

## Liberal Democrats and tax

With its party conference over, what do we now know about LibDem tax policy?

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Let's begin by explaining why we are even considering the policies of the LibDems, a party that has just fifteen MPs, four of whom entered parliament in by-elections since 2019.

The answer starts with the current make up of House of Commons, which according to [parliament website](#) consists of 352 Conservative MPs and 196 Labour MPs out of a total membership of 650. Allowing for the non-voting Speaker, their deputies and non-sitting Sinn Féin MPs, Sir Kier Starmer needs to win 123 seat to gain an overall majority. The 1997 Blair landslide saw Labour gain 146 seats.

Current polling (44.7% on average) gives Labour a gain of 217 seats according to [ElectoralCalculus](#). However, with a 90% confidence interval the range is between 115 and 323.

With probably at least six months before the next election – Spring is gaining in popularity – there is time for the polls to move significantly. Labour's current theoretical majority is just that – theoretical. If, as the LibDems hope, their party can double its parliamentary representation, they might end up holding the balance of power with those 30 seats. The question of whether they party would go into coalition will be one that runs through until polling day, but it is a fair bet that were the LibDems a kingmaker, any accommodation that they reached would not be with their previous coalition partners.

The LibDems' conference was presented with a [Pre-Manifesto Policy Paper](#) which was passed with half a dozen minor amendments.

On tax and spending...

- The party has abandoned the pledge to add 1p to income tax, which had been part of LibDem policy since 1992. In the last election the money raised by the measure was earmarked for NHS and social care, but different policy objectives have been the focus of the extra 1p in previous elections.

The move is seen as driven by politics. Labour is saying that it will not raise tax rates and the seats which are the LibDems' prime targets are mainly in the 'Blue Wall', an area of the country that has already suffered from the Conservative's income tax policy. The same Blue Wall sensitivity can be seen in the disappearance of any LibDem plans to rejoin the EU.

- The proposed replacement for the lost additional income tax revenue (about £9bn) is 'a proper, one-off windfall tax on the super-profits of oil and gas producers and traders' to help people with the cost of living and their energy bills. There are no details, but as Mr Sunak has discovered, super-profits are a slippery concept and can disappear with market movements.

- Taxing them is no substitute for the near guaranteed flow of income tax. The LibDems also say their version is 'one-off', which suggests a single year, although the government's Energy Profit Levy lasts until 31 March 2028.
- The Policy Paper talks about 'fair taxes' but contains relatively little detail...
  - The 'Conservatives' tax cuts for big banks' would be reversed. This presumably means that the banks' corporation tax surcharge would return to 8%, having been cut to 3% in April 2023 when the main rate of corporation tax rose from 19% to 25%.
  - The 'separate Capital Gains tax-free allowance' would be abolished, a measure also in the 2019 manifesto. Since then, Mr Hunt's attack on the annual exempt amount has somewhat spiked the LibDem's guns. There is no suggestion of changing CGT *rates*, a move Rachel Reeves has said she does not have plans to implement.
  - As usual in any manifesto, there are promises of 'clamping down on tax avoidance and evasion, narrowing the tax gap, and giving HMRC more resources to properly tackle tax fraud.'
- On government finances, Saint Augustine continues to rule: 'We will make sure that day-to-day spending does not exceed the amount of money raised in taxes *over the medium term* [our italics], with additional flexibility during periods of economic crisis.' That wording implies that government borrowing will be used to fund investment, echoing Labour's plans.

### **Comment**

Such detail as did emerge at the LibDem's conference shows that the party would have few difficulties agreeing with Rachel Reeves' current policies.

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