

Evaluating the impact of frozen tax thresholds

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Introduction

The personal allowance for income tax increased sharply during the 2010s, rising by 61 per cent in real terms between 2010-11 and 2019-20. This delivered significant gains for taxpayers, lifting many on lower incomes out of paying income tax altogether. However, since 2021 it, along with a range of other thresholds throughout the tax system, has been frozen, reversing around half of the increase enjoyed by taxpayers since 2010-11.¹ High inflation has exacerbated this, reducing the value of many of these thresholds in real terms and almost tripling the revenue originally expected from the freeze.² This has contributed to the rising tax burden which is set to reach a post war record high by 2026-27.³

Originally meant to last until 2025-26, the freeze was extended by the then Conservative government until 2027-28.⁴ With the chancellor of the exchequer reportedly needing to raise £20 to 30 billion at the upcoming budget to cover increased public spending,⁵ it seems increasingly likely that the freeze will be extended further beyond its 2028 deadline despite the government's earlier announcement that this would not happen.⁶ Extending the freeze beyond the current deadline would increase the financial burden on taxpayers, who have already been affected by the cumulative impact of high inflation since 2021.⁷

This note examines frozen thresholds in three key taxes: income tax, national insurance and inheritance tax, as well as other thresholds in the tax system which have been frozen. It will quantify the impact of the freeze on different groups as well as the wider economy, and make recommendations on how they should be changed to relieve the burden on taxpayers.

Key findings

Income tax and national insurance

- Frozen thresholds represent a substantial tax rise for all groups. Compared to if thresholds had not been frozen since 2021-22 and if the secondary threshold not been reduced to £5,000 in 2025-26, income tax and national insurance in 2025-26 are:
 - ♦ **£1,698** higher on the median income.
 - ♦ **£1,698** higher on 25th percentile incomes.
 - ♦ **£2,222** higher on 75th percentile incomes.
 - ♦ **£4,003** higher on top earnings like those of GPs and consultants.
- Threshold freezes are regressive, with lower earners facing a larger tax rise. Those with 25th percentile incomes face a **25.7 per cent** higher tax bill in 2025-26, compared to **15.7 per cent** for the median income and **12.9 per cent** for 75th percentile incomes.

¹ Adam, S. et al., *The government's record on tax 2010-24*, Institute for Fiscal Studies, 2024, p.9.

² Resolution Foundation, *Tax threshold freeze has almost tripled in size since its initial costings, with next year's freeze set to net £12 billion*, 1 April 2023, www.resolutionfoundation.org/press-releases/tax-threshold-freeze-has-almost-tripled-in-size-since-its-initial-costings-with-next-years-freeze-set-to-net-12-billion/ (accessed 20 November 2025).

³ Office for Budget Responsibility, *Public finances databank – October 2025*, 22 October 2025, obr.uk/download/public-finances-databank-october-2025/?tmstv=1763638053 (accessed 20 November 2025).

⁴ Office for Budget Responsibility, *The impact of frozen or reduced personal tax thresholds*, 2023, obr.uk/box/the-impact-of-frozen-or-reduced-personal-tax-thresholds/ (accessed 21 October 2025).

⁵ Jung, C. et al., *Fairness first: How the budget can make life better and the economy stronger*, 19 November 2025, Institute for Public Policy Research, 19 November 2025, www.ippr.org/articles/fairness-first-how-the-budget-can-make-life-better-and-the-economy-stronger (accessed 20 November 2025).

⁶ Masala, F., *Fiscal drag: An explainer*, House of Commons Library, 2025, p.7.

⁷ Francis-Devine, B., *High cost of living: Impact on households*, House of Commons Library, 2025, p.4.

- If the freeze is extended, the cost to taxpayers will rise even further. By 2029-30, compared to if thresholds had not been frozen since 2021-22 and if the secondary threshold not been reduced to £5,000 in 2025-26, income tax and national insurance will be:
 - ♦ **18.5 per cent** higher on the median income. In cash terms that's **£2,310**.
 - ♦ **30 per cent** higher on 25th percentile incomes. In cash terms that's **£2,310**.
 - ♦ **19.5 per cent** higher on 75th percentile incomes. In cash terms that's **£3,844**.
 - ♦ **13 per cent** higher on the income of GPs and consultants. In cash terms that's **£6,515**
- Ending the freeze as planned in 2028-29 would deliver savings for taxpayers. Taxes would be **£173** lower for median and 25th percentile incomes, **£468** lower for 75th percentile incomes and **£872** lower for top incomes by 2029-30 compared to if the freeze was extended.
- Ending the freeze in 2026-27 would deliver more savings for taxpayers. Taxes would be **£440** lower for median and 25th percentile incomes, **£1,182** lower for 75th percentile incomes and **£2,202** lower for top incomes by 2029-30 compared to if the freeze was extended.
- As a result of frozen thresholds those relying solely on the new state pension will have to **pay income tax for the first time** in 2027-28,⁸ with the amount owed reaching **£189** by 2029-30.

Other frozen thresholds

- The combined inheritance tax nil rate band and residence nil rate band is **£234,000** lower in 2025-26 than it would be if it had increased with inflation, or **£468,000** lower for a married couple.
- The amount someone can save in an Individual Savings Account (ISA) in 2025-26 is **£7,000** less than it would be if it had increased with inflation, while the starting rate for savings is **£1,750** lower.

International context

- **17 of 38** OECD countries had automatic indexing of personal income taxes in 2022, while **21 of 38** had this for social security contributions.⁹
- Around one third of European countries adopted reforms that **more than compensated** for fiscal drag, another third **largely offset** it while the last third at least **partially offset** it.¹⁰

Recommendations

- Restore frozen tax thresholds to what they would have been if they had not been frozen and commit to automatically uprate them by inflation.
- Abolish unnecessary complications that distort the tax system such as the tapered withdrawals of allowances and additional allowances for specific groups.
- Ensure consistency between the uprating of tax thresholds and the uprating of benefits. If tax thresholds continue to be frozen in nominal terms, then benefits should be frozen as well.

⁸ Morgan, R., *The history of the State Pension*, Charles Stanley, 15 July 2025, www.charles-stanley.co.uk/insights/commentary/history-of-the-state-pension (accessed 21 November 2025).

⁹ Organisation for Economic Cooperation and Development, *Taxing Wages Indexation of labour taxation and benefits in OECD countries*, 2023, p.48.

¹⁰ European Central Bank, *Fiscal drag in theory and in practice: a European perspective*, 2025, p.7.
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Tax thresholds and uprating

Thresholds in the tax system determine at what point someone becomes liable for a particular rate of tax. The clearest example of this is income tax which has three thresholds: the personal allowance (£12,570), the higher rate threshold (£50,270) and the additional rate threshold (£125,140). Where an individual's income falls within these thresholds determines how much they pay in income tax. There are also a small number of legacy structures, such as the blind person's allowance and marriage allowance that apply in certain circumstances but will not be covered in detail here.

If income is below the personal allowance, it is not taxed. Any income between the personal allowance and higher rate threshold is taxed at 20 per cent, anything between the higher rate threshold and the additional rate threshold is taxed at 40 per cent, and anything above the additional rate threshold is taxed at 45 per cent. In addition, for every £2 in income above £100,000, the personal allowance is reduced by £1.

As such, even if the tax rates do not change, thresholds have an impact on how much tax someone pays. This is particularly true because of inflation. Over time, prices across the economy tend to rise. Wages, for example, have risen by 4.8 per cent per year on average over the last five years.¹¹ However, this does not necessarily mean that the amount of goods and services someone can buy has gone up. If both wages and the price of goods and services rise by 2 per cent, then an individual's purchasing power has effectively remained the same. Yet as thresholds are set in cash terms, this may result in them being taxed at a higher rate even though they are no better off.

This effect can be observed through someone earning just below the personal allowance and who, as a result, pays no income tax. If inflation is 2 per cent and they receive a pay rise of 2 per cent, they are essentially no better off in real terms. However, if the personal allowance stays the same they will be liable for income tax on the amount of their income that now exceeds the personal allowance, leaving them worse off. To account for this, thresholds are generally uprated for inflation. This means that individuals only pay more tax when their income or assets increase in real terms.

Freezing tax thresholds

Just as uprating thresholds can be used to protect taxpayers from the effects of inflation, choosing not to do so can be a way for governments to raise tax revenues without changing the headline rate. If tax thresholds remain the same even as prices and wages rise in the economy, more people will be dragged into paying higher rates of tax. This is known as 'fiscal drag' or 'bracket creep'.

The effect of this can be substantial. In 2023, the Office for Budget Responsibility (OBR) forecast that 4 million additional individuals would start paying income tax, 3 million would start paying the higher rate of income tax and 400,000 would start paying the additional rate because of income tax threshold freezes between 2022-23 and 2028-29.¹² This represents a £44.6 billion tax rise by 2028-29,¹³ with frozen thresholds representing the single most significant tax rise since VAT was increased to 15 per cent in 1979.¹⁴ Income tax is not the only levy which has had its threshold frozen. Table 1 presents a list of currently frozen thresholds, based on the default indexation assumption in the baseline of the latest

¹¹ Institute of Chartered Accountants in England and Wales, *Chart of the week: wage inflation*, 14 March 2024, www.icaew.com/insights/viewpoints-on-the-news/2024/mar-2024/chart-of-the-week-wage-inflation (accessed 17 November 2025).

¹² Office for Budget Responsibility, *Fiscal implications of personal tax threshold freezes and reductions*, November 2023, obr.uk/box/fiscal-implications-of-personal-tax-threshold-freezes-and-reductions/ (21 October 2025).

¹³ *Ibid.*

¹⁴ Delestre, I. & Waters, T., *A deepening freeze: more adults than ever are paying higher-rate tax*, Institute for Fiscal Studies, 2023, p.2.

budget policy costings document.¹⁵ These are thresholds that HM Treasury assume will increase with inflation when calculating the costs of the government's fiscal policies.

Table 1: frozen tax thresholds as of the Spring Statement 2025

| Threshold | Frozen since | Frozen until |
|---|---|-----------------------|
| Income tax – personal allowance | 2021-22 | 2027-28 |
| Income tax – higher rate threshold | 2021-22 | 2027-28 |
| Income tax – additional rate threshold | 2023 ^{16,17} | 2027-28 |
| Income tax – starting rate for savings income | 2015-16 | - |
| Income tax – ISAs annual subscription limit | 2017-18 | 2029-30 |
| National insurance – primary threshold | Aligned with income tax – personal allowance | |
| National insurance – lower profits limit | Aligned with income tax – personal allowance | |
| National insurance – secondary threshold | 2022-23 | 2028-29 ¹⁸ |
| National insurance – upper earnings limit | Aligned with income tax – higher rate threshold | |
| Inheritance tax – nil rate band | 2009-10 | 2029-30 |
| Inheritance tax – residence nil rate band | 2020-21 | 2029-30 |
| Inheritance tax – threshold for tapered withdrawal of residence nil rate band | 2017-18 | 2029-30 |

Impact of threshold freezes

The most straightforward impact of threshold freezes is that individuals pay more in tax. This is exacerbated by high inflation, which may see things like wages rise significantly in nominal terms. As a result of the freeze in income tax thresholds alone, real household disposable income will be 1.4 per cent lower by 2027-28 than it otherwise would have been had the personal allowance and higher rate thresholds increased in line with inflation. This is equivalent to one third of the income growth that households would have experienced in the same period.¹⁹

Income tax and national insurance

The next section explores the income tax and national insurance burden in six different scenarios, outlined in table 2 below. It examines how a basic rate taxpayer on the median income, a basic rate taxpayer in the bottom 25 per cent of full-time income earners, a higher rate taxpayer in the top 25 per cent of full-time income earners, and a higher rate taxpayer earning over £100,000 have been affected by threshold freezes. Table 3 presents the threshold assumptions used in each of the seven scenarios.

¹⁵ HM Treasury, *Spring Statement 2025 Policy Costings*, 2025, pp.36-38.

¹⁶ The additional rate threshold was reduced in April 2023 from £150,000 to £125,140, which is the point at which the personal allowance is fully withdrawn and has been frozen at that level since then due to the personal allowance freeze.

¹⁷ HM Revenue & Customs, *Income Tax Additional Rate Threshold from 6 April 2023*, 21 November 2022, www.gov.uk/government/publications/lowering-of-the-additional-rate-threshold/income-tax-additional-rate-threshold-from-6-april-2023 (accessed 18 November 2025).

¹⁸ The secondary threshold was frozen by the previous Conservative government at £9,100 and subsequently lowered to £5,000 by the current Labour government in 2025-26 and is set to continue to be frozen to 2027-28.

¹⁹ Delestre, I. & Waters, T., *A deepening freeze: more adults than ever are paying higher-rate tax*, Institute for Fiscal Studies, 2023, p.2.

Table 2: scenarios examined in this note²⁰

| Scenario | Year | Explanation ²¹ |
|----------|---------|---|
| 1 | 2025-26 | The current situation |
| 2 | 2025-26 | If thresholds had not been frozen, but the secondary threshold is still reduced |
| 3 | 2025-26 | If thresholds had not been frozen and if the secondary threshold had not been reduced |
| 4 | 2029-30 | If the threshold freeze was extended to 2029-30 |
| 5 | 2029-30 | If thresholds were unfrozen in the upcoming tax year 2026-27 |
| 6 | 2029-30 | If thresholds had not been frozen and if the secondary threshold had not been reduced |
| 7 | 2029-30 | If thresholds are unfrozen in 2028-29 as planned |

Table 3: income tax and national insurance thresholds for the scenarios

| Threshold | Scenarios (£) | | | | | | |
|-----------------------|---------------|--------|--------|--------|--------|--------|--------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Personal allowance | 12,570 | 15,490 | 15,490 | 12,570 | 13,870 | 17,080 | 13,080 |
| Higher rate threshold | 50,270 | 62,090 | 62,090 | 50,270 | 55,570 | 68,580 | 52,380 |
| Primary threshold | 12,570 | 15,490 | 15,490 | 12,570 | 13,870 | 17,080 | 13,080 |
| Upper earnings limit | 50,270 | 62,090 | 62,090 | 50,270 | 55,570 | 68,580 | 52,380 |
| Secondary threshold | 5,000 | 5,000 | 10,872 | 5,000 | 5,509 | 11,978 | 5,201 |

Effect on median income

Table 4 presents the effects of income tax and national insurance threshold freezes on the full-time median income in each of the seven different scenarios. In 2025-26 taxes on this income amount to £12,517. Frozen income tax and national insurance thresholds have resulted in this figure being £818 higher relative to if they had not been frozen, assuming the 2024 secondary threshold cut still occurs.

The secondary threshold is the point at which employers start paying national insurance. It had been frozen at £9,100 by the previous Conservative government from 2022-23 and was subsequently cut to £5,000 from 2025-26 by the subsequent Labour government. If this had not occurred, and the secondary threshold had been allowed to rise with inflation from 2022-23, the cost of frozen tax thresholds for the median income worker rises to £1,698.

If the freeze is extended to 2029-30, taxes on the median income will be £14,762 in that year. This would be £173 more than if thresholds were unfrozen from 2028-29 as planned, £440 more than if they were unfrozen from 2026-27 and £2,310 more than if they had not been frozen in the first place and the secondary threshold not been cut.

Table 4: effect of frozen thresholds on the full-time median income²²

| Median income | Scenario (£) | | | | | | |
|---------------|--------------|--------|--------|--------|--------|--------|--------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Salary | 39,039 | 39,039 | 39,039 | 44,259 | 44,259 | 44,259 | 44,259 |

²⁰ Income figures increased by projected earnings growth in Office for Budget Responsibility, *Long-term economic determinants - March 2025 Economic and fiscal outlook*, 19 June 2025, obr.uk/download/long-term-economic-determinants-march-2025-economic-and-fiscal-outlook/?tmstv=1761840815 (accessed October 2025).

²¹ These scenarios assume the 2025 increase in employers' national insurance to 15 per cent still occurs.

²² Office for National Statistics, *Earnings and hours worked, all employees: ASHE Table 1.7a*, 23 October 2025, www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/allemployeesashtable1 (accessed 30 October 2025).

| Median income | Scenario (£) | | | | | | |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Income tax paid | 5,294 | 4,710 | 4,710 | 6,338 | 6,078 | 5,436 | 6,236 |
| Employee NI paid | 2,118 | 1,884 | 1,884 | 2,535 | 2,431 | 2,174 | 2,494 |
| Employer NI paid | 5,106 | 5,106 | 4,225 | 5,889 | 5,812 | 4,842 | 5,859 |
| Total tax paid | 12,517 | 11,700 | 10,819 | 14,762 | 14,321 | 12,452 | 14,589 |

Effect on 25th percentile income

The effect is similar for lower income levels, presented in table 5. Taxes on the 25th percentile of full-time income amounted to £8,313 in 2025-26. If they had not been frozen this figure would be £7,495, and if the secondary threshold had not been cut as well it would be £6,615.

If the freeze is extended to 2029-30, taxes on this income would rise to £9,995 for that year. This would be £173 higher than if they were unfrozen as planned for 2028-29, £440 higher than if they were unfrozen for 2026-27 and £2,310 more than if threshold freezes had not occurred in the first place.

Table 5: effect of frozen thresholds on the 25th percentile of income²³

| 25th percentile income | Scenario (£) | | | | | | |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Salary | 29,262 | 29,262 | 29,262 | 33,175 | 33,175 | 33,175 | 33,175 |
| Income tax paid | 3,338 | 2,754 | 2,754 | 4,121 | 3,861 | 3,219 | 4,019 |
| Employee NI paid | 1,335 | 1,102 | 1,102 | 1,648 | 1,544 | 1,288 | 1,608 |
| Employer NI paid | 3,639 | 3,639 | 2,759 | 4,226 | 4,150 | 3,179 | 4,196 |
| Total tax paid | 8,313 | 7,495 | 6,615 | 9,995 | 9,555 | 7,686 | 9,822 |

Effect on 75th percentile income

Table 6 presents this same analysis but for the 75th percentile of full-time income, representing higher rate taxpayers. Thresholds frozen since 2021-22 or 2022-23 have resulted in £1,341 more in taxes for this income level in 2025-26, rising to £2,222 when including the effects of the secondary threshold cut. If the freeze were extended to 2029-30, tax on this income percentile would be £23,594. This is £468 more than if thresholds were unfrozen from 2028-29 as planned, £1,182 more than if they were unfrozen from 2026-27 and £3,844 more than if thresholds had not been frozen in the first place.

Table 6: effect of frozen thresholds on the 75th percentile of income²⁴

| 75th percentile income | Scenario (£) | | | | | | |
|------------------------|--------------|--------|--------|--------|--------|--------|--------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Salary | 54,009 | 54,009 | 54,009 | 61,230 | 61,230 | 61,230 | 61,230 |
| Income tax paid | 9,036 | 7,704 | 7,704 | 11,924 | 10,604 | 8,830 | 11,400 |
| Employee NI paid | 3,091 | 3,082 | 3,082 | 3,235 | 3,449 | 3,532 | 3,321 |
| Employer NI paid | 7,351 | 7,351 | 6,471 | 8,435 | 8,358 | 7,388 | 8,404 |

²³ Office for National Statistics, *Earnings and hours worked, all employees: ASHE Table 1.7a*, 23 October 2025, www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/allemployeesashtable1 (accessed 30 October 2025).

²⁴ Ibid.

| 75th percentile income | Scenario (£) | | | | | | |
|------------------------|--------------|--------|--------|--------|--------|--------|--------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Total tax paid | 19,478 | 18,137 | 17,256 | 23,594 | 22,412 | 19,750 | 23,126 |

The 60 per cent tax trap

A pernicious element of the tax system that affects higher rate taxpayers is the 60 per cent tax trap. This happens when someone earns over £100,000, which is the point at which the personal allowance begins to be withdrawn by £1 for every £2 in additional income. This was introduced in 2010 and has been frozen ever since,²⁵ although this is not formally a threshold freeze as HM Treasury does not expect it to be updated. The withdrawal of the personal allowance creates an effective marginal income tax rate of 60 per cent between £100,000 and £125,140,²⁶ more than the additional rate of income tax which is 45 per cent. Distortions result, with people working less or using salary sacrifice and additional pension contributions to reduce their taxable income.²⁷ This contributes to the complexity of the tax system and reinforces the need for simplification. While those on over £100,000 make up a small percentage of the population, they include people like senior doctors and consultants which are an important factor in current NHS staffing difficulties.²⁸

Indeed, the starting salary for consultants, GPs and other doctors is just over £100,000.²⁹ Using this as a benchmark, table 7 presents the effect of the threshold freeze for someone on £106,500 in each of the six scenarios. Frozen thresholds have resulted in this group paying £3,122 more in taxes in 2025-26, rising to £4,003 when including the effects of the secondary threshold cut. If the freeze were extended to 2029-30, tax on this income percentile would be £872 more than if thresholds were unfrozen as planned for 2028-29, £2,202 more than if thresholds were unfrozen for 2026-27 and £6,515 more than if thresholds had not been frozen in the first place.

Table 7: effect of frozen thresholds on the income of GPs and consultants

| Income of GPs and consultants | Scenario (£) | | | | | | |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Personal allowance withdrawal starts | 100,000 | 154,600 | 154,600 | 100,000 | 110,200 | 170,350 | 104,040 |
| Salary | 106,500 | 106,500 | 106,500 | 116,424 | 116,424 | 116,424 | 116,424 |
| Income tax paid | 30,682 | 27,084 | 27,084 | 35,644 | 33,304 | 29,438 | 34,716 |
| Employee NI paid | 4,141 | 4,616 | 4,616 | 4,339 | 4,553 | 5,077 | 4,425 |
| Employer NI paid | 15,225 | 15,225 | 14,344 | 16,714 | 16,637 | 15,667 | 16,684 |
| Total tax paid | 50,048 | 46,925 | 46,044 | 56,697 | 54,495 | 50,182 | 55,825 |

It should be emphasised that threshold freezes will also have resulted in substantial numbers of taxpayers being brought into higher income tax brackets, meaning that not only will people be paying

²⁵ Adam, S. et al., *The government's record on tax 2010-24*, Institute for Fiscal Studies, 2024, p.13.

²⁶ Dodwell, B. et al., *Thresholds in the tax system: Policy and administrative considerations*, Institute for Fiscal Studies, 2024, p.17.

²⁷ Tax Policy Associates, *What are marginal rates? And why do they matter*, 18 June 2024, taxpolicy.org.uk/2024/06/18/what-are-marginal-rates-and-why-do-they-matter/ (accessed 28 October 2025).

²⁸ Ibid.

²⁹ Palmer, B. & Rolewicz, L., *Exploring the earnings of NHS doctors in England (2025 update)*, Nuffield Trust, 23 July 2025, www.nuffieldtrust.org.uk/resource/exploring-the-earnings-of-nhs-doctors-in-england-2025-update (accessed 30 October 2025).

more, but there will also be more of them. By 2027-28, 14 per cent of UK adults are expected to be paying the higher rates of income tax, compared to 11 per cent in 2022-23 and 3.5 per cent in 1991-92.³⁰

Regressivity and impact on young people

As discussed in the previous section, threshold freezes affect all those who pay income tax and national insurance. However, it does not affect all groups equally. Freezing thresholds have been a regressive measure, with lower incomes facing larger percentage increases in tax owed. Table 8 and 9 summarise the preceding tables and presents the differences between 2025-26 and 2029-30 scenarios in percentage terms, using scenario 1 (the status quo) as a baseline for 2025-26 and scenario 4 (extending the freeze to 2029-30) a baseline for 2029-30. By 2029-30, income tax and national insurance on the 25th percentile of income would be 30 per cent higher compared to if thresholds had not been frozen at all (scenario 6). This is more than the percentage difference for the median income, 75th percentile income and the income of GPs and consultants which are 18.5 per cent, 19.5 per cent and 13 per cent higher respectively.

Indeed, as a result of substantial increases in the minimum wage more minimum wage workers are being brought into income tax. The number of hours at the minimum wage needed to pay income tax is forecast to fall from 31 hours a week in 2015-16 to 18 hours by 2029-30 if the freeze is extended, the lowest level since the minimum wage was introduced in 1999.³¹ As the wages of young people are lower relative to older cohorts, frozen tax thresholds disproportionately affect this group, particularly as their income is almost exclusively earned through work compared to older and wealthier generations for whom dividend, rental or capital gains income is more common.³²

Table 8: percentage differences in tax paid between scenarios, 2025-26

| Tax paid in 2025-26 | Scenario 1 (baseline) | Scenario 2 | Difference (%) | Scenario 3 | Difference (%) |
|-----------------------------|-----------------------|------------|----------------|------------|----------------|
| Median income | 12,517 | 11,700 | 7 | 10,819 | 15.7 |
| 25 th percentile | 8,313 | 7,495 | 10.9 | 6,615 | 25.7 |
| 75 th percentile | 19,478 | 18,137 | 7.4 | 17,256 | 12.9 |
| GP and consultants | 50,048 | 46,925 | 6.7 | 46,044 | 8.7 |

Table 9: percentage differences in tax paid between scenarios, 2029-30

| Tax paid in 2029-30 | Scenario 4 (baseline) | Scenario 5 | Difference (%) | Scenario 6 | Difference (%) | Scenario 7 | Difference (%) |
|-----------------------------|-----------------------|------------|----------------|------------|----------------|------------|----------------|
| Median income | 14,762 | 14,321 | 3.1 | 12,452 | 18.5 | 14,589 | 1.2 |
| 25 th percentile | 9,995 | 9,555 | 4.6 | 7,686 | 30.0 | 9,822 | 1.8 |
| 75 th percentile | 23,594 | 22,412 | 5.3 | 19,750 | 19.5 | 23,126 | 2 |
| GP and consultants | 56,697 | 54,495 | 4.0 | 50,182 | 13.0 | 55,825 | 1.6 |

³⁰ Delestre, I. & Waters, T., *A deepening freeze: more adults than ever are paying higher-rate tax*, Institute for Fiscal Studies, 2023, p.2.

³¹ Delestre, I. et al., *How are frozen tax thresholds reshaping who pays personal taxes*, Institute for Fiscal Studies, 14 November 2025, ifs.org.uk/articles/how-are-frozen-tax-thresholds-reshaping-who-pays-personal-taxes (accessed 20 November 2025).

³² Haglund, A., *Extending the freeze on tax thresholds hurts the young and the poor*, Intergenerational Foundation, 25 October 2023, www.if.org.uk/2023/10/25/extending-the-freeze-on-tax-thresholds-hurts-the-young-and-the-poor (accessed 20 November 2025).

Impact on pensioners

Recent rises in the state pension, which is liable to income tax, have brought it close to the threshold at which tax starts to be paid. The state pension is triple locked meaning it rises with the highest of inflation, earnings growth or 2.5 per cent.³³ In 2026-27 this is expected to reach £12,548, £22 below the personal allowance threshold.³⁴ As can be observed from table 10 it will be £13,516 by 2029-30 based on current earnings and inflation forecasts.

If the personal allowance is frozen at £12,570 this will mean pensioners whose only income is the new state pension will have to start paying income tax for the first time ever from 2027-28.³⁵ As this is currently not handled through the pay as you earn (PAYE) system, it will create additional administrative burden for millions of people, as well as for the government due to greater eligibility for pension credit and other benefits.³⁶ By 2029-30, income tax on the state pension will be £189, with pensioners who have private pensions on top of this paying more income tax on that as well.

Table 10: forecast tax liability on the state pension

| Year | State pension (£) | Personal allowance (£) | Income tax owed (£) |
|---------|-------------------|------------------------|---------------------|
| 2025-26 | 11,973 | 12,570 | 0 |
| 2026-27 | 12,548 | 12,570 | 0 |
| 2027-28 | 12,862 | 12,570 | 58 |
| 2028-29 | 13,183 | 12,570 | 123 |
| 2029-30 | 13,516 | 12,570 | 189 |

Inheritance tax

Tables 11 and 12 consider the thresholds for inheritance tax and savings income. The nil-rate band for inheritance tax is the amount that someone can bequeath without being taxed at 40 per cent. While this has been frozen since 2009-10, the introduction of the residence nil-rate band in 2017-18 has resulted in the total amount someone is able to bequeath tax-free being slightly higher in real terms than in 2010-11.³⁷ However, this only applies if part of the inheritance stems from the individual's main residence, and if it is passed to direct descendants. In practice, this disadvantages those with more than £325,000 in net assets but less than £175,000 in residential property, and those who choose to pass their assets on to friends or other relatives,³⁸ representing another distortion in an overly complex tax system. It is important to note that these figures would be doubled for married couples as any unused threshold can be transferred to the surviving spouse.³⁹

Table 11: effect of frozen thresholds on inheritance tax

| 2025-26 | Nil rate band (£) | Residence nil-rate band (£) | Total (if main residence) (£) | Withdrawal of residence nil-rate band (£) |
|---------|-------------------|-----------------------------|-------------------------------|---|
| Current | 325,000 | 175,000 | 500,000 | 2,000,000 |

³³ Seely, A., *Taxation of state pension*, House of Commons Library, 2025 p.6.

³⁴ Brignal, M., State pension to hit £12,548 a year in April after triple lock boost, *The Telegraph*, 22 October 2025.

³⁵ Morgan, R., *The history of the State Pension*, Charles Stanley, 15 July 2025, www.charles-stanley.co.uk/insights/commentary/history-of-the-state-pension (accessed 19 November 2025).

³⁶ Delestre, I. et al., *How are frozen tax thresholds reshaping who pays personal taxes*, Institute for Fiscal Studies, 14 November 2025, ifs.org.uk/articles/how-are-frozen-tax-thresholds-reshaping-who-pays-personal-taxes (accessed 20 November 2025).

³⁷ Adam, S. et al., *The government's record on tax 2010-24*, Institute for Fiscal Studies, 2024, p.26.

³⁸ Advani, A. & Sturrock, D., *Reforming inheritance tax*, Institute for Fiscal Studies, 2023, p.17.

³⁹ HM Revenue & Customs, *Transferring unused basic threshold for Inheritance Tax*, 25 February 2022, www.gov.uk/guidance/transferring-unused-basic-threshold-for-inheritance-tax (accessed 29 October 2025).

| 2025-26 | Nil rate band (£) | Residence nil-rate band (£) | Total (if main residence) (£) | Withdrawal of residence nil-rate band (£) |
|-----------------------------------|-------------------|-----------------------------|-------------------------------|---|
| If thresholds had not been frozen | 515,000 | 219,000 | 734,000 | 2,659,000 |

As with the personal allowance, the residence nil-rate band is gradually withdrawn when the estate reaches a certain value. This has been frozen at £2 million since the introduction of the residence nil-rate band but would be almost £2.7 million if it had been increased with inflation. There is thus a marginal tax rate of 60 per cent between £2 million and £2.35 million as the allowance is withdrawn.⁴⁰

With house prices increasing by 24 per cent in the last five years alone,⁴¹ rising wealth and frozen thresholds have combined to cause a larger proportion of estates being subject to inheritance tax. This has risen from 4 per cent in 2020-21 to 5.3 per cent in 2024-25 to 7 per cent by 2032-33, with the number of people affected at 12 per cent in 2032-33.^{42,43}

Taxes on savings

Individual Savings Accounts (ISAs), introduced in 1999, protect savings from tax. Individuals can contribute up to a maximum of £20,000 to ISAs each year split across stocks or cash, with all future income, interest and capital gains in the account being tax free. Around two fifths of the UK adult population, or 22.3 million people, hold an ISA with approximately 7 per cent maxing out the contribution limit.⁴⁴ As with other thresholds previously discussed, the annual ISA contribution limit is supposed to be uprated by inflation but has been frozen since 2017-18, meaning it is £7,000 lower than it should be. Recent reports have suggested that rather than rectifying this and increasing the limit, the government may reduce the amount someone is able to put into cash ISAs specifically to £10,000 each year in order to force savers to invest in companies instead.⁴⁵

Table 12: effect of frozen thresholds on the ISA limit, starting rate for savings the personal savings allowance⁴⁶

| 2025-26 | ISA limit (£) | Starting rate for savings (£) | Basic personal savings allowance (£) | Higher personal savings allowance (£) |
|-----------------------------------|---------------|-------------------------------|--------------------------------------|---------------------------------------|
| Current | 20,000 | 5,000 | 1,000 | 500 |
| If thresholds had not been frozen | 27,000 | 6,750 | 1,390 | 695 |

There is also an allowance for interest on savings held outside of ISAs which has been frozen since 2015-16 at £5,000. This means that individuals do not have to pay tax on the first £5,000 of interest. However, it is only applicable to those whose other income is less than £17,570, with the allowance being reduced by £1 for every £1 in other income over the personal allowance.⁴⁷ Had the starting rate for savings increased with inflation it would be £6,750 today. The starting rate for savings should be differentiated

⁴⁰ Advani, A. & Sturrock, D., *Reforming inheritance tax*, Institute for Fiscal Studies, 2023, p.6.

⁴¹ HM Land Registry, *UK House Price Index: data downloads August 2025 Average price*, 22 October 2025, www.gov.uk/government/statistical-data-sets/uk-house-price-index-data-downloads-august-2025 (accessed 17 November 2025).

⁴² Advani, A. & Sturrock, D., *Reforming inheritance tax*, Institute for Fiscal Studies, 2023, p.1.

⁴³ *Ibid*, p.34.

⁴⁴ Suter, L., *ISAs turn 25: Who holds them and how much have they got*, AJ Bell, 4 April 2024, www.ajbell.co.uk/news/isas-turn-25-who-holds-them-and-how-much-have-they-got (accessed 29 October 2025).

⁴⁵ Osborne, H., *Cutting cash Isa limit will not boost stock market, MPs warn Rachel Reeves*, *The Guardian*, 25 October 2025.

⁴⁶ Assuming the higher personal savings allowance is half of the basic.

⁴⁷ Gov.uk, *Tax on savings interest*, www.gov.uk/apply-tax-free-interest-on-savings (accessed 29 October 2025).

from the personal savings allowance. This protects up to £1,000 in interest on cash for basic rate taxpayers and £500 for higher rate taxpayers. Both have not changed since 2016 when they were introduced, although like the point at which the personal allowance is withdrawn, it is not formally considered a freeze as HM Treasury does not expect it to be updated in their costing calculations. Table 12 shows that they would be £1,390 and £695 respectively if they had been updated in the same way as the starting rate for savings.

Other frozen taxes

While the preceding section generally covers thresholds that HM Treasury assumes will be updated in their policy costings, there are a range of other thresholds in the tax system that are not expected to be updated by default. These include the point at which the personal allowance is withdrawn and the personal savings allowance, but also stamp duty thresholds, the annual exempt allowance for capital gains, the annual gifting allowance for inheritance tax, the annual allowance for pension savings and the VAT registration threshold. In some cases, their value is simply allowed to fall over time in real terms, while in other cases governments have responded with sudden sharp increases in thresholds every few years.⁴⁸ For example, the annual allowance for pension savings was increased to £60,000 in 2023-24 after being held at £40,000 for the preceding seven years.⁴⁹

Table 13 presents these other thresholds and how long they have been frozen, as well as what they would be had the freeze not occurred. The annual exempt amount for capital gains tax has been particularly impacted as it was frozen at £12,300 from 2020-21 until 2023-24 when it was cut to £6,000 and then further cut to £3,000 in 2024-25 where it has remained. The table presents what it would have been based on the £12,300 and £3,100 starting point. The threshold for VAT registration was frozen at £85,000 from 2017-18 until 2023-24, at which point it was raised to £90,000

Table 13: other frozen tax thresholds and their value in 2025-26 (£)

| Threshold | Frozen since | Current value | What it should be |
|---|-------------------------------|---------------|-------------------|
| Stamp duty land tax – nil rate | 2014-15 ⁵⁰ | 125,000 | 175,000 |
| Stamp duty land tax – first time buyer relief | 2017-18 ⁴⁶ | 300,000 | 402,000 |
| Capital gains tax – annual exempt amount | 2021-22/2024-25 ⁵¹ | 3,000 | 15,300/3,100 |
| Inheritance tax – annual gifting allowance | 1981-82 ⁵² | 3,000 | 11,529 |
| Income tax – pension savings allowance | 2023-24 | 60,000 | 67,000 |
| VAT – registration threshold ⁵³ | 2024-25 | 90,000 | 92,000 |

The numerous frozen thresholds outlined in tables 1 and 13 are a symptom of a complicated tax system that includes various exemptions and reliefs. This complexity adds to the burden of administration and creates distortions such as discouraging work and pushing people towards assets and behaviours that

⁴⁸ Adam, S. & Roantree, B., 'UK Tax Policy 2010-15: An Assessment' in *Fiscal Studies* vol. 36 no. 3, 2015, pp.355-356.

⁴⁹ HM Revenue & Customs, *Pension schemes rates*, Gov.uk, 6 April 2025, www.gov.uk/government/publications/rates-and-allowances-pension-schemes/pension-schemes-rates (accessed 30 October 2025).

⁵⁰ The thresholds for stamp duty saw significant changes during the covid-19 pandemic and the period immediately thereafter but have returned to their pre-pandemic levels in 2025-26.

⁵¹ HM Revenue & Customs, *Capital Gains Tax rates and allowances*, 16 May 2025, www.gov.uk/guidance/capital-gains-tax-rates-and-allowances (accessed 30 October 2025).

⁵² Miller, L., *The tax thresholds frozen since the 80s – this is what they should be by now*, Money Week, 8 July 2025, moneyweek.com/personal-finance/tax/tax-thresholds-frozen (accessed 30 October 2025).

⁵³ The threshold for VAT registration was frozen at £85,000 from 2017-18 to 2023-24, before being raised to £90,000 in 2024-25 and frozen thereafter.

have little value beyond reducing an individual's tax burden. A more effective system would reduce the number of thresholds and thus the impact of freezing them.

Macroeconomic effects

A European Central Bank (ECB) study found that when it comes to income tax, fiscal drag tends to be more pronounced for low and middle income groups than for top earners, reducing the progressivity of the tax system when incomes rise.⁵⁴ As the Labour party highlighted in 2021, when it voted against freezing the personal allowance in opposition, the tax rise would target low and middle income earning families.⁵⁵ The then shadow secretary of state for health and current director of Labour Together, Jonathan Ashworth, said, "they're asking low-paid people to pay more in tax... we're not in favour of tax rises for lower- and middle-income families".⁵⁶ While the ECB study found that fiscal drag had an inequality reducing effect in two thirds of countries examined, this was mainly due to tax rises on average earners relative to those on the lowest incomes who do not pay income tax at all. Moreover, in about a quarter of countries, inequality increased.⁵⁷

Fiscal drag also impacts labour supply. Increasing the tax burden on labour reduces the incentive to work, making the structure of taxation less growth friendly.⁵⁸ As noted by the OBR, fiscal drag will directly affect the work incentives of 39 million taxpayers. It estimates that 7 million workers will reduce their hours in response to the higher marginal tax rates they face from being taken into tax or higher tax brackets. This results in a 130,000 full-time equivalent (FTE) decrease in labour supply, compared to a scenario in which thresholds rose in line with inflation from 2022-23.⁵⁹

Frozen thresholds impact businesses as well as individuals. The VAT registration threshold, which is the point at which businesses are required to start charging VAT, is a cliff edge. This means going even £1 over the turnover threshold results in a potential 20 per cent increase in their prices alongside other administrative costs. Understandably, many businesses choose to restrain their growth as a result, with 50 per cent of unregistered business reporting that they limited their turnover specifically to remain under the threshold.⁶⁰ This limits growth, and although such a phenomenon would occur to an extent regardless of where the threshold was set, a higher threshold would mean fewer firms are affected.

What is particularly problematic about freezing the VAT registration threshold is that it falls over time in real terms. This means that firms not only do not grow, but have to actively reduce their output in order to stay under the limit. Yet the costs they face are not frozen and will increase due to inflation, eating into their margins. Failure to uprate the VAT registration threshold thus puts businesses in a challenging position. They either start charging VAT, which may reduce their competitiveness, or see their margins eroded, potentially beyond the point of viability. Both outcomes are undesirable.

Inconsistency with benefits

Another issue is that at the same time as tax thresholds are frozen, benefits continue to be uprated. While both tax thresholds and benefits are meant to be uprated by inflation, governments have chosen

⁵⁴ European Central Bank, *Fiscal drag in theory and in practice: a European perspective*, 2025, p.2.

⁵⁵ Yorke, H., Labour to oppose personal allowance freeze just days after claiming it would back the policy, *The Telegraph*, 7 March 2021.

⁵⁶ Chappell, E. & Sienna, R., *Sunday shows: Labour opposes tax-free personal allowance freeze after U-turn*, Labour List, 7 March 2021, labourlist.org/2021/03/sunday-shows-labour-opposes-tax-free-personal-allowance-freeze-after-u-turn (accessed 24 October 2025).

⁵⁷ European Central Bank, *Fiscal drag in theory and in practice: a European perspective*, 2025, p.6.

⁵⁸ Kiss, Á. et al., *Growth-Friendly Taxation in a High-Inflation Environment*, European Commission, 2024, p.10.

⁵⁹ Office for Budget Responsibility, *The labour supply impacts of personal tax policies*, March 2024, obr.uk/box/the-labour-supply-impacts-of-personal-tax-policies/ (accessed 21 October 2025).

⁶⁰ HM Treasury, *VAT registration threshold: Summary of responses*, 2018, p.3.

to uprate the latter but not the former.⁶¹ Even as tax thresholds have been frozen, benefits have increased with inflation since April 2020, following a four year freeze in universal credit and jobseeker's allowance from 2016-17 to 2019-20.⁶² This means that at the same time as the value of work is being diminished due to higher taxes, the value of benefits have been protected, creating the exact opposite incentive to getting people off benefits and into work.

With more than one in five people between the ages of 16 and 64 claiming some kind of benefit, uprating them by inflation imposes a substantial cost to the public finances.⁶³ The total cost of working age benefits has almost doubled in nominal terms from £60.1 billion in 2018-19 to £117.9 billion in 2024-25.⁶⁴ This is before adding benefits for pensioners, such as the state pension that is guaranteed to rise by at least inflation if not more due to the triple lock, which brings total spending on welfare to £303.3 billion in 2024-25. This ever-growing cost results in more pressure to raise revenue through decisions such as extending threshold freezes which creates a vicious cycle of higher taxes and higher spending.

The global and historical context

Automatic uprating of income tax thresholds is common practice globally. Among OECD countries 17 of 38 had automatic indexing of personal income taxes in 2022, while 21 of 38 automatically indexed social security contributions.⁶⁵ Even where this does not take place automatically, governments generally take measures to offset the effects of fiscal drag. Among European countries, about one third partially offset fiscal drag, another third largely offset it while the final third adopted reforms that more than compensated for fiscal drag.⁶⁶ Some of these were not based on updating nominal parameters but on reforms such as introducing new tax deductions or modifying tax rates. In this regard, the UK is an outlier given the lack of compensatory measures. Table 14 breaks down the countries that automatically index personal income taxes and social security contributions.

Table 14: countries with automatic indexing, 2022

| Automatic indexing of personal income taxes |
|--|
| Belgium, Canada, Chile, Colombia, Costa Rica, Denmark, Iceland, Israel, Lithuania, Mexico, Netherlands, Slovakia, Slovenia, Sweden, Switzerland, Turkey, United States |
| Automatic indexing of social security contributions |
| Belgium, Canada, Chile, Colombia, Costa Rica, Czech Republic, Estonia, France, Greece, Israel, Italy, Lithuania, Luxembourg, Mexico, Netherlands, Poland, Slovakia, Slovenia, Sweden, Switzerland, United States |

This is not to say that thresholds have always been set to the detriment of taxpayers. One of the most prominent reforms under the coalition government was raising the income tax personal allowance.⁶⁷ This rose from £6,475 in 2010-11 to reach the chancellor's target of £10,000 by 2014-15.⁶⁸

⁶¹ HM Treasury, *Spring Statement 2025 Policy Costings*, 2025, pp.36-47.

⁶² BBC, *Benefits freeze to end in 2020, government confirms*, 3 November 2019, www.bbc.co.uk/news/uk-politics-50278634 (accessed 18 November 2025).

⁶³ Hagopian, A. & Maddox, D., *Welfare in numbers: The facts behind Britain's soaring benefits bill*, Independent, 2 July 2025, www.independent.co.uk/politics/benefits-pip-welfare-numbers-reeves-spring-statement-b2781198.html (accessed 24 October 2025).

⁶⁴ Department for Work and Pensions, *Outturn and forecast tales: Spring Statement 2025: Benefit summary table*, Gov.uk, 22 October 2025, www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2025 (accessed 18 November 2025).

⁶⁵ Organisation for Economic Cooperation and Development, *Taxing Wages: Indexation of labour taxation and benefits in OECD countries*, 2023, pp.47-48.

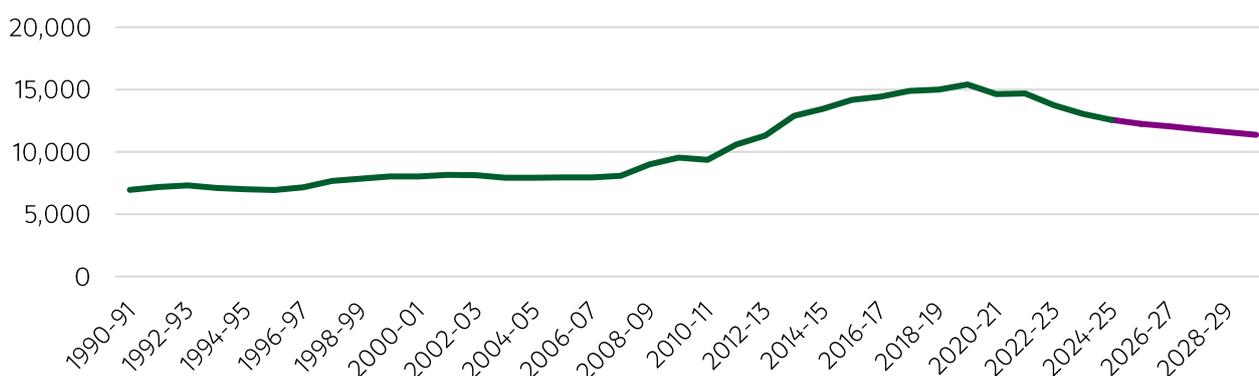
⁶⁶ European Central Bank, *Fiscal drag in theory and in practice: a European perspective*, 2025, p.7.

⁶⁷ Adam, S. & Roantree, B., 'UK Tax Policy 2010-15: An Assessment' in *Fiscal Studies* vol. 36 no. 3, 2015, p.356.

⁶⁸ Seely, A., *Income tax: freezing the personal allowance and the higher rate threshold*, House of Commons Library, 2025, p.12.

As can be observed in the chart below, the personal allowance rose sharply in the 2010s in real terms. This took many low-income working-age people out of income tax and gave a flat cash tax reduction to everyone above that,⁶⁹ primarily benefitting low- and middle-income earners for whom this will constitute a larger share of income. As a result of these measures, an estimated 3.4 million working age individuals were to be taken out of income tax over the 2010-15 parliament, with an average tax saving of £825 and £676 for a typical basic rate and higher rate taxpayer respectively.⁷⁰

Chart: the personal allowance over time in real terms (2024-25 prices)^{71,72}



While the number of income taxpayers fell from 61 per cent of adults in 2010-11 to 58 per cent in 2013-14 with it remaining at this level for the rest of the 2010s, the recent freeze has undone much of that progress with the number of income taxpayers projected to rise to 66 per cent by 2028-29.⁷³

If the freeze is extended there is a real risk of this situation becoming even worse. Already, taxes on the median employee are the highest they have been since 2011-12. For lower paid employees they are the highest since 2010-11, and for top earners they are the highest since 1988.⁷⁴ Looking internationally, the 2025 increase in employers' national insurance has meant that the tax rate on an average employee in the UK has risen to surpass Australia and the United States with taxes on higher earners exceeding that of Canada as well, although in general they are still below most countries in Europe.⁷⁵ Addressing frozen thresholds is key to prevent taxes from rising even further.

Recommendations

Ideally, the personal allowance as well as other frozen thresholds should be restored to what they would have been had they not been frozen and automatically updated going forward. This would not undo the additional taxes paid by taxpayers while the freeze was in effect but would protect taxpayers from inflation going forward.

⁶⁹ Adam, S. et al., *The government's record on tax 2010-24*, Institute for Fiscal Studies, 2024, p.13.

⁷⁰ Seely, A., *Income tax: increases in the personal allowance since 2010*, House of Commons Library, 2018, p.3.

⁷¹ HM Revenue & Customs, *Income Tax personal allowances and reliefs*, 26 June 2025, www.gov.uk/government/statistics/income-tax-personal-allowances-and-reliefs (accessed 20 November 2025).

⁷² Office for Budget Responsibility, *Public finances databank – October 2025*, 22 October 2025, obr.uk/download/public-finances-databank-october-2025/?tmstv=1763638053 (accessed 20 November 2025).

⁷³ Adam, S. et al., *The government's record on tax 2010-24*, Institute for Fiscal Studies, 2024, pp.3-9.

⁷⁴ Corlett, A., *It's personal (taxation)*, Resolution Foundation, 2025, pp.3-4.

⁷⁵ *Ibid*, p.2.

Ensuring democratic accountability

Frozen tax thresholds have been a way for governments to implement unpopular tax rises through stealth, as taxpayers do not see a rise in headline rates. This is fundamentally at odds with the nature of democratic accountability, under which governments should take responsibility for their fiscal choices. By choosing to raise taxes through threshold freezes governments abdicate control over the real value of thresholds, leaving the actual tax rise to the vagaries of inflation.⁷⁶ This resulted in the current income tax freeze raising twice as much in 2025-26 as originally planned due to higher than expected inflation, for example.⁷⁷ The government should strive to cut taxes, but if they raise them they should at least know by how much, and be honest about that to taxpayers.

The “Rooker-Wise” amendment, introduced in the Finance Act 1977, already requires that the personal allowances and income tax thresholds rise with inflation unless the UK Parliament determines otherwise.⁷⁸ This should be extended to all other thresholds currently not covered by legislation such as the point at which the personal allowance starts to be withdrawn. As the Institute for Fiscal Studies (IFS) have suggested, different thresholds could be indexed to different metrics such as average incomes for income tax and property prices for stamp duty.⁷⁹ The government should honour its existing commitment, extend it to other thresholds and guarantee that they will not raise taxes through threshold freezes going forward. Changes in the overall tax burden should only be done through explicit adjustments to headline rates, ensuring that the government has to justify any increase to the public.

Simplifying the tax system

Raising the personal allowance to what it would be had threshold freezes not occurred (£15,490 in 2025-26) should be prioritised as it benefits the greatest number of income taxpayers. It also targets those who currently pay income tax, rewarding work rather than welfare. This can be achieved alongside simplifying the existing system. For instance, the blind person’s allowance currently adds £3,130 to the regular personal allowance.⁸⁰ This exists only for blind people and not any other disability. Unlike the regular personal allowance, this has also not been frozen. In order to simplify the tax system, the blind person’s allowance should be merged with the regular personal allowance, with the higher rate applying to all taxpayers. This would deliver a £3,130 boost to the personal allowance for everyone, bringing it to slightly more than where it would be in 2025-26 had rates not been frozen, while ensuring that those who previously enjoyed the additional allowance are not worse off.

Simplification should also extend to unnecessarily complicated elements of the tax system like the separate main residence nil-rate band for inheritance tax, which effectively compensates for the freezing of the nil-rate threshold. Inheritance tax is viewed as one of the most unfair taxes by the British public and should ideally be abolished.⁸¹ However, if it is to continue to exist it should at least be straightforward. The two current thresholds should be merged into a single threshold which would essentially restore it to its 2010-11 level in real terms. This would avoid distortions in favour of particular assets and make the system fairer.

Reducing distortions

The aim of tax simplification should in part be to reduce distortions across the tax system, which may mean eliminating certain thresholds. These include the fall in the personal savings allowance from

⁷⁶ Emmerson, C. et al., *The IFS Green Budget*, Institute for Fiscal Studies, 2025, p.130.

⁷⁷ Ibid.

⁷⁸ Seely, A., *Income tax: freezing the personal allowance and the higher rate threshold*, House of Commons Library, 2025, p.13.

⁷⁹ Adam, S. & Roantree, B., ‘UK Tax Policy 2010-15: An Assessment’ in *Fiscal Studies* vol. 36 no. 3, 2015, p.356.

⁸⁰ Gov.uk, *Blind Person’s Allowance*, www.gov.uk/blind-persons-allowance (accessed 29 October 2025).

⁸¹ TaxPayers’ Alliance, *Brits “unanimous” in supporting cutting or abolishing inheritance tax*, 24 January 2025, www.taxpayersalliance.com/brits_unanimous_in_supporting_cutting_or_abolishing_inheritance_tax (accessed 20 November 2025).

£1,000 to £500 for higher rate taxpayers, the withdrawal of the starting rate for savings income above the personal allowance, as well as the 60 per cent tax trap. In some cases, it may be more efficient to abolish certain taxes entirely rather than adjusting their thresholds. The thresholds for stamp duty land tax for example, have fluctuated considerably over the past half decade before ending up exactly where they began.^{82,83} As one of the most damaging taxes, its abolition would be a more effective long term solution.⁸⁴

Setting a consistent approach

Even if the fiscal situation does not allow for the raising of tax thresholds in the immediate term, there should at least be consistency with the treatment of benefits. If tax thresholds are held frozen in nominal terms, then benefits should be as well. It does not make sense to claim that the country cannot afford to lift tax thresholds by inflation, while continuing to do so for benefits. The Resolution Foundation estimated that freezing universal credit and other working age benefits could have save £4.2 billion in 2024-25.⁸⁵ Only when tax thresholds are unfrozen, should unfreezing benefits be considered.

⁸² Masala, F., *Stamp duty land tax: Current situation and developments since 2020*, House of Commons Library, 2025, pp.13-20.

⁸³ Seely, A., *Stamp duty land tax on residential property: government policy up to 2021*, House of Commons Library 2023, p.11.

⁸⁴ Isaac, A. & Walker, P., *Reeves considers replacing stamp duty with new property tax*, The Guardian, 18 August 2025.

⁸⁵ Judge, L. & Murphy, L., *Rates of change*, Resolution Foundation, 2023, p.2.

Table 15: currently frozen thresholds (based on HM Treasury assumptions) if they had not been frozen^{86,87}

| Year | Personal allowance | Higher rate | Additional rate ⁸⁸ | ISA limit | Starting rate for savings | Secondary threshold | Residence nil rate | Nil rate band | Threshold for tapered withdrawal |
|---------|--------------------|-------------|-------------------------------|-----------|---------------------------|---------------------|--------------------|---------------|----------------------------------|
| 2009-10 | | | | | | | | 325,000 | |
| 2010-11 | | | | | | | | 329,000 | |
| 2011-12 | | | | | | | | 340,000 | |
| 2012-13 | | | | | | | | 358,000 | |
| 2013-14 | | | | | | | | 366,000 | |
| 2014-15 | | | | | | | | 376,000 | |
| 2015-16 | | | | | 5,000 | | | 381,000 | |
| 2016-17 | | | | | 5,000 | | | 381,000 | |
| 2017-18 | | | | 20,000 | 5,050 | | | 385,000 | 2,000,000 |
| 2018-19 | | | | 20,640 | 5,210 | | | 397,000 | 2,060,000 |
| 2019-20 | | | | 21,240 | 5,340 | | | 407,000 | 2,110,000 |
| 2020-21 | | | | 21,720 | 5,440 | | 175,000 | 414,000 | 2,146,000 |
| 2021-22 | 12,570 | 50,270 | | 21,840 | 5,470 | | 176,000 | 417,000 | 2,157,000 |
| 2022-23 | 12,960 | 51,860 | | 22,560 | 5,640 | 9,100 | 182,000 | 430,000 | 2,224,000 |
| 2023-24 | 14,270 | 57,170 | 171,000 | 24,840 | 6,210 | 10,019 | 201,000 | 474,000 | 2,449,000 |
| 2024-25 | 15,230 | 61,030 | 182,470 | 26,520 | 6,630 | 10,690 | 215,000 | 506,000 | 2,614,000 |
| 2025-26 | 15,490 | 62,090 | 185,580 | 27,000 | 6,750 | 10,872 | 219,000 | 515,000 | 2,659,000 |
| 2026-27 | 16,080 | 64,480 | 192,640 | 28,080 | 7,010 | 11,285 | 228,000 | 535,000 | 2,761,000 |
| 2027-28 | 16,410 | 65,810 | 196,570 | 28,680 | 7,160 | 11,515 | 233,000 | 546,000 | 2,818,000 |
| 2028-29 | 16,740 | 67,140 | 200,480 | 29,280 | 7,310 | 11,743 | 238,000 | 557,000 | 2,874,000 |
| 2029-30 | 17,080 | 68,580 | 204,510 | 29,880 | 7,460 | 11,978 | 243,000 | 569,000 | 2,932,000 |

⁸⁶ Figures calculated using the indexation formula in HM Treasury, *Spring Statement 2025 Policy Costings*, 2025, pp.36-38.

⁸⁷ Inflation figures obtained from Office for National Statistics, *CPI Annual Rate 00: All items 2015=100*, 22 October 2025, www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23 (accessed 30 October 2025) and Office for Budget Responsibility, *The economy forecast – Inflation*, 21 May 2025, obr.uk/forecasts-in-depth/the-economy-forecast/inflation/#CPI (accessed 30 October 2025).

⁸⁸ Assuming the point at which the personal allowance is withdrawn is updated as shown in table 16.

Table 16: other frozen thresholds if they had not been frozen⁸⁹

| Year | Stamp duty nil rate | Stamp duty first time buyer | Pensions savings allowance | Capital gains annual exempt amount (2021-22) | Capital gains annual exempt amount (2024-25) | VAT registration threshold | Personal allowance withdrawal | Personal savings allowance (basic) | Personal savings allowance (higher) |
|---------|---------------------|-----------------------------|----------------------------|--|--|----------------------------|-------------------------------|------------------------------------|-------------------------------------|
| 2009-10 | | | | | | | | | |
| 2010-11 | | | | | | | 100,000 | | |
| 2011-12 | | | | | | | 103,100 | | |
| 2012-13 | | | | | | | 108,470 | | |
| 2013-14 | | | | | | | 110,860 | | |
| 2014-15 | 125,000 | | | | | | 113,860 | | |
| 2015-16 | 127,000 | | | | | | 115,230 | | |
| 2016-17 | 127,000 | | | | | | 115,230 | 1,000 | 500 |
| 2017-18 | 129,000 | 300,000 | | | | | 116,390 | 1,010 | 505 |
| 2018-19 | 133,000 | 309,000 | | | | | 119,890 | 1,050 | 525 |
| 2019-20 | 137,000 | 317,000 | | | | | 122,770 | 1,080 | 540 |
| 2020-21 | 140,000 | 323,000 | | | | | 124,860 | 1,100 | 550 |
| 2021-22 | 141,000 | 325,000 | | 12,300 | | | 125,490 | 1,110 | 555 |
| 2022-23 | 146,000 | 336,000 | | 12,700 | | | 129,390 | 1,150 | 575 |
| 2023-24 | 161,000 | 370,000 | 60,000 | 14,000 | | | 142,460 | 1,270 | 635 |
| 2024-25 | 172,000 | 395,000 | 65,000 | 15,000 | 3,000 | 90,000 | 152,010 | 1,360 | 680 |
| 2025-26 | 175,000 | 402,000 | 67,000 | 15,300 | 3,100 | 92,000 | 154,600 | 1,390 | 695 |
| 2026-27 | 182,000 | 418,000 | 70,000 | 15,900 | 3,300 | 96,000 | 160,480 | 1,450 | 725 |
| 2027-28 | 186,000 | 427,000 | 72,000 | 16,300 | 3,400 | 98,000 | 163,750 | 1,480 | 740 |
| 2028-29 | 190,000 | 436,000 | 74,000 | 16,700 | 3,500 | 100,000 | 167,000 | 1,510 | 755 |
| 2029-30 | 194,000 | 445,000 | 76,000 | 17,100 | 3,600 | 103,000 | 170,350 | 1,550 | 775 |

⁸⁹ As these are not based on treasury assumptions, there is no indexing formula available. Instead, they are rounded up to the nearest £1,000 except for the capital gains annual exempt amount which is rounded up to the nearest £100 and the personal allowance withdrawal threshold, which is rounded up to the nearest £10 (in line with the indexation formula for the personal allowance).