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Another think tank paper

Synopsis: The Institute for Public Policy Research (IPPR) paper, which adds its ideas to the long list for Rachel Reeves to consider for her 30 October Budget.

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The Institute for Public Policy Research (IPPR) is a think tank long associated with the Labour party. In the run up to the Autumn Budget it has returned to some familiar proposals for tax reform. On this occasion it has presented its ideas with a new twist, suggesting that 'The UK's tax system is a significant barrier to ending regional wealth inequality'. To support this assertion, it sights internal research showing…

- Residents in London and the South East are more likely to benefit from favourable tax treatment due to lower taxes on income from wealth.
- By 2030, a person in the North of England will have on average £210,000 less wealth than someone from the South East.

The subtext of this is…

- The South starts off richer: almost half of aggregate wealth is found in the South, where 40% of the population live, compared to 20% of wealth being in the North with 30% of the population.
- Two-fifths of all non-pension investment income (excluding capital gains) in the UK is generated in London and the South East, despite only a quarter of people living there. That income is often more favourably taxed than earnings, e.g. not subject to national insurance (NICs).
- Capital gains are, unsurprisingly, concentrated where wealth is highest. The IPPR calculates from HMRC data that the average gains per head in London are nearly five times those in Wales.
- Council tax is regressive: owner occupiers in the North East can expect to pay 0.1% of their property value in council tax annually, compared with less than 0.04% of property values in London.

The IPPR's paper puts forward three main measures, all of which it has previously proposed…

- **Tax different types of income equally.** The IPPR's long-term solution is a unified tax schedule for all income types (in which it includes capital gains), to 'align with income from work' by the end of this Parliament. The IPPR calculations for equalising tax look strange, as for 'income from work' they only consider employee NICs and income tax and for dividends; they ignore corporation tax. Thus, the IPPR paper suggests a basic rate taxpayer needs to see their dividend tax rate rise from 8.75% to 28% and an additional taxpayer from 39.35% to 47%. In contrast, the Resolution Foundation considers all taxes and NICs, which leads it to suggest equalisation could mean a small *cut* in the dividend rate for an additional rate taxpayer…

	Earnings £	**Dividend £**
Profit	1,000	1,000
Corporation tax 25%	N/A	(250)
NICs – Employer 13.8%	(121)	N/A
Gross income	879	750
NICs – Employee 2%	(18)	N/A
Income tax 45%/39.35%	(395)	(295)
Net Income	**466**	**455**

In the short-term, the IPPR says the equalisation of capital gains tax (CGT) with income tax should be implemented at the upcoming Budget. It provides the following table of the extra tax this will provide…

Amounts raised (£, billions) per annum by equalising capital gains and income tax rates 2025/26 to 2028/29

	2025/26	2026/27	2027/28	2028/29
Equalise CGT rates	16.6	16.2	16.5	18.3

The HMRC ready reckoner's view is that a 10% rise in all CGT rates would *reduce* tax receipts by over £2bn. For the record, the Office for Budget Responsibility (OBR) reckons CGT, *in its current guise*, will raise £16.2bn in 2025/26, increasing to £23.5bn by 2028/29.

- **Reform of property tax.** The IPPR's long-term solution is a proportional property tax introduced over this Parliamentary term. In the short-term, it wants immediate-fix reforms, such as higher levies on empty homes and two new additional higher council tax bands to be announced in the Autumn Budget.

- **Reform of the transfer of wealth.** The replacement of inheritance tax (IHT) with a lifetime capital acquisitions tax (based on income tax with an unspecified exemption) remains the IPPR's long term goal. For the next

- Budget, it wants capping of IHT reliefs on business and agricultural transfers, something also recently proposed by the Institute for Fiscal Studies.

Comment

In one form or another, these IPPR proposals have been around for some years, so they have probably already been at least looked at by the Chancellor. The longer-term ideas will probably remain just that, but some of the short-term suggestions could stand more chance of coming to fruition in October.

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