

DEMOS

FUNDING THE FUTURE

POPULAR, PRO-GROWTH TAX
RISES TO FUND SPENDING
ON SOCIAL CARE, COUNCIL
HOMES AND SUPPORT FOR
YOUNG FAMILIES

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A CITIZEN BUDGET 2026

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ABOUT THIS PAPER

Demos is Britain's leading cross-party think tank. Our mission is an upgraded democracy, with a new deal to mend the broken relationships between state, institutions and citizens. Our work focuses on building trust in democracy, person-centred and preventative public services, resilient information ecosystems and a citizen-centric economy.

For decades, economic policy has been limited by short-termism and top-down, lever-based policies which fail to drive national system-change. Demos now aims to build a '**Citizen Economy**' - one which strengthens the public legitimacy needed for long-term decisions, and engages with questions of culture, social relationships, pride and place to unlock economic systems-change. The tax system is central to this diagnosis. A lack of public legitimacy has prevented successive governments from making the bold changes needed for a fairer, simpler, pro-growth tax system.

The 2026 Budget provides an opportunity to turn the dial. While calls for a perfectly efficient tax system are important, we cannot overlook the political constraints. A perfectly efficient tax system requires building public legitimacy for bold reform. This Demos series, **A Citizen Budget 2026**, lays out how the government can build that legitimacy through pro-growth tax reforms.

This paper turns to the other side of the ledger: how the government can fund the biggest structural spending commitments it faces - social care, council housing and support for young families - in ways that build rather than erode that legitimacy.

CONTEXT

The new government has big ambitions to address social needs of the future, but has not yet laid out how it will fund them. The new Prime Minister has promised to develop a National Care Service, funded through adjustments to the pension triple lock - but the savings will only build up gradually, raising just £4 billion by 2035.^{1,2} This would not even cover the cost of extending the Scottish system to England by 2035 (free personal care to anyone in their own homes who needs it, and a contribution towards personal care costs for anyone in care homes), which would cost around £7.5bn.³

Burnham also set a high ambition on council house-building, but faces an £800 million annual funding shortfall.⁴ And young parents face a myriad of pressures - high house prices, high childcare costs, low savings, and pressures on entry-level job opportunities - which the government should help ease.

Popular, pragmatic, pro-growth tax reforms are critical to help fund social care, council housing and support for young families, but the government must build public legitimacy for these specific spending commitments. Two principles from our previous work are especially important here. First, the public wants to see the tax burden shifted onto wealth rather than work: 58% would rather see the tax burden shifted towards income from wealth, against just 11% who would prefer it shifted towards income from work - a finding that holds consistently across supporters of every political party.⁵ Second, legitimacy is built when the public can see a clear and fair link between what is being taxed and what it funds.⁶

Building on these insights, we propose three tax reforms - each targeted at a specific, high-value pool of wealth and introduced explicitly to support investment in social care, council housing and childcare for young families respectively. When we tested the tax rises and associated spending in a nationally representative survey, all three reforms were seen as making the tax system fairer.

- 1. Funding the National Care Service:** expand the existing mansion tax, increasing the rates and increasing the progressivity between bands, raising £1bn to scale-up the National Care Service at a faster pace.
- 2. Funding council house-building:** replace both stamp duty and council tax with a single proportional property tax, to raise £5.6 billion to support council house building (plus raise an additional surplus).⁷
- 3. Funding free childcare:** limit the lump-sum pension allowance for high-value pension pots, raising around £1.4bn to expand funding for free childcare for working parents.

1 Prime Minister's Office, 10 Downing Street, 'Prime Minister Andy Burnham sets out plans for a new National Care Service', GOV.UK, 29 September 2026, <https://www.gov.uk/government/news/prime-minister-andy-burnham-sets-out-plans-for-a-new-national-care-service>

2 Chu B. 'Could changing the pension triple lock pay for Burnham's big social care plan?'. BBC. 29 September 2026. <https://www.bbc.co.uk/news/articles/c63reg9dnex9o>

3 Hugh Alderwick and Lucinda Allen, 'Social care funding: options for reform', The Health Foundation, 24 July 2026, <https://www.health.org.uk/features-and-opinion/blogs/social-care-funding-options-for-reform>

4 Hannah Aldridge, Housing Outlook Q3 2026, Resolution Foundation, 24 July 2026, <https://www.resolutionfoundation.org/publications/housing-outlook-q3-2026/>

5 Dan Goss, Solving the Tax Puzzle: Eight popular, pragmatic, pro-growth tax reforms to plug the fiscal hole, Demos, September 2025, demos.co.uk/wp-content/uploads/2025/09/Solving-the-tax-puzzle_report_2025_Sept.ac_.pdf

6 Dan Goss. Winning the Argument. Demos, September 2023, https://demos.co.uk/wp-content/uploads/2023/09/Winning-the-Argument_IHT-Cluster-Report_Final.pdf

7 The £5.6 billion figure is taken from Fairer Share's analysis. Fairer Share. Press Release: Fairer Share calls on Government to go further on council tax reform. 23 June 2025. <https://fairershare.org.uk/press-release-fairer-share-calls-on-government-to-go-further-on-council-tax-reform/>

The public backs each reform, with support strongest of all for the mansion tax expansion: 51% think it would make the tax system fairer against just 13% who disagree, a net of +38 percentage points.

PROPOSAL 1

AN EXPANDED MANSION TAX TO HELP FUND THE NATIONAL CARE SERVICE

Proposal: Expand the existing mansion tax, increasing the rates, and increasing the progressivity between bands, raising £1bn to help fund the National Care Service

Reason: Andy Burnham has promised to introduce a National Care Service. Current plans explain that personal care for older people will be free, but the full details will come after Baroness Casey's independent Commission makes its recommendations. The National Care Service should, at a minimum, seek to offer support in England equivalent to what is offered in Scotland. Unlike the means-tested system in England, the Scottish system offers free personal care to anyone in their own homes who needs it, and a non-means-tested contribution towards personal care costs for people in care homes. Extending this to England would cost around £7.5 billion by 2035/36. The adjustment to the triple lock on pensions, meanwhile, will raise only £4 billion by 2035. While the National Care Service will be built up in phases, the quicker the better. More revenue is needed to scale up the National Care Service at a quicker pace.

In 2025, the government announced a 'high-value property tax' (often referred to as the 'mansion tax') - an additional council tax payment for homes over £2 million to begin in 2028. Re:State proposed an expanded high-value property tax as an option for funding a social care insurance transition, drawing on Demos's analysis, and we reassert it here as the best available option for Burnham's National Care Service.⁸

An expanded 'mansion tax' is well suited to help deliver that additional revenue boost and speed up delivery of the National Care Service because:

1. People with large amounts of property wealth face the greatest risk of having to draw down large amounts of that wealth to pay for their own social care (whereas people with lower amounts of property wealth are more likely to benefit from public funding for their care) and so stand to benefit most from a fully state-funded system.
2. High property wealth tends to accrue among older people, who are likely to benefit most from free social care in the near-term.
3. High levels of property wealth provide people with a means to pay the tax. If the homeowner has a low income, the tax can be deferred and then paid out of their property wealth upon sale or when passed in inheritance.

Early evidence provides no indication that anticipation of the mansion tax is impacting the property market any more than was expected by the Office for Budget Responsibility.⁹

⁸ Alice Semark and Dr Simon Kaye. Beyond caring: a new funding model for later-life social care. Re:State. April 2026. <https://re-state.co.uk/wp-content/uploads/2026/04/Beyond-caring.pdf>

⁹ Dan Neidle, 'What effect is the mansion tax having on house prices?', Tax Policy Associates, 22 September 2026, <https://taxpolicy.org.uk/2026/09/22/mansion-tax-impact-on-house-prices/>

The mansion tax as currently designed applies relatively low rates, and – like council tax itself – becomes less demanding, not more, as the most valuable properties rise further in value. It charges a flat annual amount within each of four bands, rising from £2,500 for homes worth £2.0-2.5 million to a maximum of £7,500 for any home worth more than £5 million, with no further bands above that.¹⁰ This creates substantial regressivity within the bands, and regressivity between bands. Homes worth just over £2.5 million pay 0.7% as a percentage of their house value over £2m, compared to 0.23% for homes just under £3.5 million (in the same band), and 0.17% for homes just under £5 million (in the band above).

TABLE 1

Current mansion tax charges

PRICE BAND	TAX CHARGE	CHARGE AS A % OF VALUE OVER £2M
£2.0m – £2.5m	£2,500	N/A - 0.5%
£2.5m – £3.5m	£3,500	0.7% - 0.23%
£3.5m – £5.0m	£5,000	0.33% - 0.17%
Over £5.0m	£7,500	0.25% - N/A

The rates are lower, and the threshold higher, than the comparable tax in France - the *Impôt sur la fortune immobilière* (real estate wealth tax). France's tax applies a progressive charge on net real estate assets above €1.3 million, with marginal rates rising from 0.5% to 1.5% for the wealthiest property owners. In 2024, it raised €2.2 billion, and was charged to 186,000 households, compared to the expected £400m for the UK counterpart.¹¹

Given the efficiency of the tax, and the perceived fairness, the government should seek to raise more revenue from mansion tax by raising the rates. The alternative option - reducing the threshold - would also be desirable, but involves valuing many more homes. Raising the rates avoids this additional administrative burden. The government should also aim to reduce the regressivity in the tax by both increasing the number of bands (thereby making each band smaller), and increasing the progressivity across bands.

To fulfil the above conditions, we propose the government introduce the charges below for the mansion tax, raising around £1bn.

TABLE 2

Proposed mansion tax charges

PRICE BAND	TAX CHARGE	CHARGE AS A % OF VALUE OVER £2M
£2.0m – £2.5m	£2,500	N/A – 0.5%
£2.5m – £3m	£5,000	1.0% – 0.5%
£3m – £3.5m	£10,000	1.0% – 0.67%
£3.5m - £4m	£15,000	1.0% – 0.75%
£4m - £4.5m	£20,000	1.0% – 0.8%
£4.5m - £5m	£25,000	1.0% – 0.83%
Over £5m	£30,000	1.0% - N/A

¹⁰ HM Treasury, Autumn Budget 2025: Policy Costings, 26 November 2025, p.51, assets.publishing.service.gov.uk/media/692872fd2a37784b16ecf676/Budget_2025-Policy_Costings.pdf

¹¹ French Republic. DGFIP Statistiques: L'impôt sur la fortune immobilière en 2024. 15 avril 2025. <https://www.impots.gouv.fr/dgfipstatistiques-limpot-sur-la-fortune-immobiliere-en-2024>

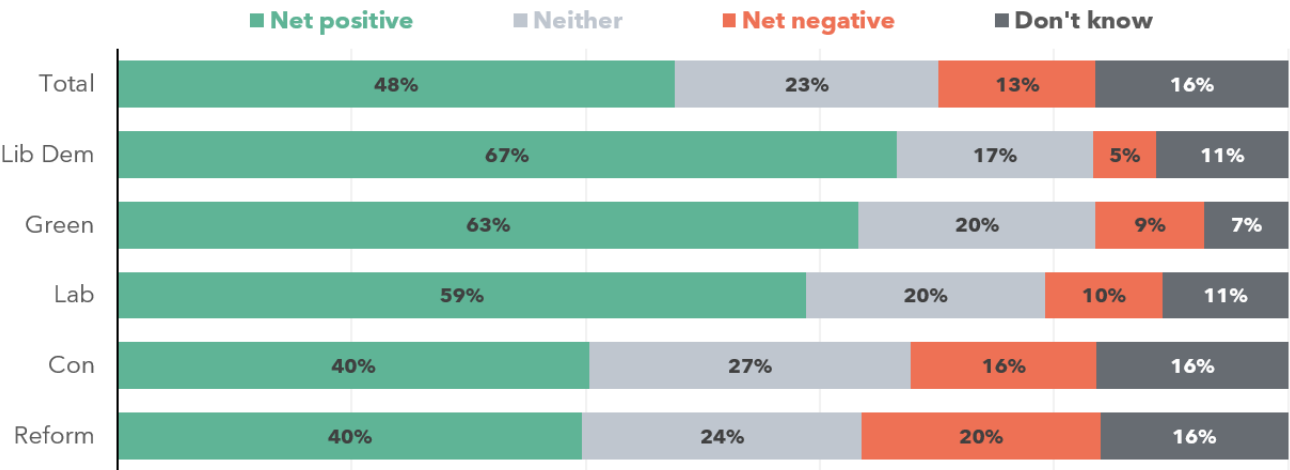
Evidence - public attitudes: In August 2026, we polled the public on an expansion in the mansion tax - charged at 1% over £2m and 2% over £3m - to help fund a social care insurance system. This was a simpler design than the banded schedule proposed above, and was framed around a social care insurance system rather than the National Care Service, but it tests the same principle: higher charges on the most valuable homes, used to fund social care.

The public expressed broad support. Almost half of the public (48%) thinks expanding the mansion tax to fund a social care insurance system would make the tax system fairer, against just 13% who disagree - a net of **+38 percentage points**. Support remains clearly positive among people intending to vote Conservative (+24pp) and Reform UK (+20pp), and is substantially higher among people intending to vote Labour (+49pp), Green (+54pp) and Lib Dem (+62pp). The reform also builds favourability towards the government across the political spectrum.

CHART 1

An expansion in the mansion tax receives support from across the political spectrum

Views on whether expanding the existing mansion tax, charging 1% over £2 million and 2% over £3 million, to help fund a new social care insurance system would make the tax system more or less fair

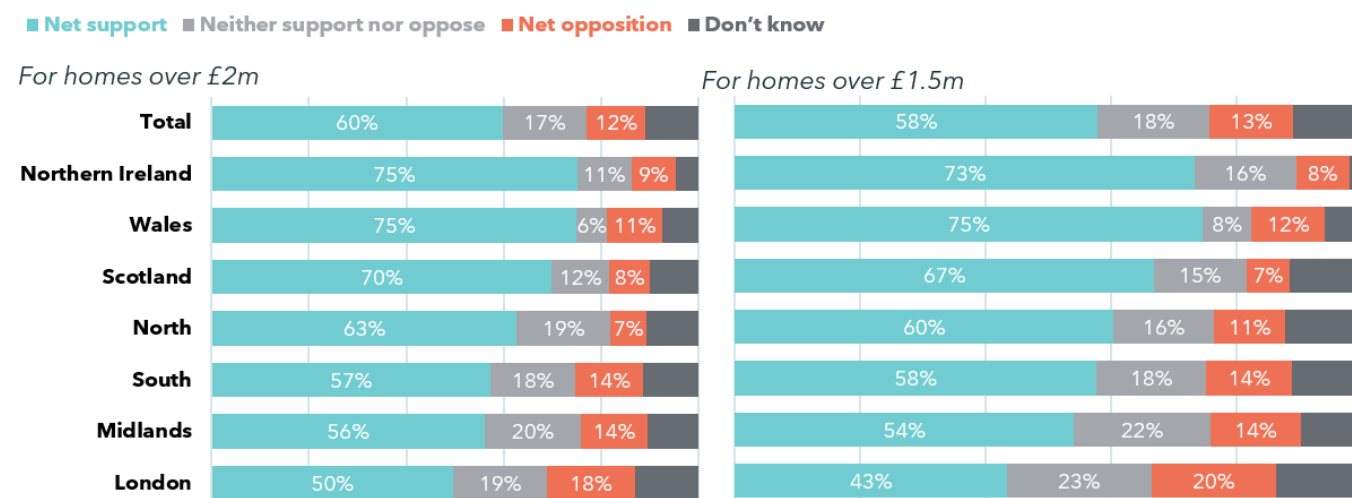


In 2025 - prior to the introduction of the mansion tax - we also tested the tax at different thresholds. Support does not vary substantially between a tax on homes over £2m vs one over £1.5m - and all UK regions are, on balance, strongly supportive of both options.

CHART 2

Support for a mansion tax does not vary substantially between a £1.5m and £2m threshold

Views on council tax levy for high value homes at different thresholds, by region



PROPOSAL 2

REPLACING STAMP DUTY AND COUNCIL TAX WITH A PROPORTIONAL PROPERTY TAX TO FUND COUNCIL HOUSE BUILDING

Proposal: Replace stamp duty and council tax with a single, comprehensive proportional property tax, with a small revenue gain explicitly hypothecated to council house-building.

Reason: Council tax is a broken tax. Rates of council tax are determined based on the value of properties in 1991, and for properties built since then, the rates are based on what the property *would have been worth* in 1991. Not only is there no good reason why council tax is based on economic conditions 35 years ago (or hypothetical scenarios about economic conditions 35 years ago), but it contributes to regressivity within the system. A typical £100,000 property pays council tax worth around 0.7% of the property price, compared to 0.23% for a £1 million property.¹² Relative to house prices, properties in London and the South East tend to pay lower rates of council tax than elsewhere, while the North pays higher rates.

Stamp duty land tax is another broken tax. In charging tax on the full value of a house each time it is sold, stamp duty discourages property transactions. This makes it harder for growing families to move to more suitable homes and disincentivises downsizing which could otherwise free up housing space. The Centre for London estimates that removing stamp duty would unlock 79,000 homes each year.¹³

¹² Based on 2019 data. 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/revaluation-and-reform-bringing-council-tax-england-21st-century>

¹³ Centre for London, 'Abolish Stamp Duty and Council Tax and replace it with a proportional property tax, to double social housebuilding annually, new report finds', May 2026, <https://centreforlondon.org/news/abolish-stamp-duty-council-tax-replace-proportional-property-tax/>

Replacing both with a single tax proportional to current property values would make property taxation fairer and more efficient. A modest additional revenue gain, explicitly hypothecated to council house-building, would simultaneously help close Burnham's £800 million annual funding shortfall for his house-building targets.

Precedent: While successive UK governments have shied away from wholesale reform of property tax, other countries have taken action. The Australian Capital Territory has, since 2012, been phasing out stamp duty entirely over a 20-year transition in favour of a broad-based, value-based annual property tax.¹⁴ New South Wales went further in 2023, briefly allowing first-time buyers to opt into an annual property tax instead of stamp duty.¹⁵ In 2013, Ireland built an annual property tax from scratch: its Local Property Tax is self-assessed and has achieved compliance of around 97%.¹⁶ In 2024, Hong Kong scrapped its additional stamp duties on non-resident buyers, second homes and short-term resales, while introducing a new progressive annual charge on high-value residential properties, representing around 2% of homes.¹⁷ These cases demonstrate that a shift away from a transaction-based tax and/or to a modern, proportional property tax is deliverable.

Evidence - public attitudes: Replacing council tax and stamp duty with a proportional property tax charged at 0.5% of house value, with the extra revenue funding council house-building, has clear net public support: 31% think it would make the tax system fairer against 22% who disagree - a net of +10 percentage points. Support is strongest among Labour (+24pp), Green (+28pp) and Liberal Democrat (+21pp) supporters, while Conservative supporters are roughly split (-0.5pp) and Reform UK supporters lean opposed (-8pp). On net, people in all regions think the change would make the tax system fairer bar London (where the results are evenly split), Northern Ireland and Wales.

14 Brendan Coates, 'Abolish stamp duty: the ACT shows the rest of us how to tax property', Grattan Institute, 20 October 2016, grattan.edu.au/news/abolish-stamp-duty-the-act-shows-the-rest-of-us-how-to-tax-property/.

15 Revenue NSW. First Home Buyer Choice. <https://www.revenue.nsw.gov.au/grants-schemes/previous-schemes/first-home-buyer-choice>

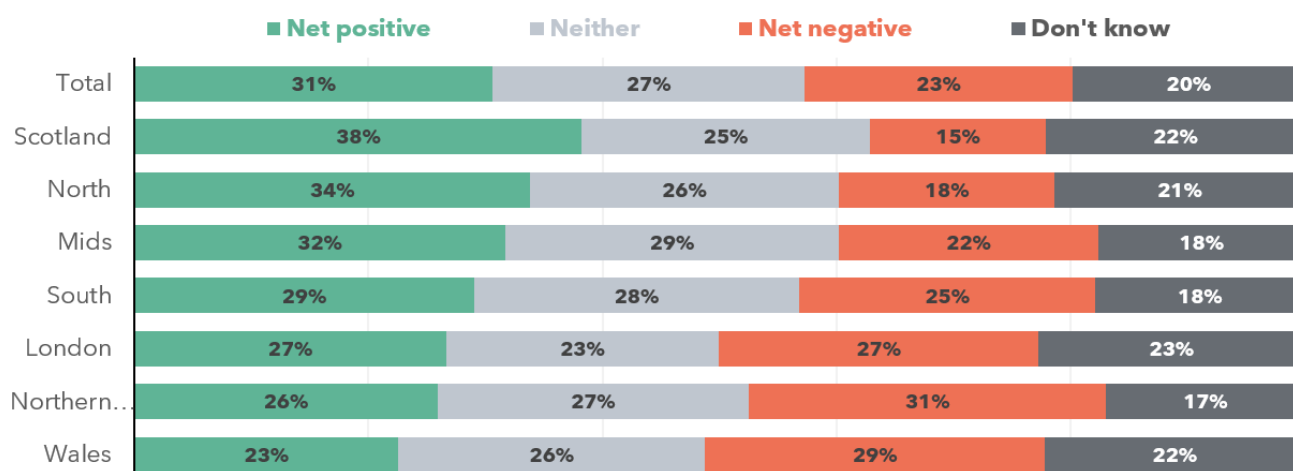
16 Institute on Municipal Finance and Governance, The Irish Story, 25 May 2022, https://imfg.org/uploads/592/imfg_the_irish_story_may_25_2022.pdf

17 Tracy Chan. Proposed tax measures in Hong Kong's 2024-25 Budget that HR should know. Human Resources Online. 4 March 2024. <https://www.humanresourcesonline.net/proposed-tax-measures-in-hong-kong-s-2024-25-budget-hr-should-know>

CHART 3

Replacing council tax and stamp duty with a proportional property tax receives net support from almost all UK nations and regions

Views on whether replacing council tax and stamp duty with a proportional property tax charged at 0.5% a year to help fund council house building would make the tax system more or less fair



PROPOSAL 3

LIMITING THE TAX-FREE ALLOWANCE FOR HIGH-WEALTH PENSIONS TO FUND FREE CHILDCARE FOR WORKING PARENTS

Proposal: Limit the amount of pension withdrawals that benefit from tax-free lump-sum pension relief, from £1,073,100 to £500,000, to fund an expansion in free childcare hours for working parents.

Reason: The taxation of pensions is in need of wide-ranging reform. As the IFS has noted, employer pension contributions are completely exempt from Employee and Employer NICs, providing substantial tax benefits to income put into pensions over income spent before pension age.¹⁸ Pension wealth is also exempt from inheritance tax - although that will be brought into scope from 2027 onwards. And individuals are given a 25% income tax allowance on up to £1,073,100 of pension withdrawals - meaning up to £268,275 of pension withdrawals exempt from income tax entirely.

Our proposal focuses on that last benefit, referred to as 'lump-sum pension relief'. We propose limiting the amount of withdrawals benefiting from this relief to £500,000, meaning the first £125,000 could be withdrawn tax free. Limiting the relief further, to £400,000 (meaning the first £100,000 is able to be withdrawn tax free), would raise an estimated £2 billion a year for the public purse in the long run.¹⁹ Our proposed £500,000 threshold is more generous: Demos estimates it would raise around £1.4 billion a year in the long run.²⁰

¹⁸ 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>

¹⁹ Adam S et al. Raising revenue from reforms to pensions taxation. Institute for Fiscal Studies. 11 September 2024. <https://ifs.org.uk/articles/raising-revenue-reforms-pensions-taxation>

²⁰ Demos analysis. We take the IFS estimate that a £100,000 cap would raise £2bn in the long-run, and scale that to a £125,000 cap. Assuming that tax-free lump sums above £100,000 follow a Pareto distribution, across plausible distributions the estimated revenue for a £125,000 cap ranges from £1.26 billion to £1.55 billion. The estimate does not account for behavioural responses, which would likely reduce the revenue.

Reducing relief is an especially attractive amendment to the tax system for two reasons. First, only around 20% of pensioners have pension pots over £400,000 - and we estimate that only around one in eight retirees would be affected by our £500,000 threshold - so a significant share of the benefit currently goes to a small, wealthy minority.²¹ Second, because the relief removes all income tax from the withdrawal, it provides a much larger benefit to those in higher income tax bands - who would otherwise pay 40% or 45% on that income - than to basic-rate taxpayers, who would otherwise pay only 20%.

An expansion in free childcare should be a priority for this funding. Following expansions in 2024 and 2025, working parents of children between 9 months and 4 years old are generally entitled to 30 hours per week of free childcare (for 38 weeks each year). Yet, parents currently face a cliff-edge, losing all entitlement if one parent earns over £100,000. This causes people to suppress their income; the Centre for the Analysis of Taxation (CenTax) estimates that, by 2030, around 12,000 parents will be suppressing their income under £100,000 as a result of this policy.²²

The Conservatives have proposed removing the income cap on free childcare entirely, at an expected cost of £700 million per year.²³ We propose that the government should instead gradually taper away the entitlement, rather than removing it all at once. CenTax estimates that a taper deducting 8 pence from the entitlement for each pound earned over £100,000 would cost around £320 million by 2030. At a substantially lower cost than full removal, a taper would capture most of the pro-growth benefits from reforming the income cap; while removing the cap entirely would drive a £210 million boost to public revenues by 2030 as people increased their income above £100,000, the taper would drive a £170 million boost.

The government should direct the revenue from limiting lump-sum pension relief from large pension pots to support this pro-growth policy. The government could then distribute the surplus revenue as needed.

Precedent: Many OECD countries tax pension income entirely, or almost entirely. Sweden and Norway tax pension withdrawals as normal income, without any relief.²⁴ In Canada, withdrawals from a Registered Retirement Savings Plan or Registered Retirement Income Fund are taxable in full as ordinary income, subject only to a small tax credit on the first \$2,000 of qualifying pension income.²⁵ Capping the UK's relief on pension withdrawals at 25% up to £500,000 would move us closer to those countries while retaining a far more generous system.

Evidence - public attitudes: Our proposal is more specific than the policy we tested in our polling, but the polling nevertheless provides a useful indication of public attitudes.

The public are more likely to think that limiting lump-sum pension relief to fund an expansion in free childcare would make the tax and spending system fairer, at 30% against 20% who disagree, a net of +10 percentage points. Net support is consistent across all age groups, but particularly concentrated amongst under 35s. As with the property tax reforms, support is concentrated on the political left and centre, and turns narrowly negative among Conservative

21 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>

22 Arun Advani, Josh Flew, Jack Pepin-Hall and Andy Summers, *Removing the £100,000 childcare cliff-edge: Impacts and cost of reform*, Centre for the Analysis of Taxation, September 2026, https://centax.org.uk/wp-content/uploads/2026/09/AdvaniFlewPepin-HallSummers2026_Removing-the-childcare-cliff-edge.pdf

23 Becky Morton and Kate Whannel, 'Badenoch unveils plan to end £100,000 childcare 'cliff edge' ahead of Tory conference', BBC News, 3 October 2026, <https://www.bbc.co.uk/news/articles/cmn06l362ypeo>

24 OECD, Financial Incentives and Retirement Savings, OECD Publishing, December 2018, Table 2.3, https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/12/financial-incentives-and-retirement-savings_g1g96ed9/9789264306929-en.pdf

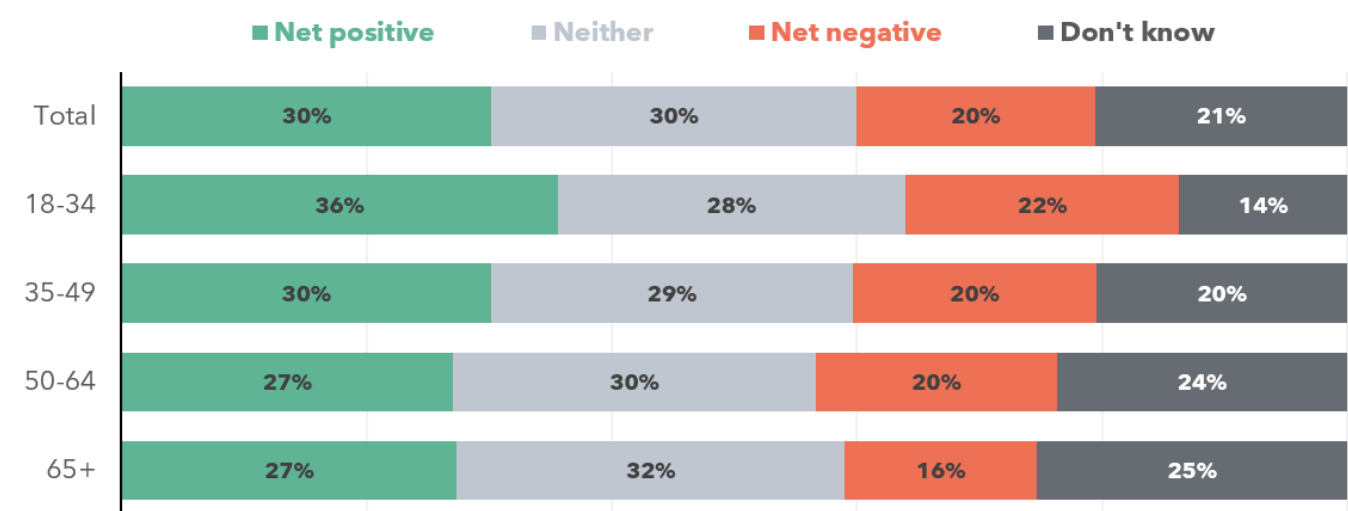
25 Jason Heath, "How RRIF withdrawals work when you have multiple registered accounts", MoneySense, 3 March 2025, <https://www.moneysense.ca/?p=348903>; Canadian MoneySaver, "How is your income taxed in retirement?", <https://canadianmoneysaver.ca/articles/3494>

supporters. There is, however, net opposition to removing the cap entirely: in October 2026, 45% of the public opposed removing the cap on free childcare, against 38% who supported it.²⁶

CHART 4

All age groups think, on balance, that limiting tax relief on pension incomes to fund an expansion in childcare for young parents would make the system fairer

Views on whether limiting tax-free pension withdrawals to £125,000 to fund an expansion in free childcare would make the tax and spending system more or less fair, by age



26 YouGov, 'Would you support or oppose removing the cap on free childcare, so all working parents are able to access free childcare?', Daily Question, 5 October 2026 (5,125 GB adults), <https://yougov.com/en-gb/daily-results/20261005-6ec94-2>

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