

DEMOS

GETTING DOWN TO BUSINESS

ATTITUDES OF SMALL
BUSINESSES TO POPULAR,
PRAGMATIC PRO-GROWTH
TAX REFORMS

DAN GOSS

NOVEMBER 2025

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Dan Goss

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ABOUT THIS REPORT

The government is in a seemingly impossible financial spot. It is ever more likely to need to raise taxes in the Autumn Budget to meet its fiscal rules, but its tax decisions so far have cost precious political capital. At the same time it must meet its commitments to improve public services and increase growth.

At Demos, we understand there are no easy choices. The only way through these predicaments is to have open and frank conversations with the public, communities, and key stakeholders 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.

Our work in this project first looked at tax rises that could help plug the fiscal hole while aligning with the public's values for the tax system. We then explored how the government could convey the importance of Budget tax rises to the public, and in turn help rebuild public trust in the state. This paper now looks into a key facet of the public's concern about tax rises: the response of Britain's small-and-medium-sized businesses. These businesses are often deeply embedded in local communities and seen by the public as bearing a heavier brunt of tax rises. Their response matters to the public, and so should matter to policymakers.

Future work under the Citizen Economy pillar will look at 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.

INTRODUCTION



Small businesses are the beating heart of our high streets, our communities, and our economy. When I said we'd back them all the way, I meant it."

– Keir Starmer, July 2025

With a fiscal hole of £20–50 billion, large tax increases in the upcoming Budget are virtually inevitable. For Britain's small businesses, the stakes could not be higher. Having faced the cumulative shocks of the pandemic, soaring energy costs, and higher Employer National Insurance Contributions (NICs), tax hikes could be another bump in the road. The government now faces a delicate balancing act: securing revenue to stabilise the public finances, while rebuilding the trust of taxpayers and safeguarding the small enterprises at the frontline of the UK's economic challenges.

THE SMALL BUSINESSES PERSPECTIVE

Demos research, *Solving the Tax Puzzle*, outlined eight popular, pragmatic and pro-growth tax reforms that could plug the fiscal hole. The evidence suggests these reforms would help drive rather than hinder growth and align with the public's priorities for a fairer and more efficient tax system.¹ In *The Story to Tell about Tax Rises*, we then demonstrated that - communicated well - these tax rises could actually build public confidence in economic leadership.² But critically, a compelling story about why the reforms are fair is needed to deliver that dividend for public confidence.

THE DEMOS TAX RISES

Building on our understanding of what the public want from fiscal policy, we engaged with a series of experts to explore tax reforms that raise revenue. 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.

¹ Goss D. Solving the Tax Puzzle: Eight popular, pragmatic, pro-growth tax reforms to plug the fiscal hole. Demos. 29 September 2025. <https://demos.co.uk/research/solving-the-tax-puzzle-eight-popular-pragmatic-pro-growth-tax-reforms-to-plug-the-fiscal-hole/>

² Goss D. The story to tell on tax rises: How to gain public trust in tax rises. Demos. 21 October 2025. <https://demos.co.uk/research/the-story-to-tell-on-tax-rises-how-to-gain-public-trust-in-tax-rises>

We identified eight reforms that optimally balance these priorities - laid out in the Annex. They 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. Each tax rise not only raises revenue, but has widespread public support and makes the tax system fairer and more transparent. The reforms have also been designed to support businesses, with new tax allowances to encourage investment and protect smaller businesses.

While effective policy and storytelling is essential, fundamental to the success of both is whether Britain's many small businesses respond positively to the changes. The last Budget - featuring the now notorious rise in Employer NICs - was followed by small businesses registering a 10-year low in business confidence (outside of the COVID pandemic).³ This likely compounded the resulting economic harms.⁴ Likewise the debate about inheritance tax for farmers, which (as Demos research has highlighted) lacked a compelling rationale from political leaders, drove widespread public concern about asset-rich, cash-poor family farms.⁵ This compounded public mistrust in the government's decisionmaking.⁶

With more fiscal challenges ahead, it is essential that the government considers the concerns of smaller businesses. By building relationships with customers and employees, alongside partnerships with other businesses, community groups and institutions, smaller businesses form the bedrock of local communities and economies. Public consent for tax rises therefore often rests on consent among smaller businesses. Alongside this, smaller businesses have less financial firepower than large firms and may struggle to access expert advice, so are more vulnerable to destabilising economic changes. Tax changes should therefore aim to minimise the economic or administrative harms which smaller businesses may face. This would help catalyse economic growth, which is the government's primary mission this Parliament.

In this paper, we explore how the Demos tax reforms stand against these challenges, uncovering the perspective of small-and-medium-sized enterprises (SMEs) on the fairness and economic impacts of the reforms.

THIS PAPER

The Demos paper *Solving the Tax Puzzle* showed how the general public consistently support our recommended tax measures whether engaging with a one-line summary, contextual information, or arguments for and against. Building on that, this paper outlines how our proposals could also deliver desperately needed optimism among smaller businesses. Partnering with Opinium, we ran a survey of 500 senior decisionmakers within SMEs (those with up to 250 employees) in May 2025. By exploring SMEs' response to the tax recommendations which are most relevant to them, we reveal how they are likely to react to the reforms.

3 Hoggan K. Firms plan job cuts as employment costs rise. BBC News. 17 February 2025. <https://www.bbc.co.uk/news/articles/ckg7gewqevqo>

4 Cornforth E. The effects of the rise in NICs. National Institute UK Economic Outlook – Spring 2025. <https://niesr.ac.uk/wp-content/uploads/2025/05/JC878-NIESR-Outlook-Spring-2025-UK-Box-B.pdf>

5 Goss D. Beyond the Headlines: The full story of the 2024 inheritance tax reforms – and lessons to learn. Demos. 14 October 2025. https://demos.co.uk/wp-content/uploads/2025/10/Beyond-the-Headlines_IHT-paper-2025_October.pdf

6 Labour's first months: The Public's Verdict. More in Common. 8 January 2025. <https://www.moreincommon.org.uk/latest-insights/the-public-s-verdict-on-labour-s-first-months-in-government/>

The message from SMEs is clear. They express a strong appetite for systemic fairness, with clear majorities identifying the existing tax advantages for certain asset classes or business structures as unjust. Far from resisting change, SMEs are broadly supportive of reforms that level the playing field, such as raising capital gains tax (CGT) while creating an allowance for investment, or introducing an exit tax for individuals taking investments out of the UK. The data also provides little evidence that the recommended reforms would trigger concerning economic responses such as substantial reductions in investment or hiring.

These findings make the case that the upcoming Budget represents not just an economic challenge for the government. Instead, it is an opportunity to build the efficient and equitable tax system that small businesses are calling for. The dividends for business confidence, and in turn public trust, could be huge.

SUMMARY OF SME ATTITUDES TO THE DEMOS TAX RISES

Apply NICs to rental income | +£3.2 billion

Description

Create a new class of NICs for rental income, to equalise the rates of NICs on rental income with those on employment. Meanwhile, introduce an investment allowance to remove tax on any 'normal' returns on property investment (those that simply compensate investors for investing their money and thereby forgoing the opportunity to spend that money in the present).

SME attitudes

SMEs tend to think the existing approach, whereby landlords do not face NICs on their rental income, is unfair (34% fair vs 40% unfair).

Introduce 'partnership contributions' (Employer NICs-equivalent) | +£1.9 billion

Description

Add an additional category of Employer NICs in which partnership businesses pay NICs for their partners. This would be charged at the same rate that businesses pay Employer NICs for employees.

SME attitudes

SMEs tend to think it's unfair that partnership businesses don't pay Employer NICs for partners in the business (35% fair vs 41% unfair).

Match CGT rates with income tax and introduce an allowance for investment | **+£11.3 billion** if introduced alongside an exit tax (discussed below)

Description

Equalise rates of CGT with income tax, remove Business Asset Disposal (BAD) relief and investors' relief, and introduce an investment allowance to remove tax on 'normal gains'.

SME attitudes

SMEs tend to think it would be fairer if CGT rates were increased while an investment allowance was introduced (46% say this would be fairer vs 15% less fair).

There is little evidence that higher rates would harm investment, as just 7% of SMEs say the 2024 increase in CGT led them to reduce investment. 18% say it led them to invest more. Meanwhile, just 6% correctly estimated the new CGT rate for assets benefiting from BAD relief, suggesting engagement with rate increases is low.

Introduce an 'exit tax' on people taking investments out of the UK

Description

Rebase capital gains when individuals become residents in the UK (meaning only gains made from that point count towards CGT). Simultaneously 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).

SME attitudes

SMEs tend to overwhelmingly think an exit tax would be fairer than the existing approach (52% say it would be fairer vs 18% less fair).

Introduce a proportional property tax on high value properties | **+£1.5 billion**

Description

Introduce a new tax charged at 1% on the value of a property between £2 million and £3 million and 2% above £3 million.

SME attitudes

A YouGov poll in 2015 found that 55% of wealthy investors who currently own properties or land believed a mansion tax (a proportional property tax on homes over £2 million) would have no impact on their property investments. Another 43% say it would have little or no impact. Just 7% state they would be less willing to invest and fear that demand could fall. Just 1% said that, should the plans come into effect, they would cut back on investing.

DEMOS TAX RISE 1

APPLY NICS TO RENTAL INCOME

SMEs tend to think the existing approach - whereby landlords do not face NICs on their rental income - is unfair (34% fair vs 40% unfair)

In 2023-24, there were 2.86 million unincorporated landlords, receiving a total £55.5 billion in property income.⁷ Most will pay neither Employee, Self-employee nor Employer NICs on that income. This contrasts with the owners of other unincorporated businesses (generally charged 6% Self-employed NICs) and even more so with employees in small businesses (where 8% Employee NICs and 15% Employer NICs will both be charged).

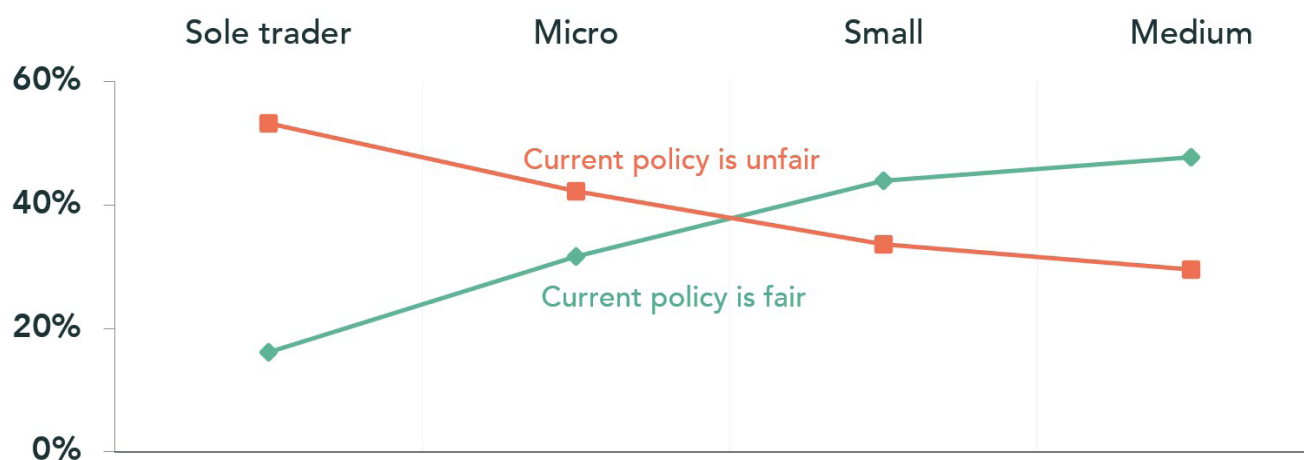
This tax treatment incentivises individuals to shift their investments into rented residential property rather than other assets. It is also an unfair tax advantage, unavailable to most people. SMEs tend to agree. While 34% of SMEs think the existing approach is fair, 40% think it's unfair.

We find significant variation in the response across businesses of different sizes and in different regions. Sole traders and micro-enterprises are more likely to say the current policy is unfair, while small- and medium-sized businesses are more likely to see the current approach as fair. The current situation is perceived as particularly unfair by small businesses in the North (42% unfair vs 28% fair) and Wales (61% unfair vs 22% fair). It is generally perceived as fair, however, in London (35% unfair vs 42% fair).

FIGURE 1

SMEs, particularly micro enterprises and sole traders, tend to think the current policy of no NICs on rental income is unfair

Views among SMEs on whether the lack of NICs on rental income is fair or unfair. Net responses, by business



Demos research has already demonstrated public support for applying NICs to rental income, and the evidence here suggests that many smaller businesses would also support the rationale for the reform if it was effectively communicated.

⁷ HM Revenue and Customs. Property rental income statistics: 2025. 29 August 2025. <https://www.gov.uk/government/statistics/property-rental-income-statistics/property-rental-income-statistics-2024>

DEMOS TAX RISE 2

INTRODUCE 'PARTNERSHIP CONTRIBUTIONS' (EMPLOYER NICS-EQUIVALENT)

SMEs tend to think the existing approach - whereby partnership businesses don't pay Employer NICs for partners in the business - is unfair (35% fair vs 41% unfair).

Partnership businesses made up over 6% of the UK's private sector businesses at the start of 2024.⁸ For tax purposes, partners in these businesses are treated as self-employed. This means lower taxes compared to employees. First, partners pay lower rates of NICs (6% rather than 8%). Second, partnership businesses are not charged Employer NICs for partners' pay (usually charged at 15% of the business's wage bill after allowances).

With partnership income heavily concentrated in certain regions and certain occupations, the benefits of partners' tax advantage are shared very unevenly. Regionally, over a quarter of UK partnership income went to taxpayers in just 12 constituencies, 11 of which are in London.⁹ Meanwhile, the following occupations collectively made up 57% of all partnership income in 2020:¹⁰

- 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

Not only is the tax advantage heavily concentrated, the reason for its existence is unclear. The Institute for Fiscal Studies notes that "the government has not stated clearly why it thinks the tax advantage for self-employment should exist", and finds no persuasive reason why it should exist.¹¹

SMEs also tend not to see a fair reason why the disparity exists. 35% think it is fair that partnership businesses don't pay Employer NICs for partners in the business, while 41% think it is unfair. This suggests they tend to support the rationale for reform. The finding is particularly seen among sole traders (21% say it's fair vs 53% unfair), which is unsurprising since sole traders are by definition not partnership firms. The trend reverses, however, for medium-sized enterprises (53% say it is fair vs 31% unfair). Across sectors, Construction & Manufacturing businesses are particularly likely to see the advantage as unfair (28% fair vs 52% unfair), while the reverse is true for Financial, Banking, Legal and Real Estate services (46% fair vs 29% unfair). Again, this is unsurprising given the proliferation of partnership businesses in financial and legal services.

8 Partnership businesses are those consisting of two or more owners and registered with HMRC as a partnership.

9 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

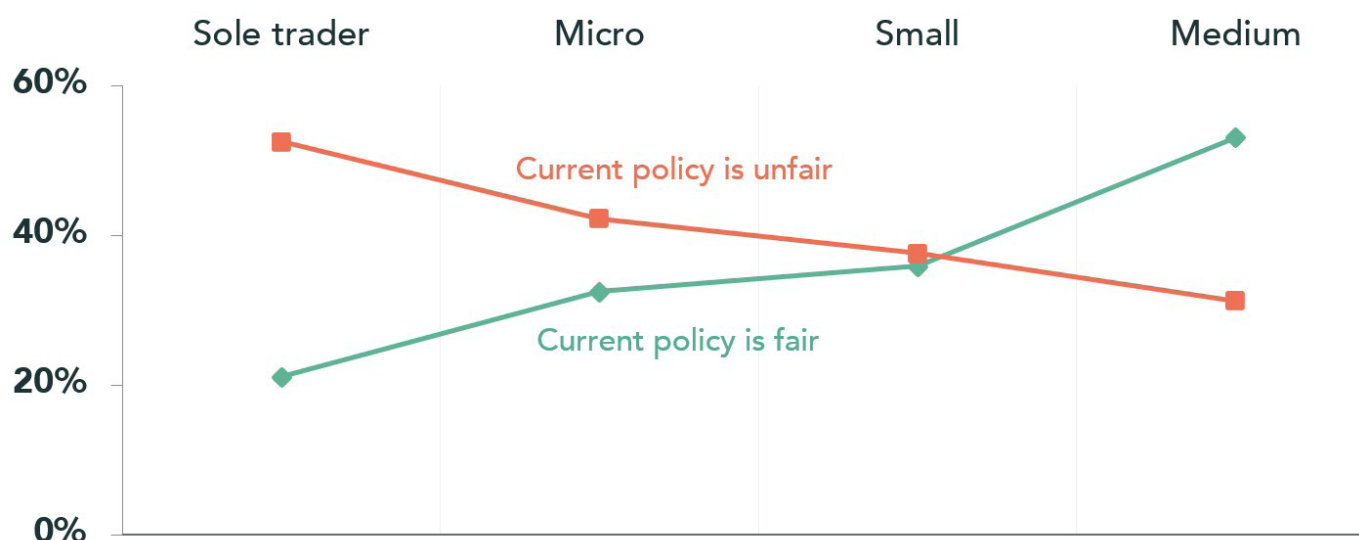
10 Ibid.

11 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>

FIGURE 2

SMEs tend to think the current policy of no Employer NICs for partners in partnership firms is unfair

Views among SMEs on whether the lack of Employer NICs for partners in partnership firms is fair or unfair. Net responses by business size



DEMOS TAX RISE 3

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

SMEs tend to think it would be fairer if CGT rates were increased while an investment allowance was introduced (46% say this would be fairer vs 15% less fair), and just 7% say they cut investment in response to the 2024 CGT rises, while 18% say they increased investment.

Individuals earning income from employment pay income tax, whereas individuals selling a business or share in a business for a profit pay CGT. Yet, capital gains are generally taxed at much lower rates than income. The higher rate of income tax is 40% and additional rate is 45%, while CGT tops out at just 24%. Some capital gains also benefit from BAD Relief (if they are going to a sole trader or partner in a business who owned the business assets for at least two years). If so, they are charged just 14% regardless of the value. In 2023/24, there were 39,000 individuals benefitting from BAD relief, with gains worth £10.3 billion in total.¹²

The gap in tax rates between employment income and capital gains is an issue of fairness. Someone earning £150,000 in income will pay £48,674.80 in income tax (plus NICs on top). Meanwhile, someone earning exactly the same amount in capital gains will only pay £33,018 in tax (around two thirds the amount). Another individual earning that same amount in capital

¹² HM Revenue & Customs. Capital Gains Tax statistics. 24 July 2025. <https://www.gov.uk/government/statistics/capital-gains-tax-statistics>

gains benefitting from BAD relief will only pay £20,580 - less than half the amount. This means two individuals can do the same work, but if one channels their income into capital gains (by selling their work through their own personal service company rather than employment), they pay significantly less tax. To address these problems, the government should equalise the rates of CGT and income tax.

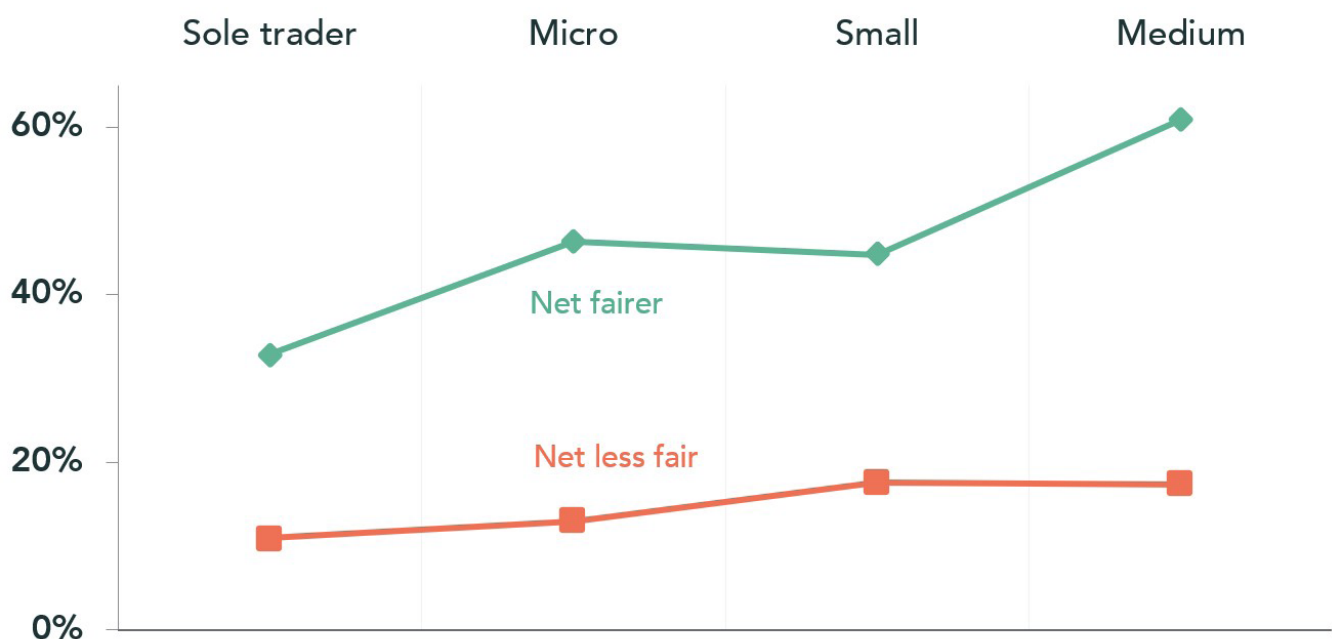
At the same time, the current system creates both unfairness and economic inefficiency by taxing so-called 'normal gains'. These are gains which simply reflect the 'time-value' of money, whereby having money in the future is less valuable than having the same amount of money today. The time-value of money arises because having money in future means you cannot use that money in other ways in the short-term. Given this, when normal returns on an investment are taxed, investors are disincentivised from taking on the investment. They instead face an incentive to use their money for present consumption. It also means that an individual who invests but only makes normal gains faces additional costs relative to someone who instead consumes, which may seem unfair. To address this, we propose introducing a new 'investment allowance', meaning that the investor is not taxed on their 'normal gains'. Such a policy is seen with Individual Savings Accounts (ISAs), for example. In ISAs, returns on savings (which compensate the saver for saving rather than consuming) are tax-free.

We argue that equalising CGT rates while ending tax on 'normal gains' would be a fairer system - and smaller businesses agree. 46% say this approach would be fairer than the current approach, while 15% say it would be less fair. This suggests SMEs may approve of the reforms if hearing the rationale. As would be expected for an allowance that benefits those who invest more, this is particularly the case for medium-sized businesses (61% fairer vs 17% less fair).

FIGURE 3

SMEs tend to say that higher CGT rates with an investment allowance would be fairer than the current CGT system

Views among SMEs on whether higher CGT rates with an investment allowance would be fairer or less fair than the current system. Net response by business size



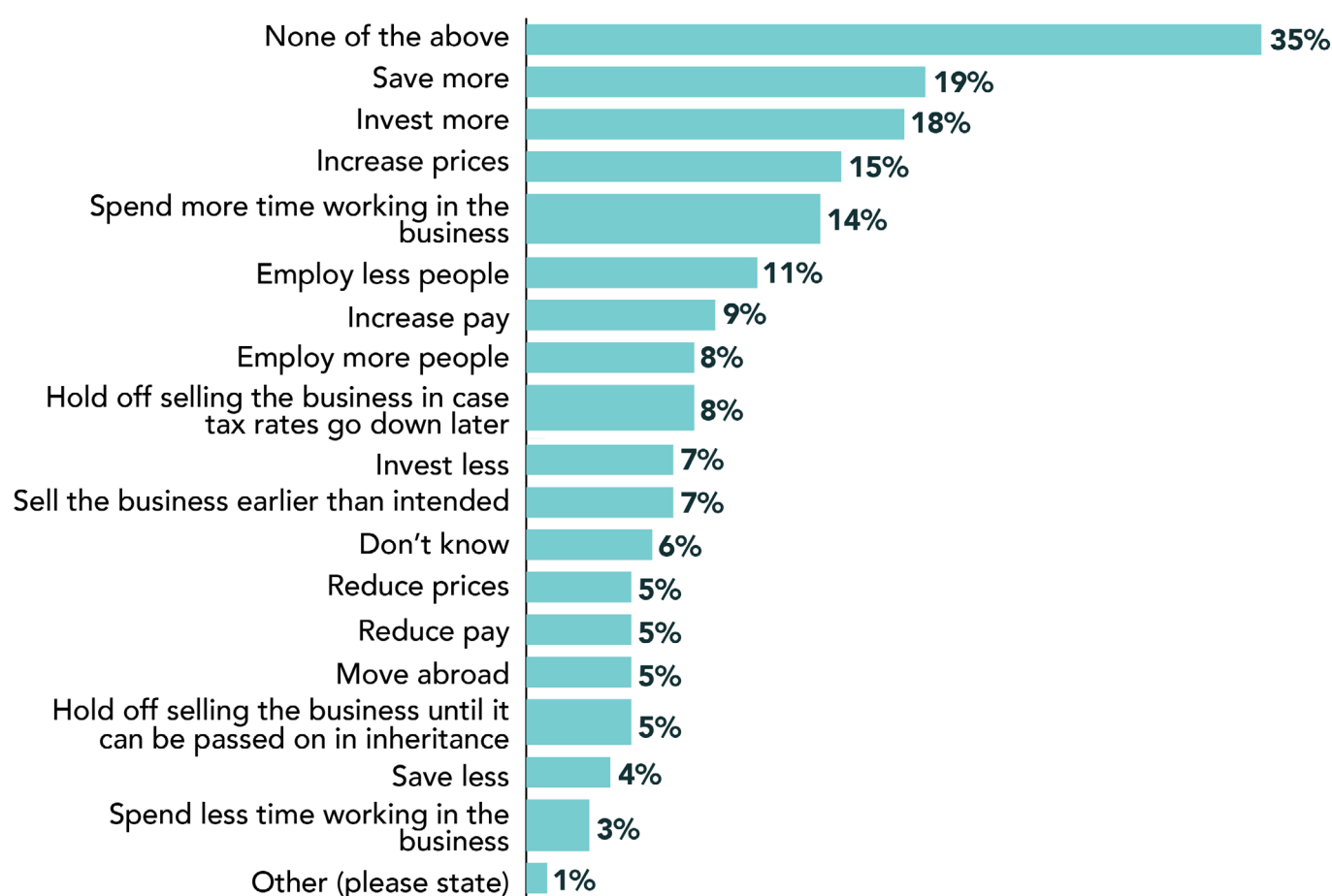
Alongside concerns about fairness, a concern about capital gains for small businesses centres on the impact on their investments. Will higher rates discourage those businesses from investing? Will it discourage external financiers from investing in those businesses? Beyond

the investment allowance removing existing disincentives to invest, our findings suggest the increase in capital gains may also not substantially diminish SME investments. We asked SMEs about their response to the increases in CGT in the 2024 Autumn Budget (where the main rate was increased from 20% to 24% and the rate for assets benefitting from BAD relief rose from 10% to 14%). When asked if they had changed or planned to change their behaviour in response to those changes, just 7% of smaller businesses said they had, or planned to, invest less. In fact, over twice as many said they had invested more. It suggests that companies may be compensating for higher tax charges by investing, in order to raise their returns and recover lost income.

FIGURE 4

Only 7% of SMEs intend to invest less as a result of last year's CGT changes

Have you changed, or do you plan to change, your behaviour in any of the following ways specifically in response to the capital gains tax reforms last year?



Aside from investment, we also found that 19% of businesses said they had, or planned to, save more. 14% said they had, or planned to, spend more time working in the business. Again, this may point to businesses shielding themselves against the impact of higher tax bills by building up their economic assets (i.e. increasing business savings or labour).

Given that CGT is not a tax that individuals or businesses pay regularly - but one they may have to pay in the future - most individuals or businesses will not engage with CGT regularly. In turn, many will not even necessarily know about capital gains before making investment decisions. Our survey suggests this could often be the case. When asked to estimate CGT rates for businesses benefitting from BAD relief before the 2024 Budget (the correct answer being 10%),

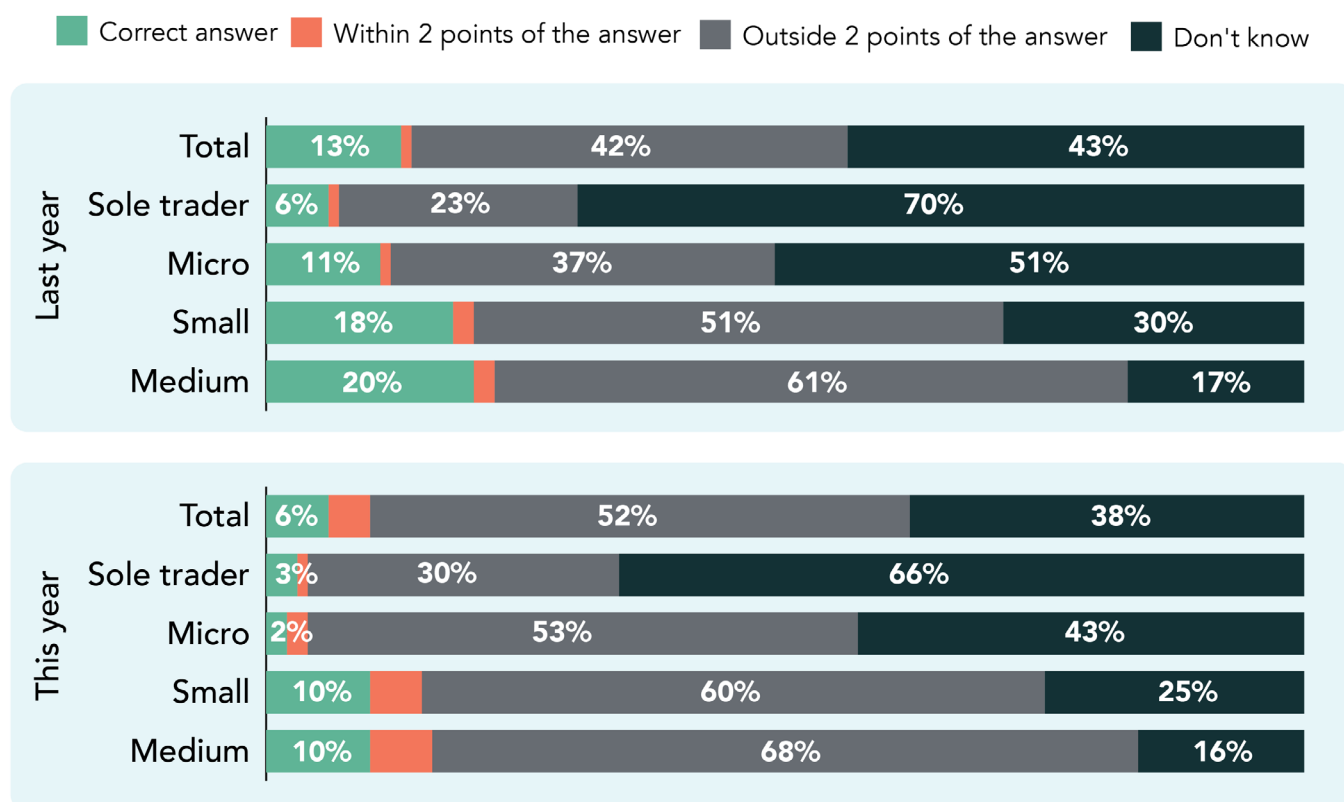
just one in eight SMEs chose the right answer, and only another 1% chose an estimate within 2 percentage points of the correct answer. The response was better among larger businesses; 20% of medium-sized businesses got the right answer, compared to 6% of sole traders. However, the inaccuracies were even more severe for estimates of the rates of BAD relief post-2024 Budget. Just 6% of SMEs got the right answer, including just 3% of sole traders and 2% of micro businesses (under 10 employees).

These findings corroborate existing evidence on knowledge of CGT. A report commissioned by HMRC found that, of individuals who had claimed Entrepreneur's Relief (the former name of BAD relief) in the five years prior, only 16% were aware of it at the time of investment.¹³ Only 8% said it influenced their business decisions at the point of initial investment.

FIGURE 5

The vast majority of SMEs do not know CGT rates for assets under Business Asset Disposal Relief

Estimates for CGT rates for assets benefiting from Business Asset Disposal Relief, this year and last year (i.e. post- and pre-2024 Budget)



There of course remains a risk that higher CGT rates could, if taken alone, reduce investment. But it would be surprising if this was not the case given how higher tax charges reduce the effective returns on investment. The question, however, is not whether higher rates will reduce investment, but rather how do the benefits weigh against the costs.

Importantly, the costs would only partially be borne by SMEs. While low CGT rates do offer tax advantages for entrepreneurs, they also offer advantages for people stockpiling properties as investments or setting up personal service companies to face lower tax. These latter groups represent a significant portion of capital gains. Low CGT rates are therefore a poor way to target

¹³ IFF Research. CGT Entrepreneurs' Relief: Behaviours and Motivations. HMRC Research Report MAY 2017. https://assets.publishing.service.gov.uk/media/5a81dadf40f0b6230269985d/HMRC_Report_456_CGT_ER.pdf

support for particular businesses. This has to be weighted against the benefits, particularly the significant boost to public coffers. As noted, this could fund the introduction of a new allowance to encourage investment, and raise additional funds for the government to invest on top. Even after introducing an investment allowance, equalising rates of CGT with income tax would be expected to raise £11.3 billion in 2026/27.

Modelling by Smith and Miller assesses the costs and benefits of CGT reform. They find that “reforms to the [CGT] base that remove the disincentive to inject equity are better targeted at investment than lower rates. In the UK setting, tax base reform combined with removing preferential CGT rates leads to higher tax revenue and investment.”¹⁴ This suggests that, overall, the increase in rates and introduction of an investment allowance would have positive effects for businesses.

The evidence suggests we should not feel pessimistic about how CGT reforms would harm investment or drive backlash among smaller businesses. As such, the SME reaction is unlikely to undermine public support for the change.

DEMOS TAX RISE 4

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

SMEs tend to overwhelmingly think an exit tax would be fairer than the existing approach (52% say it would be fairer vs 18% less fair).

Investors aim to make profits by buying assets that rise in value, and later selling them for a higher price. If a UK resident does this, they tend to pay CGT to the UK. However, if that resident moves abroad and then sells their asset (and does not return within six years) they do not pay any CGT to the UK, even though the gains accrued while they were a UK resident. If moving to a country without CGT, that individual could avoid paying CGT at all.

The ability to move abroad and bypass UK CGT is costing the public purse. Analysis by CenTax 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).¹⁵ This is bad for the UK’s fiscal situation, but also unfair. It provides substantial tax advantages, but only to those who are able to move abroad with their assets.

The UK’s system is also unbalanced. The principle underlying it is that (1) individuals are charged tax on all capital gains they realise while resident here, but (2) if they become resident elsewhere and then realise the gains, they are only liable to tax in their new country of residence. Yet, people who become resident in the UK from another country may not actually be liable to tax

¹⁴ 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>

¹⁵ 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 October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniPouxSummers2024_BusinessOwnersWhoEmigrate.pdf

on all capital gains. This is because gains on foreign assets are exempt for four years.¹⁶ This treatment means individuals can effectively 'rebase' their foreign assets during those four years (meaning only gains after that point are counted for tax purposes). Again, this creates unfairness in the system. It allows a tax advantage for investors who become a UK resident before realising their gains (as they can bypass tax on any gains occurring before they were a resident). In contrast, someone who bought their assets while resident in the UK would be taxed on all gains if then realising them in the UK.

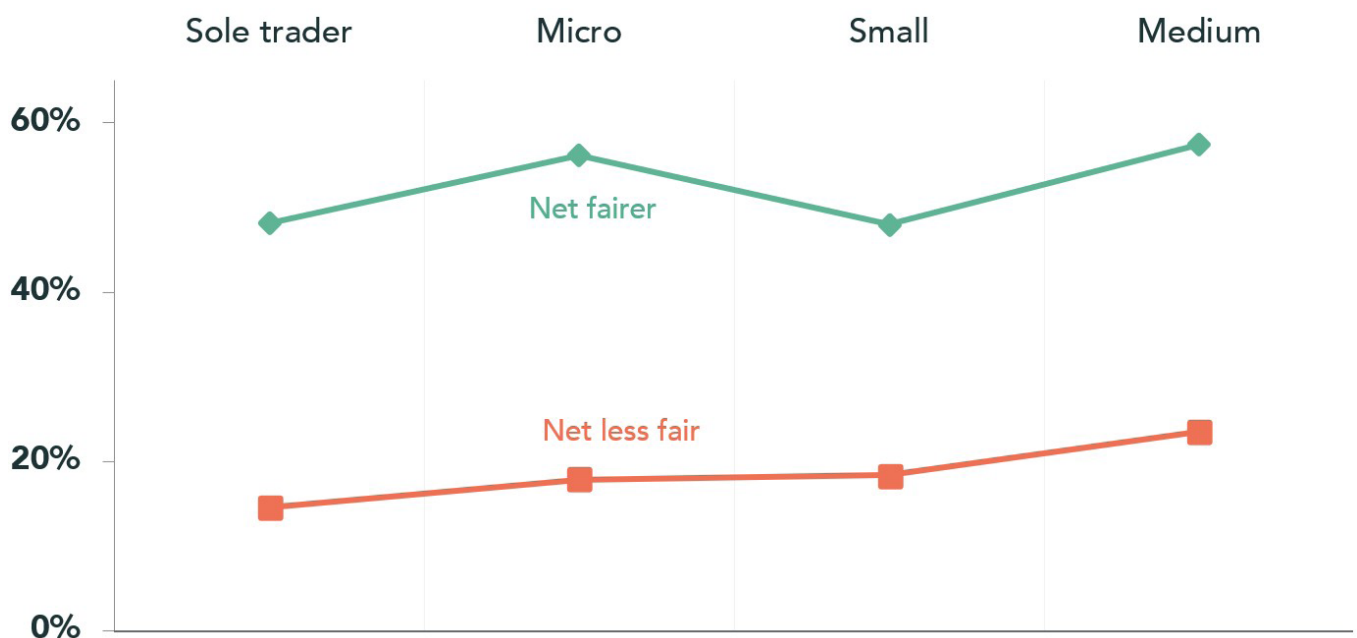
To address the unfairness, we recommend that the government rebases all capital gains when individuals become residents in the UK, meaning only gains made from that point count towards CGT. At the same time, they should introduce an 'exit tax', so that when an individual leaves the UK to become resident 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.

SMEs tend to agree this would be a fairer system. Overall, 52% think an exit tax and rebasing on arrival would be fairer than the existing approach, while 18% think it would be less fair. This finding is reasonably consistent across SMEs of different sizes. Businesses are particularly likely to think an exit tax and rebasing on arrival would be fairer if situated in the North (61% fairer vs 9% less fair) and if turning over £1-5 million (61% fairer vs 12% less fair) or over £5 million (62% fairer vs 19% less fair). With such widespread support among smaller businesses, this is likely to have benefits for public support - and, in turn, public trust.

FIGURE 6

SMEs tend to say that having an exit tax and rebasing on arrival would be fairer than the current approach

Views among SMEs on whether an exit tax and rebasing on arrival would be fairer or less fair than the current system. Net responses by business size



¹⁶ 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/>

DEMOS TAX RISE 5

INTRODUCE A PROPORTIONAL PROPERTY TAX ON HIGH VALUE PROPERTIES

Note, this section discusses the attitudes of wealthy investors rather than SMEs.

A YouGov poll in 2015 found that 55% of wealthy investors who currently own properties or land believed a mansion tax (a proportional property tax on homes over £2 million) would have no impact on their property investments, while another 43% say it would have little or no impact. Just 1% said that, should the plans come into effect, they would cut back on investing.

The UK's council tax system is notoriously flawed. With rates charged based on a mixture of property values from over thirty years ago (1992) and a crude system of bands, the tax is highly regressive. Alongside placing an unfair burden on residents in certain regions and lower-value homes, the current system incentivises developers to build more high-value properties, distorting the market. While a complete overhaul is needed, the political challenge of raising council tax for many households is clear. To take a positive step in the right direction while raising revenue to fill the fiscal hole, we propose that the government introduces a proportional 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.

A proportional tax on high value properties would affect small businesses who have investment in such high value properties. More specifically, however, it would affect property investors - and there may be concerns about the impact on their level of investment.

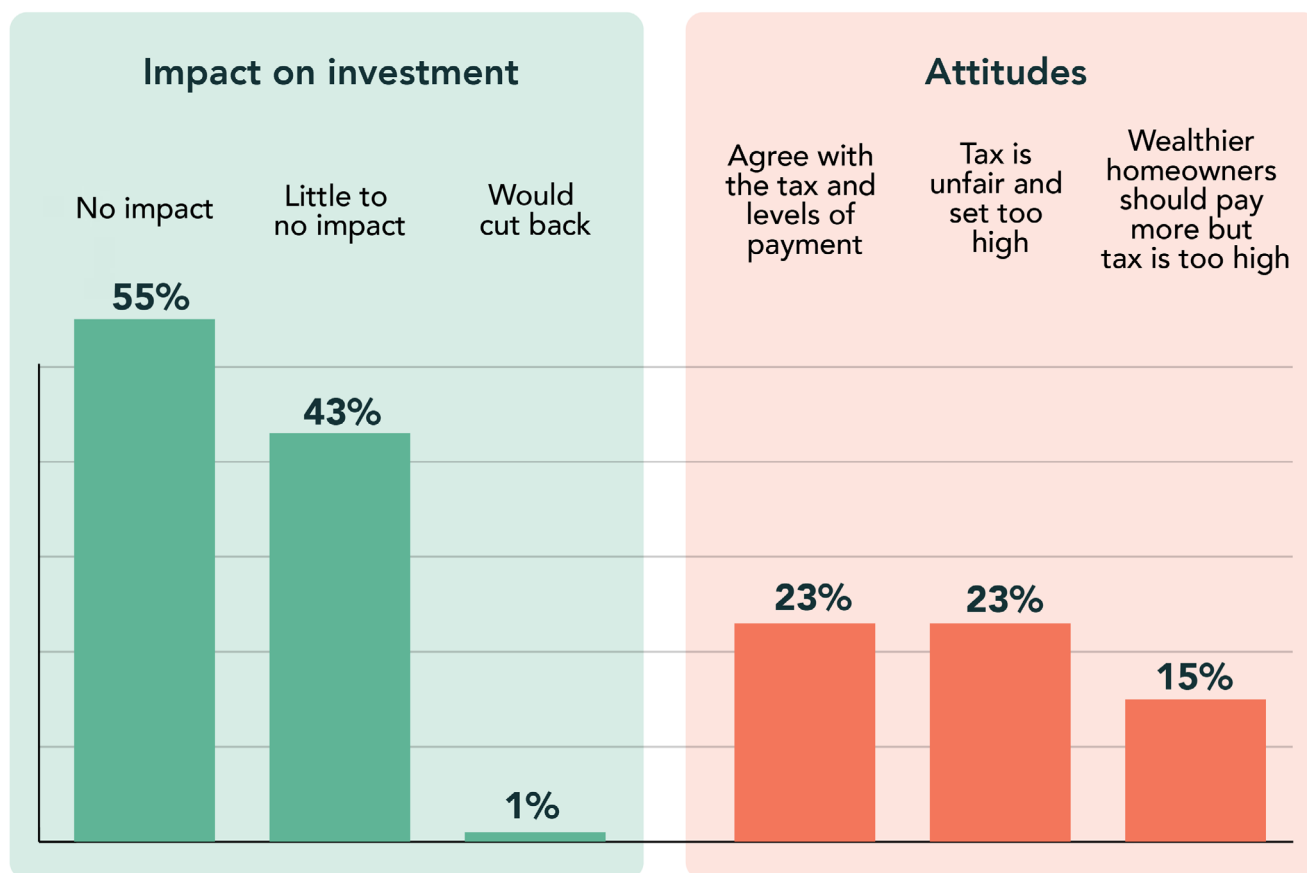
Yet, a 2015 YouGov poll of wealthy property or land investors, looking into proposals for a mansion tax (which align with our recommendations), suggests this would not impact investment decisions. It found that 55% believed the policy would have no impact on their property investments, while another 43% say it would have little or no impact.¹⁷ Just 7% state they would be less willing to invest and they fear that demand could fall. Just 1% said that, should the plans come into effect, they would cut back on investing. While the economic context has changed significantly since 2015, it suggests wealthy investors may not be prone to reducing their investments in response to a mansion tax. The finding should assuage concerns about the economic impact of the tax. In turn, we can expect this to make public support more resilient.

¹⁷ Farmer A. Stamp Duty and "Mansion Tax" unlikely to have much impact on wealthy property investors. YouGov. 24 April 2015. <https://yougov.co.uk/politics/articles/12161-stamp-duty-and-mansion-tax-unlikely-have-much-imp>

FIGURE 7

Investors who owned property expected the mansion tax proposal to have little impact on their property investments

Views on the impact and fairness of Labour's proposed mansion tax from 2015



While concerns about investment may be overstated, should we be concerned about backlash from wealthy investors? The YouGov poll suggests there would be some opposition to the tax, but it is not as significant as one might expect.¹⁸ When asked to choose between statements about the tax, just 23% said the tax is unfair. Another 15% said that while wealthier homeowners should pay more, the mansion tax is too high. But on the other side, 23% said they agree with the tax and the rate. This suggests there is actually net support for higher tax in general, although there is net opposition for tax at the rate proposed. While there could therefore be some criticism of a proportional property tax by wealthy investors - posing a challenge to public support - this criticism would be far from universal.

¹⁸ Farmer A. Stamp Duty and "Mansion Tax" unlikely to have much impact on wealthy property investors. YouGov. 24 April 2015. <https://yougov.co.uk/politics/articles/12161-stamp-duty-and-mansion-tax-unlikely-have-much-imp>

CONCLUSION

The success of the upcoming Budget hinges on the government's ability to tread a fiscal tightrope: raising essential revenue without undermining economic growth or public trust. This paper demonstrates that the government need not choose between these objectives.

Our analysis reveals that a package of carefully designed tax reforms - tackling inequities between landlords, partners, investors, and employees - can raise substantial revenue while building a tax system that is fairer, more efficient, and more transparent. Crucially, as the voice of Britain's small businesses makes clear, such a package is not just economically sound. It is also viewed as fundamentally fair by the very entrepreneurs who form the bedrock of our communities and economy.

The attitudes of SMEs, as captured in our survey, are decisive. They reveal a strong appetite for systemic fairness. A clear majority identify the existing tax advantages for certain asset classes and business structures as unjust, and support reforms that level the playing field. We also find little evidence that these specific reforms would trigger the concerning economic responses - such as reduced investment or hiring - that have driven backlash to previous Budgets. This suggests that policy designed with fairness and transparency at its core can secure the acquiescence, and even the support, of the business community.

However, good policy alone is not enough. As detailed in our report *Beyond the Headlines*, botched communication around inheritance tax for farmers serves as a stark warning.¹⁹ A failure to effectively explain the rationale for upcoming tax changes could entrench the very mistrust the government seeks to overcome. The narrative must be compelling and consistent. Reforms should be framed not as a necessary evil, but as a fair choice for a stronger economy. The government should emphasise that the changes are fundamentally about reducing the tax advantages that only some types of business are allowed to benefit from, while supporting the productive enterprise and hard work that small businesses represent.

The government is presented with a rare opportunity. It can choose a path of short-term political ease, which could stifle growth and alienate business. Alternatively, it can embrace the strategic course laid out in this paper. In doing so, it could **catalyse a virtuous cycle where increased public trust fosters business confidence, and business confidence drives the investment and growth that will secure Britain's economic future**. The evidence is clear; the moment for a smarter, fairer approach to tax has arrived.

¹⁹ <https://demos.co.uk/research/beyond-the-headlines-the-full-story-of-the-2024-inheritance-tax-reforms-and-lessons-to-learn/>

ANNEX

TAX REFORMS

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).

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.

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'.

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.

PROPOSAL FIVE

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.

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