers should emphasise that (1) the profit people accrue while living in the UK should be taxed in the UK, and the new policy of rebasing capital gains means gains before arriving are never taxed, (2) people are effectively taxed when they exit rather than after they leave, and (3) people moving their wealth to another country means they avoid a tax that others have to pay, and it is only fair that they pay that tax.
There is some concern about the impact on families who, for example, retire to another country in later years.	Policymakers should emphasise that the exit tax will not apply to UK property, and should consider introducing a threshold to give the public confidence that households with less wealth will not be affected.

The UK is unusual amongst major economies (at least outside the EU) in not having any form of 'exit tax' for CGT purposes. 14 OECD countries have some form of exit tax: Australia, Austria, Canada, Denmark, France, Germany, Israel, Japan, South Korea, Norway, Poland, Spain, Sweden, and the United States.^{51,52} However, for EU countries, effective implementation is obstructed by freedom of movement. The UK's departure from the EU opens the opportunity for a more effective exit tax, like in Canada or Australia.

The UK's current system is unbalanced. The principle underlying it is that individuals are charged tax on all capital gains they realise while resident here, but if they become resident elsewhere and then realise the gains, they are only liable to any tax in their new country of residence. Yet, people who become resident in the UK from another country may not be liable to tax on all capital gains, because gains on foreign assets are exempt for four years.⁵³

There is a consideration around when an exit tax is charged. It could be charged when individuals end their residency in the UK, whereby they would have to pay the CGT charge by the end of the financial year. The drawback is that this can create liquidity problems, i.e. because the individual may not have sold the asset, they may not have the cash to pay the tax. Alternatively, the tax could be charged when people sell the asset, with the tax still only applying to gains accrued while the individual was resident in the UK. This approach creates administrative problems, because HMRC then has to track the asset sales of former residents, regardless of where they live now. A middle way is to charge the tax at the point of departure, unless the taxpayer can prove that they will face liquidity problems, in which case the tax could be deferred.

To ensure fairness and efficiency, additional features should be built into an exit tax. First, it is important to cooperate with other countries to avoid double taxation. For example, if an individual is facing double taxation because CGT in their destination country would (alongside

⁵¹ OECD. Taxing capital gains. 26 February 2025. https://www.oecd.org/en/publications/taxing-capital-gains_9e33bd2b-en.html

⁵² In the United States, an exit tax applies when a citizen relinquishes their citizenship, as the United States taxes people based on citizenship rather than residence.

⁵³ Britton-Davis A and Coelho S. Non-dom tax changes: the FIG regime, CGT and income tax. Saffery. 23 May 2025. <https://www.saffery.com/insights/articles/non-dom-tax-changes-the-fig-regime-cgt-and-income-tax/>

the exit tax) apply to their gains while a UK resident, they should be able to recover exit tax payments. Second, there should be measures in place to avoid charging people who are leaving the UK for what they know is a temporary period (e.g. two years) (as taxing these people would discourage foreign secondments). The government could allow an individual to defer the tax charge for some years if they expect to return, and then waive the charge when they do return. Alternatively, the government could allow individuals to opt in to continuing being taxed as a UK resident whilst abroad for the short period (similar to the system in place in Australia). The government could also consider introducing a threshold for the exit tax, as seen in Norway or France for example.⁵⁴ This could take the form of either (1) a filing threshold (i.e. if the assets are worth under £1 million then no tax is applied) or (2) an exempt amount (i.e. the first £1 million of capital gains are exempt).

Revenue and distributional impacts

Analysis by Advani, Poux, and Summers notes how, between April 2023 and April 2024, 2,400 UK nationals with large shareholdings in UK businesses (over 25% of shares) left the UK, with total shares worth at least £6.8 billion (around £2.4 million each on average).⁵⁵ In this time, 1,300 individuals with shareholdings in UK businesses came to the UK, with total shares worth £1.7 billion. This means there was a net outflow of at least £5.1 billion in share value, for which no capital gains tax is paid in the UK. Assuming half of the value of shares was taxable gains, at least £2.5 billion in gains left the UK untaxed (around £900,000 per person on average). An 'exit tax' would ensure these gains are taxed - and as Advani, Poux, and Summers note, these numbers are likely to substantially underestimate the total value of capital gains leaving the UK untaxed.⁵⁶ At the same time, the cost of introducing rebasing when individuals become residents is estimated to be £30 million at most, because individuals are already able to rebase foreign assets.

Overall, CenTax estimates that an exit tax, if combined with the equalisation of CGT rates with income tax and an investment allowance, would have raised £3.8bn in 2019/20 assuming no behavioural response.⁵⁷ The introduction of a £1 million threshold would have little effect on the revenue, as most of the revenue gain comes from a small number of individuals with much higher capital gains.

Economic impacts

A key concern about introducing an exit tax is that it may discourage foreign investors, an impact which could be exacerbated by the recent reforms to the non-dom regime. Yet, an exit tax should only discourage individuals from coming to the UK if they are planning to, or considering the possibility of, then leaving the UK for a significant period of time. It should not discourage individuals who are planning on establishing themselves in the UK. The fact that so many of our international competitors have an exit tax means we would not be put at a significant disadvantage.

54 OECD. Taxing capital gains. 26 February 2025. https://www.oecd.org/en/publications/taxing-capital-gains_9e33bd2b-en.html

55 Advani A, Poux C and Summers A. Business owners who emigrate: Evidence from Companies House records. Centre for the Analysis of Taxation. Policy Brief [centax.org.uk](https://centax.org.uk/wp-content/uploads/2024/10/AdvaniPouxSummers2024_BusinessOwnersWhoEmigrate.pdf) October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniPouxSummers2024_BusinessOwnersWhoEmigrate.pdf

56 These estimates:

- Do not capture gains on shareholdings below 25%;
- Do not capture gains on non-UK shareholdings;
- Are based on the value of assets held on company balance sheets, which underestimates the market value;
- Do not capture gains on non-business assets;
- Are only based on departures by UK nationals.

57 Advani A, Lonsdale A, Summers A. Reforming Capital Gains Tax: Revenue and Distributional Effects. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

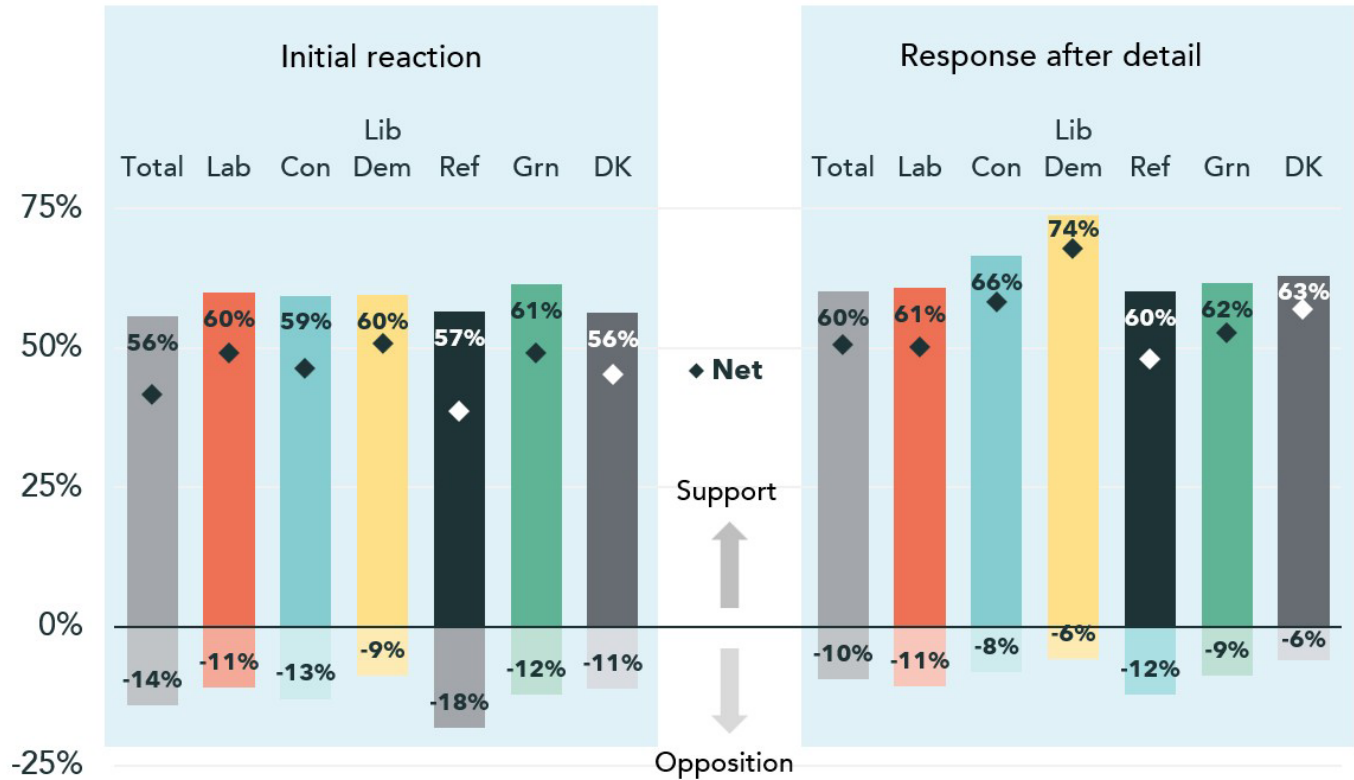
On the other hand, an exit tax could discourage investors who are resident in the UK from leaving. The current system provides an incentive for individuals with significant capital gains to move to a country with low - or perhaps no - CGT. An exit tax removes this incentive, which could encourage investors to remain in the UK. In particular, if there are concerns about implementing otherwise desirable wealth taxation on the basis that people will leave, an exit tax would reduce this risk. In turn, the government could have more freedom to deliver efficient reforms to wealth taxation.

An exit tax may also improve economic efficiency by removing distortionary incentives. The current system in the UK incentivises people to hold onto assets until they are able or ready to leave the UK, as they may then be able to avoid capital gains tax charges. Individuals may hold onto assets longer than is desirable or economically efficient in order to benefit from this tax advantage. An exit tax removes this incentive.

Public attitudes - survey

In the low-engagement scenario, the public are highly supportive of an exit tax, with 56% supporting the proposal and just 14% opposing. High support is consistent across people intending to vote for all major parties, including Reform (57% support vs 18% oppose). Moving into the contextual-engagement scenario, support does increase, particularly among people intending to vote Conservative (66% support and 8% oppose) and Lib Dem (74% support and 6% oppose).

FIGURE 23
 All voters tend to have high support for an exit tax, even before reading details about it
Attitudes to introducing an exit tax, before and after reading details about it’s meaning, revenue, and countries who have exit taxes, by voting intention



Source: Demos survey, Opinium, April 2025

In terms of specific sentiments, 63% agreed that the current situation - that people who can take their assets abroad can avoid paying capital gains tax in the UK - is unfair, compared with just 11% disagreeing. Over half of the people we spoke to (53%) also agreed that the existing approach creates a loophole in the tax system, while just 9% disagreed.

We tested this policy in a high-engagement scenario, whereby respondents read statements from opponents that the change would deter investors and job creators, harming the UK economy, while supporters say the tax allows people to avoid paying capital gains tax by moving to tax havens, and encourages people to leave the UK. When asked, "After reading what supporters and opponents say, to what extent would you support or oppose the policy change?",⁵⁸ we find 24% of the public opposing this reform, but 36% supporting, meaning net support of 12pp. Net support is found among people intending to vote for all major parties, from 49pp net support among Labour voters, to 6pp among Reform voters.

Public attitudes - focus groups

In a low-engagement scenario - faced with the headline 'Government introduces an exit tax on people taking investment out of the UK' - people were initially confused about what exactly an exit tax means. Some guessed it was a response to people trying to move money offshore, while other participants picked up on the fact that it would discourage migration, for example noting "it would make them think again about all the talent leaving the country". Nevertheless, there was generally sympathy towards charging the tax people rightfully owe when they leave the country, and significant support among some who felt that exiters had benefitted from the UK and then left to avoid paying tax to the UK.

I'm interpreting this as more about moving money offshore into your tax havens.

- Gen Z, graduate, London, privately renting

I think it's a great idea. If once you've got your investment, you decide to leave, then I'm sorry, you've effectively used all the benefits that you can get in this country, and then just up sticks and left... if it's money that you've accrued in this country while taking advantage of the benefits that we're offering, I think you should have to pay an exit tax.

- Millennial, low education level, Scotland, privately renting

Upon moving into a contextual-engagement scenario, some confusion remained. There were a lot of questions about how exactly the tax would work, including about the valuation of assets, and the calculation of the gain. While there was a broad sense that the tax sounded fair, there were concerns about the implementability of an exit tax, as some people felt it would be very easy to avoid the tax, especially if individuals were asked to pay the tax after they had already moved.

⁵⁸ Full text: Now imagine the budget has happened, and you read about each of the following policy changes, and the arguments made by supporters and opponents of the changes: Policy change: Landlords will have to start paying national insurance on their rental income to match employment income, meaning a 20% increase at the basic rate and 8% increase at the higher rate. They will also benefit from a new tax allowance on their investments

Opponents say: "This tax hike will, coming alongside pressures from high interest rates and increased regulation, may mean landlords have to increase rents"

Supporters say: "All workers have to pay national insurance on their income, and it's only fair that landlords should as well. With the tax relief we will provide for landlords' investment, there should not be a significant impact on rents. To mitigate concerns, we will also invest additional funds into social housing, and are also taking action to protect renters through the Renters' Rights Bill". After reading what supporters and opponents say, to what extent would you support or oppose the policy change?

It sounds fair... because they've made that profit, and if they were still in this country, they'd be paying it with capital gains. I don't know how they collect it, though, but that's another story.

– Gen X, intermediate education, homeowner, Labour

I can see this being one of those things where you waste a load of taxpayers' money that could be channelled elsewhere.

– Gen Z, low education level, North West, privately renting

Moving into the high-engagement scenario, participants' concerns about implementability were significantly reduced after hearing that other countries - such as Australia, Canada, Japan and the United States - already have exit taxes. While a small minority felt sceptical about country comparisons - questioning the ability to compare - most felt comforted.

[The fact that other countries do it] changes my view completely. I think I didn't know that at all.

– Gen Z, post-grad, London, live with family

I think it does give a stronger argument to have it if it's been like that in other places, and it hasn't discouraged investment, then I think it's kind of proof that it works somewhere else.

– Millennial, intermediate education, West Midlands, homeowner

I am always slightly wary of saying, Country X, does Y, yeah, therefore, therefore we should.

– Millennial, post-grad, London, homeowner

When presented with arguments about an exit tax being 'unfair', some people agreed with the principle. There was a sense that accruing capital gains while living in the UK cannot actually be credited to the UK, and so did not see why the tax should be owed here. In particular, some participants felt that, if the individual had bought the assets before coming to the UK and did not sell them until after leaving, this felt particularly unfair.

I don't see why he should be having to pay capital gains just because of gaining value while he's been living here. It's not like the country's done anything to make them stocks and shares grow... If he were buying and selling while he was living there, yeah. But if he's bought them abroad... it's actually not bled the country dry.

– Millennial, low education level, Scotland, privately renting

In that case [where someone bought assets in the UK], he should be charged, because he has invested the money within the UK from his money from the account. It's not that he brought in the money from outside the UK.

– Gen X, post-grad, London, homeowner

Some participants felt that people should in fact have the freedom to move around to different countries to reduce tax, and to try and tax people doing that is unfair. Similarly, some felt that it was wrong to tax people who no longer live in the UK, and that the tax feels more appropriate if it happens while the person is still living in the UK. This latter concern adds to the case against applying an exit tax once people sell their assets, rather than at the point of exit.

Obviously it should apply while you're here... they need to do it before you leave.

– Boomer, graduate, Yorkshire and the Humber, Social Renter

[Imagine someone is] going to move to Poland, where inheritance tax is a much higher threshold, and they're just circumnavigating it all. I think we'd have a different feeling to that compared to capital gains....I sort of say you're allowed to have a degree of personal mobility.

– Millennial, post-grad, London, homeowner

When pressed on the argument that an exit tax might look bad to investors who consider moving to the UK, there was little sympathy. Many pointed out it would only put off investors if they were planning to leave later anyway.

These are people who are coming to live in the UK, and we're already putting them off by telling them what will happen if they leave. They don't seem to want to come to the UK that badly.

– Boomer, intermediate education, London, social renter

We tested whether a £1 million allowance on the exit tax would boost support, and this generally made participants feel more positive about the reform. The allowance meant participants felt sure the tax would not apply to them. Others felt that £1 million was not actually that much - although when it was pointed out that the exit tax would not apply to UK homes, this somewhat mitigated these concerns.

I'd be more positive about it. A million pounds isn't a vast amount of money these days. If you add the value of people's properties, particularly those who live in the South East, in London, some quite ordinary people are worth a million pounds.

– Boomer, intermediate education, London, social renter

It's only going to be against things like stocks and shares? Well, your regular person probably wouldn't have like that bulk. So why not? Why not? If everyone else, if other countries are doing it, then why not?

– Millennial, graduate, West Midlands, homeowner

3.5 END THE ‘UPLIFT’ IN CAPITAL GAINS ON INHERITED ASSETS

SUMMARY	
Capital gains are currently rebased at death for tax purposes. This means that, if an asset is passed on in inheritance, the capital gains accrued up to that point do not count towards capital gains tax when the asset is sold. This is called the ‘uplift’ in capital gains at death. The government should end the uplift. When an inherited asset is sold, capital gains tax would apply to all gains since the asset was purchased, including those before the asset was passed on in inheritance.	
ECONOMIC BENEFITS	
Annual gain	Wider benefits
£0.7 billion (static 2019/20 revenue if delivered with other recommended CGT reforms) ⁵⁹	Fairness: Removes the situation whereby someone may sell an asset and pay significant CGT while someone else can sell the same asset with the same capital gains, but pay no CGT because they recently inherited the asset. Economic efficiency: Removes the distortive incentive that currently exists for people to hold onto assets until they die to avoid being charged capital gains tax - which the Office for Tax Simplification (OTS) notes has driven inefficient and undesirable economic activity.

SURVEY RESPONSES	
Contextual-engagement	High-engagement
30% support 27% neither support nor oppose 25% oppose	43% support 23% neither support nor oppose 21% oppose
KEY LESSONS FROM FOCUS GROUPS ⁶⁰	
Insights	Recommended response
There are concerns that removing the uplift would add to the problem of double taxation that inheritance tax already creates.	Policymakers should emphasise that tax is not paid on inheritance, but a tax on the profits when people sell assets - and that this change would make the system fairer by ensuring that someone who inherited their assets does not get a tax advantage compared to someone who bought their own assets.
Public concern about this policy is reduced when hearing how capital gains are primarily skewed towards certain assets and wealthy individuals, and few working people would be affected by the tax changes.	Policymakers should emphasise that capital gains tax does not apply to people’s main homes, pensions and savings, and so mainly applies to people with large investments.

59 Advani A, Lonsdale A, Summers A. Reforming Capital Gains Tax: Revenue and Distributional Effects. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

60 The capital gains uplift was not tested in our focus groups in 2025, but in deliberative workshops run by Demos in Spring 2024, testing taxation on inheritance.

As of 2021, of the 29 OECD countries who have capital gains taxes (excluding Poland and the Slovak Republic, because data is missing), only 11 always uplift capital gains at death (while Denmark and Hungary sometimes do and sometimes do not).⁶¹ Of the 18 countries who apply tax to the capital gains on inherited assets, 15 treat capital gains as being passed over to inheritors (and the tax applies from when the asset was purchased).⁶² Of these, eight - including Germany, Italy, and Japan - also tax inheritances, while seven do not. Three countries - Denmark, Canada, and Hungary - apply capital gains at death, whether or not the asset is sold.

There is widespread consensus among economists and other organisations that the uplift should be removed. The change has been recommended by the IFS, Resolution Foundation, the Office for Tax Simplification, and the APPG for Inheritance & Intergenerational Fairness.^{63,64,65,66}

If the capital gains uplift is removed, there is an important question about when the tax will be charged. There are broadly two options: (1) Apply tax when the asset is sold and the gain is realised (meaning the profit is made in cash terms), or (2) Apply tax at death, whether or not the gain is realised. On the former, there are economic and administrative risks, as outlined by Advani and Sturrock.⁶⁷

- It is tricky to ensure that inheritance tax is not paid on the part of the accrued gain that will be paid in capital gains tax.
- It requires the inheritor to keep records of the original cost of the asset, potentially for many years.
- There is more scope for avoidance, as an inheritor could leave the UK for a few years and then realise the gain free of tax.

On the other hand, if applying the tax at death, this creates problems for people who do not want to sell the asset around the time of death, as they may not then have the cash available to pay the capital gains tax charge. Given the public's concern about people having to take out loans, sell family homes or break up businesses to pay inheritance tax bills, creating the same issue for capital gains tax bills at death would be challenging.⁶⁸

If choosing this latter option, a mechanism should be developed to ensure that inheritance tax is not paid on the part of the accrued gain that will be paid in capital gains tax. The Office for Tax Simplification, when recommending this policy, outlines a way to address this: "the executors calculate notional capital gains on death as part of or alongside their Inheritance Tax calculations."⁶⁹ Effectively, estates would receive a discount on their inheritance tax bill, which would be equivalent to the amount of capital gains tax they would have paid if they had sold the asset just before. The full capital gains tax bill would then be paid when the asset is sold.

61 OECD (2021). Inheritance Taxation in OECD Countries. OECD Tax Policy Studies. <https://doi.org/10.1787/e2879a7d-en>

62 Some countries have different systems in place for different asset types and so are counted twice.

63 Advani A and Sturrock D. Reforming Inheritance Tax. Institute for Fiscal Studies. September 2023. <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>

64 Broome M, Corlett A, and Thwaites G. Tax planning: How to match higher taxes with better taxes. Resolution Foundation. June 2023. <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/06/Tax-planning.pdf>

65 Office for Tax Simplification. Inheritance Tax Review – second report: Simplifying the design of Inheritance Tax. July 2019. https://assets.publishing.service.gov.uk/media/5d274fad40f0b61158962af5/Final_Inheritance_Tax_2_report_-_web_copy.pdf

66 APPG for Inheritance & Intergenerational Fairness. Reform of inheritance tax. January 2020. <https://files.pumptax.com/wp-content/uploads/2020/01/30174440/Reform-of-inheritance-tax-report-Jan-2020-final-ALT.pdf>

67 Advani A and Sturrock D. Reforming Inheritance Tax. Institute for Fiscal Studies. September 2023. <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>

68 Goss D and Glover B. Winning the Argument: How to unlock public support for inheritance taxation. Demos. 26 September 2023. <https://demos.co.uk/research/winning-the-argument/>

69 Office for Tax Simplification. Capital Gains Tax review – first report: Simplifying by design. November 2020. https://assets.publishing.service.gov.uk/media/5fae48d78fa8f50544c046a1/Capital_Gains_Tax_stage_1_report_-_Nov_2020_-_web_copy.pdf

Revenue and distributional impacts

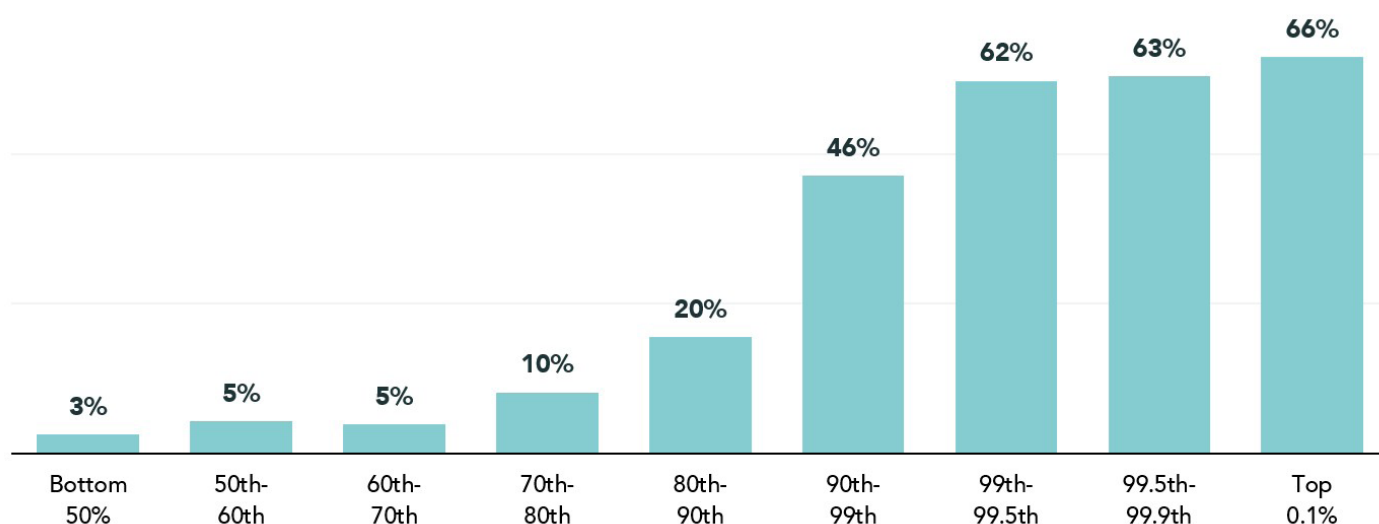
On its own, the removal of the capital gains uplift is estimated to raise £1.6 billion in 2024/25, assuming no behavioural response.⁷⁰ However, if combined with policies to match the rates of capital gains tax with income tax while introducing an investment allowance, the revenue gain is estimated at £0.7 billion.⁷¹

In terms of the distribution, Advani et al. model the percentage of estates who would pay more due to the removal of the uplift, by estate value (using 2019/20 values).⁷² They find that less than 5% of estates under the 70th percentile would pay additional capital gains tax due to the reform. Of those in the 90th to 99th percentile, 46% pay more, while over 60% of those in the top percentile would pay more. Note, the cost for estates will not be incurred at the point the estate is passed on in inheritance, but when its assets are sold.

FIGURE 24

Removing the CGT uplift will only affect a small minority of individuals outside the top 10%

Percentage paying more CGT due to the removal of the uplift with investment allowance, by percentile on the distribution of total income and gains, 2020 (CenTax estimates)



Source: Advani A, Lonsdale A, Summers A. *Reforming Capital Gains Tax: Revenue and Distributional Effects*. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

Advani et al. also model the tax paid by estates at different parts of the distribution.^{73,74} They find that 86% of the additional revenue would come from the wealthiest 10% of estates, while 46% would come from the top 1% and 22% from the top 0.1%. By taking the total number of estates in 2019/20, we can estimate the average amount of additional tax paid per estate (across all estates, including those that did not actually pay any additional tax). This shows that

70 Advani A and Sturrock D. *Reforming inheritance tax*. Institute for Fiscal Studies. <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>

71 Advani A, Lonsdale A, Summers A. *Reforming Capital Gains Tax: Revenue and Distributional Effects*. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

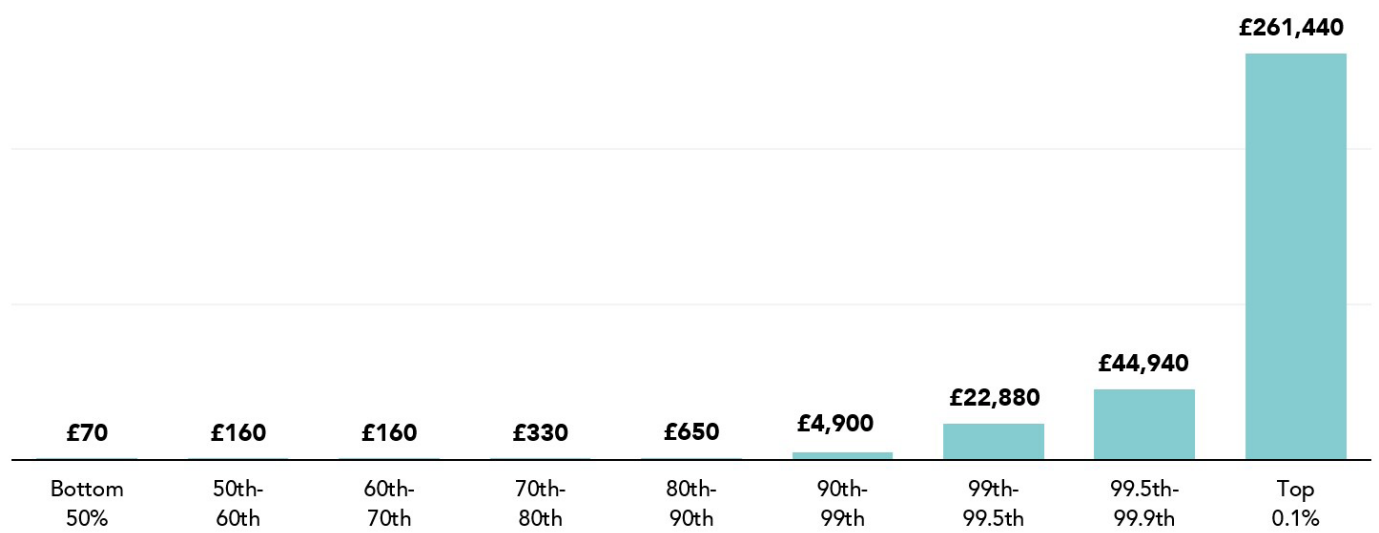
72 Ibid.

73 Advani A, Lonsdale A, Summers A. *Reforming Capital Gains Tax: Revenue and Distributional Effects*. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

74 This models the removal of the capital gains tax uplift alongside an allowance for the 'risk free' rate of return, and an increase in the rates.

the removal of the uplift increases tax per estate by an average of £70 for those in the bottom 50% of the distribution (though the additional tax is shared among a small proportion of the estates in this group, meaning those taxpaying estates will pay much more on average). Even estates between the 80th and 90th percentile will see an average increase of £650. This stands in contrast to the much larger increases for estates within the top 10%, at £4,900 for the 90th to 99th percentile, and increasing up to £261,440 for those in the top 0.1%.

FIGURE 25
Removing the CGT uplift would have little to no impact on estates outside the top 1%
 Average additional CGT uplift would have little to no impact on estates outside the top 1%



Source: Advani A, Lonsdale A, Summers A. *Reforming Capital Gains Tax: Revenue and Distributional Effects*. October 2024. Centre for the Analysis of Taxation. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniLonsdaleSummers2024_CGTReform.pdf

Economic impact

The capital gains uplift currently incentivises people to hold onto assets until death if they have appreciated in value. If someone sells a business the day before death, they are liable to capital gains, but if they pass this asset on in inheritance and the recipient sells it the following day, the uplift means no capital gains tax is charged. This means people may hold onto assets for tax reasons for longer than they may otherwise desire, and longer than may be economically optimal. For example, people may hold on to business assets which would be better owned by someone else, or hold on to a second home despite otherwise wanting to sell it and free it up to the market. The Office for Tax Simplification, in its review of inheritance tax, noted that it “has heard anecdotal evidence of businesses and farms suffering because the owner has remained in charge despite being too old to devote themselves to the business.”⁷⁵

Public attitudes - deliberative workshops

We tested public attitudes to removal of the capital gains uplift in detail following our deliberation on the taxation of inheritance in May 2024. We found that the public has mixed

⁷⁵ Office for Tax Simplification. *Inheritance Tax Review – second report: Simplifying the design of Inheritance Tax*. July 2019; https://assets.publishing.service.gov.uk/media/5d274fad40f0b61158962af5/Final_Inheritance_Tax_2_report_-_web_copy.pdf

opinions on the removal of the capital gains uplift. Some of our panellists in the deliberation expressed significant concern about creating additional taxation at death, feeling that this added to the current problem of double taxation that they felt inheritance tax created.

[Removing the capital gains uplift] seems to run the risk that you could end up being taxed twice, so once on the capital gains of it, and once on the inheritance tax.

- Gen X homeowner, intended to vote Labour in 2024

It could even be triple taxation, because you've saved your money from the income that you've earned... you've paid tax on the income that you pay the mortgage with, then you get capital gains tax on your profit, and then you get inheritance tax on the asset.

- Gen X homeowner, intended to vote Conservative in 2024

On the other hand, some in our panel felt that, given how capital gains are primarily skewed towards the wealthy, removing the uplift would mainly mean more taxes paid by the wealthiest. These panellists therefore felt less concerned about the policy.

[Removing the capital gains uplift] is going to increase the revenue for the country where it should be coming from: the people who've got the money.

- Boomer homeowner, intended to vote Labour 2024

It's only going to be the really rich that are going to end up paying it, so I don't mind too much.

- Gen X homeowner, intended to vote Labour 2024

Other panellists also felt that profits on assets should be taxed regardless of whether the assets were inherited, with some pointing out that taxing these profits could help reduce income inequality (given that capital gains are generally taxed at lower rates than other income).

If you bought something for £13,000 and you're passing it on, and it's now worth a million, you've never been taxed on that over the years, so I think you should have to pay tax.

- Gen X homeowner, intended to vote Labour in 2024

[Removing the capital gains uplift] kind of overcomes income inequality because it ensures that profits from investments are taxed.

- Gen Z renter, intended to vote Lib Dem in 2024

3.6 INTRODUCE A PROPORTIONAL PROPERTY TAX ON HIGH VALUE PROPERTIES

SUMMARY

The UK's only recurrent property tax is council tax, which is based on house values from 1991, is highly regressive (such that a £1 million house pays just three times more than a £100,000 house on average), and affects renters (who generally have no housing wealth) as much as homeowners.

The government should introduce a new tax which is proportional to property prices, charged at 1% on the value of property wealth between £2 million and £3 million and 2% above £3 million.

ECONOMIC BENEFITS

Annual gain	Wider benefits
£1.5 billion (static 2026/27 revenue estimate).	Fairness: Makes property taxation in the UK less regressive, which currently disadvantages those in less valuable houses and in certain regions. Economic efficiency: Reduced regressivity in property taxation reduces the incentives from council tax regressiveness for developers to build more high-value properties, mitigating distortions in the market. Expands use of efficient taxes: Taxation on housing property is widely seen as one of the most efficient forms of taxation, as behavioural responses are low, it creates little disincentive to work or save, and partly functions as taxing the recipient of positive externalities from local public services, reducing distortions from public spending. This is also a step towards a more comprehensive proportional property tax, which would be much more efficient.

SURVEY RESPONSES

Low-engagement

60% support

12% oppose

KEY LESSONS FROM FOCUS GROUPS

Insights	Recommended response
Most people are primarily supportive of this policy on the basis that it clearly would not apply to them. There is a strong sense that individuals with homes significantly over £2 million are clearly able to pay the tax.	Policymakers should spotlight the thresholds of this tax. Linking the threshold to rising property prices would quell concerns that people may get pulled into the tax by house price inflation.

SURVEY RESPONSES

There are some concerns about the ability of people in particular circumstances to pay this tax, such as those inheriting a large house or renting in a house share (to whom the tax might get passed on). Additional examples of people who are asset-rich cash-poor were not cited, but we would expect these to also cause concern for the public.

Policymakers could ensure safeguards for people who may struggle to pay the tax due to low access to cash. They should learn from Labour's 2014 promise that homeowners who do not earn enough to pay the higher rate of income tax would be able to defer payment of the tax until the property changed hands - presumably due to either sale or inheritance - ensuring no liquidity problems for this group.

Council tax is highly regressive, placing a much greater burden on households with less wealth compared to the wealthiest households. IFS analysis estimates that, in 2019, the typical council tax bill for a £100,000 property was worth 0.7% of the property price, while a £500,000 property typically faced half that rate (0.35%) and a £1 million property faced a rate which was a third of the size (around 0.23%).⁷⁶ This drives significant regional inequalities. The Resolution Foundation estimates that, in 2015/16, the typical council tax bill for a household in the North East was worth around 0.7% of the house price, over three times as high as in London (0.2%).⁷⁷

Alongside clear problems of fairness, a regressive council tax is economically inefficient. In placing higher tax burdens on low-value homes than high-value homes, the current system incentivises developers to build more high-value properties - distorting the market. While stamp duty's allowances and progressive rate structure mitigate the overall regressiveness in property taxation, it only applies upon purchase so (even given rates up to 12%) will tend to have a smaller impact than a recurrent tax like council tax or an annual property tax. The allowances within inheritance tax are the same, but critically apply to property acquired through inheritance, so serve a distinct purpose.

The extreme regressiveness of council tax primarily results from two fundamental problems. First, council tax bands are based on what property prices were in 1991 - more than three decades ago. Bizarrely, this means the council tax bills for newly built homes are based on what the house *would have been worth* in 1991, based on sales of similar properties that were new around that time. Yet, house prices have changed dramatically since then, and risen much faster in some regions than in others. These shifts, which mean that some have amassed huge wealth and live in much more valuable homes, are not reflected at all in the tax. Second, even the original bands were not designed to be proportional. If we put ourselves back to 1991, IFS analysis shows that a £25,000 property in a local authority charging average Band D rate in England would be charged bills worth 4.7% of its value (before discounts), while a £500,000 property would pay bills worth 0.7% of its value.⁷⁸

A complete overhaul of council tax is needed. Approaching from first principles, the Mirrlees Review explains that housing should be considered "a large consumer durable, like a very big fridge or car" and the price of a house as reflecting "the present value of the stream of services it is expected to yield".⁷⁹ With this understanding, VAT on newbuilds would be an appropriate way to tax the consumption of housing services. Yet, at the time of the Review, the UK was

⁷⁶ Adam S. Revaluation and reform: bringing council tax in England into the 21st century. Institute for Fiscal Studies. 18 March 2020. <https://ifs.org.uk/publications/valuation-and-reform-bringing-council-tax-england-21st-century>

⁷⁷ Corlett A and Gardiner L. Options for reforming property taxation. Resolution Foundation. March 2018. <https://www.resolutionfoundation.org/app/uploads/2018/03/Council-tax-IC.pdf>

⁷⁸ Adam S. Revaluation and reform: bringing council tax in England into the 21st century. Institute for Fiscal Studies. 18 March 2020. <https://ifs.org.uk/publications/valuation-and-reform-bringing-council-tax-england-21st-century>

⁷⁹ Multiple Authors. Mirrlees Review: Tax by Design. 13 September 2011. https://ifs.org.uk/sites/default/files/output_url_files/taxbydesign.pdf

alone among OECD countries in not applying VAT to the sale of residential property.⁸⁰ It is also problematic to begin imposing VAT on newbuild houses for two reasons:

- Houses are generally occupied for years or decades, and their value often changes significantly over time. Their initial sale price can therefore be a bad representation of the value of services they eventually provide.
- Even if we imposed VAT on newly built housing, it would take decades before the VAT was applied to the majority of UK housing.

The alternative approach would be to charge VAT on both newbuild and existing properties, but this would, like Stamp Duty, discourage mutually beneficial transactions. Given this, the Mirrlees Review notes that:⁸¹

If we want to tax the consumption value of housing, therefore, it is probably best to do so at the point at which the services are consumed rather than at the point of first purchase. That suggests an annual tax related to the (consumption) value of the property.

The consumption value of the property is best approximated by the value of rent, but this, in turn, correlates closely with house value. Given this, rebanding the tax to reflect modern property prices, or completely replacing the system with a proportional property tax, would make the system vastly fairer and more efficient. We could follow the example of Ireland, who revalued property values for their Local Property Tax in 2021, with revenue subsequently increasing.⁸² Alternatively, we could follow the example of most states in the US, New Zealand, Norway, or New South Wales in Australia, all of whom regularly revalue land and properties for tax purposes.^{83, 84}

However, the failure of successive governments to implement this reflects the perceived political challenges. This is despite the fact that, according to IFS estimates from 2019, a revenue-neutral proportional property tax would mean 13.3 million households gaining over £50 annually, and just 5.5 million households losing over £50 annually. Unsurprisingly, however, the concern is that the voice of the losers would be louder than that of the winners.

A more politically feasible approach for the upcoming Budget - with fewer losers, raising revenue, and taking a step towards a comprehensive proportional property tax (better reflecting a tax on the consumption of housing services) - would be to introduce a proportional property tax for high value properties. Following a model proposed by the Liberal Democrats ahead of the 2010 election and Labour ahead of 2015, the government should introduce a tax of 1% on the value of property wealth between £2 million and £3 million and 2% on the value of property wealth above £3 million. The IFS note that this tax “has a sensible logic underpinning it”, because “if residential property is to be taxed, it makes sense to levy such a tax in proportion to property value and base it on current valuations.”⁸⁵ Examples of how this would affect houses of different values are outlined below.

80 Ibid

81 Ibid.

82 Department of Finance. Minister for Finance Opening Statement - Finance (Local Property Tax and Other Provisions) (Amendment) Bill 2025: Second Stage. 18 June 2025. <https://www.gov.ie/en/department-of-finance/press-releases/minister-for-finance-opening-statement-finance-local-property-tax-and-other-provisions-amendment-bill-2025-second-stage/>

83 OECD. Housing Taxation in OECD Countries. 2022. https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/07/housing-taxation-in-oecd-countries_1ee79763/03dfe007-en.pdf

84 Yushkov A. Property Taxes by State and County, 2025. Tax Foundation. 4 March 2025. <https://taxfoundation.org/data/all/state/property-taxes-by-state-county/>

85 Browne J. Johnson P, and Roantree B. Better options exist to help low earners than 10p tax rate. Institute for Fiscal Studies. 14 February 2013. <https://ifs.org.uk/articles/better-options-exist-help-low-earners-10p-tax-rate>

HOUSE VALUE	ADDITIONAL ANNUAL CHARGE
£2 million or below	£0
£2.1 million	£1,000
£3 million	£10,000
£4 million	£30,000

The house value would have to be calculated each year. This could be done via data on recent sales of comparable properties in the area - as is done with France's real estate tax (see box below) - or use of estate agents where needed. The threshold could also rise in line with national house prices, so homeowners would not have to worry about being pulled into the tax due to normal rises in their house price.

FRANCE'S IMPÔT SUR LA FORTUNE IMMOBILIÈRE (REAL ESTATE WEALTH TAX)

In 2018, France introduced a tax on the net value of real estate wealth over €800,000 (although it only applies if the net real estate wealth exceeds €1.3 million) - replacing the broader wealth tax that existed for decades prior.

The real estate tax starts at 0.5%, and rises to 1.5% for wealth over €10 million. This applies to a household's total net real estate wealth - adding together main homes and additional homes, including real estate held by companies that households have shares in, while deducting mortgage debt. There is, however, a tax reduction of 30% for main homes, and exemptions for property such as real estate used for the households' professional activity.⁸⁶ There is also a discount of 20% to 40% if the property is rented. The relevant property is valued on 1st January each year.

In 2024, the tax raised €2.2 billion, and was charged to 186,000 households.⁸⁷ The net real estate assets subject to this tax were worth €467 billion, implying an effective rate of 0.47%. The average income of taxed households subject to the tax was €281,000, compared to €34,000 for 2023's income tax.

To value the real estate, households are encouraged to use a tool which helps them estimate values based on recent sales of comparable properties in the area. Estate agents can also be used.⁸⁸ The administration costs to the government represented 2.66% of receipts in 2022, compared with just 1.05% for income tax.⁸⁹

⁸⁶ Department of Legal and Administrative Information (Prime Minister). Real estate wealth tax (IFI): people and assets concerned. 20 February 2025. <https://www.service-public.fr/particuliers/vosdroits/F563>

⁸⁷ French Republic. DGFIP Statistiques: L'impôt sur la fortune immobilière en 2024. 15 avril 2025. <https://www.impots.gouv.fr/dgfip-statistiques-limpot-sur-la-fortune-immobiliere-en-2024>

⁸⁸ French Republic. How do I determine the value of the assets I declare for the calculation of real estate wealth tax (IFI)? 16 February 2018. <https://www.impots.gouv.fr/particulier/questions/comment-determiner-la-valeur-des-biens-que-je-declare-pour-le-calcul-de-limpot>

⁸⁹ French Republic. DGFIP Statistiques: L'impôt sur la fortune immobilière en 2024. 15 avril 2025. <https://www.impots.gouv.fr/dgfip-statistiques-limpot-sur-la-fortune-immobiliere-en-2024>

A key difference between France's real estate wealth tax and our proposal is that France's tax applies to net real estate wealth, while our proposal applies to gross real estate wealth. Our proposals mean that someone with a £3 million house with a £2 million mortgage gets taxed the same as someone who owns a £3 million house outright. This creates some concerns about fairness - but this is because the tax is not designed to function as a tax on wealth, but a tax on the consumption of housing services (although, admittedly, not a comprehensive one). A tax on the gross housing wealth also has the benefit of removing opportunities for individuals to reduce their tax bills through, for example, releasing equity on their property to reduce their net real estate wealth.

Revenue and distributional impacts

Recent analysis from Savills found that there were 142,500 UK properties worth £2 million or more. These are largely found in London and the South East: 66% would be in London, and a further 19% would be in the South East.⁹⁰ Just 3.3% would be in the North, Scotland, and Wales collectively.

Resolution Foundation analysis from 2015/16 - which found that 97,000 would lose out as a result - estimated that each taxpayer would face an average additional bill of £10,796 assuming no behavioural response.⁹¹ If we assume that the average bill per household remains the same, but is now paid by the 142,500 UK properties worth £2 million or more, this would represent revenue of £1.5 billion.

Economic impacts

A proportional property tax on high value homes has two benefits for economic efficiency. First, it increases taxation on housing property, which is widely seen as one of the most efficient forms of taxation. Behavioural responses to property taxes are low. It does little to discourage work or saving. And in partly taxing the value of land, they partly function as payment from households for local public goods (or taxing the recipient of positive externalities), reducing distortions from public spending.⁹² Second, this tax would make property taxation in the UK less regressive. As noted, this would reduce the incentives from council tax regressiveness for developers to build more high-value properties, rather than properties for which demand would be highest pre-tax - mitigating distorting the market. Of course, the proportional tax on properties over £2 million delivers these benefits significantly less than wholesale reform.

A key concern would be for asset-rich, cash-poor households who may struggle to pay the tax. The policy could be adjusted to ensure nobody has to sell their home to pay the tax. Labour in 2014 promised that homeowners who do not earn enough to pay the higher rate of income tax (around £54,000 in 2023/24 prices) would be able to defer payment of the tax until the property changed hands - presumably due to either sale or inheritance.^{93,94}

Public attitudes - survey

The public does not realise how regressive council tax is. As noted, a £1 million house pays, on average, three times as much council tax as a £100,000 house - making council tax highly regressive. When asked to estimate this ratio, the median respondent guessed that the £1 million house pays 5x as much as the £100,000 house.

90 Byers D. How a wealth tax on £2m-plus houses could hit 150,000 homeowners. The Times. 21 July 2025. <https://www.thetimes.com/life-style/property-home/article/wealth-mansion-tax-houses-worth-over-2-million-dstzv0c3l>

91 Corlett A and Gardiner L. Options for reforming property taxation. Resolution Foundation. March 2018. <https://www.resolutionfoundation.org/app/uploads/2018/03/Council-tax-IC.pdf>

92 OECD. Housing Taxation in OECD Countries. 2022. https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/07/housing-taxation-in-oecd-countries_1ee79763/03dfe007-en.pdf

93 BBC. Ed Balls: Mansion tax would start at £250 a month. 20 October 2014. <https://www.bbc.co.uk/news/uk-politics-29691283>

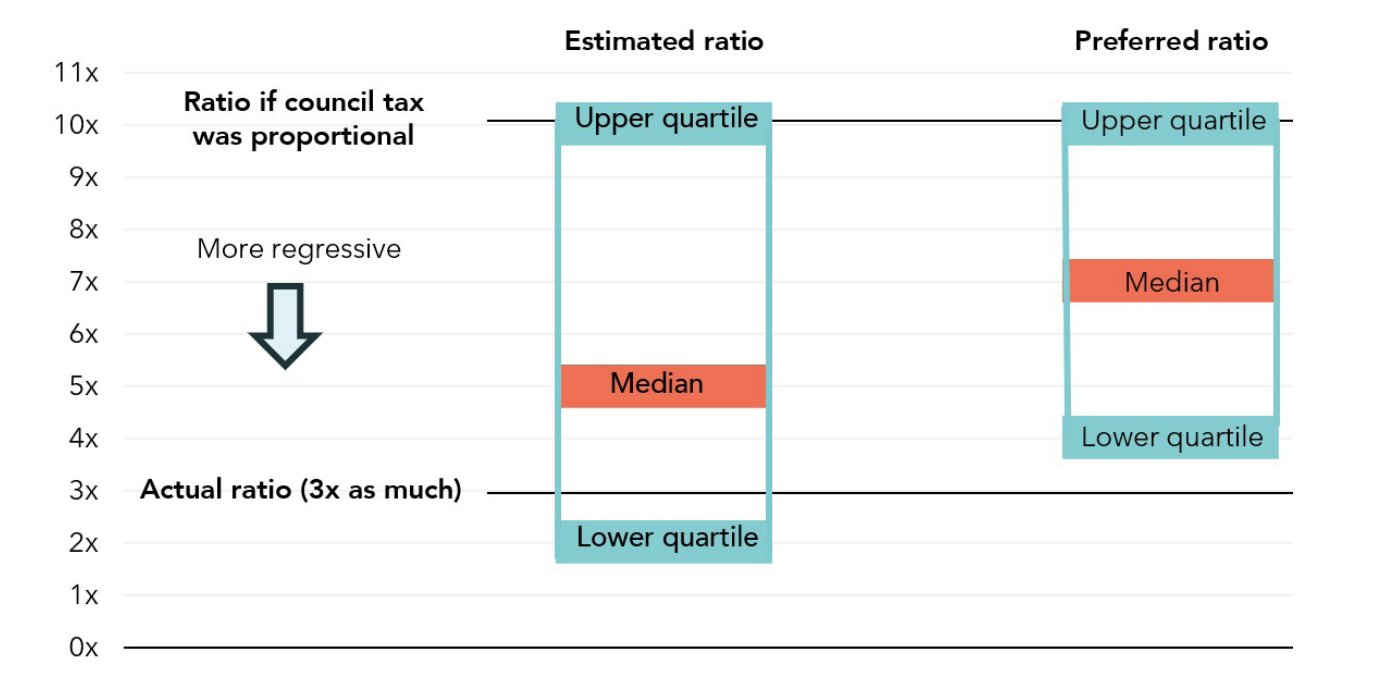
94 Institute for Fiscal Studies. The higher-rate threshold over time. 12 August 2024. <https://ifs.org.uk/taxlab/taxlab-data-item/higher-rate-threshold-over-time>

The public would prefer council tax to be much less regressive. When asked how much more council tax a £1 million house pay should pay relative to the £100,000 house, the median response was they should pay 7x as much - more than double the actual ratio. Emphasising how regressive council tax is - which the public wants to reduce - could help the government justify reforms.

FIGURE 26

The public underestimate how regressive council tax is, and would prefer it to be much less regressive

How much council tax is/should be charged on a £1 million house compared to a £100,000 house? Estimated ratio and preferred ratio. Median and quartile re



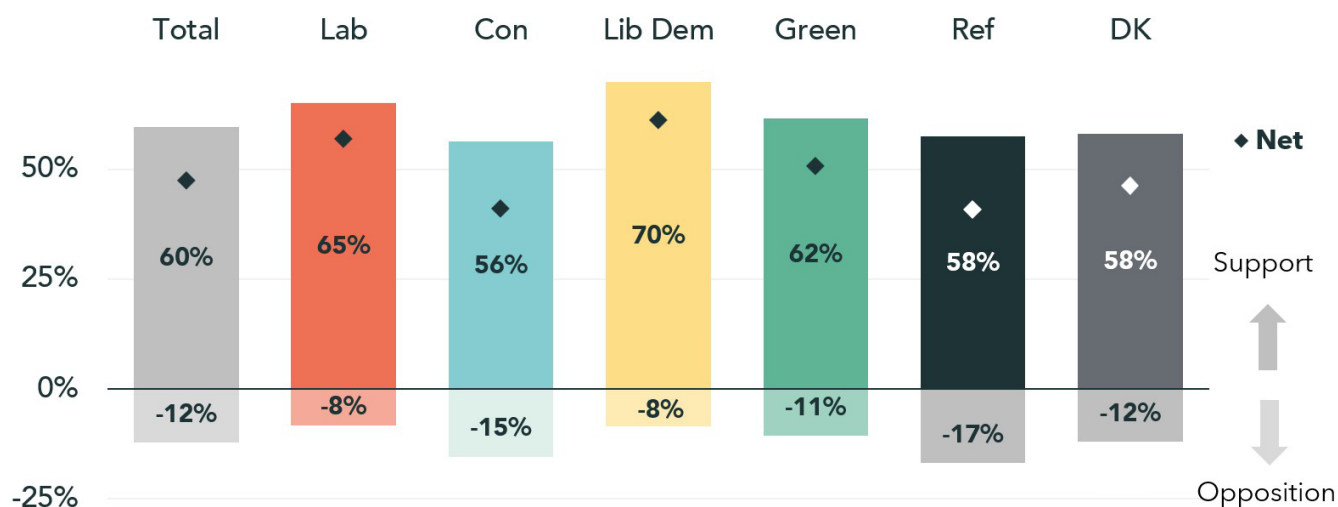
Source: Demos survey, Opinium, April 2025.

For the introduction of a council tax levy on homes over £2 million, our polling showed that 60% support this while just 12% oppose. When polling the same tax, but for property over £1.5 million, support remains consistent, with 58% supporting and 13% opposing. The policy also received support among those living in homes over £2 million, with 44% supporting the proposal, and just 26% opposing.

FIGURE 27

Supporters of all major parties tend to favour a tax on homes over £2 million

Level of support for 'a council tax levy on homes worth over £2 million', by voting intention



Source: Demos survey, Opinium, April 2025.

It is also useful to consider public attitudes in the context of the policy being proposed - upon which it becomes more salient and people may have engaged with surrounding debates. After Labour had promised to introduce the tax if elected, polling from September 2024 showed that 72% supported the policy and 18% opposed. Polling closer to the election found that even 60% of Londoners supported the idea, compared with 28% who didn't.⁹⁵

Public attitudes - focus groups

In the low-engagement scenario, there was broad support for introducing a proportional property tax over £2 million - with people generally emphasising that those who can afford a £3 million house, for example, can afford a large tax bill such as £10,000. While some expressed concern for those who had, for instance, inherited the house, others emphasised that they would be happy paying the tax if receiving such a large inheritance.

Give me a £3 million house and I'll pay 10 grand council tax, I'll be happy to deal with that because I've got an asset there.

- Boomer, graduate, Yorkshire and the Humber, social renter

Is it fair on someone who got, say, inheritance with a £3 million house the next day finds out they have to pay 10 grand on the top of the council tax because my parents have given this?

- Gen X, graduate, East of England, homeowner

Moving into the contextual-engagement scenario, participants disagreed with one another about where the threshold could be. Some people felt it could go lower than £2 million, but when suggested, others were opposed to the idea of it being £1 million, feeling that this would then affect people who were not necessarily that well-off.

⁹⁵ Hill D. Most Londoners oppose right to buy and back mansion tax - new poll. The Guardian. 15 April 2015. <https://www.theguardian.com/uk-news/davehillblog/2015/apr/16/most-londoners-oppose-right-to-buy-but-support-mansion-tax-new-poll>

I'm never going to have £2 million, so I wonder whether that threshold is a little high. Perhaps we would gain more if it was a little lower than that.

- Gen X, post-grad, London, homeowner

I think [a £1 million threshold] is too low. Because if we're in London, 1 million house is nothing.

- Gen X, graduate, East of England, homeowner

The primary argument against this reform - which we discussed in the context of council tax reform - is that broader reform of council tax was needed. At least one member of each group knew about the updated valuations and raised it as a key problem, with others agreeing. Some criticised drawing arbitrary thresholds to make it marginally fairer.

It's outrageous that the valuations are in the 90s. So much has happened. And the value of properties has gone up threefold.

- Gen X, intermediate education, West Midlands , homeowner

You've just got to go back to scratch, saying, oh, we're going to increase rates for the top bands, but top bands, then it's not fair on them either. And does that then make it fair, it just makes it less fair for everybody.

- Millennial, intermediate education, West Midlands, homeowner

There was some concern about causing the wealthy to move away, particularly in the context of the news on non-doms. Others, however, felt frustrated by these concerns, and the fact that people would respond in that way.

I saw the stuff on non-doms... and all I'm now seeing is people wanting to leave. Numbers of relocation experts saying it's through the roof... I just don't think at the moment, the economy can tolerate further attacks on this cohort of people because they're fleeing.

- Millennial, post-grad, London, homeowner

If people choose to leave, then it vexes me... if you've got a million and two properties and the second is over £3 million, paying an extra £10k is not a lot to ask.

- Gen X, low education level, North East, homeowner

In the high-engagement scenario, there was particular anger in response to statements about the regressivity of council tax - specifically that band D properties in the North East paid much more than counterparts in London, despite house prices increasing much more rapidly in London since 1991.⁹⁶ This strengthened support for higher taxation on high value properties.

I'm still in shock seeing that in the North East, we pay £400 more than those in London. That's upset me. I think higher value properties probably should pay slightly higher.

- Millennial, low education level, North East, homeowner

96 CIPFA. Households in the North East to pay over £440 more in council tax than those in Greater London. 19 March 2025. <https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/north-east-to-pay-over-440-pound-more-than-greater-london>

ALTERNATIVE PROPOSAL: RAISE COUNCIL TAX FOR BANDS E-H

If the government deems the administrative or economic risks of a proportional property tax for properties over £2 million to be too large, we recommend that they instead increase council tax for the top bands.

Levels of council tax are set by local authorities, but the amount paid is determined by the 'band' the property is in (determined by 1991 property values), with fixed ratios between bands. This policy would change those ratios, so that properties in higher bands pay more. We would recommend following the precedent set by Scotland in 2017, whereby council tax was increased for bands E and above, by 7.5-22.5% progressively. This would affect less than 20% of households in England (affecting bands E up to H) and 27% in Wales (affecting bands E to I). It would make council tax more progressive, and involve very few administrative challenges.

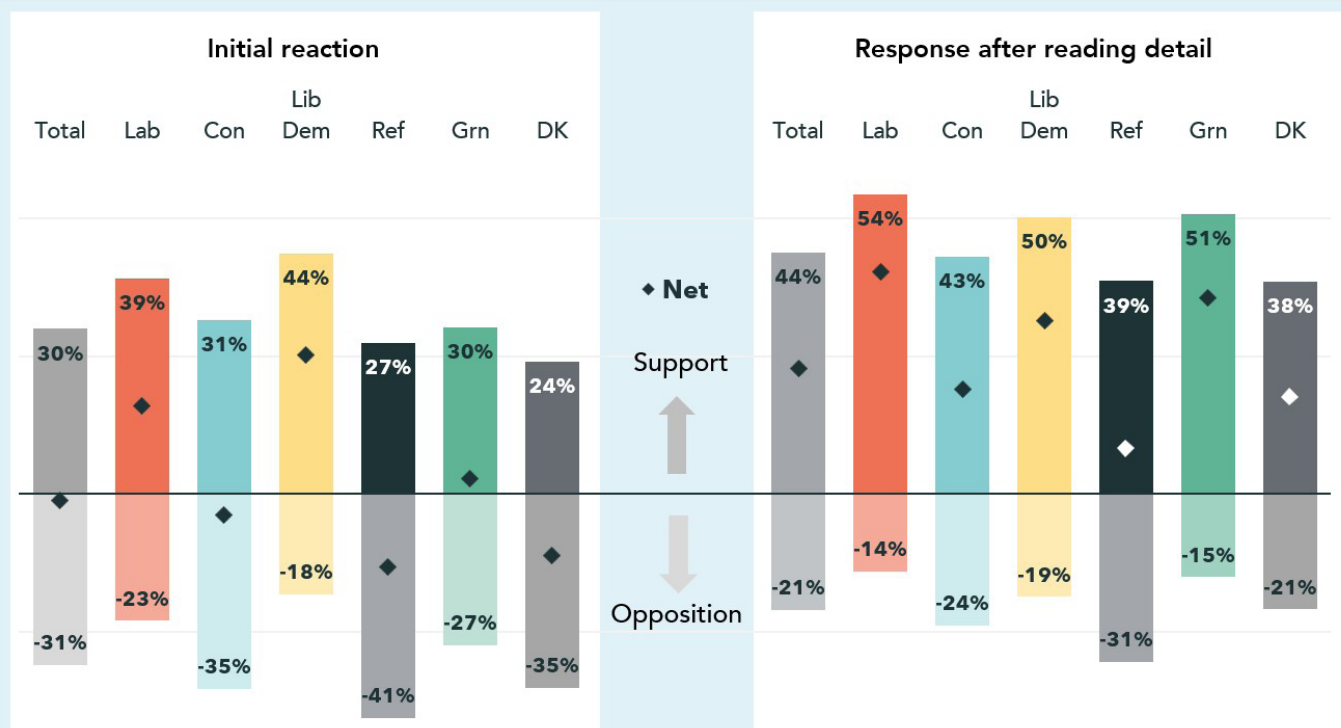
Given that this policy would boost council tax revenues most for local authorities with more properties in band E or above, the immediate revenue boost would be skewed towards more affluent areas. To even this out, the reform would need to come with a rebalancing of central government funding to local authorities. A rule would need to be baked into the reforms which redirected grant funding in proportion to the additional council tax.⁹⁷

Public attitudes - survey

In a low-engagement scenario, raising council tax for bands E-H received net opposition of 1pp. However, in the contextual-engagement scenario, net support increases to 23pp. Net opposition in the low-engagement scenario among people intending to vote Conservative (of 4pp), Reform (14pp) and people who didn't know how they would vote (11pp), all turned to net support in the contextual-engagement scenario of 19pp, 8pp and 17pp respectively. Even people who live in homes in bands E to H - who tend to highly oppose the change in the low-context scenario (20% support vs 61% opposition) - tend to support the change in the contextual-engagement scenario (43% support vs 31% opposition).

⁹⁷ This may be more complicated for some local authorities, because as central government grants have been cut, some councils don't get very much grant funding, meaning it may not be available to redistribute.

FIGURE 28
All voters tend to support higher council tax for top bands after reading about its regressivity
 Attitudes to higher council tax for bands E-H, before and after reading details about its regressivity and the % of homes affected, by voting intention



Source: Demos survey, *Opinium*, April 2025.

The government could boost support for this reform by requiring that landlords pay the tax rather than tenants. Half of the public said they would be more supportive of the reform if landlords paid council tax rather than tenants, while just 15% disagreed. This would also make the total cost of housing more transparent for tenants. Because some tenants may not know how much council tax they will be charged before moving into a property, they may not grasp the full cost of their housing after tax. This would be much clearer if the cost of council tax was baked into the rent, and at the same time would reduce administrative barriers for tenants who have to pay the tax.

Public attitudes - focus groups

In a low-engagement scenario, people are generally opposed to higher council tax for bands E-H. Participants expressed a broad sense that council tax keeps on rising while services and conditions stay bad, and so paying more council tax feels futile.

Participants felt that the reform fails to address - and potentially compounds - the existing broken council tax system. People recognised that the reform builds upon the outdated bands, and extends the gap between a house at the top of band D and the bottom of band E, which may nevertheless be almost identical in value. Participants often wanted more fundamental change.

Moving into the contextual-engagement scenario, there is more sympathy with the reforms. Concerns were primarily mitigated by a table we presented showing the specific rate increases that would apply, and the 'approximate house values' they would apply to (based on average increases in the value of each property band since 1991). Participants broadly saw that they lived in houses which were well below the house values which would generally put them in band E.

There was some concern for people in London, particularly renters or those in house shares, who may not have a large ability to pay. Others pushed back, saying only wealthy people would rent homes worth £1 million. There was also a sense that landlords should pay the tax rather than renters.

Regarding the need to redistribute funds between local authorities, this drove little concern among participants. Participants did not seem to have a strong sense that their council tax should exclusively fund their own council, instead often framing it as going into a central pot.

3.7 INTRODUCE A COUNCIL TAX PREMIUM ON FOREIGN-OWNED SECOND HOMES

DESCRIPTION	
Like the empty homes premium (which adds between 100% and 400% to council tax bills), the government should apply an additional 200% premium to second homes owned by non-UK residents, on top of the existing second home premium and empty homes premium. This would mean bills on second homes worth 400% of the usual bill, or up to 600% if the homes are empty.	
ECONOMIC AND SOCIAL BENEFITS	
Annual gain	Wider benefits
Over £200 million	Potential reduction in house prices: Evidence from Vancouver shows similar taxes drove short-term reductions in house prices, dampening the house price growth trajectory.

SURVEY RESPONSES	
Low-engagement	
65% support 16% neither support nor oppose 9% oppose	
KEY LESSONS FROM FOCUS GROUPS	
Insights	Recommended response
There is broad support for a council tax premium on foreign-owned second homes, particularly based on a sense that it could reduce house prices.	Policymakers should emphasise how similar policies in Vancouver, Canada have been associated with reduced house prices and increased the number of new houses.

Our analysis suggests there are between around 47,500 and 80,300 second homes in the UK owned by non-UK residents. This is a significant number. Homes in London make up a large proportion of these. Analysis of the 2014-16 period suggests that 13% of new market housing in London was sold to overseas residents.⁹⁸ This is related to the problem of investment in UK housing by overseas companies which, analysis suggests, from 2000 to 2014 pushed house prices in England and Wales 19% higher than they otherwise would have been (although this analysis refers only to housing purchased by overseas companies rather than overseas individuals).⁹⁹

Revenue and economic effects

From 1 April 2025, councils in England will be able to charge a council tax premium of up to 100% for second homes (homes that are not anyone's primary residence). We argue there is scope for higher premiums for homeowners with a high ability to pay. The empty homes premium, for example, see homes that have been empty for over 10 years charged a 300% premium on top of their usual bills - meaning council tax bills are 400% their usual amount.

This would be added alongside the existing second homes premium, which means council tax bills can be up to twice as high as normal (200% of the usual bill). With an additional 100% premium for non-residents, the total charge would then be up to 300% of the usual bill, while a 200% premium could raise it up to 400%.

In 2024, there were 189,793 properties in England and Wales owned by foreign buyers.¹⁰⁰ Estimates suggest that between 60% and 70% of foreign owners let out their properties or allow family members to permanently reside there.^{101,102} Taking these boundaries, this leaves between 56,900 and 75,900 UK homes that are second homes owned by non-UK residents that are not rented out or otherwise inhabited.

If we assume that each second home of a non-resident pays the average council tax charge in England (£1,770) - and assuming no behavioural effects - then a 200% would have raised between £202 million and £269 million in 2024.¹⁰³ It is highly likely that these properties will, however, pay higher council tax bands, as evidence suggests overseas owners buy more expensive houses.¹⁰⁴ While they are also likely to be in areas with lower council tax charges in general (particularly inner London), charges in top bands in these areas still exceed the national average. For example, in Westminster (the council with the highest number of foreign-owned homes), properties in the top council tax band pay £2,034 each year, while the top charge in Kensington and Chelsea (with the second highest number of foreign-owned homes), is £3,139. The static revenue is therefore likely to be higher.

A similar tax is found in Vancouver, where an annual 'speculation tax' is applied to all residential property owned by individuals who are not income tax-payers in the province.¹⁰⁵ The tax is charged at 2% of the property value. Similarly, anyone not a Canadian citizen or permanent resident has to pay an 'additional property transfer tax' of 20% on purchases in the Vancouver

98 Wallace A, Rhodes D and Webber R. Overseas Investors in London's New Build Housing Market. June 2017. Centre for Housing Policy. University of York. https://www.london.gov.uk/sites/default/files/08b2c_overseas_buyers_-_homes_for_londoners_sub_group_-_university_of_york_data_report.pdf

99 Sá F. The Effect of Foreign Investors on Local Housing Markets: Evidence from the UK. CEPR Discussion Paper. 29 Nov 2016. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2877263

100 Benham & Reeves. Hong Kongers still most dominant foreign nation in the property market. 17 January 2025. <https://www.benhams.com/press-release/london-property-market/hong-kongers-still-most-dominant-foreign-nation-in-the-property-market/>

101 CBRE. Should we restrict overseas buyers?. 8 March 2024. <https://www.cbre.co.uk/insights/articles/should-we-restrict-overseas-buyers>

102 Sanford M. Why am I paying an empty homes premium on my council tax?. House of Commons Library. 2 April 2025. <https://commonslibrary.parliament.uk/why-am-i-paying-an-empty-homes-premium-on-my-council-tax/>

103 Ministry of Housing, Communities and Local Government et al. Live tables on Council Tax. 7 May 2025. <https://www.gov.uk/government/statistical-data-sets/live-tables-on-council-tax>

104 Wallace A, Rhodes D and Webber R. Overseas Investors in London's New Build Housing Market. June 2017. Centre for Housing Policy. University of York. https://www.london.gov.uk/sites/default/files/08b2c_overseas_buyers_-_homes_for_londoners_sub_group_-_university_of_york_data_report.pdf

105 Centre for Analysis of Social Exclusion. Make second homes less attractive. LSE. https://sticerd.lse.ac.uk/case/_new/research/Inequalities_and_Poverty/policy-toolkit/housing-second-homes.asp

region, and an equivalent policy was introduced in Toronto.¹⁰⁶ Analysis by the Resolution Foundation of the changes to property transfer tax finds that “house prices fell in the months immediately following the introduction of additional taxes on overseas buyers in both regions”, although they did later bounce up again. Another study found that these tax changes were associated with an increase in the number of new residential builds, but no significant increase in the value of property building permits.¹⁰⁷

Given that this policy would boost council tax revenues for some local authorities much more than others, the reform would need to come with a rebalancing of central government funding to local authorities. A rule would need to be baked into the reforms which redirected grant funding in proportion to the additional council tax.¹⁰⁸

Public attitudes - survey and focus groups

In the low-engagement scenario in the survey, support for a council tax premium on foreign-owned second homes is very high, with 65% expressing support and just 9% expressing opposition. Support is particularly high among people intending to vote reform at 74% support and 11% opposition.

In the low-engagement scenario in focus groups, participants were also widely supportive of this change. People noticed - and supported - the impact this could have in discouraging the stockpiling of homes as investments, which they felt had inflated house prices. Participants specifically highlighted this problem of investment properties as causing problems in London.

Vauxhall is absolutely dead at night because of its foreign speculative owners that use it to come back in the summer... that use it as high end international wealth to a point they can afford the council tax.

– Millennial, post-grad, London, homeowner

I hear a lot where I live in the Northumberland coastal areas, a lot of them are owned by people that rarely even live in them, and it's causing real issues with people in the area, problems for work. So I would be a big fan!

– Millennial, low education level, North East, homeowner

There was scepticism among some about how much the premium could raise, and others were worried about the impact on attracting foreigners to have a home and invest in the UK. Yet, neither concern was highly salient.

This is a good idea. But again, would it raise a substantial amount of money? How many foreigners have second homes in the country? Can't be that many.

– Gen X, low education level, Yorkshire and the Humber, homeowner

I'd sell the property. I'd rather invest elsewhere in other countries than to come to the UK. As it is, the UK is one of the most expensive countries in all of the world.

– Gen X, post-grad, London, homeowner

106 British Columbia. Additional property transfer tax for foreign entities and taxable trustees. 20 June 2025. <https://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax/additional-property-transfer-tax>

107 Hu J. The Effects of British Columbia's Vacancy Tax and Foreign-buyer Tax Act on the Supply of New Residential Housing in Vancouver. University of Ottawa. August 2018. <https://ruor.uottawa.ca/server/api/core/bitstreams/01366145-24bc-4588-9217-44bdad888d16/content>

108 This may be more complicated for some local authorities, because as central government grants have been cut, some councils don't get very much grant funding, meaning it may not be available to redistribute.

3.8 RAISE GAMBLING DUTIES

DESCRIPTION	
Currently, gambling faces specific gambling duties (which vary for different types of gambling) which are intended to account for the fact that no VAT is applied to gambling, for the external health and social costs, and in the case of remote gambling, for the low corporate tax which is often charged. However, the current duties do not serve this role. The government should increase General Betting Duty (from 15% to 30%), Gaming Duty (15-50% to 20-66%), Remote Gaming Duty (from 21% to 50%), and Machine Games Duty (from 5-20% to 10-40%)	
ECONOMIC AND SOCIAL BENEFITS	
Annual gain	Wider benefits
£3.2 billion (static 2026/27 revenue estimate)	Health and social benefits: Would discourage gambling, reducing associated health problems, social issues, and crime. Fiscal benefits: Would reduce the fiscal costs of gambling due to poor health, crime and welfare, which are estimated at between £1.4 billion and £7.2 billion annually.¹⁰⁹ Opportunity mission: Particularly reduces health and social costs in deprived areas, as people in the UK's most deprived areas (bottom 20%) were more than twice as likely to have an online gambling account than people in the least deprived areas.¹¹⁰
PUBLIC ATTITUDES - SURVEY	
When asked to select tax policies the government should prioritise, three quarters put duty on gambling firms in their top three - higher than duties on alcohol, tobacco or fuel. ¹¹¹ Over half - 52% - also support increasing tax on online gambling.	

Gambling faces an idiosyncratic tax system that plays two roles. First, it accounts for the fact that income tax and NICs do not apply to gambling winnings, while VAT does not apply to the value of gambling services. This tax treatment would be expected. While gambling provides income, it is not usually considered ‘work’ or ‘investment’, and while gambling is a service that people purchase, the price is hard to determine and constantly changing. To ensure gambling is not significantly tax advantaged relative to other forms of income or other services, a suitable level of taxation is needed to balance this out.

Second, taxes on gambling respond to the social harm it causes. Gambling harms individuals, families and communities, and particularly harms Britain’s most deprived places. For example, people in the UK’s most deprived areas (bottom 20%) were more than twice as likely to have an online gambling account than people in the least deprived areas.¹¹² There are also costs to the Exchequer - due to poor health, crime and welfare - with the costs estimated at between £1.4

109 Noyes J, Bhattacharya A, and Salutin G. Fiscally Responsible: The case for reforming Remote Gaming Duty. Social Market Foundation. October 2024. <https://www.smf.co.uk/wp-content/uploads/2024/10/Fiscally-Responsible-Oct-2024.pdf>

110 Forrest D and McHale I et al. Patterns of Play Extended Executive Summary Report. NatCen and University of Liverpool. June 2022. <https://natcen.ac.uk/sites/default/files/2023-03/Patterns%20of%20Play-%20Summary%20Report.pdf>

111 Noyes J, Bhattacharya A, and Salutin G. Fiscally Responsible: The case for reforming Remote Gaming Duty. Social Market Foundation. October 2024. <https://www.smf.co.uk/wp-content/uploads/2024/10/Fiscally-Responsible-Oct-2024.pdf>

112 Forrest D and McHale I et al. Patterns of Play Extended Executive Summary Report. NatCen and University of Liverpool. June 2022. <https://natcen.ac.uk/sites/default/files/2023-03/Patterns%20of%20Play-%20Summary%20Report.pdf>

billion and £7.2 billion annually.¹¹³ To ensure this cost to wider society is accounted for when people gamble, a suitable level of taxation is needed, which can then support the government with those costs - as is the case with the taxation of alcohol and tobacco.

The current taxation on gambling does not sufficiently serve both roles. Take tax on online gambling (Remote Gaming Duty). Online gambling is particularly harmful, with online slot players six times as likely to be considered 'problem gamblers' by the Gambling Commission.¹¹⁴ As the Social Market Foundation (SMF) points out, Remote Gaming Duty - charged at 21% - is almost equivalent to VAT (20%). The 1 percentage point tax above VAT - representing just £45.5 million of revenue from Remote Gaming Duty in 2023/24 - is nowhere near enough to account for the social costs of online gambling. It is therefore failing to serve this function.

Online gambling faces an additional tax advantage as many of the largest providers have parts of their corporate activity abroad to reduce tax bills. This means they pay lower rates than the UK's 25% corporate tax rate, often instead paying the rates in Gibraltar (15%), Malta (5%), or Alderney (0%). The government accepts the use of consumption taxes to compensate for lost corporation tax, and gambling tax should be such an example.

The UK's rate charged on online gambling is significantly lower than many of our international peers (after accounting for the VAT that other countries apply), including in the Netherlands (40%), Australia (35% in Victoria, but varies by region) and Canada (33% in Ontario, but varies by region).¹¹⁵ Online gambling also generates fewer jobs than other forms of gambling, and so there is a weaker case for avoiding tax hikes to protect jobs.

Given these issues, we recommend that the government raise gambling duties, particularly for online gambling. This would help raise revenue while tackling harms from gambling - which also supports the government's manifesto commitment to "reducing gambling-related harm".¹¹⁶

The government is currently consulting on combining remote gambling duties into a single remote betting and gaming duty. For online gambling, this would bring together General Betting Duty (on most fixed-odds bets other than the lottery and on pool bets (not at fixed-odds) on horse and dog racing), Pool Betting Duty (bets not at fixed-odds apart from those on horse and dog racing) and Remote Gaming Duty (for games of chance where a prize is offered (such as roulette or bingo)). However, they explain that the specific rate this duty is set at is not within scope.

The consultation approach is misguided. As the SMF points out, merging different remote betting and gaming duties could incentivise companies offering different bets to push customers towards less expensive forms of gambling like online slot machines (which are more harmful) and away from more expensive forms such as horse race betting (which is less harmful).¹¹⁷ This could also see a decline in the horse racing sector, which is a much greater employer. A more suitable approach is to determine specific tax rates depending on the harm that specific forms of gambling cause alongside the tax advantages they benefit from and the wider economic impacts (e.g. on jobs).

113 Noyes J, Bhattacharya A, and Salutin G. Fiscally Responsible: The case for reforming Remote Gaming Duty. Social Market Foundation. October 2024. <https://www.smf.co.uk/wp-content/uploads/2024/10/Fiscally-Responsible-Oct-2024.pdf>

114 Ibid.

115 Ibid.

116 Labour. Change: Labour Party Manifesto 2024. June 2024. <https://labour.org.uk/wp-content/uploads/2024/06/Change-Labour-Party-Manifesto-2024-large-print.pdf>

117 Noyes J. The Duty to Differentiate: How gambling tax reform can raise revenue for the Government, reduce harm to the public and save British horse racing. Social Market Foundation. July 2025. <https://www.smf.co.uk/wp-content/uploads/2025/07/The-Duty-to-Differentiate-July-2025.pdf>

On this basis, echoing calls from the Institute for Public Policy Research, we recommend that the government raise tax on the most harmful types of gambling, with increases to the taxes below.¹¹⁸ These proposals have been supported by Gordon Brown.

GAMBLING DUTY	DESCRIPTION OF DUTY	CHANGE	REVENUE
Remote Gaming Duty	Applies to the gaming company's profits from remote gaming	Raise rate from 21% to 50%	£1.8 billion
Machine Games Duty	Applied on machine games in the UK involving chance (like slot machines) or skill.	Raise rate from 20% to 50% on all cash-prize paying slot machines (i.e. excluding category D, which are arcade games and with non-cash prizes)	£0.9 billion
General Betting Duty	Applies to bookmakers' profits on horse or dog racing bets and bets placed through exchanges (online or offline).	Raise rate from 15% to 25%, excluding horse racing (which already pays an additional 10% levy.	£0.5 billion

In total, this would raise £3.2 billion in 2026/27, assuming no behavioural effects. Both the IPPR and SMF argue that existing evidence on the behavioural effects is not wholly reliable, and further work must be done before making conclusions about the impacts.^{119,120} While demand for gambling services is likely to fall, the extent is unclear, and it is also unclear how gambling operators would change stakes in response.

Public attitudes

Surveys demonstrate that gambling taxes are widely supported by the public. When asked to select tax policies the government should prioritise, three quarters put duty on gambling firms in their top three - higher than duties on alcohol, tobacco or fuel.¹²¹ More than half - 52% - also support increasing tax on online gambling.

In our focus groups, participants often emphasised that gambling is a choice that people make, and adds to costs on the NHS and other services, so a tax which deters people from making that choice would be a good thing. Others felt more strongly, feeling that gambling is inherently wrong and so a good thing to tax.

118 Parkes H, Kumar A, and O'Halloran J. Reforming gambling taxation: How to lift half a million children out of poverty. 6 August 2025. https://ippr-org.files.svdcn.com/production/Downloads/Reforming_gambling_taxation_August25_2025-08-04-143817_rtl.pdf?dm=1754318297

119 Ibid.

120 Noyes J. The Duty to Differentiate: How gambling tax reform can raise revenue for the Government, reduce harm to the public and save British horse racing. Social Market Foundation. July 2025. <https://www.smf.co.uk/wp-content/uploads/2025/07/The-Duty-to-Differentiate-July-2025.pdf>

121 Noyes J, Bhattacharya A, and Salutin G. Fiscally Responsible: The case for reforming Remote Gaming Duty. Social Market Foundation. October 2024. <https://www.smf.co.uk/wp-content/uploads/2024/10/Fiscally-Responsible-Oct-2024.pdf>

Gambling, alcohol, smoking, things that are actually making people's health worse, mental health and physical health, that's the choice that they're making. [The tax reform] should help alleviate the issues that it causes on the NHS and the services that we've got because of those choices that people are making.

– Millennial, graduate, North West, privately renting

Do really agree with the gamblers having to pay more for their bets. It's an evil sin is gambling. So I'd be all for that

– Gen X, low education level, Yorkshire and the Humber, social renter

Some participants expressed concern that gamblers often do not have much money, and so taxing them would be wrong. Others, however, saw gambling as a luxury and so did not share this concern.

Most people gambling don't have a lot of money, so I don't like this article

– Gen X, post-grad, Yorkshire and the Humber, homeowner

If you can gamble, it's kind of a luxury, and maybe it might help people not get into gambling in the first place.

– Millennial, graduate, South East, Social renter

CONCLUSION

The government faces some incredibly tough decisions this Autumn. The choices it makes now will shape the trajectory of the country in this Parliament and beyond. Whether the fiscal gap is £6 billion or £20 billion, the Chancellor has to deliver credible plans to close it. At the same time, there remains an imperative to address the UK's fundamental, long-enduring challenges, including our stagnant economy and the crisis of public trust in the state.

This paper has laid out a promising path forward that balances these priorities, deploying Demos' principles of designing pragmatic, pro growth and popular reforms. With strategic tax rises on rental income, partnership income, capital gains, property and gambling, the government could raise £21.3 billion. Alongside the expected threshold freeze, this is likely to help the government restore the fiscal headroom and potentially deliver needed public investments on top. It prioritises economically responsible tax reforms over potentially damaging spending cuts. Crucially, with consistent public support found for the recommended tax measures - whether the public engage with a one-line summary, contextual information, or arguments for and against - the evidence suggests the reforms could help rebuild public confidence in the government.

While this paper provides key policy solutions for the fiscal puzzle - how to raise revenue without touching broad-based taxes - it leaves two major questions unanswered: what story should the government tell about tax rises, and will broad-based taxes need to rise? This report will be followed by two papers:

1. THE STORY TO TELL ABOUT TAX RISES

Our research shows that public support for individual tax reforms is sensitive to framing and political communication. The same is true for tax reforms more broadly - what is the narrative about why taxes are being raised, what the revenue will be used for, what has changed since last Autumn, and why they are taxing the groups they are taxing? A clear and compelling story is needed that answers these questions, but what story would be most effective?

Addressing the question of narrative, this report will outline how the government can build a new fiscal story that resonates with the public and aligns with the country's values. Based on extensive testing of media simulations (mock-up BBC news articles announcing reforms) in focus groups and surveys, it will explore what language, frames, and storylines can both attract support and engagement - in turn building wider support for tax rises.

2. THE QUESTION OF BROAD-BASED TAX RISES

The question remains whether it is ultimately sustainable to continue without income tax, NICs or VAT rises. While our recommended package demonstrates that substantial revenue can be raised without breaching these commitments, these taxes account for around three-quarters of government revenue. Avoiding them means the government will remain constrained in its ability

to invest in national renewal in the upcoming Budget, but also to evolve with the economy in the long-term, responding to shocks or adapting to challenges like demographic change. At some point, reform of broad-based taxes will likely become unavoidable.

Tackling this question, our third paper of the project will examine the public attitudes surrounding broad-based tax reforms - covering assumptions, concerns, and favoured frames and narratives. It will propose broad-based tax rises which are likely to best balance public support and economic benefits.

ESCAPING THE FISCAL HOLE

Decisions will have to be made this Autumn. Policymakers have the evidence and language needed to escape the fiscal deadlock using popular, pragmatic and principled tax reforms. The question is no longer whether big decisions have to be made, but whether there is the political will to make the right choices.

APPENDIX

TAXATION ON PENSIONS

The need for reform

The taxation of pensions is in need of wide-ranging reform. As the IFS has noted, pension contributions are completely exempt from Employee and Employer NICs - providing significant, and unjustified, tax benefits to income put into pensions over income spent before pension-age.¹²² Until recently, pensions were also exempt from inheritance tax. Beyond this, there are also questions about whether it is fair, or good value-for-money, that the broader income of people over pension age is not charged NICs. However, the key policy we tested in our project - where we identified the greatest potential for raising revenue in an administratively, economically and politically feasible way - was limiting lump sum pension relief.

Currently, money put into pensions (contributions) is not subject to income tax, and tax is instead paid upon withdrawal. But to encourage pension contributions, people get 'lump sum pension relief'. This allows people to get 25% of their pension withdrawals tax-free, up to £1,073,100 of withdrawals (meaning income tax is not applied to up to £268,275). Yet, if the government limited the amount of withdrawals that benefit from lump sum pension relief from £1,073,100 to £400,000, they would raise £2 billion for the government

In a scenario where public revenue is needed, restrictions on this tax relief are an important place to look for two key reasons. First, a significant portion of the benefit goes to a small minority of wealthy pensions (only 20% of pensioners have pensions pots over £400,000). Second, because the relief removes all income tax from the withdrawals, it provides greater benefits to those in higher income tax bands (who avoid the 40% or 45% marginal rate) than basic rate taxpayers (who avoid a 20% marginal rate).

Our evidence

We tested a reduction in lump sum pension relief to £500,000. In our focus groups, we first tested reactions in a low-engagement scenario with a headline about taxing pensions in general. We found strong opposition, and the most emotive opposition across all policies we tested. There were multiple loud voices emphasising that the government should leave pensions and pensioners alone. Many participants felt that it is terrible that the government taxes pension withdrawals at all. This was generally based on the incorrect belief that pension contributions are taxed, meaning any tax on the withdrawal of pensions is double taxation. Others felt that pensioners are not the people the government should be looking to for tax, with winter fuel payment cuts cited as an added concern.

¹²² Adam S et al. A blueprint for a better tax treatment of pensions. Institute for Fiscal Studies. February 2023. <https://ifs.org.uk/sites/default/files/2023-02/A-blueprint-for-a-better-tax-treatment-of-pensions.pdf>

When presented with an alternative headline about ‘reducing tax relief for larger pensions’, there was some more sympathy towards the proposal. Nevertheless, the dominant opinion remained that pensions should not be taxed regardless of how large they were.

We then moved into the contextual-engagement scenario, describing the policy of limiting lump sum pension relief. Despite the explanation, there was generally confusion about exactly how the relief worked and what it would mean to lower the relief. Participants asked lots of questions about how the system works, but some confusion remained - as participants did not widely engage with the idea that pension contributions benefit from tax relief. Some participants did feel that those with pensions over £500,000 are well-off enough and could pay some more, and some emphasised how this tax change wouldn’t affect their pension, so they didn’t care much. Yet, the broadest sentiment was that even people with larger pensions have worked hard for those, and their money shouldn’t be touched.

Echoing the focus groups, our survey found that the public was much more opposed to taxing pensioners than any other group, with two thirds of the public saying it’s unfair to tax pensioners and just 11% saying it’s fair. Other survey results did, however, conflict with the focus group findings. When we tested the policy of ‘For pension pots over £500,000, limiting tax-free pension withdrawals to £125,000’ in the low-engagement scenario, 35% of the public expressed support and 24% expressed opposition. At net support of 9pp, this is significantly higher than, for example, raising council tax for bands E-H (-1pp).

Our position

Despite public support for reductions in lump sum pension relief in the low-engagement survey test, we did not include this in our core recommendations. Given recent experiences with winter fuel payments, there is a high chance that the dominant media narrative that followed would focus simply on the government increasing tax on pensions or pensioners. Our surveys and focus group evidence both suggested that, in this scenario, there would be very strong opposition. While the government may choose to accept this political cost - and in this case should be applauded for doing so - the policy would benefit from prior work educating the public about pension taxation, and psychological distance from winter fuel payments cuts. To avoid the widespread public backlash, this policy may be better achieved outside of a usual budget cycle, through a comprehensive review of pensions taxation.

ECONOMIC ANALYSIS

POLICY	SOURCE	TYPE OF ESTIMATE
Apply NICs to rental income	CenTax analysis	Static
Apply “partnership contributions” to partnership income	CenTax analysis	Post-behavioural
CGT reforms: • Increase the rate of tax on capital gains to match income tax, while adding an ‘investment’ allowance and removing BAD relief • Apply an exit tax on gains and rebasing on arrival • Remove the CGT uplift at death	CenTax analysis	Post-behavioural

POLICY	SOURCE	TYPE OF ESTIMATE
Introduce a proportional property tax on high value properties	Demos analysis	Static
Apply council tax premium for second homes owned by non-UK residents	Demos analysis	Static
Raise gambling duties (General Betting Duty, Gaming Duty, Remote Gaming Duty, and Machine Games Duty)	IPPR analysis	Static

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PUBLISHED BY DEMOS SEPTEMBER 2025

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