

# Tax briefing notes

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June 2025



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# AIR PASSENGER DUTY

## What is it?

Air passenger duty (APD) is a levy paid by passengers departing from UK (and Isle of Man) airports on most aircraft. Connecting flights are treated as a single flight. It does not apply to onward-bound passengers on connecting flights if the inbound connection was not liable nor to those on aircraft weighing under 5.7 tonnes.

It was introduced in 1994 at a rate of £5 per passenger to UK and European Economic Area (EEA) destinations, and £10 to non-EEA destinations. In 2001 a higher rate for non-economy class seats was introduced. In 2009 EEA and non-EEA bands were replaced with four distance bands (measured from the destination's capital city to London, not the actual flight distance) around thresholds of 2,000, 4,000 and 6,000 miles.

In 2015 the highest two bands were abolished, leaving only two remaining: band A up to 2,000 miles and band B over 2,000 miles. For each band there is a reduced rate (for the lowest class seats), a standard rate and a higher rate (for seats in aircraft of over 20 tonnes equipped for fewer than 19 passengers). Passengers under 16 are exempt if they are in the lowest class of travel on a commercial flight.

Since April 2023 four destination bands have applied: one domestic and three international. Band A for up to 2,000 miles; band B for journeys between 2,001 and 5,500 miles; and band C for those over 5,500 miles. The reduced, standard and higher rates remain in place and range from £7 (for a reduced domestic flight) to £673 (for a band C higher rate flight).<sup>1</sup>

**Table: air passenger duty rates from 1 April 2025**

Destination band	Reduced (£)	Standard (£)	Higher (£)
Domestic	7	14	84
Band A (0 to 2,000 miles)	13	28	84
Band B (2,001 to 5,500 miles)	90	216	647
Band C (over 5,500 miles)	94	224	673

## What's the problem with it?

Flights within the EEA were covered by the European Union emissions trading scheme (ETS) from 2012,<sup>2</sup> meaning that there is practically no emissions-based reason to tax EEA flights. This is because any reduction in emissions from discouraging air travel would simply be replaced by another emitter buying the freed-up permit. The UK's emissions trading scheme replicates this. The duty is payable per passenger despite there being only a weak link between passenger numbers and CO<sub>2</sub> emissions. It takes no regard of the fuel efficiency of the aircraft. So even on non-EEA flights, the environmental case for APD is weak.

APD introduces distortions between air travel and other forms of domestic and EEA transport. There is no equivalent duty on coach or rail passengers. There are consequential losses for suppliers such as airlines, airports and their associated industries together with the welfare loss from those journeys switched.

<sup>1</sup> HM Revenue & Customs, *Rates for Air Passenger Duty*, 1 April 2025, [www.gov.uk/guidance/rates-and-allowances-for-air-passenger-duty](https://www.gov.uk/guidance/rates-and-allowances-for-air-passenger-duty) (accessed 6 April 2025).

<sup>2</sup> European Commission, *Development of EU ETS (2005-2020)*, 2022, [climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/development-eu-ets-2005-2020\\_en](https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/development-eu-ets-2005-2020_en) (accessed 6 April 2025).

APD does not remove the distortion between types of consumption liable to VAT (including private transport) and air travel because it is so arbitrary. While purchases of petrol, cars and taxi rides are subject to VAT (if the supplier's revenues are above the VAT threshold), public transport is not.

### **What should be done?**

1. Abolish APD on EEA and domestic flights immediately.
2. Switch to an air flight duty limited to non-EEA flights based on emissions, not passengers, for flights not covered by the UK ETS.

# ALCOHOL DUTY

## What is it?

There are four categories of alcohol duty: beer; still cider and perry; sparkling cider and perry; and wine, spirits and other fermented products. Alcohol has long been subject to specific and varying taxation, most notably under the Gin Act 1751 following the 'gin craze' depicted by Hogarth's *Beer Street and Gin Lane*.

Since February 2025, all alcohol duties have been charged by litre of pure alcohol within five bands of alcohol by volume (ABV) content and is applicable where ABV is at least 1.3 per cent. All alcohol types are charged £9.61 per litre of pure alcohol when the ABV is under 3.5 per cent. Similarly, the duty is charged at a single rate, £29.54, across all types where the ABV is between 8.5 and 22 per cent; and another single rate £32.79, where the ABV exceeds 22 per cent. Between 3.5 and 8.4 per cent ABV, wine and spirits are charged £25.67, beer is charged £21.78 and still cider is charged £10.02. Sparkling cider shares the still cider £10.02 rate on products where the ABV is between 3.5 and 5.5 per cent but switches to the wine and spirits £25.67 rate where the ABV is between 5.6 and 8.4 per cent.

Draught relief provides lower rates for draught products under 8.5 per cent ABV while small producers relief provides lower rates for those who produce up to 4,500 hectolitres of pure alcohol below 8.5 per cent ABV.<sup>3</sup>

## What's the problem with it?

Alcohol duties are needlessly complicated, economically distortionary and morally oppressive. There is also much evidence that they fail to achieve the aims of the public health lobby, despite their negative impact on the lifestyles of the majority of drinkers without dependency problems.<sup>4</sup> By contrast, evidence suggests that high taxes encourage illicit alcohol markets. HMRC estimated the illicit market share in 2022-23 at 8 per cent for beer and 2 per cent for spirits.<sup>5</sup>

Charging by stated ABV works well for products where the ABV is predictable. But where ABVs are less certain and stable, notably in wines, this can introduce administrative complexity.

Because most drinkers – in other words most adults – do not create additional health spending or crime and disorder problems, the case for charging all drinkers with the public spending costs of those problems is very weak. There is no good reason why a law-abiding moderate drinker should pay a greater share of the costs of irresponsible drinkers than a non-drinker. Similarly, there is no good reason why taxes should seek to discourage drinking among people whose drinking is not problematic, especially when taxes have been shown to have very little effect on problem drinkers but nonetheless significantly interfere in the lifestyle choices of moderate drinkers.

Finally, alcohol duties distort patterns of economic activity, with negative implications for the nighttime economy and UK supermarket sales which are diverted to lower-tax alternatives such as France.

<sup>3</sup> HM Revenue & Customs, *Alcohol Duty uprating*, 30 October 2024, [www.gov.uk/government/publications/changes-to-the-rates-of-alcohol-duty/alcohol-duty-uprating](https://www.gov.uk/government/publications/changes-to-the-rates-of-alcohol-duty/alcohol-duty-uprating) (accessed 6 April 2025).

<sup>4</sup> Duffy, J.C., and Snowdon, C., *Punishing the majority. The flawed theory behind alcohol control policies*, IEA, June 2014.

<sup>5</sup> HM Revenue & Customs, table 3.3, *Measuring tax gaps tables*, 20 June 2024, [www.gov.uk/government/statistics/measuring-tax-gaps-tables](https://www.gov.uk/government/statistics/measuring-tax-gaps-tables) (accessed 24 March 2024).

## What should be done?

1. Continue to move the alcohol tax system to a neutral tax on alcohol itself instead of the liquid containing it, removing tax distinctions between what the drink is, how it's made and whether it's sparkling or still.
2. Reintroduce a system of ABV bands for wine (used until 1 February 2025 and known as the temporary easement) to allow wines within a range to be treated as if they all had an ABV at a single point within that range.
3. Eliminate the £32.79, £29.54 and £25.67 rates of duty (charged since 1 February 2025) so that all the product categories qualifying for them instead qualify for the £21.78 rate charged to beer between 3.5 and 8.4 per cent ABV, leaving a single alcohol duty rate except for products under 3.5 per cent ABV and ciders.
4. Freeze all duty rates after this simplification.

# APPRENTICESHIP LEVY

## What is it?

The apprenticeship levy is a payroll tax on larger companies which was introduced in April 2017. Its revenues are hypothecated for expenditure on funding apprenticeships. The rate is 0.5 per cent on all payroll bills as defined by employer national insurance contributions and there is a £15,000 allowance, meaning that only employers with a payroll in excess of £3 million pay. This allowance has remained unchanged since its introduction. Firms are permitted to spend their levy on approved apprenticeships and training but any funds not spent are collected by HMRC. The government has announced that it will be renamed as the 'growth and skills levy', reflecting rule changes to allow a broader range of permissible training programmes within the charge.<sup>6</sup>

## What's the problem with it?

The apprenticeship levy is effectively a payroll tax and, like national insurance, is akin to an income tax. Income taxes weaken incentives to engage in productive economic activity. In some cases, and for some people, they make the difference between an activity being worthwhile or not. This means that some jobs and promotions are not sought by workers, and some are not created by employers because some investments are not made in the first place. This leads to lower employment, lower incomes and lower productivity. The difference between taxes on consumption and taxes on income is that income taxes also hit investment, which makes them disproportionately harmful. More directly, they reduce the money workers and investors have to spend on what they value for themselves and their families.

While the levy is not a wholly separate parallel system of income tax, it does effectively constitute an additional set of rules, rates and thresholds added onto the national insurance system. This further bloats the tax code which leads to inflated numbers of planning and avoidance agents and compliance officials to monitor and understand the system on behalf of taxpayers and HMRC. Two-fifths of firms have increased the number of apprenticeships, although half have not increased the overall investment in training since its introduction.<sup>7</sup> Economically, the levy operates as another income tax on workers because labour markets reflect the charge by adjusting wages. In the short term, however, before they can be passed through to wages, changes operate as a business tax on employers. This means that some tax (and wages) is hidden from employees, making it harder for employees to understand what their full compensation and tax liabilities are.

The government has committed itself not to increase taxes on working people, but a frozen threshold has that effect. And its base being the size of the company payroll rather than the income of the employee means that low paid staff in companies with payrolls over £3 million are hit but highly paid staff will be exempt so long as their employer's total payroll is under £3 million.

## What should be done?

1. Abolish the apprenticeship levy immediately.
2. Alternatively, at least replace it with an equivalent increase in income tax or national insurance.

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<sup>6</sup> Department for Education, *Prime Minister overhauls apprenticeships to support opportunity*, 24 September 2024, [www.gov.uk/government/news/prime-minister-overhauls-apprenticeships-to-support-opportunity](https://www.gov.uk/government/news/prime-minister-overhauls-apprenticeships-to-support-opportunity) (accessed 29 March 2025).

<sup>7</sup> Confederation of British Industry, *Skills for an inclusive economy: CBI/Birkbeck Education and Skills Survey 2021*, July 2021, p. 8.

## BANK CORPORATION TAX SURCHARGE

### What is it?

The bank corporation tax surcharge is an additional tax on banking profits calculated on the same basis as corporation tax. It was introduced in 2016 at a rate of 8 per cent on profits over £25 million. The rate was reduced to 3 per cent and the threshold was raised to £100 million in April 2023.<sup>8</sup>

### What's the problem with it?

Bank profits are a measure of a bank's efficiency with the resources it employs. Using profits to measure the special risks to taxpayers (economy-wide economic paralysis in the event of a bank being insolvent and unable to process transactions) from the banking sector is an arbitrary and therefore distortionary approach which weakens the sector, deterring investment and destroying jobs. Profitability in the sector should be encouraged, not penalised. Given the importance of banking and financial and business services in general to the British economy, this is a reckless approach to good tax design.

Different rates always give rise to tax avoidance opportunities which in turn breeds economically wasteful complexity from the inevitable anti-avoidance measures which are introduced to prevent the avoidance. Avoidance measures have already been introduced to this effect.<sup>9</sup>

### What should be done?

The bank corporation tax surcharge should be abolished immediately, leaving the bank levy to reflect the special risks arising from the banking sector until they can be fully addressed by regulatory powers for the Bank of England.

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<sup>8</sup> HM Treasury, *Autumn Statement 2022*, November 2022, p. 51.

<sup>9</sup> HM Revenue & Customs, *HMRC internal manual Banking Manual*, 3 March 2025, [www.gov.uk/hmrc-internal-manuals/banking-manual/bkm406100](http://www.gov.uk/hmrc-internal-manuals/banking-manual/bkm406100) (accessed 28 March 2025).



# BANK LEVY

## What is it?

The bank levy is a tax on bank liabilities. It was introduced in 2011 following the financial crisis as a way to charge banks for the implicit bailout guarantee they enjoyed from the government. There is a standard rate, originally planned to be 0.075 per cent but subsequently repeatedly raised to 0.21 per cent on long-term liabilities together with a short-term liabilities rate of half the standard rate.

From January 2021, the bank levy no longer applied to non-UK liabilities of UK banks, removing a distortion favouring non-UK banks (who already only pay on their UK liabilities). The rates also fell to 0.1 per cent for liabilities of less than one year and 0.05 per cent for those greater than one year and have remained unchanged since then.<sup>10</sup>

## What's the problem with it?

Research has shown that bank levies prompt banks to shift risks on balance sheets from liabilities to assets. It has also shown that total risk reductions have been concentrated on low-risk institutions which pose little or no threat to financial stability with little change among riskier banks.<sup>11</sup> Following the crash, banks were already reducing both their assets and liabilities to increase their margin for error. This led to lower than expected receipts from the levy, which in turn prompted repeated increases in the rate between 2011 and 2015. This suggests that the rate was not set for the economically neutral reason of pricing risks to taxpayers but instead to raise revenues from an electorally unpopular target. Reductions in both rates were introduced from 2016.<sup>12</sup>

Fundamentally, the regulatory approach of strengthening powers of the Bank of England to wind up failing banks is a better tool for managing risks to taxpayers from banks. Full regulatory powers to ensure that bank losses fall on shareholders and bondholders instead of taxpayers, often called a 'bail-in', would mean there is no longer a justification for a specific tax on banking. Given the importance of banking, financial and business services in general to the British economy, the best tax and regulatory approach to manage the specific risks from the sector is important.

## What should be done?

The bank levy should be abolished. Bail-in and wind-up powers should be set to ensure no remaining risks are left with taxpayers and the bank levy should be abolished when this objective has been met.

<sup>10</sup> Office for Budget Responsibility, *Bank levy*, 22 May 2025, [obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/bank-levy/](https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/bank-levy/) (accessed 6 April 2025).

<sup>11</sup> Devereux, M. et al, 'Can Taxes Tame the Banks? Evidence from the European Bank Levies', *The Economic Journal*, Volume 129, Issue 624, November 2019, p. 3058.

<sup>12</sup> HM Revenue & Customs, *HMRC internal manual: Bank Levy Manual: BKLM160000 – Introduction: the rate of the bank levy*, October 2022, [www.gov.uk/hmrc-internal-manuals/bank-levy-manual/bklm160000](https://www.gov.uk/hmrc-internal-manuals/bank-levy-manual/bklm160000) (accessed 6 April 2025).  
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## BUSINESS RATES

### What are they?

Non-domestic rates, commonly known as business rates, are a tax on the annual rental value of most non-domestic properties. Business rates, along with the community charge (or 'poll tax'), were established in 1990 to replace the rates system. Rates were set out in the Poor Law 1572 and General Rate Act 1967, but pre-existed those acts.

Properties are valued every three years (until April 2023 it was every five years) and a rate, or 'multiplier', is set annually for England. The standard rate for 2025-26 will be 55.5p, meaning that the liability for a property with a 'rateable value' of £100,000 would be £55,500. A lower rate of 49.9p applies to rateable values under £51,000 and premises under £12,000 are exempt (with a taper to £15,000). Different rates apply in the City of London and outside England.

### What's the problem with them?

Business rates can be seen as fulfilling two tax functions. The first is to tax the value of the land on which business premises sit. The second is to tax the value of the buildings and any other improvements made to the land. The first leads to very little economic distortion and destruction. The second, by contrast, is highly destructive. The effect of the second dominates.

Taxing the unimproved value of business land is relatively unproblematic. Taxing the increase in the rental value of a premises caused by an improvement of nearby facilities or demand will do little to discourage such improvements. Introducing any tax harms incentives but, because owners are largely not responsible for demand or nearby facilities, taxing unimproved land value should not prompt much reduction in their provision.

By contrast, the tax on the value of improvements and buildings is highly problematic. It distorts property use away from commercial use in favour of residential use and other production inputs, because the consumption value of business property is already taxed, like all other inputs, through VAT. Taxing its consumption through business rates as well prompts businesses to reduce their use of commercial property and prompts landowners to shift property away from double-taxed commercial use to relatively untaxed residential use.

To make tax neutral between commercial and non-commercial use, non-commercial use must be untaxed if the consumption goods and services it is used to produce are themselves taxed. The distortions caused by the arbitrary nature of business rates harm productivity and prosperity, leading to lower incomes and fewer jobs.

### What should be done?

1. Rule out rises in business rates.
2. Reform business rates to exempt the value of buildings and improvements from the rating, resulting in 'business land rates' to replace business rates.

# CAPITAL GAINS TAX

## What is it?

Capital gains tax (CGT) is a tax on the gain in value of most assets between purchase and sale.

A personal allowance is deducted from 'chargeable gains', and the rest is then taxed. The allowance was cut in the 2022 autumn statement from £12,300 in 2022-23 to £6,000 in 2023-24 and then £3,000 in 2024-25. It was frozen in 2025-26.

From 1988 to 2008, the rate was the same as the taxpayer's income tax rate. In 2008 it was simplified into a single 18 per cent rate until 2010, when a higher 28 per cent rate was added. The higher rate was paid on gains over the income tax higher rate threshold when taxable income and chargeable gains are combined. So those paying higher rate income tax would pay the higher rate of CGT on all their gains above the CGT personal allowance. In 2016, the rate was reduced to 20 per cent for higher rate taxpayers and 10 per cent for basic rate taxpayers, except for residential property.

In the 2024 spring budget the higher rate on residential property was cut from 28 to 24 per cent. In the autumn budget after the election, the higher rate for other assets was increased from 20 to 24 per cent while the basic rate was increased from 10 to 18 per cent to match the residential property rates, removing the distinction for that asset class. Business asset disposal relief which replaced entrepreneur's relief allows a 14 per cent rate while carried interest is taxed at 32 per cent although the former will rise to 18 per cent in April 2026 when carried interest will be transferred into income tax.

## What's the problem with it?

It's a double tax that causes two significant economic problems. First, it weakens the financial incentives to reallocate economic assets when the current owners are no longer the best people to own them. This means, for example, that control of start-ups is retained by founders for too long. Entrepreneurs don't start as many new companies and more mature companies are controlled by people better suited to managing companies in their earliest stages. Secondly, it discourages investment by reducing post-tax returns.

It's tempting to think that setting CGT at the same rate as income tax would make the tax system neutral between income and capital gains, discouraging avoidance. But this is fundamentally and conceptually flawed. Most capital gains are already effectively post-tax. To understand why, imagine you own a company which you founded with no capital. This company now has no prospects of any future activities and has ended trading, but during your ownership its bank balance grew to £100,000. You have two options. One is to wind the company down and the £100,000 surplus would be treated as income. Or you could sell the company to someone else who would have the same options. But no buyer would pay £100,000 because of the tax payable on extracting the cash.

To keep things simple, assume there is only one income tax rate of 40 per cent, one CGT rate of 24 per cent and no allowances. If you took the income, you'd receive £60,000 after tax. If you sold the company, the buyer would only pay at most £60,000 to avoid a loss. Your supposedly 'pre-tax' capital gain would be £60,000 which would then be subject to the 24 per cent capital gains tax. So capital gains are usually already effectively 'post tax'. A further CGT liability of 24 per cent (£14,400) wouldn't equalise the treatment. They're already the same with no CGT.

## What should be done?

1. Abolish capital gains tax entirely when possible.
2. In the meantime, scrap the higher 24 per cent rate to simplify the system. This would eliminate the need for business asset disposal relief by extending its 14 per cent rate to all investors and assets.

## CLIMATE CHANGE LEVY

### What is it?

The climate change levy is a tax levied on most non-residential users of most forms of energy. It was introduced in 2001 as part of the government's climate change programme. Users can participate in climate change agreements which reduce liabilities by anywhere from 77 per cent for liquified petroleum gas to 92 per cent for electricity. Eligibility for these agreements is based on the energy intensiveness of the activity and the extent of import penetration into the UK market. Exemption from the levy for electricity produced from renewable sources was abolished in 2015. The rate for gas rose to reach parity with the rate for electricity in 2024. The rates are frozen in 2025 but will rise by 3.3 per cent in 2026 for gas, electricity and other taxable commodities, except LPG which will remain frozen.

### What's the problem with it?

The climate change levy is bureaucratic, incoherent and distortionary.

#### *Bureaucratic*

Climate change agreements require energy users to meet certain criteria (set on a sectoral basis). These agreements privilege energy use in activities which are intensive and competitive across national borders. The intention is to ameliorate the destructive distortionary effects of the levy but the reluctance to use a price mechanism instead of regulatory compliance reveals the problem with the levy itself.

#### *Incoherent*

The levy was introduced as a measure to address climate change. But it is charged on energy consumption rather than emissions and is even charged on renewable electricity use. Solid fuel use is charged at a lower rate than gas, measured by emissions and electricity is charged at the same rate regardless of the source. Some activities are also covered by both the UK emissions trading scheme (and its EU predecessor) and the climate change levy. This means that emissions saved by the climate change levy will not affect total emissions but instead simply transfer to other activities.<sup>13,14</sup> Finally, it applies only to non-residential use instead of all use, despite residential use for heating already benefitting from the reduced rate of VAT.

#### *Distortionary*

Because it does not apply equally to all users of energy, the climate change levy distorts economic activity away from uses which are liable in favour of uses which are not liable (such as residential use in the UK, or industrial use outside the UK). It also distorts activity away from low-energy to high-energy use, even though the objective is to reduce emissions not energy use.

### What should be done?

Abolish the climate change levy, leaving the UK emissions trading scheme to address emissions policy.

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<sup>13</sup> HMRC allude to this in their policy paper on the removal of the renewable exemption from the CCL, 'no direct impact on the achievement of UK Carbon Budget targets, as emissions from electricity generation are capped through the EU Emissions Trading System'.

<sup>14</sup> HM Revenue & Customs, *Climate Change Levy: removal of exemption for electricity from renewable sources*, 8 July 2015, quoted in: Seely, A & Ares, E., *Climate Change Levy: renewable energy & the carbon reduction commitment*, House of Commons Library, 20 April 2016, p. 9.

# CORPORATION TAX

## What is it?

Corporation tax is levied on the profits of companies. It was introduced in 1965 and replaced the practice of taxing companies on their income as if they were real people.

The main rate was initially 40 per cent before rising to 52 per cent. After many years of stability, the rate was steadily cut between 1982 and 1991 to 33 per cent. Another rate-cutting period began in 2008 when it was reduced from 30 to 28 per cent. It has been 25 per cent since April 2023 when it was raised from 19 per cent, where it had been since 2017, after repeated cuts during the 2010s. A small companies rate (for those with profits under £300,000) set between one and two fifths lower than the main rate existed until 2015, when the main rate fell to match the small companies rate of 20 per cent. Along with the increase in the main rate from 19 to 25 per cent, a small companies' rate of 19 per cent was reintroduced in 2023 for those with profits of up to £50,000. A tapered rate for profits exists between £50,000 and £250,000.

## What's the problem with it?

### *Complexity*

The explosion of tax complexity in recent decades owes much to the conceptual difficulties with trying to accurately attribute and therefore tax value creation in an increasingly globalised and information-driven economy. When corporate profits arose largely from the manufacture, distribution and retail of goods, usually in the same country, allocating them was relatively simple. But the well-publicised tax affairs of Starbucks UK with coffee grown in Africa, bought in Switzerland, roasted in the Netherlands and sold under a royalty to the US company illustrates how ill-suited corporation tax is to a modern economy. Few of these stages have tradable prices, hence the need for complex 'transfer pricing' rules to determine the pricing to transfer value between linked companies. The system is riddled with rules designed to patch up fundamental flaws like this.

### *Efficiency*

Profit is a measure of how efficiently a company operates. The value its operations provide to shareholders, measured in sales less the value consumed in costs, not only provides investors with income but also serves as a measure of efficiency and waste. Taxing profits weakens this measure and weakens the incentive for investors to manage companies well.

### *Investment*

The difference between taxing profits and taxing distributions is investment. As the long-term source of growth, investment is the last thing the tax system should target.

## What should be done?

1. Abolish corporation tax and tax distributed income instead (see **The Single Income Tax**).<sup>15</sup>
2. In the meantime, cut corporation tax to 15 per cent while raising dividend tax rates and extending full expensing to all investment categories.

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<sup>15</sup> Heath et al, *The Single Income Tax*, 2020 Tax Commission, 2012.  
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## COUNCIL TAX

### What is it?

Council tax is charged by local authorities to the occupiers of residential property.

Council tax was introduced in Great Britain in 1993 to replace the community charge (commonly known as the 'poll tax'), which replaced domestic rates in 1990 in England and Wales (and in 1989 in Scotland). Rates date from at least 1601. Domestic rates have not been replaced in Northern Ireland. Council tax is applied to residential properties in eight bands based on 1991 property valuations (nine bands on 2003 values in Wales). Local authorities set local rates but the ratios and valuation bands are set centrally (by the Scottish and Welsh administrations outside England).

Council tax does not apply if the occupants are all full-time students, under 18s, foreign diplomats or people who are severely mentally impaired. Nor if the residence is owned by a registered charity and last used for charitable purposes. A 25 per cent discount applies to residences with a single occupant while councils can apply additional charges to empty properties and second homes.

Property valuation band for council tax	Wales		Scotland		England	
	Band upper limit (£)	Ratio to band D (%)	Band upper limit (£)	Ratio to band D (%)	Band upper limit (£)	Ratio to band D (%)
A	44,000	67	27,000	67	40,000	67
B	65,000	78	35,000	78	52,000	78
C	91,000	89	45,000	89	68,000	89
D	123,000	100	58,000	100	88,000	100
E	162,000	122	80,000	131	120,000	122
F	223,000	144	106,000	163	160,000	144
G	324,000	167	212,000	196	320,000	167
H	424,000	200	212,001+	245	320,001+	200
I	424,001+	233	-	-	-	-

### What's the problem with it?

Council tax discourages residential property improvements and construction.<sup>16</sup> To the extent that council tax mimics a consumption tax similar to VAT on other consumption goods, council tax is not especially a problem in this way any more than VAT is on other areas of consumption. But that doesn't mean it is not harmful, just that it is not especially harmful. It also falls on occupiers who may find bearing the burden of increases difficult to plan for if (like pensioners) they are on fixed incomes.

Council tax breaches three of the four principles of taxation identified by Adam Smith in 1776. It is inconvenient, because it does not coincide with a transfer of cash (unlike VAT or income tax). It is inequitable, because it is not proportionate to either the value of the property or the income of the taxpayer. And, to some extent, it is uncertain, because the level cannot easily be predicted in advance. While income tax rates and VAT have remained relatively stable over the past 20 years, council tax rates have varied markedly, especially at the local authority level rather than national averages, which mask the extent of rises experienced by those unfortunate enough to live in the worst local authority areas.

<sup>16</sup> Valuation Office Agency, *Council Tax band changes*, 22 January 2016, [www.gov.uk/guidance/council-tax-band-changes](http://www.gov.uk/guidance/council-tax-band-changes) (accessed 20 March 2025).

Most starkly, the system is plainly nonsensical. Properties are assessed in bands based on what they would have been worth over 30 years ago.

### **What should be done?**

Councils should cut their rates, at least in real terms (after adjusting for inflation).



## DIGITAL SERVICES TAX

### What is it?

Digital services tax (DST) is a 2 per cent tax on the revenues of search engines, social media services and online marketplaces from users in the UK. It only applies to companies (or groups) whose global revenues from these activities exceed £500 million and the first £25 million of such revenues from UK users is exempt. It was introduced on 1 April 2020 and government policy is to abolish it when 'pillar one' of the Organisation for Economic Cooperation and Development (OECD) agreement on 'base erosion and profit sharing' (BEPS) rules are implemented. These rules will reallocate the taxable profits from where the value is created to where the products and services are consumed. The digital services tax is therefore a temporary 'stop-gap' tax aimed at extracting tax revenues from large digital service providers until the OECD's rules are implemented.

In 2020-21, 18 groups paid DST and 5 of them paid £324 million (or 90 per cent) of the £358 million total receipts.<sup>17</sup> HMRC has not disclosed which groups the five are, but we speculate that they are Meta (Facebook and Instagram), Alphabet (Google and Android), Apple, Amazon and either Microsoft or eBay. Of the companies liable to DST, the total exceeded their corporation tax payments.<sup>18</sup>

### What's the problem with it?

Ultimately, DST was created to extract something approximating what the British government sees as its fair share of the value created by Silicon Valley beyond that permissible under international tax rules for corporate taxes, VAT and other existing taxes. The tax base of relevant revenues in the UK is designed to represent the UK government's share and the £500 million global revenues threshold is designed to ensure it applies only to 'tech giants' rather than smaller, more entrepreneurial and newer companies, more likely to be British.

While this does have some merit as a device for extracting American cash for the British exchequer, unsurprisingly it is somewhat controversial with the Americans, who threatened to impose tariffs in retaliation under the previous White House administration<sup>19</sup> and has been cited by the current administration as a justification and an area for further negotiation.<sup>20</sup> This is arguably an acceptable price to pay for the benefit of extracting cash from the American tech sector but the downsides are not limited to that.

Just as the burden of corporate taxes falls on real people, investors, customers and employees, and the burden of tariffs falls predominantly on consumers and intermediate goods-using companies in the country imposing them, so too is the DST being passed through to consumers in Britain.<sup>21,22</sup> In reality, the tax is being paid primarily by British consumers in the form of explicit surcharges and higher charges, sometimes passed on in the form of more expensive advertising costs by consumer brands and online marketplace users.

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<sup>17</sup> Davies, G., *Investigation into the Digital Services Tax*, National Audit Office, November 2022, p. 6.

<sup>18</sup> *Ibid*, p. 7.

<sup>19</sup> Office of the United States Trade Representative, *USTR Announces, and Immediately Suspends, Tariffs in Section 301 Digital Services Taxes Investigations*, 2 June 2021, [ustr.gov/about-us/policy-offices/press-office/press-releases/2021/june/ustr-announces-and-immediately-suspends-tariffs-section-301-digital-services-taxes-investigations](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/june/ustr-announces-and-immediately-suspends-tariffs-section-301-digital-services-taxes-investigations) (accessed 13 May 2025).

<sup>20</sup> Francis, S., *Talks with US over digital services continue, says PM*, BBC, 9 May 2025, [www.bbc.co.uk/news/articles/c1ld568v5j4o](https://www.bbc.co.uk/news/articles/c1ld568v5j4o) (accessed 13 May 2025).

<sup>21</sup> Amazon, *Change to digital services tax charges from October 1*, August 2024, [sellercentral.amazon.co.uk/seller-forums/discussions/t/ed2f04c2-afa0-4bd4-b0fb-08efa212b5a6](https://sellercentral.amazon.co.uk/seller-forums/discussions/t/ed2f04c2-afa0-4bd4-b0fb-08efa212b5a6) (accessed 13 May 2025).

<sup>22</sup> Google Ads Help, *Jurisdiction-specific surcharges*, [support.google.com/google-ads/answer/9750227?hl=en-GB](https://support.google.com/google-ads/answer/9750227?hl=en-GB) (accessed 13 May 2025).



### **What should be done?**

Abolish the digital services tax.

## ELECTRICITY GENERATOR LEVY

### What is it?

The electricity generator levy is a temporary 45 per cent levy on the exceptional profits of electricity generated from nuclear, renewable, biomass and energy from waste sources and sold at a price above a benchmark price of £77.94/MWh in 2024-25, which is uprated by the consumer prices index measure of inflation.<sup>23</sup> The levy does not apply where under a contract for difference (CFD) with the Low Carbon Contracts Company Ltd.

It came into force on 1 January 2023, is scheduled to expire on 31 March 2028 and does not apply to generation from sources which received commercial approval on or after 22 November 2022.<sup>24</sup> There is an annual exceptional revenue allowance of £10 million and the charge does not apply to companies or groups which produce less than 50GWh a year.

### What's the problem with it?

Similarly to the energy profits levy on oil and gas, the electricity generator levy (on electricity generated from non-oil and gas sources) was also supposed to be a windfall tax justified by the unexpectedly beneficial impact of high energy prices resulting from the war in Ukraine. Apart from the merits of the tax itself, extensions to the expiry date diminish the credibility of temporary taxes. Why invest now to take advantage of high prices in a few years if a temporary tax that will supposedly expire by then might in fact be extended to capture the potential profits motivating your investment?

When evaluating an investment proposal companies model a range of scenarios. In the case of electricity generation wholesale prices form an important component of this. The possibility of financial upside from high prices is factored in to assessments as well as the risk of losses from low prices. If governments gain a reputation for imposing windfall taxes on profits when prices are unexpectedly high then investment modelling assessments will adjust the upside potential accordingly, with the ultimate consequence being fewer investments being viable.

The previous government recognised this problem and exempted new projects since 22 November 2023 but the principle still applies more broadly, across the whole economy, not just in energy. Firms will have to assume that they will not be allowed to fully benefit from unexpected price spikes and will have to discount these potential upsides accordingly in their viability calculations.

### What should be done?

Scrap the levy on 31 December 2025, along with the energy profits levy, and commit to not imposing any windfall taxes again. At the minimum, commit to no increases in the rate or extensions of the 31 March 2028 expiry date.

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<sup>23</sup> HM Revenue & Customs, *Annex A: rates and allowances*, 11 November 2024, [www.gov.uk/government/publications/autumn-budget-2024-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances#business-and-financial-services](https://www.gov.uk/government/publications/autumn-budget-2024-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances#business-and-financial-services) (accessed 12 May 2025).

<sup>24</sup> HM Revenue & Customs, *Electricity Generator Levy: new investment exemption*, 18 December 2023, [www.gov.uk/government/publications/introduction-of-a-new-investment-exemption-for-the-electricity-generator-levy/electricity-generator-levy-new-investment-exemption](https://www.gov.uk/government/publications/introduction-of-a-new-investment-exemption-for-the-electricity-generator-levy/electricity-generator-levy-new-investment-exemption) (accessed 12 May 2025).

# ENERGY PROFITS LEVY

## What is it?

The energy profits levy is a surcharge on North Sea oil and gas profits. It was originally levied at 25 per cent when introduced in May 2022 and was scheduled to expire at the end of 2025 but, in November 2022, the rate was increased to 35 per cent and the expiry postponed to 31 March 2028. On 1 November 2024 the rate was increased again to 38 per cent and the expiry further postponed to 31 March 2030. The associated capital allowances were also withdrawn.

The 38 per cent energy profits levy is added to the 30 per cent 'ringfence corporation tax' and 10 per cent supplementary charge to produce a headline corporation tax rate of 78 per cent for North Sea oil and gas profits.

## What's the problem with it?

As a tax on company profits the energy profits levy causes all the same problems that corporation tax does. In other words, it is ultimately a tax on investment, it penalises companies according to how efficiently they use resources and it is complex. Fortunately, the enormous combined 78 per cent headline rate on North Sea oil and gas profits is ameliorated in its effect on investment somewhat by relatively generous allowances although some of these have just been removed. Generous tax allowances, however, do little to attract *new* money. It's one thing to invest profits that would otherwise be heavily taxed but quite another to raise capital for a new organisation.

The levy was also supposed to be a one-off windfall tax justified by the unexpectedly beneficial impact of high energy prices resulting from the war in Ukraine. Apart from the merits of the tax itself, extensions to the expiry date diminish the credibility of temporary taxes. Why invest now to take advantage of high prices in a few years if a temporary tax that will supposedly expire by then might in fact be extended to capture the potential profits motivating your investment?

This principle extends even to windfall taxes that are credibly temporary due to governments in the country not being in the habit of extending them. When evaluating an investment proposal companies model a range of scenarios. In the case of oil and gas investment oil (and gas) prices form an important component of this. The possibility of financial upside from high prices is factored in to assessments as well as the risk of losses from low prices. If governments gain a reputation for imposing windfall taxes on profits when prices are unexpectedly high then investment modelling assessments will adjust the upside potential accordingly, with the ultimate consequence being fewer investments being viable.

The industry association, Offshore Energies UK, has calculated that the recent increases alone will put at risk 35,000 jobs and reduce investment from £14 billion to £2 billion.<sup>25</sup> This follows previous investment retrenchments at Buchan,<sup>26</sup> Pensacola<sup>27</sup> and TotalEnergies projects.<sup>28</sup>

## What should be done?

Reinstate the original expiry date of 31 December 2025.

<sup>25</sup> Race, M. & Hoggan, K., *Fears over energy tax rises as business confidence falls*, BBC, 2 September 2024, [www.bbc.co.uk/news/articles/cx287xq91e5o](http://www.bbc.co.uk/news/articles/cx287xq91e5o) (accessed 15 May 2025).

<sup>26</sup> BusinessMatters, *North Sea Oil Project Delayed Amid Windfall Tax Uncertainty Before Election*, 6 June 2024, [bmmagazine.co.uk/news/north-sea-oil-project-delayed-amid-windfall-tax-uncertainty-before-election](http://bmmagazine.co.uk/news/north-sea-oil-project-delayed-amid-windfall-tax-uncertainty-before-election) (accessed 15 May 2025).

<sup>27</sup> Findlay, K., *North Sea firm's shares plunge again after it walks away from big oil find*, Press and Journal, 11 June 2024, [www.pressandjournal.co.uk/fp/business/6498634/north-sea-firms-shares-plunge-again-after-it-walks-away-from-big-oil-find/](http://www.pressandjournal.co.uk/fp/business/6498634/north-sea-firms-shares-plunge-again-after-it-walks-away-from-big-oil-find/) (accessed 15 May 2025).

<sup>28</sup> Smith, O., *Oil giant TotalEnergies to cut North Sea investment over windfall tax*, BBC, 2 December 2022, [www.bbc.co.uk/news/business-63834419](http://www.bbc.co.uk/news/business-63834419) (accessed 15 May 2025).

# FUEL DUTY

## What is it?

Fuel duty is an excise duty on hydrocarbon oils, biofuels and road fuel gases such as liquid petroleum gas.

Petrol duty was introduced in 1908 at 3d (old pence, equivalent to 1.3 new pence) per gallon. Between 1978 and 1980 diesel was charged a higher rate than leaded petrol, and then again between 1982 and 1994 it attracted a higher rate than unleaded. After 1994 the diesel and unleaded rates were aligned. Between 1982 and 2000 a lower rate (by as much as 18 per cent) applied to diesel than to leaded petrol. In 1988 the rate for unleaded was introduced at lower level than leaded petrol, to encourage motorists to switch. By 2000, the leaded rate was withdrawn when its sale was banned. Unleaded and diesel rates were aligned in 2001 and have remained so ever since.

In December 2008, fuel duty rose from 50.35p to 52.35p a litre. In April 2009, it rose again to 54.19p. In September it was increased yet again to 56.19p and then to 57.19p in April 2010. After the election, the coalition government increased it once more to 58.19p in October and then 58.95p in January 2011. In April 2011 it was cut to 57.95p and remained at this level for 11 years. In March 2022, there was a temporary reduction of 5 pence to 52.95p. This was due to expire in March 2023 but its expiry has been postponed at successive budgets since.<sup>29</sup>

## What's the problem with it?

It's far too high and it's economically damaging. There is some justification for fuel duty in principle. The degradation of local air quality and the contribution to climate change are both reasonable arguments for some level of particular tax on motoring fuel and all fuel, respectively. The problem is that these arguments only support a level of fuel duty much lower than the current rate.

Official modelling assumptions for traded carbon values for 2025 in a 'net zero strategy aligned scenario' are £63 per tonne of CO2 emissions (in 2024 prices).<sup>30</sup> Applying this price to US government statistics for how much CO2 emissions are produced from a litre of petrol produces a figure of 16.1p when adjusted to from 2024 to 2025 prices.<sup>31</sup> In other words, that's the CO2 cost of a litre of petrol.

Attributing local and national road spending (less vehicle excise duty receipts) to fuel duty could arguably add another 18 pence per litre. This 34p total should serve as a maximum, however, because the impact on local air quality and congestion is very weakly correlated with fuel combustion. It's unfair for drivers who use quiet roads in sparsely populated areas to pay the same penalty for congestion and air quality as drivers on busy roads in populated areas.<sup>32</sup> Road pricing (including congestion charges) better deals with congestion while local emissions regulations (such as low emissions zones) are much less blunt tools than a national (or even local) fuel duty. Receipts from other charges should also be deducted from the spending allocation to fuel duty. The UK has the ninth highest fuel duty on petrol and the joint highest fuel duty on diesel compared with EU members states.<sup>33</sup>

In addition to the economic damage all taxes inflict on the economy, fuel duty above the 34p a litre level indicated above has two specific problems. First, it distorts economic patterns of consumption

<sup>29</sup> HM Treasury, *Spring Statement 2022: Fuel Duty Factsheet*, 23 March 2022, [www.gov.uk/government/publications/temporary-cut-to-fuel-duty/spring-statement-2022-fuel-duty-factsheet](http://www.gov.uk/government/publications/temporary-cut-to-fuel-duty/spring-statement-2022-fuel-duty-factsheet) (accessed 6 April 2025).

<sup>30</sup> Department for Energy Security & Net Zero, *Traded carbon values used for modelling purposes*, 2024, 17 December 2024, [www.gov.uk/government/publications/traded-carbon-values-used-for-modelling-purposes-2024/traded-carbon-values-used-for-modelling-purposes-2024](http://www.gov.uk/government/publications/traded-carbon-values-used-for-modelling-purposes-2024/traded-carbon-values-used-for-modelling-purposes-2024) (accessed 6 April 2025).

<sup>31</sup> US Energy Information Administration, *Carbon Dioxide Emissions Coefficients*, 18 September 2024, [www.eia.gov/environment/emissions/co2\\_vol\\_mass.php](http://www.eia.gov/environment/emissions/co2_vol_mass.php) (accessed 6 April 2025).

<sup>32</sup> See Meakin in Booth et al, *Taxation, Government Spending & Economic Growth*, IEA, 2016.

<sup>33</sup> TaxPayers' Alliance, *Briefing – Fuel duty in Europe 2024*, October 2024.

and production. Secondly, it prevents workers from accessing potential jobs. This restricts economies of scale, reduces competitiveness and hinders industrial specialisation, resulting in lower income levels.

### **What should be done?**

1. Make the temporary rate cut of 5p a litre permanent.
2. Guarantee no rate rises until inflation brings the rate down to 34p (in 2025-26 prices).

## GAMBLING DUTY

### What is it?

Gambling duty is made up of:

- Bingo duty – a 10 per cent levy on bingo promotion profits.
- Gaming duty – a progressively structured levy on the gross gaming yield of casinos (stakes received less winnings paid). The rates are 15 per cent up to £2,686,000, then 20 per cent for the subsequent £1,852,000, 30 per cent on the next £3,243,000, 40 per cent on the following £6,845,000 and 50 per cent on the remainder. These thresholds have been frozen since April 2022.
- General betting duty – a tax on ‘net stake receipts’ (gross profits) at 15 per cent on fixed odds bets and totalisator (where a machine calculates the winnings depending on the bets staked) on horse or dog races, 3 per cent on financial spread bets and 10 per cent on other spread bets.
- Lottery duty – a 12 per cent levy on lottery tickets.
- Machine games duty – a net takings levy charged at 5 per cent where the cost to play does not exceed 20p and the maximum prize does not exceed £10, 20 per cent where the cost to play does not exceed £5 and 25 per cent where the cost to play exceeds £5.
- Pool betting duty – a 15 per cent levy on net pool betting receipts.
- Remote gaming duty – a 21 per cent levy on remote gaming profits.

### What’s the problem with it?

Gambling duty is needlessly complicated due to attempting to serve multiple tax functions. On one level it serves as a general consumption tax on gambling in lieu of value added tax. But it also penalises larger operations via gaming duty’s progressive structure and it attempts to nanny people into using lower stakes machines via different rates on machine games duty. Meanwhile, a markedly lower rate of general betting duty is charged on financial spread bets in recognition of their use by investors and their equivalence to other financial services products.

### What should be done?

If gambling duty cannot be entirely replaced by VAT on sales net of winnings paid out then the various rates and thresholds should be simplified into a single rate that reflects what VAT would be (ie, 20 per cent less an amount equivalent to VAT paid on inputs) or firms’ VAT expenditures should be deductible from it. A reduced rate should be used for financial spread bets to reflect their different circumstances and avoid a tax rise.

# INCOME TAX

## What is it?

Income tax is levied on most personal income and provides the largest receipts of any tax, over a quarter of the total. It was first introduced in Great Britain (but not Ireland) at 10 per cent on annual incomes above £200 (and graduated rates between £60 and £200) in 1799 to fund the Napoleonic wars. It was withdrawn in 1802 then reintroduced in 1803 and lasted until 1816, one year after the battle of Waterloo. In 1842, income tax was once again reintroduced on incomes over £150. Rates soared during the world wars. The standard rate rose from 6 per cent to 30 per cent between 1914 and 1918. By 1939 the standard rate was still 29 per cent but by 1945 it had risen to 50 per cent while the top rate rose from 70 per cent payable on incomes over £50,000 to 98 per cent on incomes over a much lower £20,000. A 98 per cent rate on 'unearned' income returned between 1973-74 and 1978-79.

The current basic rate is 20 per cent, the higher rate is 40 per cent and the additional rate is 45 per cent, having been introduced at 50 per cent in 2010 and cut to its current level in 2013. A further effective rate of 60 per cent exists on incomes above £100,000 extending above that by twice the level of the personal allowance. Technically, the personal allowance is reduced by £1 for every £2 of income earned in excess of £100,000. This was also introduced in 2010, and its convoluted structure was (almost certainly) chosen to disguise the existence of such a high rate.

The personal allowance of tax-free income was £12,500 in 2019-20 and 2020-21. It was raised to £12,570 in 2021 but has been frozen since then. The higher rate limit was £37,500 between April 2019 and April 2021 when it was raised to £37,700. This is added to the personal allowance to produce the higher rate threshold of £50,270, above which the higher rate (40 per cent) of tax is paid. It has been frozen since then. The additional rate threshold was set at £150,000 in 2010-11, where it was frozen until 2023-24, when it was reduced to £125,140.

## What's the problem with it?

Income tax weakens incentives to engage in productive economic activity. In some cases and for some people, it makes the difference between an activity or investment being worthwhile or not. This means that some jobs and promotions are not sought by workers, and some are not created by employers because some investments are not made in the first place. This leads to lower employment, lower incomes and lower productivity. The difference between taxes on consumption and taxes on income is that income taxes also hit investment, which makes them disproportionately damaging to the economy. More directly, it reduces the amount of money workers and investors have to spend on what they value for themselves and their families.

The progressive and differential rate structure creates complexity, not just because of the rates and thresholds themselves, but also because of the anti-avoidance measures which are required to tackle unwelcome attempts to take advantage of different rates.

## What should be done?

1. All taxes on income (including national insurance, capital gains tax and corporation tax) should be replaced over time with a single tax on all income at a single rate of 30 per cent. See our report *How to abolish national insurance* for detailed plans which ensure that all taxpayers, including pensioners, could be better off with a well-designed reform.
2. In the meantime:
  - a. The higher rate of 40 per cent should be cut in steps.
  - b. The 45 per cent additional rate should be abolished immediately.
  - c. The 60 per cent effective rate above £100,000 should be abolished immediately.

- d. The personal allowance should be increased and then formally tied to earnings growth.
- e. The higher rate threshold should be increased and then formally tied to earnings growth.



# INHERITANCE TAX

## What is it?

Inheritance tax (IHT) is an estate tax charged on the estates of the deceased. The probate duty was introduced in 1694 and was replaced in 1889 by estate duty. That was replaced in 1975 by the capital transfer tax which included lifetime gifts in its scope. In 1986, lifetime gifts were removed (subject to partial tax on gifts made within seven years of death) and it was renamed as inheritance tax. Rates initially ranged from 30 to 60 per cent but in 1988 all were abolished except the 40 per cent rate, which remained unchanged ever since.

Reliefs for agricultural land and business assets were reduced from 100 to 50 per cent at the 2024 autumn budget, meaning that inheritance tax on those asset classes rose from 0 to 20 per cent.<sup>34</sup>

## What's the problem with it?

Inheritance tax is distortionary, unfair and very unpopular.

The structure of inheritance tax means that it is distortionary in several ways. Reliefs for items such as agricultural property, heritage assets and certain business assets prompt people to take, buy and sell assets to avoid tax, sometimes outweighing other objectives. This distortion of decision-making generates a net loss to society. Exemptions for lifetime gifts encourage premature transfer of assets, leading people to transfer assets earlier than they would ideally like. Finally, it discourages saving on your heirs' behalf in favour of immediate consumption or cash transfers. The higher threshold specifically for residential property encourages people to invest in houses instead of other assets, adding inflationary pressure to house prices while reducing the capital available for other uses, such as business investment.

The scope for avoidance through tax planning means that inheritance tax often serves as a tax on unlucky people whose benefactors either died unexpectedly early or who felt unable to afford professional advice. It is also levied at a difficult time for families, on the death of a relative.

Unsurprisingly, given that many people hope to be able to bequeath to their children an inheritance, and payment is associated with a death in the family, inheritance tax is highly unpopular. A 2025 Public First poll commissioned by the TaxPayers' Alliance found that 55 per cent supported abolishing or cutting inheritance tax, compared to just 31 per cent who thought it should be left unchanged or raised.<sup>35</sup>

## What should be done?

1. Abolish inheritance tax entirely.
2. In the meantime:
  - a. Remove the residential property distortion by raising the standard threshold to match it (from £325,000 to £500,000),
  - b. Halve the rate to 20 per cent and
  - c. Restore full relief for agricultural land and business assets.

<sup>34</sup> For a fuller briefing on the changes announced at the 2024 autumn budget, see: [www.taxpayersalliance.com/briefing\\_inheritance\\_tax](http://www.taxpayersalliance.com/briefing_inheritance_tax).

<sup>35</sup> Public First, *Public First Omnibus (December 2024) TPA*, December 2024, [assets.nationbuilder.com/taxpayersalliance/pages/23039/attachments/original/1736935391/Public\\_First\\_Omnibus\\_%28December\\_2024%29\\_TPA\\_.xlsx](https://assets.nationbuilder.com/taxpayersalliance/pages/23039/attachments/original/1736935391/Public_First_Omnibus_%28December_2024%29_TPA_.xlsx) (accessed 28 May 2025).  
[info@taxpayersalliance.com](mailto:info@taxpayersalliance.com)

# INSURANCE PREMIUM TAX

## What is it?

Insurance premium tax (IPT) is a tax on general insurance premiums. It was introduced in 1994 at a single rate of 2.5 per cent. A second higher rate was introduced in April 1997 on travel, household appliances and some motor vehicle insurance. The history of the rates is shown below with the year a rate was introduced. The rates have remained unchanged since 2017.

Rate	1994	1997	1999	2011	2015	2016	2017
Standard	2.5	4.0	5.0	6.0	9.5	10.0	12.0
Higher	-	17.5	17.5	20.0	20.0	20.0	20.0

## What's the problem with it?

False equivalence to VAT. Most economists agree that taxes should normally treat different economic activities neutrally, to minimize the harm a tax system imposes on an economy. The problem is that insurance premiums are not the equivalent figure to neutrally compare, economically speaking, insurance with other activities. The economic value of a tomato, for example, is found in the whole price of that tomato. All the costs and profit involved relates to bringing the tomato to the retail outlet. But the economic value of insurance does not relate to the whole premium. Much of the price of insurance premiums is merely akin to making deposits into a savings account, with the insurance function there to make sure everyone has enough 'saved' for when they need the money. It's just as irrational to think of insurance premiums as equivalent to normal goods and services in this way as it would be to do so to regular bank accounts.

The problem is that chancellors have done exactly that. In 2016 then chancellor Philip Hammond said IPT was 'half the rate of VAT' in his 2016 autumn statement, as if to explain the next sentence in his speech: a rise from 10 to 12 per cent. But over half the value of insurance premiums is accounted for by payouts, so the equivalent rate should have been cut, not raised, to make it equivalent to VAT.

The problem is the same with any arbitrary tax on specific items. As well as making holidays, homes and electrical goods more expensive for households to insure, over-taxing insurance means that there will be too little insurance. The increase to 12 per cent in June 2017 exacerbated this problem.

Another problem is that sectors with high payout ratios are disproportionately taxed. The rate of IPT required to be genuinely equivalent to VAT at 20 per cent in property insurance would be around 8 per cent, for example, while in motoring insurance, the equivalent rate would be 3 per cent.

## What should be done?

1. Reverse the 2017 rise to 12 per cent and instead cut the rate to make it equivalent to VAT.
2. Scrap the higher rate of 20 per cent.
3. Reform IPT by allowing insurers to deduct their payouts from their total VAT base while raising the rate to the same as VAT.

# LANDFILL TAX

## What is it?

Landfill tax applies to waste disposed at landfills in England and Northern Ireland. Very similar measures apply in Scotland (Scottish landfill tax) and Wales (landfill disposal tax). It was first announced in the 1994 autumn budget and introduced in October 1996. The standard rate from 1 April 2025 is £126.15 per tonne and the lower rate is £4.05 per tonne and they rise with the RPI measure of inflation.<sup>36</sup> The lower rate is only applicable to waste disposed at authorised landfill sites and applies to inactive waste such as naturally occurring building materials like gypsum (but not plasterboard), silica (but not man-made fibres) or glass and bricks (but not glass fibre). The objective is to reduce the negative side effects of landfill use in terms of contamination of ground water, dust creation, noise and emissions of gases including methane.

## What's the problem with it?

Landfill tax creates new social and environmental problems, is arbitrary and excessive and has led to the creation of an intrusive system of compliance and monitoring.

By making it more expensive to send waste to landfill, the tax incentivises people to be more sparing in the use of materials in the first place and then to reuse and recycle more. But it also incentivises people to dispose of waste in other, more harmful ways such as fly-tipping and incineration. The latter is typically used to generate electricity but is nonetheless a source of air pollution and unpleasant smells for those living downwind of the plants. In 2023-24 there were 1.2 million incidents of fly-tipping in England, up from 860,000 in 2013-14.<sup>37</sup> That's more than the estimated 800,000 streets in England.<sup>38</sup>

At £126.15 per tonne, the tax dwarfs the costs of running a landfill site. In 2023-24 the median non-hazardous 'gate fee' (before tax) was just £24 per tonne within a range of £6 to £57.<sup>39</sup> The tax in 2023-24 was £102.10 per tonne but even at that lower rate before the April 2025 hike it still represented 81 per cent of the median cost of disposing of waste in landfills and 94 per cent of the lowest charging sites.

The Mirrlees review noted in 2011 that the original rate (£7 per tonne from October 1996) was "a rate set at something close to the best estimates" justified by research but that the then current rate of £40 per tonne and proposal to increase it to £80 was "several times greater than any reasonable estimate of the external cost associated with landfill" and "hard to justify".<sup>40</sup> While the landfill tax rate is hard to justify on the grounds of external costs it does serve the function of making incinerators artificially viable. The median gate fee per tonne of non-bulky waste at energy from waste facilities was £112 without persistent organic pollutants (or £116 with) in 2023-24,<sup>41</sup> meaning they were just below the £126.10 combined total of the median landfill gate fee plus landfill tax that year.

No longer being a member of the European Union means Britain is no longer bound by the 1999 European landfill directive, so there is no longer an external reason why British policy could not be tailored to match the actual external costs of landfill as was the case between its introduction in 1996 and the directive coming into force in 1999.

<sup>36</sup> HM Revenue and Customs, *Landfill Tax: increase in rates*, 30 October 2024, [www.gov.uk/government/publications/landfill-tax-rates-for-2025-to-2026/landfill-tax-increase-in-rates](https://www.gov.uk/government/publications/landfill-tax-rates-for-2025-to-2026/landfill-tax-increase-in-rates) (accessed 24 April 2025).

<sup>37</sup> Department for Environment, Food & Rural Affairs, *Fly-tipping statistics for England: Fly-tipping incidents and actions taken national level data 2007/08 to 2023/24*, 26 February 2025, [www.gov.uk/government/statistics/fly-tipping-in-england](https://www.gov.uk/government/statistics/fly-tipping-in-england) (accessed 12 May 2025).

<sup>38</sup> Winn, C., *Great British Street Names*, Quardrille, December 2021, p.5.

<sup>39</sup> WRAP, *Gate fees report 2023/24 – Comparing the costs of alternative recycling and waste treatment options*, May 2024, p. 57.

<sup>40</sup> Mirrlees, J. et al., *Tax by design*, Institute for Fiscal Studies, September 2011, p.242.

<sup>41</sup> WRAP, *Gate fees report 2023/24 – Comparing the costs of alternative recycling and waste treatment options*, May 2024, p.47. [info@taxpayersalliance.com](mailto:info@taxpayersalliance.com)

The excessive rate of the landfill tax has led to a relatively high tax gap, the second highest across all taxes according to Environmental Services Association and HMRC evidence to the public accounts committee.<sup>42</sup> And this in turn has led to new powers for the Environment Agency, a mandatory electronic tracking-of-waste system,<sup>43</sup> a national database of registered brokers and a duty of care upon householders to check that a waste disposer is registered, on pain of a fixed penalty notice of £300 in Wales or £200 in England, subject to variation by a local authority. A parliamentary question revealed that in May 2021 there were “approximately 48 HMRC investigators working on landfill tax compliance”,<sup>44</sup> in addition to the staff in local authorities, the Environment Agency and landfill site operators themselves.

### What should be done?

Reduce the standard rate back to its 1996 level, adjusted for inflation, which would be approximately £14 for 2025-26. The £4.05 reduced rate has remained at its inflation-adjusted level and does not need to be altered.

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<sup>42</sup> Public accounts committee, *Government actions to combat waste crime*, 8 September 2022, p. 14.

<sup>43</sup> Ibid, p. 3.

<sup>44</sup> Norman, J., *Landfill tax: Fraud – Question for Treasury*, UK Parliament, 20 May 2021, questions.parliament.uk/written-questions/detail/2021-05-20/4547 (accessed 12 May 2025).

# NATIONAL INSURANCE

## What is it?

National insurance is a collection of taxes on earned income which provides the second largest receipts after income tax, delivering a fifth of the total. It was introduced by the National Insurance Act 1911 as a contributory system of payments linked to benefits but, with the exception of a handful of minor maternity and bereavement benefits, this link now largely only exists in the form of accounting fictions.

National insurance is split into employer and employee contributions. It is levied weekly (or monthly) instead of annually, on a per-job instead of per-person basis. Both charges are levied on employee pension contributions but neither are on employer contributions. Definitions of employment status and allowable expenses vary slightly between income tax and national insurance due to the different legal basis of the two charges.

A separate lower earnings limit exists beneath the lower thresholds for payment. People earning above this level are treated as if they had paid national insurance for the purposes of benefits eligibility even if they have not paid any national insurance contributions.

The employee charge is 8 per cent up to an upper earnings limit, above which the rate is 2 per cent, while the employer rate is charged at 15 per cent with no upper threshold. The self-employed pay a lower 'class 4' rate of 6 per cent employee contributions plus a fixed weekly 'class 2' contribution (£3.50 in 2025-26) but are exempt from employer contributions. Some women who married before April 1977 are entitled to a special, lower rate of 1.85 per cent.

## What's the problem with it?

Like any income tax, national insurance weakens incentives to engage in productive economic activity. In some cases and for some people, it makes the difference between an activity being worthwhile or not. This means that some jobs and promotions are not sought by workers, and some are not created by employers because some investments are not made in the first place. This leads to lower employment, lower incomes and lower productivity. The difference between taxes on consumption and taxes on income is that the income taxes also hit investment, which makes them disproportionately damaging to the economy. More directly, they reduce the amount of money workers and investors have to spend on what they value for themselves and their families.

National insurance contributions are effectively a pair of duplicate income tax systems. This creates a bloated tax code which leads to inflated numbers of planning and avoidance agents and compliance officials to monitor and understand the system on behalf of taxpayers and HMRC. Economically, the employer charge operates as another income tax on workers because labour markets reflect the charge through adjusting wages. In the short term, however, before changes are passed through to wages, they function as a business tax on employers. This means that some tax (and wages) are hidden from employees, making it harder for employees to understand what their full compensation and tax liabilities are.

## What should be done?

1. All taxes on income (including national insurance, capital gains tax and corporation tax) should be replaced over time with a single tax on all income at a single rate of 30 per cent.
2. In the meantime:
  - a. National insurance should be renamed immediately to reflect its genuine tax function.
  - b. Rules on the basis of the charges and expenses and earnings definitions should be aligned with those which apply to income tax.
  - c. The employer rate should be cut to 10 per cent.
  - d. The starting age for employee national insurance should be raised from 16 to at least 26.

## Additional information

The TaxPayers' Alliance has campaigned vigorously to abolish national insurance for many years. In addition to numerous opinion pieces and press comments, we also undertook the following activity:

- 2011 *Abolish National Insurance* report was published and the key recommendation was to abolish national insurance.<sup>45</sup>
- 2012 *The Single Income Tax* recommended a comprehensive overhaul of the tax system including abolishing national insurance. Produced by the 2020 Tax Commission, a joint project with the Institute of Directors, the report explored the history, economics, politics and ethics of tax reform and recommended replacing all taxes on income with a single tax.<sup>46</sup>
- How to abolish National Insurance* explored in detail how to abolish national insurance as part of a plan to introduce a single income tax to ensure that all taxpayers, including pensioners, could be better off with a well-designed reform.<sup>47</sup>
- 2013 Our giant payslip stunt illustrated the full effect on payslips of national insurance. It was unveiled on College Green, Westminster.
- 2015 *What are you really paying?* video explained the effect of national insurance with a cartoon and simple language.
- 2016 *Merging Income Tax and National Insurance* urged the chancellor to abolish national insurance in his autumn statement.<sup>48</sup>
- 2017 *Young people and national insurance* raising the starting age on employee national insurance instead of loosening repayment terms on student loans.<sup>49</sup>
- 2024 *Briefing: changes to employer national insurance contributions* detailed the impact of the new government's employer national insurance rises.<sup>50</sup>

<sup>45</sup> Meakin, R., *Abolish National Insurance*, TaxPayers' Alliance, 2011.

<sup>46</sup> Heath et al, *The Single Income Tax*, 2020 Tax Commission, 2012.

<sup>47</sup> Meakin, R., *How to abolish National Insurance*, TaxPayers' Alliance, 2012.

<sup>48</sup> Meakin, R., *Merging Income Tax and National Insurance*, TaxPayers' Alliance, 2016.

<sup>49</sup> TaxPayers' Alliance, *Young people and national insurance*, 2017.

<sup>50</sup> TaxPayers' Alliance, *Briefing: changes to employer national insurance contributions*, 2024.

# PLASTIC PACKAGING TAX

## What is it?

Plastic packaging tax is levied on manufacturers or importers of 10 tonnes or more of plastic packaging.<sup>51</sup> It was introduced in April 2022. Where 30 per cent or more of the plastic packaging is recycled plastic the tax does not apply.<sup>52</sup> Excluded categories are licensed human medicine packaging, packaging set aside for non-packaging uses (such as film to enable fermentation to make silage), transport packaging to import multiple goods into the UK and packaging used in aircraft, ship and rail goods stores.<sup>53</sup> The rate from 1 April 2025 is £223.69 per tonne and rises with the CPI measure of inflation.<sup>54</sup>

## What's the problem with it?

Plastic packaging tax is a relatively new administrative and financial burden on enterprise that the Office for Budget Responsibility forecasts will raise just 0.02 per cent of government revenues in 2025-26.<sup>55</sup> The burden is likely to be borne by consumers in the form of higher prices for goods and services and it should be noted that higher prices is the intermediate objective of the tax in the service of the ultimate objective of prompting a switch to otherwise more expensive or inferior packaging materials or specifications.

As with all taxes, there is detailed guidance from HMRC on the various exemptions and classifications while private sector tax advisers have gained a new source of work advising clients how to ensure compliance and avoid overpaying.

## What should be done?

Abolish plastic packaging tax.

<sup>51</sup> HM Revenue & Customs, *Plastic Packaging Tax: steps to take*, 1 April 2025, [www.gov.uk/guidance/check-if-you-need-to-register-for-plastic-packaging-tax](https://www.gov.uk/guidance/check-if-you-need-to-register-for-plastic-packaging-tax) (accessed 12 May 2025).

<sup>52</sup> HM Revenue & Customs, *Check which packaging is subject to Plastic Packaging Tax*, 15 August 2023, [www.gov.uk/guidance/check-which-plastic-packaging-is-subject-to-plastic-packaging-tax](https://www.gov.uk/guidance/check-which-plastic-packaging-is-subject-to-plastic-packaging-tax) (accessed 12 May 2025).

<sup>53</sup> HM Revenue & Customs, *Check which packaging is not subject to Plastic Packaging Tax*, 12 October 2022, [www.gov.uk/guidance/check-which-plastic-packaging-is-exempt-from-plastic-packaging-tax](https://www.gov.uk/guidance/check-which-plastic-packaging-is-exempt-from-plastic-packaging-tax) (accessed 12 May 2025).

<sup>54</sup> HM Revenue & Customs, *Plastic Packaging Tax: steps to take*, 1 April 2025, [www.gov.uk/guidance/check-if-you-need-to-register-for-plastic-packaging-tax](https://www.gov.uk/guidance/check-if-you-need-to-register-for-plastic-packaging-tax) (accessed 12 May 2025).

<sup>55</sup> Office for Budget Responsibility, *March 2025 Economic and fiscal outlook – detailed forecast tables: receipts*, March 2025, [obr.uk/download/march-2025-economic-and-fiscal-outlook-detailed-forecast-tables-receipts/?tmstv=1744930726](https://obr.uk/download/march-2025-economic-and-fiscal-outlook-detailed-forecast-tables-receipts/?tmstv=1744930726) (accessed 17 April 2025).



## SOFT DRINKS INDUSTRY LEVY (SUGAR TAX)

### What is it?

The soft drinks industry levy, popularly known as the sugar tax, is a flat-rate tax on soft drinks with a sugar content of at least 5 grams in 100 millilitres and a higher rate when the sugar content is at least 8 grams in 100 millilitres. Between its introduction in 2018 and March 2025 the rates were 18p and 24p per litre but the autumn 2024 budget announced that the rates from April 2025 would be £1.94 and £2.59 per 10 litres and will rise, by 2029, to catch up with CPI inflation since 2018 but spread evenly over the five years. The levy applies to alcoholic drinks with an alcohol content under 1.2 per cent (i.e., exempt from alcohol duties) but not drinks where no sugar is added. Pure fruit juices and drinks with at least 75 per cent milk are exempt. The objective of the levy was to influence people's decisions about their diets in a way that will improve health.

### What's the problem with it?

The soft drinks industry levy is ineffectually designed, economically harmful and morally questionable.

#### *Ineffectual*

A 2021 study initially found that there had been no statistically significant change in purchased volume but then was retracted when the authors realised that volumes actually increased.<sup>56</sup> Meanwhile, obesity rates have been increasing.<sup>57</sup>

#### *Economically harmful*

As well as the compliance costs involved with levying any tax (for both tax authorities and businesses), consumers are likely to suffer a welfare loss due to switching to inferior brands or alternative sugar sources to avoid the levy. To the extent that consumers absorb price increases, their spending power is reduced as resources are transferred to the public sector.<sup>58</sup>

#### *Morally questionable*

Perhaps more than any other 'sin' tax, using the tax system to influence the lifestyle choices of adults raises questions about the moral acceptability of interventions. Health authorities may offer advice and education on health issues. But where behaviour has no effect on other people, it becomes highly questionable whether it is justified for government to resort to tax as a means of enforcing its advice.

### What should be done?

The levy should be scrapped immediately.

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<sup>56</sup> British Medical Journal, *Changes in soft drinks purchased by British households associated with the UK soft drinks industry levy: controlled interrupted time series analysis*, 10 March 2021, [www.bmj.com/content/372/bmj.n254](https://www.bmj.com/content/372/bmj.n254) (accessed 2 April 2025).

<sup>57</sup> Office for Health Improvement & Disparities, *Obesity Profile: short statistical commentary May 2024*, 8 May 2024, [www.gov.uk/government/statistics/update-to-the-obesity-profile-on-fingertips/obesity-profile-short-statistical-commentary-may-2024](https://www.gov.uk/government/statistics/update-to-the-obesity-profile-on-fingertips/obesity-profile-short-statistical-commentary-may-2024) (accessed 2 April 2025).

<sup>58</sup> TaxPayers' Alliance, *Sugar tax briefing*, 2016.



# STAMP DUTY LAND TAX

## What is it?

Stamp duty land tax (SDLT) is a tax on the purchase of property payable by buyers. It was introduced in 2003 but replaced stamp duty, which was first introduced in England in 1694 and was only intended to last for four years. It was levied on an increasing range of goods during the 18th and 19th centuries and required a physical stamp as proof of payment.

A single 1 per cent rate of stamp duty above a threshold existed from 1984 to 1997, when two new thresholds and rates (1.5 and 2 per cent) were added. The rate was paid on the whole transaction amount. Higher rates were raised to 3 and 4 per cent by 2000. In 2011, two further thresholds and rates were added for residential properties (5 per cent above £1 million and 7 per cent above £2 million). In 2014, the system on residential property was switched from a 'slab' (rate payable on the whole amount) to a 'marginal' one (where the higher rates are only payable on the amount over the threshold). SDLT on commercial (or mixed) properties switched to a marginal system in 2016. The new rates are listed in the table below. Additionally, rates are 3 percentage points higher if the buyer owns another property. First time buyers are exempt from SDLT on the first £300,000.<sup>59</sup> This exemption does not apply on property over £500,000.

Rate payable above threshold	2%	5%	10%	12%
Residential thresholds (£):	125,000 <sup>60</sup>	250,000	925,000	1,500,000
Commercial (or mixed) thresholds (£):	150,000	250,000	N/a	N/a

## What's the problem with it?

The 'incidence' (who is economically worse off, as distinct from who is required to pay the money) of SDLT depends on whether we are thinking about who 'pays' the tax after it has already been put in place, or who 'pays' when it is introduced (or withdrawn, or the rates are altered).

Because buyers factor in their SDLT bill when deciding how much to pay for a property, the buyer 'pays' when considering transactions on their own. Buyers start off with cash worth the value of the property and the value of the SDLT and then end up with just the value of the property. A seller, by contrast, swaps a property for cash of the same value. But when SDLT is introduced or raised, property owners immediately 'pay'. Instead of increasing their overall budget, buyers allocate some of their overall budget for SDLT, leaving less left over for the purchase. This means that prices fall to account for the reduced demand from buyers, reducing the value of property. So the cost falls on both buyers and sellers and adds up to much more than the tax receipts HMRC receives.

The big problem with SDLT is that its incidence on buyers means that it reduces people's willingness to buy property, which in turn means that people fail to move homes when it suits their requirements, such as for a new job or to reduce their housing costs when adult children have left home after education. This gets in the way of the housing market reallocating homes when circumstances change. Growing companies find it harder to recruit the right employees, older home-owners stay in family homes which could be better suited to younger, growing families, and workers who do take new jobs sometimes accept longer, less pleasant commutes because SDLT means it's just not worth moving.<sup>61</sup>

<sup>59</sup> The first time buyer threshold was £425,000 and the limit £625,000 between September 2023 and April 2025.

<sup>60</sup> The 2 per cent band on residential property was abolished in September 2022 but was reinstated on 1 April 2025.

<sup>61</sup> Hilber, C., *Written evidence to the treasury select committee*, 2 May 2016, [personal.lse.ac.uk/hilber/evidence/Hilber\\_Evidence\\_HMTreasuryCommittee\\_2016\\_05.pdf](https://personal.lse.ac.uk/hilber/evidence/Hilber_Evidence_HMTreasuryCommittee_2016_05.pdf) (accessed 6 April 2025).  
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### What should be done?

1. Abolish SDLT entirely when possible.
2. In the meantime, raise the nil rate threshold to £1 million, replace the four rates with a single 5 per cent rate above that and scrap the 3 per cent additional homes surcharge.

# STAMP DUTY ON SHARES

## What is it?

Stamp duty on shares refers to two taxes on the purchase of most shares and some other financial instruments payable by the buyers. Most bond transactions are exempt. Stamp duty reserve tax (SDRT) applies to electronic transfers of shares. It was introduced in 2003, replacing stamp duty which was first introduced in England in 1694. It is rounded up to the nearest penny. Stamp duty still applies to paper share certificates over £1,000 in value and is rounded to the nearest £5.

A standard rate of 0.5 per cent has applied since 1986, when it was halved from 1 per cent, having been halved two years previously from 2 per cent. Stamp duty historically applied to land and buildings (at various rates) but in 2003 this ended with the introduction of the new, separate stamp duty land tax. In 2014, shares listed on the London Stock Exchange's alternative investment market and high growth segment became exempt from SDRT. Subscriptions to new share of offerings, purchases of units in a unit trust and purchases of shares in an open ended investment company are also exempt.<sup>62</sup>

## What's the problem with it?

Stamp duties reduce the efficiency of stock markets for UK companies, with a disproportionately large burden on marginal investment projects, and they distort merger and acquisition activity, encouraging overseas ownership. Liability on equity transactions but not debt encourages a bias towards using debt.

It makes raising capital more expensive in two ways. First, to raise capital, investors must pay the stamp duty bill as well as the investment sum. Secondly, by shifting the balance between investments away from equity, it reduces the size of the market which then leads to investors demanding a higher return to reflect the increased chance of being unable to sell their shares quickly and easily. This effect is particularly acute for smaller companies because their shares are traded less frequently so investors price in anticipated 'flight to liquidity', which makes capital more expensive.

Efficient capital markets enable companies to grow, creating jobs and prosperity. Harming their efficiency is a particularly destructive way of raising tax revenue, not only hitting the (primarily pension) funds which own most shares, but also the whole economy due to the destructive effects mentioned above.<sup>63</sup>

## What should be done?

Abolish stamp duty entirely and without delay. A partial reduction or phased abolition would not be justified given the relatively small impact on public finances (stamp duty on shares accounts for under half of 1 per cent of total revenues).

<sup>62</sup> HM Government, *Tax when you buy shares*, 2022, [www.gov.uk/tax-buy-shares](https://www.gov.uk/tax-buy-shares) (accessed 4 April 2025).

<sup>63</sup> Oxera, *Stamp duty: its impact and the benefits of its abolition*, May 2007.  
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## TOBACCO DUTY

### What is it?

Tobacco duty is a levy paid on tobacco products. Different systems operate for cigarettes, cigars, hand-rolling tobacco, tobacco for heating and other products.<sup>64</sup>

Since May 2017, cigarettes have been subject to a minimum duty set at £446.67 per 1,000 (or £8.93 for a pack of 20) since 30 October 2024. Above a retail price of £10.70 (comprised of the £8.93 minimum duty plus 20 per cent VAT) for 20, a further duty of 16.5 per cent applies to the additional retail value above that level. Cigars, hand-rolling tobacco and other tobacco products are all subject to a flat duty per kg of product. Since October 2024, they are £417.33/kg for cigars, £476.83/kg for hand-rolling tobacco, £343.91/kg for tobacco for heating and £183.49/kg for other products. Government policy is to increase them by the RPI index of inflation plus 2 per cent except for hand-rolling tobacco, which will increase by RPI plus 12 per cent.

The government also plans to introduce a new vaping products duty in October 2026 at a rate of £2.20 per 10ml of e-cigarette liquid, although this is subject to consultation.

### What's the problem with it?

Tobacco duty is needlessly complicated, economically distortionary and morally oppressive. It is also associated with large 'grey' markets caused by attempts to avoid or evade high rates in the UK.

The relationship between public expenditure and tobacco consumption is weak for two reasons. First, many smokers do not acquire lung cancer or other major health problems due to smoking, so the case for charging all smokers with the public spending costs of those problems is weak. Secondly, smokers who do suffer major health problems due to smoking are more likely to die prematurely, reducing expenditure on state pensions and other age-related benefits. A premature death is obviously a cost to smoking, but it is a cost borne by the individual smoker, not other taxpayers.

HMRC estimates the illicit trade to account for 33 per cent of hand-rolling tobacco consumption in 2022-23 and 7 per cent of cigarette consumption.<sup>65</sup> This tax disincentive to avoid legitimate tobacco products puts at risk the health of smokers.

There also is no good reason why the rate of duty should differ between tobacco products. If the aim is to raise revenue then income taxes and VAT offer much more efficient routes which do not distort consumption patterns. But if the aim is to distort consumption patterns and reduce tobacco consumption then there should be no tax implication to whether the tobacco comes in a bag, a cigarette, a cigar, or any other form.

E-cigarettes, or vapes, are arguably the best smoking harm reduction product ever to have been devised. They are so beneficial that in 2021 the Medicines and Healthcare Regulatory Authority published guidance that the government said could lead to them being prescribed on the NHS, although this did not transpire.<sup>66</sup> Nonetheless, it would seem counterproductive to suppress such a beneficial product via sin taxes.

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<sup>64</sup> HM Revenue & Customs, *Tobacco Products Duty*, 3 April 2025, [www.gov.uk/guidance/tobacco-products-duty](https://www.gov.uk/guidance/tobacco-products-duty) (accessed 12 April 2025).

<sup>65</sup> HM Revenue & Customs, 3. *Tax gaps: Excise (including alcohol, tobacco and oils)*, 21 March 2025, [www.gov.uk/government/statistics/measuring-tax-gaps/3-tax-gaps-excise-including-alcohol-tobacco-and-oils#tobacco](https://www.gov.uk/government/statistics/measuring-tax-gaps/3-tax-gaps-excise-including-alcohol-tobacco-and-oils#tobacco) (accessed 1 April 2025).

<sup>66</sup> Department of Health and Social Care, *E-cigarettes could be prescribed on the NHS in world first*, 29 October 2021, [www.gov.uk/government/news/e-cigarettes-could-be-prescribed-on-the-nhs-in-world-first](https://www.gov.uk/government/news/e-cigarettes-could-be-prescribed-on-the-nhs-in-world-first) (accessed 28 April 2025).

### What should be done?

1. Freeze overall tobacco duty rates with any rises in lower rates at least matched by cuts in higher rates.
2. Tax tobacco at a uniform, single rate, by abolishing the needlessly complicated four elements to duty on cigarettes and separate rates for cigars, hand-rolling tobacco, tobacco for heating and other products with a single rate per kilogram of tobacco (although for administrative simplicity this rate could be applied per 1,000 cigarettes as approximately equivalent).
3. Scrap the vaping products duty.

## TV LICENCE FEE

### What is it?

The TV licence fee is a tax on receiving live broadcast television. Broadcast receiving licences were introduced by the Wireless Telegraphy Act 1904. When BBC Television was established in 1936 television services were included under the existing licence. Broadcasts were suspended during the second world war and, when they were reintroduced in 1946, separate TV licences were also introduced. Colour licences were introduced in 1968 and black and white licences remain in place, although there were 3,600 black and white TV licences in force in March 2024.<sup>67</sup> Radio licence fees were abolished in 1971.

TV licence fee receipts are hypothecated to the BBC.

### What's the problem with it?

The licence fee means that television viewers who do not care for or who object to BBC output are compelled to fund the BBC to gain permission to watch non-BBC material. In addition to questions about whether this is a proper role for the tax system, it also diverts funding away from television output that viewers would have chosen in favour of BBC output.

Before ITV first aired in 1955 the licence fee was arguably reasonable. If you were receiving television broadcasts then you were by definition consuming BBC content. But as more channels have entered the broadcasting market the weaker the link between the licence fee and BBC content has become to the point where it is now archaic and even absurd.

### What should be done?

The TV licence fee should be abolished and the BBC part-privatised. Instead, a direct government grant would fund the remaining content of the non-privatised part of the BBC to ensure public-service broadcasting elements continue to be provided.

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<sup>67</sup> TV Licensing, *Licences facts and figures*, [www.tvlicensing.co.uk/about/foi-licences-facts-and-figures-AB18](http://www.tvlicensing.co.uk/about/foi-licences-facts-and-figures-AB18) (accessed 4 April 2025).

# VALUE ADDED TAX

## What is it?

Value added tax (VAT) is a tax on the purchase price of most goods and services.

VAT was introduced in 1973 to replace purchase tax; a 33.3 per cent tax on goods classed as 'luxury' which was introduced in 1940 to discourage waste. The standard rate was cut from 10 to 8 per cent in 1974 when a higher 25 per cent rate (on petrol and some consumer goods) was introduced. This was halved in 1974 and the two were merged into a single 15 per cent rate in 1979. It was raised to 17.5 per cent in 1991 and again to 20 per cent in 2011 after a temporary cut to 15 per cent between December 2008 and December 2009. An 8 per cent reduced rate (mainly on domestic energy) was introduced in 1994 and cut to 5 per cent in 1997.

Businesses (including the self-employed) must register if turnover of non-exempt sales exceeds the threshold (£90,000 in 2025-26). VAT paid on firms' purchases is deducted from VAT charged to customers.

## What's the problem with it?

VAT operates much like income tax but with two key differences: it doesn't tax savings/investment, and lower (and zero) rates are applied to types of consumption rather than people's incomes. In the same way that income tax reduces the incentive to work, so too does VAT. People's 'real incomes' (incomes after adjusting for prices) are reduced by income tax and value added tax alike. It doesn't immediately matter whether we make people poorer by reducing their after-tax incomes or increasing the after-tax prices of the things they buy.

VAT's consumption tax base means that it is more economically efficient (or, more accurately, less inefficient) than income tax. But the different rates applied to different types of goods and services distort consumption patterns and create the opportunity for tax avoidance. The famous legal case to determine whether a Jaffa Cake is legally a chocolate-covered biscuit (subject to standard VAT) or a cake (zero-rated) is an example of the problem.

Compared to a sales tax (a tax levied on retailers' sales), VAT places a much greater administrative burden on businesses for two reasons. First, all businesses along a supply chain must levy the charge, not just retailers. Secondly, businesses need to monitor their purchases as well as sales to deduct the VAT they have paid from their bills. The upside is that the incentive for retailers to evade tax is reduced by the extent of deductions. This tradeoff is why economies with high consumption taxes tend to favour a VAT while those with lower ones have a sales tax.

## What should be done?

1. No increases.
2. No rates rises.
3. No item reclassifications.
4. Reform must be substantial to be worthwhile and the whole package must be revenue reducing to be acceptable.

## VEHICLE EXCISE DUTY

### What is it?

Vehicle excise duty (VED) is a levy paid to drive or park vehicles on public roads. A locomotive duty was introduced in 1889. VED was introduced in 1921 and the revenues were initially hypothecated to road spending, prompting the duty to be known as 'road tax'. This link was broken in 1937, however.

Three groups of charges apply, based on the date of registration of the vehicle: on or after 1 April 2017; before 1 March 2001; and between those dates.

VED on cars registered since April 2017 has an initial one-off rate in the first year based on bands of CO<sub>2</sub> emissions ranging in 2025-26 from £10 for zero-emissions cars to £5,490 above 255 g/km. There is a flat rate of £195 in subsequent years, except for cars with a list price over £40,000 where a £425 supplement applies in the second to sixth years. VED rates have increased with inflation since 2010.

Cars registered before April 2017 are attributed to one of 13 bands (ranging from £20 to £760 in 2025-26) based on CO<sub>2</sub> emissions unless they were registered before March 2001, in which case only two rates apply, based on whether the engine size exceeds 1,549cc (£220 or £360 in 2025-26).

Four bands apply to motorcycles and two to tricycles, based on engine size. Light goods vehicles pay a single rate. Heavy goods vehicles pay VED and HGV road user levy based on the weight, number of axles and suspension type. The first-year rate on diesel cars registered from April 2018 will be calculated as if the car were in the VED band above, except those certified as next-generation clean diesels.

VED was extended to electric cars, vans and motorcycles from April 2025.

### What's the problem with it?

Taxing vehicle ownership is arbitrary and the current system is needlessly complex. The revenue raised would be less economically damaging if taken from overall consumption through VAT, or from income through income tax. Concerns about emissions, meanwhile, are already addressed through fuel duty. Congestion has almost no link with vehicle ownership because it is highly specific to certain times and locations. Congestion charges and other road-pricing mechanisms are much better designed to address congestion.

VED discourages vehicle ownership, which affects low income households more, with worrying implications for employment, particularly in areas which cannot sustain frequent and dense public transport networks.<sup>68</sup>

### What should be done?

1. Freeze VED immediately (but link the HGV road user levy to road use costs).
2. Scrap the recurring VED charges leaving only first-year rates.
3. Abolish VED entirely as soon as possible (but retain HGV road user levy).

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<sup>68</sup> Wellings, R., *Time To Excise Fuel Duty?*, Institute of Economic Affairs, 2012.