Tax and the next election

Synopsis: What we know so far about the future tax plans of the two main parties, which is not a lot...yet.

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The latest date for the next General Election is 24 January 2025, a timing dictated by a Parliament's maximum term of five years. There is little expectation that the election will occur then, not least because it implies a campaign running over the Christmas holiday season followed by trying to charm the electorate out to polling stations in mid-Winter.

That is not to say a January poll is impossible. If Mr Sunak sees only the chance of massive defeat in 2024, he might choose to hang onto power for as long as the law allows. However, such a delay runs its own risk of an electorate taking its final revenge. So, except in extremis, it is best to assume an election some time in 2024.

Summer or autumn are the current bets, but the timing may well be dictated by economic conditions and prospects – any guess made today is just that.

What tax policies the parties will offer to the electorate is the subject of this paper. At this early stage, here are some first thoughts...

- For now, anything that is said by any politician deserves to be treated with a degree of scepticism. We will not know the definitive party lines until the manifestos appear. Typically, that does not happen until the final month of the General Election campaign. In 2019, when the election was held on 12 December, the Labour manifesto emerged on 21 November, with the Conservative's appearing three days later.

- Although politicians will enjoy referencing their opponents' 2019 manifestos until the new ones appear, those documents have no relevance to 2024 and beyond. Just consider the 2019 contestants: Boris Johnson (no longer an MP) and Jeremy Corbyn (no longer even a member of the Labour Party).

- The March 2023 Budget kicked some difficult tax and spending issues out to beyond the next election. As the Institute for Fiscal Studies noted back in the spring, *'Spending plans for after 2025 ... will see day-to-day public service funding grow by around 1% per year in real terms, and investment budgets frozen in cash terms. Sticking to them while increasing the NHS budget and delivering on the new ambition to boost defence spending to 2.5% of national income will require a squeeze on other areas.'*

- Both Kier Starmer and his Shadow Chancellor, Rachel Reeves, have committed to 'iron' fiscal rules that say their Government would borrow only to invest. This is virtually the 2023/24 fiscal position according to the Office for Budget Responsibility (OBR) calculations: total public sector current receipts are projected to be 41.1% of GDP and total public sector current expenditure, 41.0%. The UK's tight financial situation has already prompted Reeves to wind back on her original Bidenomics-style Green Prosperity Plan of borrowing £28bn a year until 2030 for green projects. She now says it will ramp up to the £28bn figure after 2027.

- Labour is vulnerable to Conservative accusations that it is a tax-and-spend party – as amply demonstrated by the 2019 manifesto. In response, some commentators see Starmer and Reeves quietly mirroring the Blair/Brown approach of 1997 and aiming to match the Conservative's spending plans.

- To date Reeves has only mentioned a small number of targeted tax increases, none of which are significant revenue-raisers…
  - the ending of the non-domicile rules;
  - treating carried interest as earned income rather than capital gain;
  - the removal of the charitable status for private schools; and
  - the reinstatement of the lifetime allowance rules (in response to the Budget announcement).

In a recent interview with the Financial Times Reeves said that she had "no plans" to align capital gains tax (CGT) rates with income tax rates or to restrict relief for high earners' pension contributions. This positioning appeared to contradict her earlier statements about increasing taxes on wealth.

In a July interview with the Financial Times Jeremy Hunt ruled out a big pre-election tax cuts, saying that his focus was on reducing inflation, one of Mr. Sunak's five pledges. That said, the Chancellor may have some wriggle room when he gives the Autumn Statement because of the way his fiscal rules work. Hunt's target of having debt falling as a proportion of GDP at the end of five years operates on a rolling year basis.

The next OBR Economic and Fiscal Outlook will project through to 2028/29 whereas the spring version ran to 2027/28. The change would allow Hunt to make the 2027/28 debt numbers worse (e.g. via tax cuts), provided 2028/29 fits the rules (e.g. by future tightened spending).

If that sounds fanciful, it is not – experts see such a sleight of hand as the reason why the 100% capital allowance reform announced in March was limited to three years.

One possibility that cannot be completely ignored, despite last autumn's Kami-Kwasi experience, is that Hunt is replaced in a Cabinet reshuffle by someone more willing to cut taxes.

Last month's rumours about inheritance tax (IHT) abolition may be a straw in the wind (or just kite flying), but it is notable that they were soon replaced by a post-Uxbridge attack based on green issues.

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Comment

The party conferences, probably the last set before the election, should provide some steer on manifesto contents.

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