

Autumn Budget 2026 - Proposals for Tax Reform

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Introduction

On the 28 October 2026, the Chancellor of the Exchequer is due to deliver the Labour Government's third Autumn Budget of this parliament. Despite its huge - once in a century - parliamentary majority the government has so far shied away from the task of restructuring the UK tax system, even though there is now a growing consensus of the need to do so. What isn't agreed, of course, is what these changes should be. For my part, I have produced a set of proposals for tax reform which comply with the government's stated promise of not increasing the rates of income tax, national insurance, and value-added tax in this parliament (2024 - 2029). I have also complied with the government's stated aim of a balanced budget by 2029-30 and a falling national debt to GDP ratio by 2029-30. With regard to the government's position on the issue of a 'welfare cap,' I make it clear where any welfare savings should be made.

Fiscal Policy

UK fiscal policy has never been more in the spotlight than it is at the present time. This is because of historically high levels of government borrowing and high interest payments on the national debt; the toll on many people of the years of austerity and neglect of the public realm, and the ever-increasing demands on public spending and public services - directly and indirectly - related to Britain's large and growing older population.

Overall, the UK tax system must become more transparent, simple, and fair, with fiscal policies promoting sustained economic growth, high social mobility, and good public services and facilities, within a balance of revenue income and revenue expenditure. This aim will be supported by the following detailed fiscal policies:

1. Revenue income will be balanced with revenue expenditure (including the interest on the national debt).

2. Government borrowing will be reserved for investment expenditure on real projects that have been assessed as being economically viable and socially beneficial, and fully feasible within the available factors of production: land, labour, and capital.
3. Government money creation or liquidity creation measures (such as quantitative easing) will no longer entitle nor permit the payment of interest to commercial banking institutions.
4. A combination of monetary and fiscal policy will be used to mitigate the detrimental effects upon the asset-poor of property and financial asset price inflation related to government money creation or liquidity creation measures.
5. The common tax treatment of all forms of personal income both earned and unearned - that is wages, pensions, interest, dividends, capital gains, profits, rents, large gifts - will be delivered through a Common Personal Tax (CPT) system.
6. Full tax compliance by individuals and organisations will be expected and rigorously pursued in the interests of fairness and lower tax rates for all.

Without access to the sophisticated taxation models and databases used by HM Treasury it is difficult to calculate the exact effects of any tax change. However, data and information derived from the Institute for Fiscal Studies, Tax Justice UK, the Intergenerational Foundation, and the Resolution Foundation has provided me with an estimate of well in excess of £100bn per year of additional revenue which could be raised through a combination of the following:

- the equalisation of personal income tax
- the closing of deliberate tax loopholes

- the unmasking and criminalisation of the use of offshore tax havens
- the prohibition of using trusts for tax avoidance purposes by settlors
- a small corporate turnover tax levied on overseas based corporations
- a determined effort to reduce the UK tax gap (of some £59bn) by 50%

Even if we were to limit ourselves to raising an additional £75bn annually in tax revenues - and to keeping the promise made in the Labour Government's 'Change' manifesto of not increasing current rates of income tax, national insurance, or VAT - we could:

- Charge National Insurance on Unearned Income £30bn
- Equalise Capital Gains with Income Tax Rates £12bn
- Charge Value Added Tax on Financial Services £8bn
- Halve the Tax Gap by expanding the HMRC Service £25bn (net)

A Common Personal Tax (CPT)

In the interests of equality and intergenerational fairness, as well as the need to raise more tax revenue, it is high time for all forms of personal income: wages, pensions, interest, dividends, capital gains, profits, rents, and large gifts - that is, both earned and unearned income - to be treated the same way for tax purposes, and for Employee National Insurance contributions to be fully merged with Income Tax. I have long proposed that the very term 'Income Tax' be replaced as 'Common Personal Tax' (CPT) to allow for the common treatment of all forms of personal income taxation and their related allowances. The collection of income tax under a CPT system would be more fairly spread between people with different income types, different work patterns, and of different ages.

CPT would have a Common Personal Income Allowance (CPIA) below which no tax is payable at all. Above the CPIA limit, tax would be payable at a basic percentage rate and at a higher percentage rate in a similar way to income tax at the present time. CPT would mean that there was no longer a distinction made between working income and retired income, enabling retirees to contribute their fair share of income tax revenue - but only, of

course, those retirees who continue to have an annual income level above the prevailing CPT tax threshold.

The argument often made is that retired people cannot afford to pay income tax and national insurance contributions; however, I would argue that today many working people cannot afford to do this either - yet they still must! To partially address this issue it is proposed that there is a substantial increase in the basic rate and higher rate of personal income tax allowance to £15,000 and £55,000 per annum respectively by the 2028-29 tax year. In this way, no-one will start to pay any form of income tax until their income reaches approximately 60% of the minimum wage for a full-time worker.

In addition to this reform of common personal taxation, universal pensioner benefits - except for free medical prescriptions, eye and hearing tests - should be targeted at 'state-pension-dependent' pensioners and not at the several million higher-income / asset-rich pensioners who now represent the single most affluent social group that has ever existed in the UK.

If the basic rate of CPT were set at 28% (20% income tax plus 8% for NICs) and the higher rate was set at 48% (40% income tax plus 8% for NICs) this would be unfair as CPT would not contain the Upper Earnings Limit and the lower Additional Rate which currently applies to Employee NICs. Therefore it is proposed that the initial basic and higher rates for CPT be as follows:

- CPT Basic Rate 28% [reducing to 25% by 2028-29]
- CPT Higher Rate 45% [on all income above £55,000 p.a.]

It is further proposed that as soon as it becomes affordable the CPT Basic Rate should be reduced to 25% - if possible, by 2028-29. For the avoidance of doubt, the Higher Rate CPT is intended to fully replace both the current 45% Additional Rate and the Personal Allowance Taper, in keeping with the principle that any increase in personal income should result in the recipient retaining (after CPT) a clear majority of that additional income.

CPT makes the taxation rates of large numbers of affluent retired people fairer and more sustainable. CPT also simplifies employment taxation for all employers and reduces personal tax levels for the owner-managers of many small and medium-sized businesses. But above all, CPT will make work, work-related training, and professional career development more beneficial for working people at the same time as promoting economic growth.

Business Employment Taxes

A Common Personal Tax (CPT) system provides a useful opportunity to reform business employment taxes and to discontinue the administratively costly Employer National Insurance Contributions system. In the second quarter of the twenty-first century it is time to recognise that the original funding link between National Insurance contributions and the provision of welfare services no longer exists. So instead of Employer NICs, it is proposed to set up a new system of Employer State Pension Contributions (EPCs) to be collected at a level which would fund most of the cost of a revised UK State Pension, with an annual benefit level of £15,000 - as soon as it becomes affordable - for all qualifying people from Age-65. For simplicity, all employers would pay a set fixed percentage of the value of each employee's monthly gross pay and submit this monthly to the HMRC. For information, this revised UK State Pension would permanently replace the pension triple lock and would rise in line with any percentage increase in the median wage.

The fixed percentage figure of the EPCs should be set at a level to raise a similar amount of revenue to current Employers NICs (£144bn in 2026-27), but with no nil rate for lower salary earners - and no salary cut-off point for higher earners - EPCs will be set at a significantly lower percentage point than the 15% for current Employer NICs. Importantly, the revenues collected from EPCs will be earmarked (hypothecated) for the purpose of funding most of the costs of the revised UK State Pension. The overall costs of this reform for employers would be neutral but there is scope with EPCs to improve upon the current Employer NICs reliefs offered to small businesses employing very few staff.

The replacement of Employer NICs with EPCs would also reduce the tendency of some employers to structure their staffing around employment tax considerations rather than strictly commercial business considerations; for instance some businesses employ a higher proportion of part-time staff than is optimal for their operations and in the process, they deny full-time employment to some staff who would wish to work more weekly hours!

Wealth and Property Taxes

In the UK and elsewhere there is currently increasing interest in the case for a generalised wealth tax. Given the increasingly ‘windfall’ nature of wealth accumulation this is very understandable. My preference, however, is to tax all personal income fairly and comprehensively and to prevent the very rich from disguising their personal income by attributing personal expenditures and lifestyles to the costs incurred by a private holding company, or as being financed by a company loan to themselves. If this doesn’t work, then the rich need to understand that there is no alternative but for the UK State to tax wealth ownership itself and to make aggressive tax avoidance a criminal offence. As a principle, there must be some benefit for all members of society from the income accrued from private ownership of significant wealth.

Turning now to domestic property: Due to the finite nature of land and its special role in economic and social policy, and the lack of affordable housing in the UK, there is an urgent need for a new approach to the taxation of domestic property.

It is long overdue to make taxation on domestic property more proportionate to its value and to abolish our highly regressive system of Council Tax. In addition, property-based taxation needs to be simple and should encourage mobility within the housing market to make better use of the volume of the existing housing stock at any point in time.

There have recently been several proposals in this direction. For example, Professor John Muellbauer has suggested replacing the top two Council Tax

bands with an annual wealth tax of 0.5% and the introduction of a land value tax of 1% on the value of farmland, forestland, and unoccupied land (on excess value above £40,000 per hectare).

My own preference is to abolish both Council Tax and Stamp Duty Land Tax on all domestic properties, and to replace them with a Proportional Property Tax (PPT) calculated as a percentage of current market values*. This percentage is likely to be 0.5% but an exact figure cannot be provided without using HM Treasury modelling software and this is not available to me. PPT would be charged to the owners of all domestic properties and not to their tenants / renters; however, some or all the cost of PPT will of course be reflected in the private rents charged by landlords.

Rents charged by council and social housing landlords will reflect the need for councils and housing associations to pay PPT on the properties they own. For clarity, a system of PPT does not exclude any type of householder from making their fair contribution to the PPT revenue pool and all householders will continue to contribute to the costs of local council services; to suggest otherwise would be mischievous in the extreme.

[* Current market valuations of domestic properties should be made by an approved person/body within a period of 12 months of the PPT assessment.]

To reduce the number of empty homes in the UK the proposed PPT would be doubled after each 6-month period in which a property is left unoccupied, unless and until it is purchased by a local authority for redevelopment as a council house. Second, third, and subsequent homes would face a PPT of 1% and would, upon sale, be subject to the same Capital Gains Tax which would be applied under the terms of the previously discussed Common Personal Tax.

The proposed PPT would be collected centrally with local unitary authorities funded through a revised nationally agreed funding formula. Some of the PPT revenue collected by central government should be earmarked to help local authorities initiate a substantial and ongoing programme of council house

building and refurbishment* and to improve public amenities. In this way relative house price inflation and relative private rent inflation will be limited as it was between 1950 and 1980.

[* That is: proper ‘council houses’ let by local councils and not the so-called ‘social housing’ let by ‘housing association charities.’]

The Proportional Property Tax (PPT) will constitute a substantial disincentive to own second and subsequent homes, thereby ensuring that the existing UK housing stock is much better utilised, reducing some of the need to build new homes on greenfield land and its related environmental damage. Where second and subsequent homes persist, communities will be reassured that multiple homeowners are making a significant additional contribution to central and local government finances.

Overall, this reform of domestic property taxation would achieve a more proportional taxation of the existing and future UK housing stock, encourage downsizing, improve employee mobility, increase productivity, and increase social mobility, thereby promoting economic growth and higher government tax revenues.

Inheritance Tax should be a Gift Tax

Although it is not defined as a wealth tax as such, Inheritance Tax (IHT) has some of the features of one and is the nearest thing to a wealth tax that we currently have. To support the aim of intergenerational fairness, IHT should be reformed under the nomenclature of ‘Gift Tax,’ to better reflect the nature of passing on an inheritance. Inheritance is not mandatory so why not call it what it really is, that is, a gift from a deceased person’s estate? The newly defined Gift Tax would incorporate two categories: Living Gifts and Estate Gifts. This would also acknowledge the fact that lifetime gifts are often used by wealth holders as a device to avoid potential IHT liability later. The size of any gift would be defined in terms of its unencumbered or net value.

To make Gift Tax more progressive than IHT, the nil rate band should be reduced. I propose that the Gift Tax should allow for untaxed gifting of up to £100,000 for an Estate Gift and £20,000 (in any one year) for a Living Gift. However, I also propose that the Basic CPT Rate applies - and not the Higher CPT Rate - for the purposes of Gift Taxation. In the case where a gift is in the form of property or a tangible asset and the recipient has insufficient funds to pay it, then the payment can be deferred until such time as the asset is sold or passed on. This would incur a rate of interest based on a measure of general inflation - but no more than this. Gifted family heirlooms, such as high value jewellery and art works, would be exempt from Gift Tax, as such, but as soon as they are sold or re-gifted outside of the family, or otherwise used for commercial purposes, they would immediately be subject to Basic Rate CGT on the full sale price.

Replacing Business Rates with a Social & Environmental Charge

There is an urgent need to rebalance the taxes paid by physical and virtual businesses, and especially between high street and online businesses. This should include the abolition of Business Rates and their replacement with a Social & Environmental Charge (SEC). There will clearly be a need to create the necessary criteria upon which to make each individual SEC judgement as well as a decision about the overall level of intended tax revenue from this form of business taxation.

The starting point for the calculation of SEC could be the notional land value for the business premises, but the intention should be for businesses with a relatively positive social and environmental impact to enjoy a lower charge and for businesses with a relatively negative social and environmental impact to bear a higher charge. Importantly, this system should be designed to provide an incentive for all businesses and all organisations to improve their social and environmental impact.

The SEC should be designed to extract more taxation from businesses with low employment to turnover ratios, which produce high levels of pollution (e.g. CO₂ emissions, forever chemicals, and electromagnetic radiation),

that cause traffic congestion, which are considered to be a public nuisance, which cause local power outages, or which damage the appearance of the natural or urban landscape. By way of example: this will result in large out of town warehouses and data centres paying significantly more SEC whilst independent high street shops will pay less SEC than under the current system of Business Rates.

Corporate Turnover Tax

With respect to big business, there is a pernicious problem of large overseas based corporations being allowed to pay their taxes in their home country (or even in a third country) and not to the UK Government. Therefore I propose a 'Corporate Turnover Tax' to be based on the amount of business turnover or sales which an overseas corporation conducts in the UK. Due to the large volume of such sales in the UK, a surprisingly small turnover tax of just 2% would bring in approximately £32bn annually to the UK Treasury.

Student Loans

The high rates of interest charged on UK Student Loans and the structure of the so-called UK Student Loans repayment system, cannot disguise the fact that student loans are a substantial additional tax payable throughout the working lives of former university students. The assumption that a university degree always leads to greater lifetime earnings is a twentieth century throwback and is simply not true today; but even when it is the case a graduate will pay more tax - and often a higher rate of tax - during their careers, providing the state with a return on its investment. It is therefore proposed that all interest on student debts is abolished and that all repayments made reduce the capital sum owed. The cost of this measure can easily be met in full, from the above proposed Corporate Turnover Tax, or indeed from any one of a number of revenue raising proposals made in this paper.

[A more comprehensive solution to the problem of higher education funding and student debt is made in my related publication: *A Manifesto for Britain (2026 Edition) at Public Polic Revisited.*]

Corporation Tax

With regards to Corporation Tax payable within the UK, I would suggest that it continues to be set at an internationally competitive rate - though not at the lowest rate of 15% allowed under OECD regulations - but that Common Personal Tax rules must apply in full to any corporate profits distributed to UK resident business owners and shareholders.

Value Added Tax

It is the case that many items purchased by consumers are zero-rated for the purposes of Value Added Tax (VAT). Notably, this zero-rating applies to most food and drink, children's clothing and footwear, and to financial services. On the surface this is supportive of lower income families, until you realise that the greatest beneficiaries are higher income individuals able to buy high value food and who use a wide range of financial services. I therefore suggest an end to zero-rating on these items and other items which are not for medical or care purposes and for which there are no excise duties payable.

Instead, and importantly, I suggest that some of the extra revenues that will accrue from this measure are used in full mitigation to low-pay individuals and to families with children, through a significant increase in Child Benefit, an increase in the Child Element within Universal Credit, and by extending universal free school meals to all children until the end of their primary school education (Age 11); and finally, by reducing the proposed Basic Rate CPT from 28% to 25% within the same Autumn Budget in which this VAT zero-rating is ended.

A New Direction for Fiscal Policy and Taxation

The changes to UK fiscal policy and to specific taxes detailed in this paper is designed to achieve the following outcomes:

1. Earned income and investment income treated in the same way to end the perverse bias against working people within the personal tax system.
2. Personal taxation and some aspects of business taxation simplified and made less susceptible to tax evasion and tax avoidance.
3. Increased levels of tax revenue to improve public services and to lower the costs of government borrowing and investment borrowing in general.

The net effect of these reforms to personal taxes - and to some business taxes - will be to reduce the income tax burden on all lower-income earners as well as many middle-income earners, including younger professionals. These reforms will also assist the asset-poor, many sole traders, and the more deprived regions of the UK. People with higher-incomes - particularly those with substantial unearned income - and the asset-rich will indeed contribute more, but this will help to redress the extraordinary tax and universal benefits imbalance which has increasingly favoured affluent and retired people over the past 40 years. I commend these tax reforms to the Chancellor of the Exchequer.

Carl M Groves

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